Stock Exchange Release
17 March 2011

LEGAL & GENERAL DELIVERS GROWTH ACROSS THE BUSINESS, IFRS OPERATING PROFIT OF £1,002M, NET CASH GENERATION OF £728M AND INCREASES FINAL DIVIDEND BY 25%

- WORLDWIDE SALES UP 28% TO £1.8BN APE (2009: £1.4BN APE), NET ASSET FLOWS £9.7BN (2009: £10.5BN)
- IFRS OPERATING PROFIT £1,002M (2009: £1,109M), IFRS PRE TAX PROFIT £1,092M (2009: £1,074M)
- OPERATIONAL CASH GENERATION UP 11% TO £808M (2009: £726M) NET CASH GENERATION £728M (2010 TARGET: £600M, 2009: £699M) PLAN TO GENERATE £700M NET CASH IN 2011
- EARNINGS PER SHARE 14.07P (2009: 14.82P)
- FULL YEAR DIVIDEND UP 24% TO 4.75P PER SHARE (2009: 3.84P PER SHARE)
- EEV PROFIT BEFORE TAX UP 204% TO £1,677M (2009: £552M) EEV PER SHARE UP 16% TO 132P (31/12/2009: 114P)
- IGD SURPLUS UP TO £3.7BN (31/12/2009: £3.1BN)
- IFRS RETURN ON EQUITY 18.2% (2009: 22.2%)

Tim Breedon, Group Chief Executive, said:

"In 2010 we successfully demonstrated we can both grow the business and deliver improved net cash generation. Today's results evidence the value created by our improved business model. We are building a strong track record in delivering cash which, coupled with the high visibility of future cash flows, has given the Board the confidence to recommend a further 25% increase in the final dividend to 3.42p per share.

"We are confident about the growth prospects for Legal & General. Customer demand is rising in the UK, and we have the right business model and product mix for the current economic and demographic environment. There is consolidation in many of our markets, and this further underpins our confidence that Legal & General will be a growing force as the welfare state retrenches and individuals increasingly look to high-quality, good value risk, savings and investment provision. We expect to generate £700m of net cash in 2011.

"Our balance sheet is strong, each of our business divisions is profitable and cash-generative, and we are delivering excellent results across the Group."

RETURNS - DIVIDEND INCREASED BY 24%, COVERED 3.0 TIMES BY EARNINGS

	2010	2009
Return on equity (%)	**18.2**	**22.2**
Number of shares (m)	**5,867**	**5,862**
Net cash generation per share (pence)	**12.41**	**11.92**
Earnings per share (pence)	**14.07**	**14.82**
Full year dividend per share (pence)	**4.75**	**3.84**
Cash dividend cover (x)	**2.6**	**3.1**
Earnings dividend cover (x)	**3.0**	**3.9**

KEY PERFORMANCE INDICATORS

OPERATIONAL CASH GENERATION[1] UP 11% TO £808M, NET CASH GENERATION UP 4% TO £728M

2010 £m	Risk	Savings	Inv Mgmt	International	Group capital & financing	Group projects	2010
Operational cash generation	439	138	162	44	25	-	**808**
New business strain	(10)	(70)	-	-	-	-	**(80)**
Net cash generation	**429**	**68**	**162**	**44**	**25**	**-**	**728**
IFRS Operating profit	**560**	**115**	**206**	**102**	**58**	**(39)**	**1,002**

2009 £m	Risk	Savings	Inv Mgmt	International	Group capital & financing	Group projects	2009
Operational cash generation	454	106	125	8	33	-	**726**
New business strain	50	(77)	-	-	-	-	**(27)**
Net cash generation	**504**	**29**	**125**	**8**	**33**	**-**	**699**
IFRS Operating profit	**735**	**50**	**172**	**127**	**57**	**(32)**	**1,109**

ASSETS - £354BN IN LGIM, £64BN IN SAVINGS, £25BN IN ANNUITIES

£bn	2010	2009
LGIM[2]	**354**	315
Savings	**64**	55
Annuities	**25**	23

EEV RESULTS - EMBEDDED VALUE PER SHARE UP 16% TO 132P

£m	2010	2009
Worldwide PVNBP	**7,876**	7,280
Worldwide new business margin (%)	**4.8**	4.5
EEV Operating profit	**1,224**	1,319
EEV Profit before tax	**1,677**	552
Number of shares (m)	**5,867**	5,862
Shareholders' equity	**7,730**	6,695
Equity per share (pence)	**132**	114

1. Net cash generation is defined as operational cash generation less new business strain for the UK non profit Risk and Savings businesses.

Operational cash generation is defined as the expected release from in-force business for the UK non profit Risk and Savings businesses, the shareholders' share of bonuses on with-profits business, the post-tax IFRS operating profit on other UK businesses, including an expected investment return (excluding expected gains/losses on equities) on Group capital and financing invested assets, and dividends remitted from our international businesses from sustainable cash generation.

2. Includes Annuities and some Savings assets.

GROUP RESULTS

£m	2010	2009
Operational cash generation	**808**	726
New business strain	**(80)**	(27)
Net cash generation	**728**	699
IFRS		
Risk	**560**	735
Savings	**115**	50
Investment management	**206**	172
International	**102**	127
Group capital and financing	**58**	57
Group projects	**(39)**	(32)
Operating profit	**1,002**	1,109
Variation from longer term investment return	**90**	(16)
Property losses attributable to non-controlling interests	**-**	(19)
Profit before income tax attributable to equity holders	**1,092**	1,074

OPERATIONAL CASH GENERATION UP 11%

In 2010, the Group delivered an 11% increase in operational cash generation to £808m (2009: £726m). Headline net cash generation was up 4% to £728m (2009: £699m) despite the reduction in positive annuity strain from £129m to £60m in 2010.

IFRS PROFIT BEFORE TAX UP 2% TO £1,092M (2009: £1,074M)

IFRS operating profit in Risk was down to £560m due to a reduction in the positive new business strain in annuities, losses in the General insurance business due to the extreme cold weather in December, and a net increase in reserves of £59m in respect of annuitant mortality (2009: £85m release). Annuity new business grew 11% as a result of a record year in individual annuities and continued strong demand for small bulk annuity schemes. Housing and protection gross premiums grew 6% as new business volumes were maintained despite weaker markets.

The transformation in Savings continued. Operating profit of £115m was up 130% (2009: £50m) and net cash generation was up 134% to £68m (2009: £29m). This shift in performance has been achieved whilst accelerating growth in new business APE up 38% to £1,253m (2009: £907m), net new funds up 80% to £3.1bn (2009: £1.7bn) and assets under administration up 16% to £64bn (2009: £55bn).

LGIM delivered record profits of £206m (2009: £172m). UK and, increasingly, international clients continue to be attracted to LGIM's range of passive and actively managed funds. Funds under management grew 12% to £354bn (2009: £315bn) and margins improved as active fund flows increased. Net cash generation from LGIM improved by 30% to £162m (2009: £125m).

The commencement of ordinary dividends from the US business (£33m, 2009: nil) contributed to a 450% increase in cash from the International business. International generated £102m of operating profit (2009: £127m) and £146m of new business APE (2009: £115m). We also completed the first phase of our US capital management programme which contributed £28m to IFRS profit before tax in 2010 (2009: £18m).

Below operating profit, positive investment variances of £90m (2009: negative £16m) led to profit before tax of £1,092m (2009: £1,074m). After allowing for the payment of £238m of dividends in the year, shareholders' equity increased by 15% to £4.8bn (2009: £4.2bn) equating to 82.3p per share (2009: 71.6p per share).

FINAL DIVIDEND INCREASED BY 25% TO 3.42 PENCE PER SHARE

Continued strong operational cash and net cash generation, coupled with the Board's confidence in the prospects for further growth in cash generation underpins the decision to recommend an 25% increase in the final dividend to 3.42p (2009: 2.73p) per share at a cost of £201m (2009: £160m).

As economic and regulatory uncertainties recede, the Board intends to reduce net cash generation coverage of the dividend towards two times over the medium term.

STRATEGY AND OUTLOOK

We aim to grow our market leading Risk, Savings and Investment Management franchises whilst realising the multiple levels of synergy which exist between our businesses. We have successfully focused on the key performance metrics of IFRS profit, operational cash and net cash generation. These metrics are fully embedded from external reporting through to management objectives and reward. We continue to manage the business to achieve above hurdle returns on economic capital.

During 2010, we continued to execute our strategy successfully. In Risk, we broadened our distribution franchise in annuities, increased our market share of intermediated mortgage distribution, and won or extended bank and building society distribution deals in protection, including Sainsbury's Bank. This, coupled with our expertise in pricing and underwriting, has enabled further growth in the scale and profitability of this business.

We continue to drive forward the transformation in Savings, building a profitable, modern, fund based business with a lower structural cost base. We will continue to grow scale in assets under administration and drive operational leverage.

With a cost base of just 5.5bps of assets, LGIM is a high-scale, low-cost manufacturer of investment management solutions. LGIM sits at the core of the Group. Its strategy is to build on its leading position as a manager of assets for UK pension funds, and to export its low cost, high service, low investment risk model into other markets, with successes already seen in the US, the Middle East and mainland Europe.

In International, we have delivered more cash through increased dividends and reduced capital employed through the execution of the first phase of our US capital management programme. Our joint venture in India is progressing well.

Our strategy has delivered business growth and strong sustainable net cash generation, enabling us to fund a growing dividend. We see good growth opportunities for the Group in 2011 and beyond. In the UK, a combination of state retrenchment, an ageing population, increased household savings and continued de-risking activity by pension trustees will drive growth across protection, annuities, savings and LGIM. Overseas, we see opportunities to take our bancassurance based, low cost savings model into other emerging markets.

BUSINESS REVIEW – RISK

Financial highlights £m	2010	2009
Operational cash generation	**439**	454
New business strain	**(10)**	50
Net cash generation	**429**	504
Assumption changes, experience and other variances	**131**	231
IFRS Operating profit	**560**	735
Investment variances	**102**	(218)
IFRS profit before income tax attributable to equity holders	**662**	517

In 2010, the Risk division generated £439m of operational cash (2009: £454m). Net cash generation was £429m (2009: £504m) as positive new business strain arising from exceptional pricing conditions in annuities began to normalise. Operating profit was £560m (2009: £735m) reflecting this reduced positive new business strain in annuities and reduced, but still positive, experience variances and assumption changes in 2010. Annuitant mortality reserves were increased by £59m (2009: £85m release) to update for current year experience and to bring mortality assumptions in line with latest CMIB methodology. IFRS profit before tax was up 28% to £662m with a contribution from positive investment variances of £102m in 2010.

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

ANNUITIES

Financial highlights £m	2010	2009
Operational cash generation	**229**	235
New business strain	**60**	129
Net cash generation	**289**	**364**
Individual annuity new business APE	**117**	98
Bulk annuity new business APE	**90**	88
Total annuity new business APE	**207**	**186**
Non profit annuity assets under administration (£bn)	**25.4**	22.5
Non profit annuity earned interest margin (bps)	**117**	124
Annuities EEV margin (%)	**11.9**	11.7

Operational cash generation was £229m (2009: £235m) with an earned interest margin of 117bps. Net cash generation of £289m includes the benefit of the attractive pricing conditions we have seen for the last two years with business being priced above prudent reserves and generating positive new business strain of £60m (2009: £129m). This represents 2.9% of new business premiums (2009: 6.9%).

For the first year ever, we wrote in excess of £1bn of individual annuity business. New business sales were boosted by sales from our new distribution partnerships with Zurich and SAGA, strong growth in the direct market, the one off impact of the increase in minimum retirement age from 50 to 55, and growth in enhanced annuity sales where our sophisticated pricing model enabled us to grow market share. Average annuity consideration of £26,000 continues to be low (2009: £24,000) and means we are unlikely to be materially affected by the changes to compulsory annuitisation announced in 2010.

In the bulk annuity market we continued to focus on small schemes, writing 115 schemes during the year (2009: 82 schemes) worth £900m of premium at an average scheme size of £7.8m (2009: £10.8m). We continue to be highly selective in the large bulk annuity market writing only one scheme in excess of £100m premiums. We are actively pursuing opportunities within the longevity insurance market, although the emergence of this market continues to be slow.

OUTLOOK

In the individual annuity market, we believe that continued increase in the number of defined contribution pension savers reaching retirement could lead to around 10% per annum market growth over the next five years. We anticipate continued rapid growth of enhanced annuities into 2011. The end of compulsion and the prospect of lower investment yields for a few years will give further impetus to the growth of flexible retirement solutions for those with sizeable accumulated pension savings. For those with smaller pension savings, these more complex products are unlikely to be attractive and a traditional annuity is likely to remain the default choice.

It is anticipated that growth of newer types of bulk annuity deals (Buy In and Longevity Insurance) will continue. By 2012 it is probable that, while a Buy Out deal remains the ultimate goal of most trustees, they will work their way towards this via the stepping stones which other models provide. There is significant latent demand amongst pension trustees for these types of transactions, which could, in our view, lead to market growth of in excess of 15% per annum over the next five years. However the pricing outlook for bulk annuities is likely to remain fairly uncertain until the impact of Solvency II is better defined.

HOUSING & PROTECTION

Financial highlights £m	2010	2009
Operational cash generation	**210**	219
New business strain	**(70)**	(79)
Net cash generation	**140**	**140**
Protection new business APE	**175**	180
Protection new business EEV margin (%)	**6.4**	7.9
Protection gross premiums	**1,179**	1,109
General insurance gross premiums	**281**	273
Total gross premiums	**1,460**	1,382
General insurance new business premiums	**80**	57
General insurance combined operating ratio (%)	**106**	96

Operational cash generation of £210m was negatively impacted by £19m due to a loss in the General insurance business of £6m (2009: £13m profit) as a result of in excess of £30m of claims from severe winter weather in December 2010. Protection operational cash generation was up 6% to £216m (2009: £203m). New business strain fell to £70m (2009: £79m) representing 40% of new business APE (2009: 44%). The business continues to grow with a 6% increase in gross premiums to £1,460m (2009: £1,382m).

In individual protection, gross premiums grew 9% to £890m (2009: £818m) as a result of new business sales of £118m (2009: £123m) and the completion of the transfer of the Nationwide Life back book. Legal & General wrote over 16% of the individual protection market in 2010. Progress continues in our strategy of diversification into more specialist higher margin areas of the market with 30% growth in business protection, 9% growth in high net worth protection and 47% growth in direct business. Despite a weak housing market, we have grown our housing related business with a 15% share of the intermediated mortgage market (2009: 12%) leading to stable volumes of housing related protection and

General insurance sales. New business margins fell to 6.4% (2009: 7.9%) as a result of competitive pricing in the IFA channel, partially offset by cost reduction and improved reinsurance terms.

In group protection, we maintained sales at £57m APE (2009: £57m) despite a 19% fall in the market size in 2010. This was a result of a combination of securing new business and new product development including a multinational pooling offering, which allows multinational customers to insure a global workforce with a pool of international insurers, and the IHLI (Ill Health Liability Insurance) product, which allows UK Councils to manage their exposure to workers' early retirement pensions when diagnosed with long-term illness.

In General insurance, extreme weather conditions in December led to an increased number of claims reversing the half year operating profit of £14m, and leading to an £8m full year loss. Our focus has been on helping affected customers through this difficult time with claims being processed quickly and efficiently. Beyond the exceptional 2010 weather experience we are pleased with the underlying underwriting performance of the business and have made progress on cost reduction, with expense ratios down to 42% (2009: 43%). This, in conjunction with product developments and new distribution deals delivered in the year, should benefit 2011 results.

OUTLOOK

The CML (Council of Mortgage Lenders) has forecast that gross mortgage lending will be flat in 2011 (around £136bn) as a result of continued lender restrictions on supply. We expect that this, coupled with low growth in the UK economy, will mean that growth in the protection market is likely to be in the range of 0-5% over the next few years. However, we saw a number of competitors leave the protection market in 2010 and we expect this trend to continue into 2011. A consolidating market presents opportunities for those remaining to increase market share; we expect to be beneficiaries of this trend.

The market continues to evolve. Regulatory and legislative change will create opportunities in the housing and protection market with the potential for shifts in distribution and competition. In particular, the ECJ ruling with respect to gender discrimination will affect underwriting and pricing in individual protection. We are responding through maintaining a tight control on costs, focusing on customer retention, and developing a sales and marketing strategy designed to meet the post RDR distribution landscape. This includes increasing our direct business (which grew to 6% of individual protection volumes in 2010) and seeking new distribution partnerships with banks and direct affinity partners.

BUSINESS REVIEW - SAVINGS

Financial highlights £m	2010	2009
Operational cash generation	**138**	106
New business strain	**(70)**	(77)
Net cash generation	**68**	29
Assumption changes, experience and other variances	**47**	21
IFRS Operating profit	**115**	50
Investment variance	**(54)**	127
IFRS profit before income tax attributable to equity holders	**61**	**177**
Savings new business APE	**1,253**	907
Assets under administration (£bn)	**64**	55
Net new funds (£bn)	**3.1**	1.7
New business strain % PVNBP[1]	**2.8**	4.2
In-force costs to funds (bps)	**24**	29

1. UK insured savings business.

The continued success of the Savings strategy, focusing on asset accumulation, selling capital light products and improving operational efficiency, resulted in a 134% increase in net cash generation to £68m (2009: £29m), an increase of 130% to £115m in IFRS operating profit (2009: £50m) and growth of 16% in assets under administration to £64bn (2009: £55bn). Negative investment variances of £54m (2009: positive £127m) were due to timing differences relating to changes in asset and liability unit linked deferred tax balances. IFRS profit before tax attributable to equity holders was £61m (2009: £177m).

OUTLOOK

The transformation of the Savings business positions us well for the changes to the Savings landscape anticipated to take place over the next few years. An increased awareness of the need to save, together with the Retail Distribution Review (RDR) and pension scheme auto-enrolment, will provide opportunities for further growth. Our strategy is to focus on good value propositions, fee based distribution and diversified distribution channels. These are areas where we have seen growth in new business, net fund flows and profitability in 2010, and should position us well ahead of RDR. New distribution arrangements including an extended agreement with Nationwide Building Society, will further enhance this position.

Platforms are set to benefit from the changes RDR will bring. Our products are already offered on the Cofunds platform which has over £30bn of assets under administration and of which we own a 25% shareholding. In addition, we are actively engaging with other platforms that target our preferred market sector. Our own platform, Investor Portfolio Service (IPS), is growing in scale amongst our tied distribution and banking partners, and is aligned to our strategy of continuing to increase customer numbers and build asset growth by deepening relationships with existing customers. Our WorkSave platform will continue to benefit from the emerging trend towards holistic workplace savings propositions.

Auto-enrolment will start to be implemented in 2012 and is likely to expand the workplace pensions market. We are well prepared to take advantage of these opportunities and are already seeing increased tender activity. Further opportunities to increase membership to existing schemes are anticipated.

Increased savings ratios and a low interest rate environment should increase inflows into our markets over the medium term, expected to be circa 5-10% growth per annum. Our increasing customer base, focus on asset retention, improving operational efficiency, greater customer engagement and the investments we are making to exploit market opportunities will enable our Savings business to continue to make a strong cash contribution to Group results.

SAVINGS INVESTMENTS

Savings Investments comprises unit trusts and ISAs, structured products, our platform business and SIPPs (including Suffolk Life). In total, these businesses achieved net cash generation of £21m (2009: £5m) and IFRS operating profit of £21m (2009: loss of £3m).

This increase has largely been achieved by growing assets under administration by 38% to £23.3bn (2009: £16.9bn) through a combination of strong net fund flows and market movements. In addition we have improved operational efficiency as the scale of the business has increased.

New business APE grew by 46% in 2010 to £643m (2009: £441m) reflecting growth in all areas. Unit Trusts and ISAs grew by 32% to £263m (2009: £199m) with an increase in customers attracted to our funds proposition and performance. Structured products benefited from increased partner diversification increasing new business APE by 85% to £183m (2009: £99m). Sales on our platform, IPS contributed 10% of the total Savings APE.

Net new business flows of £4.1bn represent an increase of 62% on 2009 and benefits from strong gross new business and improved fund retention year on year. In particular, new and extended distribution deals have seen a 35% increase in customer numbers for IPS to 130,000.

Asset movements £bn	Mutual funds	Structured, SIPPs & Other	Platform business	Total
Assets under administration (at 1 January 2010)	**9.8**	**5.7**	**1.4**	**16.9**
Gross new business	2.7	2.5	1.2	6.4
Redemptions	(1.7)	(0.4)	(0.2)	(2.3)
Net new business	**1.0**	**2.1**	**1.0**	**4.1**
Market movements	1.7	0.4	0.2	2.3
Assets under administration (at 31 December 2010)	**12.5**	**8.2**	**2.6**	**23.3**

OUTLOOK

The unit trust market has seen impressive growth which we expect to continue. Our broad product offering, strong brand and diversified distribution model mean we are well positioned in the market to take advantage of future expected growth.

Assets in our platform business increased by 86% in 2010 to £2.6bn (2009: £1.4bn). Our platform proposition forms a central part of our RDR strategy. Growth in this business is expected to continue, driven by our banking and tied distribution partners.

The market for structured products continues to benefit from the low interest rate environment where investors seek the potential for higher returns but with a limited exposure to losses. We have a proven manufacturing capability and we anticipate that there will be further opportunities in the market.

INSURED SAVINGS

The Insured Savings business includes workplace pensions, individual pensions, insured bonds and international bonds. The business has moved from consuming cash in 2009 to generating £1m of net cash in 2010 (2009: negative £22m). IFRS operating profit has increased by £42m to £31m in 2010 (2009: negative £11m).

The turnaround strategy of our Insured Savings business has seen continued focus on cost management, asset growth and a shift towards fee based products such as workplace pensions. Operational cash generation was up 29% to £71m (2009: £55m). New business strain has reduced by 9% to £70m (2009: £77m) despite new business APE increasing 74% to £478m. New business strain as a percentage of PVNBP has improved to 2.8% (2009: 4.2%) reflecting the effect of cost management actions, a further shift to capital light products, and increased volumes.

Non profit pensions new business APE increased 81% to £374m (2009: £207m) primarily due to the success of our workplace pensions business where major scheme wins have increased customers by 16% to 335,000 (2009: 290,000). We have continued the development of our holistic Workplace Savings platform and launched the Workplace Corporate ISA proposition. At the end of 2010, workplace pension assets increased to £3.2bn (2009: £2.4bn).

Insured bonds new business APE grew by 53% to £104m (2009: £68m) driven by success in international bonds particularly in our banking channels. Onshore bonds sales stabilised, having previously declined following tax changes in 2007 which led to reduced customer appetite.

Non profit pensions margin increased to 0.1% (2009: negative 0.6%) and non profit bonds to 1.4% (2009: negative 0.6%) benefiting from lower unit costs and a further shift in mix to capital light products.

Asset movements £bn	Total
Assets under administration (at 1 January 2010)	**16.5**
Gross new business	2.4
Redemptions	(2.0)
Net new business	**0.5**
Market movements	1.7
Assets under administration (at 31 December 2010)	**18.7**

OUTLOOK

The outlook for Insured Savings is good with imminent regulatory changes providing opportunities for growth for companies with good cost management, high quality product design and broad distribution reach.

In workplace pensions, the shift from defined benefit to defined contribution and the arrival of auto-enrolment in 2012 will require employers to provide qualifying workplace schemes to their employees. A strong pipeline of business is already established for new schemes and for existing schemes membership is likely to increase. Our existing 3,300 corporate defined contribution schemes which currently cover 335,000 lives provide us with an opportunity to take advantage of upcoming market growth given the number of employees who will be looking to access pension provisions.

Our distribution in the workplace pensions market is through fee-based employee benefit consultants. This channel represents approximately two-thirds of the total market, the remainder being commission based IFAs. With the advent of consultancy charges and the removal of commission through RDR, the fee-based market is expected to grow. Scale in assets under administration will drive down unit costs and drive further growth in profitability.

Changes to the tax regime and improving investor confidence will boost the insured bonds market in 2011.

WITH-PROFITS SAVINGS

With-profits Savings comprise all products sold in the with-profits fund; this includes with-profits pensions and with-profits bonds.

IFRS operating profit, representing the shareholders' share of the with-profits bonus, was broadly flat in 2010 at £63m (2009: £64m) with net cash generation of £46m (2009: £46m). New business APE has fallen by 31% from £191m in 2009 to £132m in 2010 reflecting our focus on capital light non profit pensions business.

Asset movements £bn	Total
Assets under administration (at 1 January 2010)	**21.4**
Gross new business	1.1
Redemptions	(2.6)
Net new business	**(1.5)**
Market movements	2.2
Assets under administration (at 31 December 2010)	**22.1**

OUTLOOK

Growth in with-profits business remains challenging in the current environment as customers seek more modern, transparent savings products. Our strategy of investing in capital light non profit products has reduced the reliance placed on the with-profits business to generate cash and profits. However, we will continue to generate a cash return from our existing £22bn of assets under administration.

BUSINESS REVIEW - INVESTMENT MANAGEMENT

Financial highlights £m	2010	2009
IFRS Operating profit	**206**	172
Total revenue	**378**	316
Total costs	**(172)**	(144)
Net cash generation	**162**	125
Average ad valorem fee margin (bps)	**10.7**	9.8
Average expense margin (bps)	**5.5**	5.2
Gross new fund management mandates (£bn)	**33.1**	31.5
Net new fund management mandates (£bn)	**6.6**	8.8
Closing funds under management (£bn)	**354**	315

LGIM delivered record IFRS operating profits in 2010 which increased by 20% to £206m (2009: £172m). This has been achieved by increasing funds under management by 12% to £354bn, strong net fund flows of £6.6bn, a higher fee to fund ratio and continued focus on cost control. Net cash generation of £162m (2009: £125m) increased by 30% and benefits from the increase in IFRS profit coupled with a lower effective tax rate.

The success of the LGIM business model is centred on low cost manufacturing and excellence in customer service leading to client retention and asset accumulation. We are exporting these attributes to other product lines and geographies to build on our existing base of 3,190 UK pension fund clients.

Gross new business of £33.1bn was up 5% on 2009 (£31.5bn). Our strategy to diversify into international markets to generate growth has seen new mandates won in the USA, Middle East and Europe. International gross new business of £6.1bn represents 18% of the total new fund flows compared with £2.3bn representing 7% in 2009. Gross inflows into higher revenue actively-managed funds also increased to £9.4bn (2009: £7.5bn) representing 29% (2009: 24%) of the total inflows. Strong performance coupled with top quartile customer service resulted in good persistency and net inflows of £6.6bn. In 2010, outflows were higher than usual as three large clients changed their investment strategy and moved a proportion of their funds to outside the Group. Overall outflow rates are in-line with our long-term expectations, as benefit payments increase and DB schemes change investment strategy and accelerate their de-risking plans.

Strong new business flows and higher market levels helped funds under management grow 12% to £354bn (2009: £315bn) with an increase in funds across all asset classes. The strongest growth was seen in our LDI (Liability Driven Investment) offering with a 36% increase in funds to £40.8bn (2009: £29.9bn) and higher margin active funds which now represent 35% (2009: 34%) of the total funds under management. Our expansion into international markets is gaining pace with £14.6bn of funds under management for international clients (2009: £8.9bn).

Asset movements £bn	Index	Active	Total
Funds under management (at 1 January 2010)	**208.3**	**106.8**	**315.1**
Gross inflows	23.7	9.4	33.1
Gross outflows	(20.8)	(5.7)	(26.5)
Net flows	**2.9**	**3.7**	**6.6**
Market and other movements	17.3	14.5	31.8
Funds under management (at 31 December 2010)	**228.5**	**125.0**	**353.5**

The increased proportion of active funds and greater demand for international index equity holdings has increased the fee margin from 9.8bps in 2009 to 10.7bps in 2010. This coupled with continued cost management led to IFRS operating profit of £206m in 2010.

INDEX FUNDS

The performance of the index business is predicated on market leading index tracking performance, excellent customer service and an exceptionally low cost base. This has resulted in sustained, strong new business flows, high persistency and good quality earnings.

Net inflows of £2.9bn helped to drive an increase in index funds under management of 10% in 2010 to £228.5bn (2009: £208.3bn).

Asset movements £bn	UK equities	Int'l equities	Fixed interest	Total – index
Funds under management (at 1 Jan 2010)	**68.9**	**73.9**	**65.5**	**208.3**
Gross inflows	6.1	9.6	8.0	23.7
Gross outflows	(6.2)	(7.8)	(6.8)	(20.8)
Net flows	**(0.1)**	**1.8**	**1.2**	**2.9**
Market and other movements	3.2	10.3	3.8	17.3
Funds under management (at 31 Dec 2010)	**72.0**	**86.0**	**70.5**	**228.5**

LDI AND ACTIVE FUNDS

Corporate appetite to de-risk pension fund exposure and apply an investment strategy to match asset and liability cash flows has continued resulting in growth in LDI funds under management of 36% to £40.8bn (2009: £29.9bn). This underpins the growth of 17% in active funds under management to £125.0bn (2009: £106.8bn). Fund performance in fixed income was strong with 78% and 91% of funds outperforming their respective benchmarks over 1 and 3 years, respectively, to the end of 2010.

Legal & General Property (LGIM's commercial property business) continues to perform well and has increased funds under management to become the UK's third largest institutional property investor by assets under management. In addition it has attracted £1bn of new funds in 2010.

Asset movements £bn	Equities	Fixed interest	Property & other	LDI	Total – active
Funds under management (at 1 January 2010)	**8.8**	**61.2**	**6.9**	**29.9**	**106.8**
Gross inflows	0.2	3.8	0.5	4.9	9.4
Gross outflows	-	(4.4)	(0.1)	(1.2)	(5.7)
Net flows	**0.2**	**(0.6)**	**0.4**	**3.7**	**3.7**
Market and other movements	0.1	6.0	1.2	7.2	14.5
Funds under management (at 31 December 2010)	**9.1**	**66.6**	**8.5**	**40.8**	**125.0**

OUTLOOK

In the UK, defined benefit pensions trustees are continuing to de-risk their portfolios. This is likely to lead to a decrease in equity mandates and a resulting increase in fixed income and liability driven investment mandates. LGIM expects to benefit from this trend as existing clients move assets into higher revenue asset classes and new clients are attracted to LGIM's LDI and fixed income businesses. LGIM's pipeline of mandated, but not executed LDI transactions is strong.

LGIM's track record of strong fund performance, customer service and low cost base delivered record profits in 2010 and provides a sound base to export the business model into new asset pools. The diversification of the business into international markets will continue into 2011. LGIM America (LGIMA) based in Chicago now manages over $18bn of assets. LGIMA has built a successful three year track record with strong fund performance across all funds and is now being recommended by an increasing number of pensions consultants in the US. Furthermore, LGIM has developed distribution capability in the Gulf and mainland Europe where we expect to increase our penetration over the next few years.

The growth in the Group's UK savings and annuity business will also create further opportunities for LGIM to increase its funds under management.

BUSINESS REVIEW - INTERNATIONAL

Financial highlights £m	2010	2009
USA	**85**	86
Europe (Netherlands and France)	**26**	46
Middle East and Asia (Egypt, the Gulf and India)[1]	**(9)**	(5)
IFRS Operating profit	**102**	127
New business APE	**146**	115
Net cash generation	**44**	8

1. Includes divisional head office costs.

TRADING PERFORMANCE AND OPERATING PROFIT

New business growth of 27% was driven by strong performances in our emerging markets operations – with a sixth of total international sales now coming from our share of the Indian and Middle East joint ventures. The US generated a strong sales recovery in term insurance in the second half of the year, and L&G France made significant progress in developing its Group business during the year.

International operating profits were £102m (2009: £127m), taking into account increased investments in our emerging markets business. Non operating profits were £35m (2009: £26m), driven by profits on the repurchase of debt in the US, and by the strong performance of Dutch fixed interest securities.

New business margins rose in 2010, particularly in the US, as a consequence of increasing reinvestment yields and the impact of improving new business levels on expense recovery.

Net cash generation by the International division was £44m (2009: £8m), including $53m of dividends from the US and €10m dividends from the Netherlands. In addition to the effects of capital restructuring already announced, these underlying dividend flows are expected to continue and grow.

LEGAL & GENERAL AMERICA (LGA)

Financial highlights $m	2010	2009
IFRS Operating profit	**132**	134
IFRS profit before tax	**175**	163
New business APE	**80**	76
Gross premium income	**778**	765
Net cash generation	**53**	6
New business margin (%)	**8.9**	4.9
Embedded value	**1,916**	1,465

LGA focuses on writing mortality protection products in the term life and universal life markets in the USA. LGA competes in the protection market by being a low cost operator and delivering expert, medical-based underwriting on higher sum assured policies. At the end of 2010 LGA had in-force sums assured in excess of $400bn with an average sum assured in excess of $500,000 and in-force premiums of over $770m.

In 2010, US operating profits of $132m (2009: $135m) were marginally below last year in local currency terms, with good investment returns offsetting mortality experience which was not as strong as 2009.

As recently announced the first stage of work on capital restructuring in US has been successfully completed, combining a re-purchase of debt at below par value and using an internal reinsurance solution to re-finance a block of in-force term insurance business. Over the last two years, this has generated $72m of non operating profits, increased the Group's EEV by £100m and increased regulatory surplus by £82m. Going forward, it will increase profitability by £8m pa due to lower funding costs.

LEGAL & GENERAL EUROPE

Financial highlights €m	2010	2009
IFRS Operating profit	**30**	52
IFRS profit before tax	**37**	59
New business APE	**84**	72
Gross premium income	**709**	718
Net cash generation	**12**	6
New business margin (%)	**0.9**	1.2
Embedded value	**628**	606

In Europe, IFRS operating profits were €30m (2009: €52m). Our European business comprises Legal & General Netherlands and Legal & General France.

LEGAL & GENERAL NETHERLANDS (LGN)

LGN was established in the mid-1980s. It now has embedded value of over €300m, achieved by revolutionising the Dutch term insurance market through a combination of market leading pricing and exceptionally high levels of service to higher net worth customers. It also led the development of the "unit linked" savings market by offering transparent, high-quality products providing customers with a wide choice of investment options. It distributes its products through the Dutch version of Independent Financial Advisers, which includes large independent and bank-owned brokers, and has won numerous awards for its quality approach to business.

LGN profits in 2009 and early 2010 benefited significantly from falls in Dutch bond yields, an element of which was recorded in investment fluctuations and excluded from operating profit. We have taken action to lock in a substantial element of the profit from these market movements and protect the strong solvency position and dividend paying capacity of the business. The business doubled its dividend in 2010, and, as a result, has contributed more in dividends in the last three years than it has received in capital in its entire history.

New business in the Netherlands was €22m (2009: €25m), with sales of unit linked products slowing in line with the local market, although higher margin term business was less affected.

LEGAL & GENERAL FRANCE (LGF)

LGF has two key business lines, for which products are distributed via separate and dedicated distribution channels. The first business line is a tailored range of individual savings products (both traditional and unit linked) for a high net worth individual target client base, distributed via a proprietary sales force of around 80 salaried advisers. The second business line is a range of group risk products (death, disability, medical expenses) which are distributed through an established core network of 300 brokers.

Profits in LGF have improved, due to higher investment margins on savings business. Claims experience on the growing group portfolio held steady, but profits were diluted by the adverse effects of the mix of claims on reinsurance recoveries and the effect of an increase in the state retirement age on disability reserving.

New business in France totalled €62m of APE (2009: €47m) representing 32% growth, well ahead of the market average. This was principally driven by an increase of over 80% in the levels of group new business, which consists of life, health and disability products.

EMERGING MARKETS

We continue to make modest investments in our developing emerging markets joint venture businesses. Our principal operating emerging markets business is in India, but we also have small businesses in Egypt and the Gulf states. We have now obtained regulatory approval to open a representative office in China.

Our bancassurance joint venture in India, India First, had a strong first full year of operation, selling over 130,000 policies during the year. These generated £53m APE, of which the L&G share was £14m. IndiaFirst was acclaimed for the most successful start-up in the Indian Life insurance market, in terms of the time taken to sell its first 100,000 policies.

OUTLOOK

In 2011, we will continue our focus on increasing return on equity by tight capital management, growing the flow of dividends back to the Group. The US operation will be central to this where we will continue to execute our capital management programme whilst seeking opportunities to grow and diversify the business. Elsewhere, new management in France is looking at growth options, and our Dutch operation aims to re-energise its core term offering while developing its non-insurance-wrapped savings business and enter the small corporate pension market.

In emerging markets we will continue to grow our business in India which is progressing well. We continue to seek suitable distribution partners in large and high growth markets where our preference is for organic market entry.

BUSINESS REVIEW – GROUP

GROUP CAPITAL AND FINANCING

Financial highlights (£m)	2010	2009
Investment return	**187**	191
Interest expense	**(121)**	(127)
Investment expenses	**(3)**	(3)
Unallocated corporate expenses	**(5)**	(4)
IFRS Operating profit	**58**	57

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

Investment return was broadly flat at £187m (2009: £191m) and is calculated by taking the average smoothed investment return of 5.8% (2009: 6.4%) on the average balance of invested assets of £3.2bn (2009: £3.0bn). The amount of invested assets at the end of the year increased to £3.3bn (2009: £2.8bn) as a result of our strong track record of delivering cash from our businesses.

VARIATION FROM LONGER TERM INVESTMENT RETURN

£m	2010	2009
Operating profit	**1,002**	1,109
Variation from longer term investment return	**90**	(16)
Property losses attributable to non-controlling interests	**-**	(19)
Profit from ordinary activities before tax	**1,092**	1,074

Below the operating profit line, the 2010 investment variance was £90m (2009: negative £16m). This is analysed as follows:

In the Risk business, a positive investment variance of £102m resulted from portfolio management within the annuity business.

In the Savings business, the unit linked deferred tax asset and the amount included in the policyholder liabilities are valued in accordance with different accounting standards. Consequently in any period a profit or loss impact will occur as a result of the value of the asset changing at a different rate to the liability. Over time these profits and losses will net to zero. In 2010, this resulted in an adverse variance of £54m.

The International variance of £35m primarily relates to the gains on the repurchase of the Potomac securities below par as part of the US capital restructure.

In Group capital and financing and Investment management, a positive variance of £7m is primarily due to favourable investment markets in 2010 offset by mark to market effects relating to interest rate hedges on debt issued as interest rates decreased over the year.

BUSINESS REVIEW – CASH GENERATION

SOURCES OF CASH GENERATION

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

£m	2010 Operational cash generation	2010 New business strain	2010Net cash generation	2009 Operational cash generation	2009 New business strain	2009 Net cash generation
UK long term Annuities	**229**	**60**	**289**	235	129	364
UK long term Protection	**216**	**(70)**	**146**	203	(79)	124
UK long term non profit Savings	**77**	**(70)**	**7**	58	(77)	(19)
UK long term Risk & Savings total	**522**	**(80)**	**442**	**496**	**(27)**	**469**
UK long term with-profits Savings	**46**		**46**	46		46
General insurance	**(6)**		**(6)**	13		13
Investment Savings	**21**		**21**	5		5
Other Risk	**-**		**-**	3		3
Other Savings	**(6)**		**(6)**	(3)		(3)
UK IFRS Risk and Savings	**9**		**9**	18		18
LGIM	**162**		**162**	125		125
International	**44**		**44**	8		8
Group capital and financing	**25**		**25**	33		33
Total	**808**	**(80)**	**728**	**726**	**(27)**	**699**

1. UK LONG TERM RISK AND SAVINGS BUSINESS

The UK long term Risk and Savings businesses comprise annuities, protection, pensions and bonds written in the non profit and with-profits funds.

At the end of 2010, the value of the future undiscounted cashflows in the in-force UK long term Risk and Savings businesses increased to £8.0bn (2009: £7.9bn). Excluding experience and investment variances this value monetises and is released through into surplus each year with reasonable certainty and forms the basis of the Group's operational cash generation.

The table below shows the monetisation profile of the UK value in-force (VIF). In 2011, £690m of VIF is expected to monetise of which £600m is expected to appear in operational cash. This comprises:

- The expected flows from the UK non profit business. These flows represent the operational cash generation of the UK non profit Risk and Savings business and are broadly equivalent to the release of profit using best estimate assumptions. In 2011, these are anticipated to be £550m;
- The UK with-profits transfer (representing the shareholders' share of with-profits bonuses) of which approximately £50m is included in operational cash generation in 2011; and
- The modelled one-off short term capital releases of £90m in 2011 which is expected to manifest itself in experience and/or investment variances and augment the IGD surplus. These items primarily relate to the modelled benefit of brought forward tax losses in LGAS and, over time, should reduce to zero.

Operational cash generation in periods from 2012 will benefit from new business flows written in 2011 onwards.

Estimated monetisation of UK VIF (undiscounted)[1] £m	Total	2011	2012	2013
Non profit	7,100	620	560	430
With-profits	900	70	70	80
UK VIF monetisation[2]	**8,000**	**690**	**630**	**510**
Analysed by				
Business in-force at start of year[3]	7,300			
2010 new business cash flows	700	60	50	40
UK VIF monetisation	**8,000**			
Expected future operational cash from UK VIF[4]		**600**	**630**	**580**

1. Management estimates.
2. The modelled release includes the modelled reduction in deferred tax asset utilisation but excludes the impact of proposed corporation tax changes.
3. Based on 2010 year end assumptions.
4. Includes benefit of assumed new business written during the period.

The table below demonstrates how the VIF is being replaced by the new business written in the period and illustrates the movements between the opening and closing UK long term Risk and Savings VIF. The contribution to VIF from new business written in 2010 and the unwind of the discount rate resulting as cash flows from new business written in previous periods are one year closer to the balance sheet date more than cover the expected releases from the non profit and with-profits businesses. Over the medium term the experience variances and assumption changes have been positive.

Reconciliation of UK long term Risk and Savings VIF £bn	Discounted[1]	Undiscounted
Opening VIF at 1 January 2010	**3.68**	**7.9**
Contribution from new business	0.32	0.7
Unwind of discount rate	0.30	n/a
Expected release from non profit and with-profits businesses[2]	(0.57)	(0.6)
Closing operational VIF at 31 December 2010	**3.73**	**8.0**
Experience variances / assumption changes	(0.03)	(0.1)
Investment variance / economic assumption changes	0.18	0.1
Other	0.01	-
Closing VIF at 31 December 2010	**3.89**	**8.0**

1. After cost of capital.
2. Comprises the expected release from non profit business of £522m and with-profits transfer of £46m.

The contribution from long term Risk and Savings new business has grown the VIF on both a discounted and undiscounted basis in 2010. In every year since 2005, when we first published the analysis of the embedded value, the discounted and undiscounted operational VIF has increased i.e. the contribution from new business written in the period and the unwind of the discount rate on business written in previous periods has exceeded the expected release in the period.

2. UK IFRS RISK AND SAVINGS BUSINESSES

UK IFRS Risk and Savings operational cash generation is primarily generated by the General insurance (Risk) and Savings Investments businesses. In 2010, the General insurance business suffered from claims related to a rare severe cold weather event across the UK in December, resulting in a pre tax loss of £8m equivalent to cash consumption of £6m. In the first half of 2010, the General insurance business made a positive cash contribution of £10m at a combined operating ratio of 90%.

The change in focus in the Savings business towards sales of unit trusts, ISAs, platform business and structured products resulted in an increase in sales of 46%. This coupled with continued cost management resulted in a 320% increase in cash generated to £21m (2009: £5m). Our focus on this business will remain which, coupled with the increase in ISA allowances and an increased awareness of the need to save, will support a continuation of the growth in the Savings Investments business.

3. LGIM

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

4. INTERNATIONAL

Operational cash generation from international operations is defined as the dividends paid to the Group. In March 2010, Legal & General America (LGA) paid a dividend of $50m (£33m). This was the first ordinary dividend paid by LGA for 20 years and, coupled with dividends from the European businesses, led to cash generation of £44m. We are confident that the dividend flow from the international business is sustainable and we expect dividends to grow going forward.

RECONCILIATION OF OPERATIONAL CASH GENERATION TO IFRS OPERATING PROFIT

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

Reconciliation of operational cash to operating profit after tax £m	2010
Operational cash	808
New business strain	(80)
Net cash	**728**
International profit (less dividends paid)	33
Experience variances, assumptions changes and movements in non-cash items	(5)
Investment gains and losses	32
Investment projects and other	(37)
Operating profit (net of tax)	**751**
Investment variance	74
Impact of change in UK tax rates	(5)
Profit after tax	**820**

NEW BUSINESS IRR AND PAYBACK PERIODS

The IRR on protection business decreased to 15% (2009: 17%) as a result of increased competition. However the payback period remained unchanged at 5 years. Pricing in the annuities market, whilst not as favourable as in 2009, still remains positive and resulted in an infinite IRR and immediate payback.

In Savings, unit linked bonds and non profit pensions benefited from cost efficiencies and lower commissions. In unit linked bonds the IRR increased to 11% (2009: 8%) and the payback reduced to 7 years from 9 years in 2009. In pensions, cost efficiencies and strong growth in new business resulted in lower unit costs and an increase in IRR from 6% in 2009 to 8% in 2010 and a decrease in the payback period to 13 years (2009: 14 years).

New business IRR and payback periods	2010 PVNBP £m	2010 Internal Rate of Return[1] %	2010 Undiscounted payback period (years)	2009 PVNBP £m	2009 Internal Rate of Return[1] %	2009 Undiscounted payback period (years)
Protection	**860**	**15**	**5**	866	17	5
Annuities	**2,065**	**>30[2]**	**<0[2]**	1,862	>30[2]	<0[2]
Unit linked bonds	**586**	**11**	**7**	677	8	9
Pensions	**2,508**	**8**	**13**	1,804	6	14

1. Internal Rate of Return on new business.

2. Given positive strain on annuity business in 2010 and 2009 and an immediate IFRS payback, the IRR was infinite.

BUSINESS REVIEW – BALANCE SHEET

CAPITAL RESOURCES – IGD[1] SURPLUS INCREASED TO £3.7BN

The end 2010 Insurance Group's Directive (IGD) surplus of £3.7bn increased from £3.1bn at the end of 2009 due to retained profits in the Group and the impact of the US capital management programme. The reconciliation from 2009 to 2010 is shown below.

IGD Surplus **£m**	**2010**	2009
At 1 January	**3,148**	1,847
Operational cash generation	**808**	726
New business strain	**(80)**	(27)
Dividends	**(279)**	(225)
Experience variances and assumption changes	**138**	336
Investment variance	**46**	58
(Increase) / decrease in operational regulatory capital requirement	**(155)**	89
Release of capital from US capital management programme	**132**	(50)
Lower tier II debt	**-**	300
Other	**(13)**	94
At 31 December	**3,745**	3,148

As at 31 December 2010 the IGD capital resources of £6.7bn covered the capital resources requirement of £3.0bn by 2.26 times, giving rise to an estimated surplus of £3.7bn.

Capital **£bn**	**2010**	2009
Group capital resources	**6.7**	5.6
Group capital resources requirement	**3.0**	2.5
IGD surplus	**3.7**	3.1
Coverage ratio %	**226**	224

The increase in the Group capital resources to £6.7bn (2009: £5.6bn) is due to two factors. Firstly, Group capital resources have increased by £0.6bn due to retained profits in the year. Secondly, the increase in additional capital available in Society is the result of the difference in the valuation of the with-profits fund on a regulatory and IFRS basis. The increase in the capital resources arising on a Peak 1 basis within the long term fund, relating to the with-profits business is not included in capital and reserves on an IFRS basis. Under the IFRS basis the net asset value of the with-profits fund is minimal, due to the interaction of the assets, liabilities and unallocated divisible surplus.

Group capital resources requirement increased from £2.5bn to £3.0bn due to the changes in solvency capital outlined over the page.

1. All IGD amounts are estimated, unaudited and after accrual of the final dividend of £201m (2009: £160m).

MOVEMENTS IN UK SOLVENCY CAPITAL

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

Solvency capital is analysed into two components:

1. **Changes to operational capital requirements.** This is the result of increases to required capital from new business written in the period less decreases in required capital from in-force business running off.
2. **Changes to technical capital requirements.** This is the result of the mechanical calculation of the capital required in the with-profits fund on the regulatory (Peak 1) and realistic (Peak 2) bases. The interaction between the two bases will give rise, under certain market conditions, to a technical capital requirement called the With-profits insurance capital component (WPICC).

Pillar 1 capital requirement £bn	**2010**	2009	Change
Risk	**1.54**	1.41	0.13
Savings	**0.08**	0.08	-
With-profits – operational	**0.65**	0.65	-
Other subsidiaries	**0.40**	0.38	0.02
Operational group capital resources requirement	**2.67**	**2.52**	**0.15**
With-profits insurance capital component (WPICC)	**0.28**	-	0.28
Group capital resources requirement	**2.95**	**2.52**	**0.43**

The increase in the Risk capital requirement to £1.5bn (2009: £1.4bn) is primarily due to the increase in annuity reserves and the reinsurance of certain blocks of the US business prior to 2005 into Legal & General Assurance Society.

The analysis of the movement in solvency capital is shown below.

Change in Pillar 1 capital requirement £bn	**2010**	2009	Change
At 1 January	**2.52**	2.61	
Increase in operational solvency capital	**0.15**	0.13	
Increase / (decrease) in non operational solvency capital (WPICC)	**0.28**	(0.22)	
At 31 December	**2.95**	**2.52**	**0.43**

LIQUIDITY

Legal & General has a limited appetite for liquidity risk and maintains at Group level sufficient liquid assets and standby facilities to meet a prudent estimate of the Group's cash outflows over a period of two years, as identified through annual planning processes and taking into account the provision of facilities to operational businesses to accommodate their liquidity requirements in extreme stressed scenarios e.g. pandemic and adverse weather events. The liquidity position across our operational business units is very strong. On average during 2010, across the Group, a daily average cash balance of circa £1bn of overnight cash deposits was maintained as well as carrying significant holdings of liquid assets.

In addition the Group has had in place for over 20 years a Commercial Paper programme providing the Group with access to short term funds as and when required. As at 31 December 2010 the Group had in place undrawn committed syndicated and bilateral facilities in excess of £1bn provided by a number of the Group's key relationship banks, maturing in 2012. 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 group debt or liquidity positions.

BUSINESS REVIEW – RISK MANAGEMENT

Legal & General runs a portfolio of risk taking businesses; we accept risk in the normal course of business and aim to deliver sustainable returns on risk based capital to our investors in excess of our cost of capital. We manage the portfolio of risk that we accept to build a sustainable franchise for the interests of all our stakeholders; we do not aim to eliminate that risk. We have an appetite for risks we are rewarded for and understand deeply, and which are consistent with delivery of our strategic objectives. Risk management is embedded within the business. The Group is exposed to a number of key risk categories.

ECONOMIC RISK

INTEREST RATE RISK

Interest rate movements can impact the value of the assets we hold to meet insurance obligations. The UK has experienced a prolonged period of low interest rates. For firms that wrote investment products with un-hedged interest rate guarantees, this has created significant liabilities. Legal & General has limited appetite for such guarantees. We seek to ensure that we hedge such risks in the market at point of sale, although we accept that from time to time we may accept such risks for commercial reasons. We set clear risk limits for such risks which all Group businesses must adhere to.

The effect of a 1% increase in interest rates is to reduce Group Embedded Value by £206m (2009: £76m) and decrease Group New Business Contribution by £22m (2009: £14m). High interest rates may have secondary effects on the Group including stimulating savings into deposit accounts and increasing demand for annuities. A 1% decrease in interest rates would increase Group Embedded Value by £209m (2009: £39m) and increase Group New Business Contribution by £25m (2009: £7m). Low interest rates may have secondary effects on the Group including stimulating demand for non-deposit based savings and reducing demand for annuities. Overall the Group perceives our exposure to interest rate risk to be low.

INFLATION RISK

Many insurance contracts have premiums or benefits linked to changes in inflation (often expressed as a link to Retail Prices Index (RPI) or Consumer Prices Index (CPI) or Limited Price Inflation (LPI). For Legal & General, we only have an appetite to accept inflation risk that is adequately rewarded. In our annuity business the majority of inflation risks are hedged by buying assets or derivatives to match liabilities, including inflation linked bonds, swaps and property sale and lease back transactions. For commercial reasons we may accept inflation risk from time to time, within strict limits.

COUNTERPARTY AND THIRD PARTY RISKS

In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of default. As part of our strategies to appropriately match long term assets and liabilities, exposures can arise to the issuers of corporate debt and other financial instruments. As part of our day to day business we also have exposures to banking, money market and reinsurance counterparties, as well as the providers of investment settlement and custody services. Third party risks also arise through reliance upon external suppliers for certain administration services.

The Group seeks to limit the potential exposure to loss from counterparty and third party failure through setting robust selection criteria and exposure limits covering factors such as counterparty financial strength, sectors and geography. Exposures against limits are actively monitored, with trigger levels being set and management action being taken to pre-empt loss from default events.

MARKET RISK

The performance of the assets we hold impacts our earnings and profitability. Worldwide assets under management at 31 December 2010 were £365bn of which shareholders have direct exposure to 9% or £34bn. The shareholder portfolio remains of high quality. The assets backing the UK non profit annuity business within Legal & General Pensions Limited (LGPL) represent the majority of the Group's fixed interest exposure and are backed by a £1.5bn default provision equivalent to 64bps of defaults per annum over the life of the portfolio. No defaults were experienced in 2010. The shareholder portfolio is only exposed to £1.0bn of equities. A 40% fall in equities would reduce the IGD surplus by an estimated £0.5bn (2009: £0.6bn).

Asset classes £bn	LGPL	Other UK non profit insurance business	Other insurance business	Society shareholder capital	Other Group capital	**Total**
Bonds	23.4	0.2	2.9	1.2	1.2	**28.9**
Equities	-	-	-	1.0	-	**1.0**
Derivative assets	1.1	0.3	-	-	0.3	**1.7**
Property	0.1	-	-	0.1	-	**0.2**
Cash (including cash equivalents)	0.5	0.1	0.4	0.9	0.7	**2.6**
Total	**25.1**	**0.6**	**3.3**	**3.2**	**2.2**	**34.4**

BOND INVESTMENTS

The credit quality of the portfolio remains high, with 98% of the rated bonds being investment grade. The portfolio is also well diversified by both sector and geography with 61% of LGPL's exposure now domiciled outside the UK including 32% held in North America and 23% in Europe. Exposure to overseas currency and interest rate risk is managed through the use of derivative programmes.

SOVEREIGN DEBT

At the end of 2010, LGPL's exposure to sovereign debt was £3.0bn. Of this, only £30m was invested in sovereign debt issued by Portugal, Ireland, Greece and Spain, representing 0.1% of the total LGPL bond portfolio. We continue to closely monitor our exposures to these currencies.

BANK SECURITIES

The Group has maintained a relative underweight position in banks in comparison to both global and local market index weightings. LGPL's exposure to bank hybrid debt from Portugal, Ireland, Greece and Spain represented significantly less than 0.5% of the total bond portfolio.

COLLATERALISED DEBT OBLIGATIONS (CDO)

The value of our CDO investments at 31 December 2010 was £1.0bn. Of this total, £0.9bn relates to internally managed CDOs which are super senior tranches of bespoke structures constructed and managed by Legal & General to provide enhanced yield with significant protection against default. The default losses on the reference portfolio would have to exceed 28% on average across the four CDOs before the CDOs incur any default losses. The underlying reference portfolios have experienced no reference entity defaults in 2010.

ASSET BACKED SECURITIES (ABS)

Within the bond portfolio, ABS investments stood at a market value of £4.9bn at 31 December 2010 compared to £4.4bn at the end of 2009. The portfolio of ABS investments remains defensive, with the majority of the structured finance exposure to either UK based infrastructure or secured bonds. These are high quality assets that were selected for their long duration and risk diversification. Within this total, £1.6bn are categorised as traditional ABS investments, including RMBS and CMBS (of which only £18m is sub-prime).

DURATION MATCHING AND REINVESTMENT RISKS

Asset and liability durations are managed to be closely matched with minimal appetite for mismatch risk. For the LGPL portfolio, asset duration is 11 years and liability duration 12 years. Where full matching is not possible, a prudent reinvestment rate is assumed.

MORTALITY, CATASTROPHE AND OTHER ASSUMPTION UNCERTAINTIES

The writing of long term insurance business necessarily requires the setting of assumptions for long term trends in factors such as mortality, persistency, valuation interest rates and credit defaults. Household insurance business requires assumptions to be made for factors such as extreme weather events and other catastrophic risks. We undertake significant analysis of risks to ensure our reserves for those risks are appropriate. However, extreme adverse events may impact unfavourably on profitability and capital. For example, a pandemic would result in significant death claims on protection contracts or a rapid advance in medical science could lead to significantly enhanced annuitant longevity which may require assumptions to be recalibrated.

ANNUITANT MORTALITY

In recent years Legal & General has focused on developing a deep understanding of these risks, notably UK longevity and mortality which is our principal risk exposure in this space. In 2010, we increased mortality reserves by a net £59m to update for current year experience and to bring our annuitant mortality assumptions in line with the latest methodology from the Continuing Mortality Investigation Bureau (CMIB).

REGULATORY AND LEGISLATION RISK

There are a number of regulatory changes which will impact the business over the next five years. We proactively engage with regulators as new initiatives are developed with the aim of ensuring that new regulation is both proportionate to the risks it aims to mitigate and that the full impacts are considered before implementation.

SOLVENCY II

Solvency II is the introduction of a new, European wide, capital regime for insurers. It has been in development for several years and is expected to be implemented in January 2013. The lack of clarity regarding the new regime creates significant uncertainty for the Group with a number of key areas remaining unresolved. We have been actively engaging with regulators in Europe and the UK and with the UK Government. Over the last 12 months we have seen a number of positive developments from within the European Solvency II programme regarding the impact on our business but remain cautious until a final set of regulations are published. The European industry has recently submitted its response to the Commission's latest Quantitative Impact Study (QIS5), which was a test of a particular calibration of capital rules. The results of QIS5 were published in March 2011 however we do not expect clarity to emerge until later in 2011 when the detailed implementation rules for Solvency II (which may be materially different to the QIS5 specification) should be published.

For our annuity business, proposals may require firms to hold a disproportionate amount of capital relative to the risk exposure. Whilst transitional arrangements will apply, the scope and duration of these remain undecided.

RETAIL DISTRIBUTION REVIEW (RDR)

The Retail Distribution Review is a UK wide change to the regulation surrounding the distribution of retail investment products which is due to be implemented in December 2012. The principal changes are to replace commission payments to advisors for the advice and sale of retail investment products with advisors contracting directly with customers for advice fees, to increase the qualifications required for advisors, to increase the quantum of capital required in advisor firms and to introduce a new two tiered advice structure of independent and restricted advice. RDR will bring significant changes to our products and distribution processes, and poor execution of the changes could impact earnings and profitability.

We anticipate a fall in independent advisor numbers as a result of RDR and an increase in restricted advice models as well as execution only (direct) transactions. We believe that the Group's distribution model is well placed to benefit from the implementation of RDR. We have moved our IFA franchise towards fee based and fund based models which will be less affected by RDR. We expect that some banks will be beneficiaries from RDR; our bank distribution franchise positions us well here and our strong brand and customer service track record will mean we are well placed to benefit from any growth in direct demand. We may need to invest in additional digital platform capability to compete in the post RDR environment.

NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

NEST is a new government sponsored national pension scheme aimed at employers who currently do not offer access to a pension scheme to their employees. It will be implemented in October 2012 when larger employers will need to offer their employees a NEST pension or suitable commercial alternative. Alongside implementation of NEST, auto enrolment to group pension schemes will be introduced whereby employees will need to actively opt out of being a scheme member.

We do not see NEST or auto-enrolment as a major threat to our corporate pensions business, rather a growth opportunity. Our target market is larger employers who often already have a pension scheme in place and who are attracted to the proposition which we offer, including access to SIPP products for senior employees and Group ISA arrangements for those employees who wish to save through alternative tax advantaged product structures. The introduction of auto enrolment will stimulate growth in pension membership amongst our existing client base as well as creating further opportunities to win new business mandates in our target markets.

ACCOUNTING CHANGES

The International Accounting Standards Board's (IASB's) project on accounting for insurance contracts, which seeks to improve and ensure consistency in accounting, is targeted for completion in mid 2011. If the IASB are able to meet this challenging timetable, the implementation date is likely to be between 2013 and 2015. Proposals are currently subject to the due process of the IASB. Whilst we support the need for clear and consistent financial reporting, the proposals of the latest exposure draft would result in a significant change in the timing of profit recognition, inconsistencies with capital measurement under Solvency II and increased complexity for users of accounts. We are working with the IASB, the European CFO Forum and the Association of British Insurers to ensure that the IASB proposals are appropriate to the insurance sector and meet the needs of investors.

EUROPEAN COURT OF JUSTICE RULING ON GENDER BASED PRICING

On 1 March the European Court of Justice (ECJ) ruled that the use of gender in pricing insurance contracts would be unlawful from 21 December 2012. We view this ruling as unhelpful to UK consumers, many of whom will end up paying more to mitigate risks where gender is an appropriate risk factor. Pricing will need to be adjusted to reflect these changes but it is too early for us to assess the impact on new business margins.

There is an increasing trend for legislative intervention, bringing potential for forced changes to our businesses potentially increasing the costs of our products to our customers and any retrospection impacting required resources of our insurance business.

UK FINANCIAL SERVICES SECTOR CONTAGION RISKS

As a UK based Group, earnings are influenced by the perception of the UK financial services sector as a whole. Factors such as investment market performance, actions by regulators against organisations operating in our sector, and shock events, including matters such as significant market failures, can impact the confidence of retail investors in the sector as a whole and their purchase or retention of financial service products.

We continue to seek to differentiate our business model from that of our competitors. This includes a diversified portfolio of risk, savings and investment management businesses in the UK. In addition, we are focused on developing our international businesses, with joint ventures in India and the Gulf, complementing our existing portfolio of overseas activities.

SUPPLEMENTARY EEV DISCLOSURE

Analysis of EEV results - covered business £m	PVNBP		Margin (%)		Contribution	
	2010	2009	**2010**	2009	**2010**	2009
Risk	**2,925**	2,728	**10.3**	10.4	**300**	285
Savings	**3,934**	3,676	**0.8**	0.5	**33**	20
International	**1,017**	876	**4.3**	2.6	**44**	23
Total	**7,876**	7,280	**4.8**	4.5		
Contribution from new business					**377**	328
Expected return from in-force business					**527**	614
Persistency					***(31)***	*(62)*
Mortality / morbidity					***(53)***	*147*
Expenses					***(11)***	*22*
Other					***211***	*113*
Experience variances and assumption changes					**116**	220
Development costs					**(15)**	(30)
Contribution from shareholder net worth					**160**	141
Operating profit on covered business					**1,165**	**1,273**
Business reported on an IFRS basis					**59**	46
Operating profit					**1,224**	**1,319**

Analysis of EEV results – worldwide business £m	2010	2009
Risk	**663**	913
Savings	**204**	77
Investment management	**179**	144
International	**163**	170
Group capital and financing	**54**	47
Investment Projects	**(39)**	(32)
Operating profit	**1,224**	**1,319**
Variation from longer term investment return	**161**	(413)
Effect of economic assumption changes	**292**	(335)
Property losses attributable to non-controlling interests	**-**	(19)
Profit from ordinary activities before tax	**1,677**	**552**
Tax and other	**(413)**	(55)
Profit from ordinary activities after tax	**1,264**	**497**
Earnings per share (p)	**21.71**	8.86
Shareholders' equity	**7,730**	**6,695**
Number of shares (m)	**5,867**	5,862
Shareholders' equity per share (p)	**132**	**114**

OPERATING PROFIT

EEV operating profit decreased by 7% to £1,224m in 2010 (2009: £1,319m). This decrease reflects the unwind of a lower opening risk discount rate on a lower opening in-force value in the UK coupled with, in 2009, favourable mortality experience in the Risk business.

NEW BUSINESS CONTRIBUTION

Contribution from worldwide new business increased to £377m (2009: £328m), growth of 15%. The margin on this business improved to 4.8% (2009: 4.5%) benefiting from cost efficiencies, lower commissions and growing scale in our businesses.

RISK

New business margin %	2010	2009
Protection	**6.4**	7.9
Annuities	**11.9**	11.7
Risk	**10.3**	10.4

The increased competitive environment in the protection market in 2010 was only partially offset by improved reinsurance terms, expense reductions and favourable new business mix. This led to a drop in the new business margin to 6.4% (2009: 7.9%). The IRR on protection new business was 15% (2009: 17%) with an unchanged payback period of 5 years.

The annuities margin increased to 11.9% (2009: 11.7%). Despite pricing conditions not being as favourable as 2009, the extension of our distribution reach enabled selective targeting of more profitable sectors. Given positive strain on this business, annuities had an immediate IFRS payback and an infinite IRR in both 2010 and 2009.

SAVINGS

New business margin %	2010	2009
Unit linked bonds	**1.4**	(0.6)
Non profit pensions	**0.1**	(0.6)
With-profits	**2.6**	2.9
Savings	**0.8**	0.5

The focus on new business growth, cost management and change in strategy from commission paying products to fee-based products has had a profound effect on non profit savings new business margins from negative margins in 2009 to positive margins in 2010.

In unit linked bonds, these actions were reflected in a margin of 1.4% in 2010 (2009: negative 0.6%). This translates into an IRR of 11% (2009: 8%) and a payback period of 7 years (2009: 9 years).

In non profit pensions, the increase in new business volumes particularly in the fee-based workplace pensions market has lowered unit costs and increased the margin to 0.1% in 2010 (2009: negative 0.6%). This equates to an IRR and payback period of 8% and 13 years respectively (2009: IRR 6%, payback period 14 years).

The with-profits margin has reduced slightly from 2.9% in 2009 to 2.6% in 2010.

INTERNATIONAL

New business margin %	2010	2009
USA	**8.9**	4.9
Netherlands	**1.4**	2.7
France	**0.6**	0.1
International	**4.3**	2.6

The consolidated International new business margin increased to 4.3% in 2010 (2009: 2.6%). This was driven by an increase in the USA to 8.9% (2009: 4.9%) as a result of improvements to cost management and higher reinvestment assumptions.

Market and regulatory conditions in the Netherlands remain depressed whereas in France new insurance business increased by 21% in 2010 which lowered unit costs and increased margins.

IN-FORCE CONTRIBUTION

The expected return from in-force business decreased to £527m (2009: £614m) due to the unwind of a lower opening discount rate (8.0% vs 8.3%) applied to a lower opening in-force value in the UK.

Positive experience variances and assumption changes in our worldwide Risk and Savings businesses of £116m (2009: £220m) included:

Persistency: negative £31m (2009: negative £62m). This reflects the strengthening of lapse assumptions for non profit pensions.

Mortality/morbidity/longevity: negative £53m (2009: £147m). This reflects adverse annuitant mortality assumption changes to update for current year experience and to bring the mortality assumptions in line with the latest CMIB methodology partially offset by a release in the protection business.

Expenses: negative £11m (2009: £22m), reflecting small adverse variances in the International businesses.

Other: £211m (2009: £113m). This includes a reassessment of future BPA reserve release as data is loaded onto the BPA system (£59m), internalised financing costs resulting from the US capital restructure (£46m), the unwind of the cost of capital in the UK (£54m) and one-off modelling improvements and other experience variances (£52m).

INVESTMENT MANAGEMENT

The Investment management business is reported on an IFRS basis; operating profit of £179m (2009: £144m) excludes £27m (2009: £28m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a “look through” basis and as a consequence are included in the Risk and Savings covered businesses on an EEV basis.

GROUP CAPITAL AND FINANCING

Operating profit from Group capital and financing represents profit on the shareholder assets held within the covered business, reported on an embedded value basis and profit on the shareholder assets held outside the covered business reported on an IFRS basis. The profit from Group capital and financing increased to £54m in 2010 (2009: £47m) as a result of higher average invested assets throughout 2010.

PROFIT BEFORE TAX

Profit before tax includes the variation from longer term investment return and the effect of economic assumption changes. EEV profit before tax was £1,677m (2009: £552m).

The variation from longer term investment return improved to £161m in 2010 from a negative variance of £413m in 2009. This was primarily due to improved market conditions throughout 2010.

The positive effect of economic assumption changes amounted to £292m (2009: negative £335m). This includes £341m relating to the decrease in the UK risk discount rate in 2010 to 7.3% from 8.0% and £39m relating to the fall in the expense inflation assumption offset by negative £138m relating to lower expected returns and higher cost of capital.

ENQUIRIES

INVESTORS:

Matt Hotson	Director, Investor Relations and Strategy	020 3124 2150
Adrian Liew	Investor Relations Manager	020 3124 2044
Ching-Yee Chan	Investor Relations Co-ordinator	020 3124 2345

MEDIA:

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

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A copy of this announcement can be found in "Results", under the "Financial information" section of our shareholder website at http://www.legalandgeneralgroup.com/investors/results.cfm.

A presentation to analysts and fund managers will take place at 09.30 GMT today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at

http://investor.legalandgeneral.com/investors/results.cfm. A replay will be available on this website later today.

There will be a live listen only teleconference link to the presentation. Investors should dial +44 (0)20 3059 5845. The passcode is "L&G Results".

There will be a further teleconference at 15.00 GMT (10.00 EST) to answer specific technical and accounting questions. Investors should dial +44 (0)20 3140 0722.

FINANCIAL CALENDAR 20111	Date
Ex dividend date	20 April 2011
Record date	26 April 2011
Q1 Interim Management Statement 2010	4 May 2011
Annual General Meeting	25 May 2011
Payment date of 2010 final dividend	1 June 2011
Half Year Results 2011	3 August 2011

FORWARD LOOKING STATEMENTS

This document may contain certain forward-looking statements relating to Legal & General Group, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

DIRECTORS' RESPONSIBILITY STATEMENT (EXTRACTED FROM THE 2010 ANNUAL REPORT AND ACCOUNTS)

The directors are responsible for preparing the Directors' Report, including the Directors' Remuneration Report, and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the parent company financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Principles) and applicable law. In preparing the Group financial statements, the directors have also elected to comply with IFRS issued by the International Accounting Standards Board (IASB). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRS as adopted by the EU and IFRS issued by the IASB, and with regard to the parent company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group and company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the Directors' Remuneration Report and the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and for taking such reasonable steps to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

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

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

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

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

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Supplementary operating profit income statement

For the year ended 31 December 2010

	Notes	**2010 £m**	2009 £m
From continuing operations			
Risk	2.01(a)	**560**	735
Savings	2.02(a)	**115**	50
Investment management	2.03	**206**	172
International	2.04	**102**	127
Group capital and financing	2.06	**58**	57
Investment projects[1]		**(39)**	(32)
Operating profit		**1,002**	1,109
Variation from longer term investment return	2.07	**90**	(16)
Property losses attributable to non-controlling interests		**-**	(19)
Profit before income tax attributable to equity holders of the Company		**1,092**	1,074
Tax expense attributable to equity holders of the Company	2.08	**(272)**	(230)
Profit for the year		**820**	844
Attributable to:			
Non-controlling interests	2.15	**-**	(19)
Equity holders of the Company		**820**	863
		p	p
Earnings per share	2.09		
Based on profit attributable to equity holders of the Company		**14.07**	14.82
Diluted earnings per share	2.09		
Based on profit attributable to equity holders of the Company		**13.88**	14.73

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

This supplementary operating profit information (one of the Group's key performance indicators) provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

Operating profit for the Risk segment represents the profit from the annuities business (individual and bulk purchase annuities) and the profit from the housing and protection businesses (general insurance, and individual and group protection business). Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business and on shareholder funds retained within our general insurance business.

Operating profit for the Savings segment represents the profit from the insured Savings businesses (non profit investment bonds and non profit pensions (including SIPPs)), the with-profits transfer and the profit of our Savings investments business. Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business.

The composition of the Savings and Investment management segments has changed. Institutional retail investment business is now included in the Savings segment; the net effect was to reduce Savings 2009 operating profit by £5m with an offsetting increase in the Investment management segment's operating profit.

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

Investment return on Group capital incorporates a longer term expected investment return using longer term investment return assumptions applied to the average balance of Group invested assets (including interest bearing intra-group balances) calculated on a monthly basis. Profits or losses arising from actuarial movements on annuities held by the Group's defined benefit pension schemes are excluded from operating profit. Profits or losses arising on the elimination of own debt holdings are also excluded from operating profit.

Changes have been made to the presentation of certain notes to improve transparency. The comparatives have been amended accordingly.

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
Revenue			
Gross written premiums		**5,348**	5,275
Outward reinsurance premiums		**(590)**	(574)
Net change in provision for unearned premiums		**(14)**	11
Net premiums earned		**4,744**	4,712
Fees from fund management and investment contracts		**900**	786
Investment return		**32,671**	38,201
Operational income		**125**	91
Total revenue		**38,440**	43,790
Expenses			
Claims and change in insurance liabilities		**7,567**	7,614
Reinsurance recoveries		**(621)**	(520)
Net claims and change in insurance liabilities		**6,946**	7,094
Change in provisions for investment contract liabilities		**28,154**	33,186
Acquisition costs		**770**	780
Finance costs		**168**	179
Other expenses		**905**	882
Transfers to unallocated divisible surplus		**190**	430
Total expenses		**37,133**	42,551
Profit before income tax		**1,307**	1,239
Income tax expense attributable to policyholder returns		**(215)**	(165)
Profit before income tax attributable to equity holders of the Company		**1,092**	1,074
Total income tax expense		**(487)**	(395)
Income tax expense attributable to policyholder returns		**215**	165
Income tax expense attributable to equity holders	2.08	**(272)**	(230)
Profit for the year		**820**	844
Attributable to:			
Non-controlling interests		**-**	(19)
Equity holders of the Company		**820**	863

	Notes	2010 £m	2009 £m
Dividend distributions to equity holders of the Company during the year	2.12	**238**	185
Dividend distributions to equity holders of the Company proposed after the year end	2.12	**201**	160

	Notes	p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	2.09	**14.07**	14.82
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	2.09	**13.88**	14.73

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 £m	2009 £m
Profit for the year	**820**	844
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**8**	(63)
Actuarial (losses) on defined benefit pension schemes	**(9)**	(154)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**4**	62
Net change in financial investments designated as available-for-sale	**27**	66
Total comprehensive income for the year	**850**	755

Total comprehensive income attributable to:		
Non-controlling interests	**-**	(19)
Equity holders of the Company	**850**	774

Consolidated Balance Sheet

As at 31 December 2010

	Notes	2010 £m	2009 £m
Assets			
Purchased interest in long term businesses and other intangible assets		**157**	146
Deferred acquisition costs		**2,000**	1,957
Investment in associates		**57**	45
Plant and equipment		**64**	61
Investment property		**4,571**	3,839
Financial investments	2.10	**299,570**	276,016
Reinsurers' share of contract liabilities		**2,336**	2,093
Deferred tax asset		**495**	796
Income tax recoverable		**-**	1
Other assets		**1,587**	1,440
Cash and cash equivalents		**13,036**	10,650
Total assets		**323,873**	297,044
Equity			
Share capital	2.11	**147**	147
Share premium	2.11	**938**	936
Employee scheme shares		**(41)**	(38)
Capital redemption and other reserves		**79**	41
Retained earnings		**3,704**	3,110
Shareholders' equity		**4,827**	4,196
Non - controlling interests	2.15	**47**	2
Total equity		**4,874**	4,198
Liabilities			
Subordinated borrowings	2.14	**1,897**	1,870
Participating insurance contracts	2.16	**9,383**	9,404
Participating investment contracts	2.17	**7,323**	7,139
Unallocated divisible surplus		**1,469**	1,284
Value of in-force non-participating contracts		**(377)**	(367)
Participating contract liabilities		**17,798**	17,460
Non-participating insurance contracts	2.16	**31,325**	28,583
Non-participating investment contracts	2.17	**253,426**	234,502
Non-participating contract liabilities		**284,751**	263,085
Senior borrowings	2.14	**1,435**	1,407
Provisions	2.19	**761**	757
Deferred tax liabilities		**356**	303
Income tax liabilities		**111**	140
Payables and other financial liabilities		**5,473**	5,003
Other liabilities		**954**	892
Net asset value attributable to unit holders		**5,463**	1,929
Total liabilities		**318,999**	292,846
Total equity and liabilities		**323,873**	297,044

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010	Share capital £m	Share premium £m	Employee scheme shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January	**147**	**936**	**(38)**	**41**	**3,110**	**4,196**	**2**	**4,198**
Profit for the year	**-**	**-**	**-**	**-**	**820**	**820**	**-**	**820**
Exchange differences on translation of overseas operations	**-**	**-**	**-**	**8**	**-**	**8**	**-**	**8**
Actuarial (losses) on defined benefit pension schemes	**-**	**-**	**-**	**-**	**(9)**	**(9)**	**-**	**(9)**
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**-**	**-**	**-**	**-**	**4**	**4**	**-**	**4**
Net change in financial investments designated as available-for-sale	**-**	**-**	**-**	**27**	**-**	**27**	**-**	**27**
Total comprehensive income for the year	**-**	**-**	**-**	**35**	**815**	**850**	**-**	**850**
Options exercised under share option schemes:								
- Savings related share option scheme	**-**	**2**	**-**	**-**	**-**	**2**	**-**	**2**
Shares purchased	**-**	**-**	**(11)**	**-**	**-**	**(11)**	**-**	**(11)**
Shares vested	**-**	**-**	**8**	**(18)**	**-**	**(10)**	**-**	**(10)**
Employee scheme treasury shares:								
- Value of employee services	**-**	**-**	**-**	**30**	**-**	**30**	**-**	**30**
Transfer to retained earnings	**-**	**-**	**-**	**-**	**8**	**8**	**-**	**8**
Dividends	**-**	**-**	**-**	**-**	**(238)**	**(238)**	**-**	**(238)**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**45**	**45**
Currency translation differences	**-**	**-**	**-**	**(9)**	**9**	**-**	**-**	**-**
As at 31 December	**147**	**938**	**(41)**	**79**	**3,704**	**4,827**	**47**	**4,874**

For the year ended 31 December 2009	Share capital £m	Share premium £m	Employee scheme shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January	147	936	(46)	(42)	2,593	3,588	144	3,732
Profit for the year	-	-	-	-	863	863	(19)	844
Exchange differences on translation of overseas operations	-	-	-	(63)	-	(63)	-	(63)
Actuarial (losses) on defined benefit pension schemes	-	-	-	-	(154)	(154)	-	(154)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	-	-	-	-	62	62	-	62
Net change in financial investments designated as available-for-sale	-	-	-	66	-	66	-	66
Total comprehensive income/(expense) for the year	-	-	-	3	771	774	(19)	755
Shares purchased	-	-	(2)	-	-	(2)	-	(2)
Shares vested	-	-	10	(18)	-	(8)	-	(8)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	21	-	21	-	21
Transfer to retained earnings	-	-	-	-	8	8	-	8
Dividends	-	-	-	-	(185)	(185)	-	(185)
Movement in third party interests	-	-	-	-	-	-	(123)	(123)
Currency translation differences	-	-	-	77	(77)	-	-	-
As at 31 December	147	936	(38)	41	3,110	4,196	2	4,198

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	2010 £m	2009 £m
Cash flows from operating activities		
Profit for the year	**820**	844
Adjustments for non-cash movements in net profit for the year		
Realised and unrealised gains on financial investments and investment properties	**(23,673)**	(29,180)
Investment income	**(8,787)**	(8,813)
Interest expense	**168**	179
Income tax expense	**487**	395
Other adjustments	**59**	104
Net (increase)/decrease in operational assets		
Investments held for trading or designated as fair value through profit or loss	**(2,958)**	(5,822)
Investments designated as available-for-sale	**(39)**	(61)
Other assets	**(479)**	477
Net increase/(decrease) in operational liabilities		
Insurance contracts	**2,746**	3,143
Transfer to unallocated divisible surplus	**186**	368
Investment contracts	**20,702**	29,337
Value of in-force non-participating contracts	**(10)**	(196)
Other liabilities	**4,968**	1,121
Cash used in operations	**(5,810)**	(8,104)
Interest paid	**(167)**	(160)
Interest received	**5,030**	5,074
Income tax (paid)/received	**(164)**	52
Dividends received	**3,818**	3,896
Net cash flows from operating activities	**2,707**	758
Cash flows from investing activities		
Net acquisition of plant and equipment	**(17)**	(7)
Acquisitions (net of cash acquired)[1]	**(44)**	-
Capital injections into associates and joint ventures	**(8)**	(36)
Net cash flows from investing activities	**(69)**	(43)
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	**(238)**	(185)
Proceeds from issue of ordinary share capital	**2**	-
Purchase of employee scheme shares	**(11)**	(2)
Proceeds from borrowings	**750**	2,124
Repayment of borrowings	**(758)**	(2,629)
Net cash flows from financing activities	**(255)**	(692)
Net increase in cash and cash equivalents	**2,383**	23
Exchange gains/(losses) on cash and cash equivalents	**3**	(61)
Cash and cash equivalents at 1 January	**10,650**	10,688
Cash and cash equivalents at 31 December	**13,036**	10,650

1. Net cash flows from acquisitions include total net identifiable assets acquired of £52m (2009: £nil) less cash and cash equivalents acquired of £8m (2009: £nil).

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

Supplementary operating profit information
2.01 Risk

(a) Risk operating profit

	Notes	2010 £m	2009 £m
Annuities		**364**	545
Protection		**207**	172
General Insurance		**(8)**	17
Other[1]		**(3)**	1
Total Housing and Protection		**196**	190
Total Risk operating profit	2.01(b)	**560**	735

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

(b) Analysis of Risk operating profit

	Notes	Annuities 2010 £m	Housing and Protection 2010 £m	Total 2010 £m	Annuities 2009 £m	Housing and Protection 2009 £m	Total 2009 £m
Risk business segment operating profit comprises:							
Operational cash generation		**229**	**210**	**439**	235	219	454
New business strain		**60**	**(70)**	**(10)**	129	(79)	50
Net cash generation		**289**	**140**	**429**	364	140	504
Experience variances	2.01(c)			**67**			113
Changes to valuation assumptions	2.01(d)			**30**			169
Changes to FSA reporting and capital rules				**-**			15
Movements in non-cash items	2.01(e)			**(122)**			(229)
Other				**(1)**			(41)
				403			531
Tax gross up	2.08			**157**			204
Total Risk operating profit				**560**			735

The annuities and protection (non profit business) operational cash generation represents the expected surplus to be generated in the period from the in-force non profit business which is broadly equivalent to the expected release of profit from the non profit Risk business using best estimate assumptions. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and operational cash generation exclude required solvency margin from the liability calculation as is required by the ABI SORP.

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

(c) Experience variances

	2010 £m	2009 £m
Persistency	**(3)**	(9)
Mortality/morbidity	**(8)**	(9)
Expenses	**(1)**	1
Bulk purchase annuity data loading	**59**	48
Project and development costs[1]	**(9)**	(21)
Tax[2]	**37**	79
Other	**(8)**	24
	67	113

1. In 2010, project and development costs primarily relate to investment in the Group protection policy administration systems.
2. The current tax credit principally relates to the utilisation of brought forward tax losses.

Supplementary operating profit information

2.01 Risk (continued)

(d) Changes to valuation assumptions

	2010 £m	2009 £m
Persistency	**(5)**	(5)
Mortality/morbidity[1]	**(19)**	101
Expenses[2]	**(9)**	54
Other[3]	**63**	19
	30	169

1. Mortality/morbidity includes the release of £43m relating to reserving benefits within individual protection. This was offset by a £59m strengthening of the mortality assumptions within the annuity business.
2. The negative expense assumption reflects a change in reserving basis for custodian fees of £11m.
3. Other reflects the benefit from inflation modelling enhancement on deferred annuity business.

(e) Movements in non-cash items

	2010 £m	2009 £m
Deferred tax	**(125)**	(221)
Other	**3**	(8)
	(122)	(229)

(f) General insurance operating (loss)/profit

	Net cash generation 2010 £m	Tax gross up 2010 £m	Operating (loss)/profit 2010 £m	Net cash generation 2009 £m	Tax gross up 2009 £m	Operating profit 2009 £m
Household[1]	**(10)**	**(4)**	**(14)**	9	3	12
Other business	**4**	**2**	**6**	4	1	5
	(6)	**(2)**	**(8)**	13	4	17

1. The 2010 Household operating loss reflects the impact of two periods of severe cold weather, which has resulted in an additional £30m of weather related claims.

(g) General insurance combined operating ratios

	2010 %	2009 %
Household[1]	**109**	98
Other business	**77**	79
	106	96

1. The 2010 Household combined operating ratio reflects the impact of two periods of severe cold weather. If these events are excluded the underlying combined ratio is 97%.

Supplementary operating profit information
2.02 Savings

(a) Savings operating profit

	Notes	**2010 £m**	2009 £m
Insured business[1]		**31**	(11)
With-profits business[2]		**63**	64
Savings investments[3]		**21**	(3)
Total Savings operating profit	2.02(b)	**115**	50

1. Insured business (previously reported as Non profit Savings) includes non profit investment bonds and pensions (including SIPPs), Nationwide Life Savings business and International (Ireland). The Nationwide Life Savings business and the International (Ireland) business were previously reported in Other. Prior period comparatives have been amended.
2. With-profits business operating profit is the shareholders' share of total with-profits bonuses.
3. Savings investments (previously reported as Retail investments) operating profit includes retail and institutional unit trusts, Suffolk Life and business unit costs allocated to the Savings segment of £1m (2009: £3m). The Institutional unit trust business was previously reported in the Investment management segment. Prior period comparatives have been amended. The impact has been to reduce Savings investments 2009 operating profit by £5m.

(b) Analysis of Savings operating profit

	Notes	**Insured business 2010 £m**	**With-profit 2010 £m**	**Savings investments 2010 £m**	**Total 2010 £m**
Savings cash generation					
Operational cash generation		**71**	**46**	**21**	**138**
New business strain		**(70)**	**-**	**-**	**(70)**
Net cash generation		**1**	**46**	**21**	**68**
Insured business					
Experience variances	2.02(c)				**10**
Changes to valuation assumptions	2.02(d)				**28**
Changes to FSA reporting and capital rules					**-**
Movements in non-cash items	2.02(e)				**(21)**
Other					**4**
Savings investments					
Movements in non-cash items and other					**(9)**
					80
Tax gross up					**35**
Total Savings operating profit					**115**

	Notes	Insured business 2009 £m	With-profit 2009 £m	Savings investments 2009 £m	Total 2009 £m
Operational cash generation		55	46	5	106
New business strain		(77)	-	-	(77)
Net cash generation		(22)	46	5	29
Insured business					
Experience variances	2.02(c)				(1)
Changes to valuation assumptions	2.02(d)				9
Changes to FSA reporting and capital rules					50
Movements in non-cash items	2.02(e)				(65)
Other					22
Savings investments					
Movements in non-cash items and other					(7)
					37
Tax gross up					13
Total Savings operating profit					50

Supplementary operating profit information

2.02 Savings (continued)

(b) Analysis of Savings operating profit (continued)

The insured business operational cash generation represents the expected surplus to be generated in the period from the in-force investment bonds and pensions business (non profit Savings) which is broadly equivalent to the expected release of profit from non profit Savings business using best estimate assumptions. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and operational cash generation exclude required solvency margin from the liability calculation as is required by the ABI SORP.

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

(c) Experience variances

	2010 £m	2009 £m
Persistency	**(3)**	(1)
Mortality/morbidity	**1**	-
Expenses	**3**	-
Project and development costs[1]	**(4)**	(23)
Tax[2]	**14**	22
Other	**(1)**	1
	10	(1)

1. In 2009, project and development costs related principally to continued investment in internal and other customer facing systems.
2. The current tax credit principally relates to the utilisation of brought forward tax losses.

(d) Changes to valuation assumptions

	2010 £m	2009 £m
Persistency	**-**	1
Mortality/morbidity	**2**	(2)
Expenses	**3**	(1)
Other[1]	**23**	11
	28	9

1. In 2010, Other assumption changes includes £12m from the recognition of the benefit of tax exempt UK dividend income.

(e) Movements in non-cash items

	Notes	**2010 £m**	2009 £m
Deferred tax		**(39)**	(33)
Deferred acquisition costs	2.02(f)	**(16)**	(5)
Deferred income liabilities		**33**	35
Other[1]		**1**	(62)
		(21)	(65)

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

Supplementary operating profit information

2.02 Savings (continued)

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

	2010 £m	2009 £m
As at 1 January	**628**	633
Amortisation through income	**(66)**	(67)
Acquisition costs deferred	**50**	62
As at 31 December	**612**	628

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

Expected amortisation profile:

	2010 £m	2009 £m
Expected to be amortised within one year	**69**	61
Expected to be amortised between one year and five years	**276**	244
Expected to be amortised in over five years	**267**	323
	612	628

2.03 Investment management

	2010 £m	2009 £m
Pension funds (managed and segregated)	**148**	128
Other non-pension[1]	**20**	16
Investment management services for internal funds	**38**	28
Total Investment management operating profit[2]	**206**	172

1. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). The increase has been driven by non-pension segregated mandates.
2. Investment management operating profit no longer includes institutional unit trusts which are now included within the Savings segment. Prior period comparatives have been amended. The impact has been to increase Investment management 2009 operating profit by £5m.

2.04 International

	2010 £m	2009 £m
USA	**85**	86
Netherlands[1]	**20**	42
France	**6**	4
Total Europe operating profit	**26**	46
Other[2]	**(9)**	(5)
Total International operating profit[3]	**102**	127

1. The reduction in Netherlands' profit was driven by tougher trading conditions and a reduction in interest margins. The 2009 result had benefited from volatile bond markets which have since started to normalise.

2. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m (2009: £4m) allocated to the International segment.

3. In 2010, the International division paid £44m (2009: £8m) of dividends to the Group.

Exchange rates are provided in Note 2.05.

2.05 Foreign exchange rates

Principal rates of exchange used for translation are:

	01.01.10-31.12.10 Average	2010 Year end	01.01.09-31.12.09 Average	2009 Year end
United States Dollar	**1.55**	**1.57**	1.57	1.62
Euro	**1.17**	**1.17**	1.12	1.13

Supplementary operating profit information

2.06 Group capital and financing

	2010 £m	2009 £m
Investment return[1]	**187**	191
Interest expense[2]	**(121)**	(127)
Investment expenses	**(3)**	(3)
Unallocated corporate expenses	**(5)**	(4)
Total Group capital and financing operating profit	**58**	57

1. The longer term expected investment return of £187m (2009: £191m) reflects an average return of 5.8% (2009: 6.4%) on the average balance of invested assets of £3.2bn (2009: £3.0bn) held within Group capital and financing calculated on a monthly basis. The invested assets held within Group capital and financing amounted to £3.3bn (2009: £2.8bn).
2. Interest expense excludes interest on non recourse financing (see Note 2.14).

2.07 Variation from longer term investment return

	2010 £m	2009 £m
Risk[1]	**102**	(218)
Savings[2]	**(54)**	127
Investment management	**(8)**	(4)
International[3]	**35**	26
Group capital and financing		
Asset related[4]	**52**	24
Debt related[5]	**(72)**	15
Defined benefit pension scheme[6]	**35**	14
Total variation from longer term investment return	**90**	(16)

1. In 2010, Risk business investment variance reflects the positive experience of £180m, partly offset by changes to interest rates and changes to modelling of liability and asset data.
2. Savings business investment variance includes the difference between IFRS deferred policyholder tax and the amount included within the unit linked life funds.
3. The International investment variance includes a £28m (2009: £18m) benefit from the US Capital restructuring programme, which involved replacing the Triple X financing solution with an internal reinsurance structure. The benefit was the result of purchasing the Potomac Trust Capital Class A Money Market Securities (used to fund the Triple X solution) at a discount.
4. Group capital and financing operating profit incorporates an assumed long term investment return. The asset related investment variance reflects the difference between the assumed return and actual return on Society shareholder capital and the Group's treasury assets.
5. The Group manages its exposure to interest rate movements on debt issued with a series of interest rate swaps to lock into a fixed funding cost. The Group does not hold an active trading position in such derivative contracts. For contracts which have not been designated within hedge accounting relationships there is resulting short term income statement volatility which in 2010, primarily as a result of a decrease in the relevant long term interest rates, amounted to £(62)m (2009: £23m). In addition the elimination of Legal & General debt owned by the Group is £(8)m (2009: £6m) and other small items have an impact of £(2)m (2009: £(14)m).
6. The defined benefit pension scheme investment variance includes the actuarial gains and losses and valuation difference arising on annuity assets held by the defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited.

2.08 Analysis of tax

	Profit/(loss) before tax 2010 £m	Tax (expense)/ credit 2010 £m	Profit/(loss) before tax 2009 £m	Tax (expense)/ credit 2009 £m
From continuing operations				
Risk	**560**	**(157)**	735	(204)
Savings	**115**	**(35)**	50	(13)
Investment management	**206**	**(44)**	172	(47)
International	**102**	**(25)**	127	(41)
Group capital and financing	**58**	**(1)**	57	(8)
Investment projects	**(39)**	**11**	(32)	9
Operating profit/(loss)	**1,002**	**(251)**	1,109	(304)
Variation from longer term investment return	**90**	**(16)**	(16)	74
Impact of change in UK tax rates	**-**	**(5)**	-	-
Property losses attributable to non-controlling interests	**-**	**-**	(19)	-
Profit/(loss) for the period/Tax (expense)/credit for the period	**1,092**	**(272)**	1,074	(230)

The equity holders' effective tax rate for the period is 24.9% (2009: 21.4%). The principal reason for this increase relates to the recognition of a previously unrecognised deferred tax asset in 2009.

2.09 Earnings per share

(a) Earnings per share

	Profit before tax 2010 £m	Tax expense 2010 £m	Profit after tax 2010 £m	Earnings per share 2010 p	Profit/(loss) before tax 2009 £m	Tax expense 2009 £m	Profit after tax 2009 £m	Earnings per share 2009 p
Earnings per share based on profit attributable to equity holders	**1,092**	**(272)**	**820**	**14.07**	1,093	(230)	863	14.82

(b) Diluted earnings per share

	Profit after tax 2010 £m	Number of shares[1] 2010 m	Earnings per share 2010 p	Profit after tax 2009 £m	Number of shares[1] 2009 m	Earnings per share 2009 p
Profit attributable to equity holders of the Company	**820**	**5,827**	**14.07**	863	5,824	14.82
Net shares under options allocable for no further consideration	**-**	**79**	**(0.19)**	-	33	(0.09)
Diluted earnings per share	**820**	**5,906**	**13.88**	863	5,857	14.73

1. Weighted average number of shares.

The number of shares in issue at 31 December 2010 was 5,866,669,323 (31 December 2009: 5,862,216,780).

Notes to the Financial Statements

2.10 Financial investments

	2010 £m	2009 £m
Equities	**149,056**	139,296
Unit trusts	**7,550**	6,329
Debt securities	**136,858**	123,511
Accrued interest	**1,682**	1,688
Derivative assets[1]	**4,014**	3,749
Loans and receivables	**410**	1,443
	299,570	276,016

1. Derivative exposures arise from efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps, foreign exchange forward contracts for asset and liability management and the matching of Guaranteed Equity Bonds within the Nationwide portfolio. Derivative assets are shown gross of derivative liabilities and include £2,217m (2009: £2,160m) held on behalf of unit linked policyholders.

2.11 Share capital and share premium

Authorised share capital	**2010 Number of shares**	**2010 £m**	2009 Number of shares	2009 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2010	**5,862,216,780**	**147**	**936**
Options exercised under share option schemes			
- Executive share option scheme	**295,065**	**-**	**-**
- Savings related share option scheme	**4,157,478**	**-**	**2**
As at 31 December 2010	**5,866,669,323**	**147**	**938**

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

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

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

2.12 Dividends

	Per share 2010 p	**Total 2010 £m**	Per share 2009 p	Total 2009 £m
Ordinary share dividends paid in the year	**4.06**	**238**	3.16	185
Ordinary share dividend proposed[1]	**3.42**	**201**	2.73	160

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

Notes to the Financial Statements

2.13 Segmental analysis of shareholders' equity

	2010 £m	2009 £m
Risk		
General insurance	**120**	120
Other	**3**	-
Total Risk	**123**	120
Savings		
Savings investments	**121**	66
Other	**21**	13
Total Savings	**142**	79
Investment management	**324**	339
International		
USA[1]	**1,281**	1,002
Netherlands	**165**	158
France	**181**	178
Emerging markets	**37**	34
Total International	**1,664**	1,372
Group capital and financing	**2,574**	2,286
Shareholders' equity	**4,827**	4,196

1. The increase in the USA reflects the capital provided by Group to complete the first phase of the US capital restructuring programme. The increase is temporary and will reverse during quarter 1 of 2011.

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

The composition of the Savings and Investment management segments has changed. Institutional retail business is now included in the Savings segment; the net effect was to reduce Savings 2009 operating profit by £5m with an offsetting increase in the Investment management segment's operating profit.

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

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

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

The International segment comprises businesses in the United States, France, the Netherlands and emerging markets.

Shareholders' equity supporting the non profit Risk and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within Group capital and financing. This also includes capital within the Group's treasury function and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

The Group assesses performance and allocates resources on the basis of IFRS operating profit before tax. Segmental IFRS operating profit before tax is reconciled to the consolidated profit from continuing operations before tax attributable to equity holders and consolidated profit from ordinary activities after income tax.

Notes to the Financial Statements
2.14 Analysis of borrowings

	31.12.10 £m	31.12.09 £m
Subordinated borrowings		
6.385% Sterling perpetual capital securities (Tier 1)	**690**	666
5.875% Sterling undated subordinated notes (Tier 2)	**423**	425
4.0% Euro subordinated notes 2025 (Tier 2)	**488**	498
10% Sterling subordinated notes 2041 (Tier 2)	**308**	308
Client fund holdings of Group debt[1]	**(12)**	(27)
Total subordinated borrowings	**1,897**	1,870
Senior borrowings		
Sterling medium term notes 2031-2041	**608**	608
Euro Commercial paper 2011	**279**	98
Bank loans/other	**9**	12
Non recourse financing		
- US Dollar Triple X securitisation 2025	**61**	262
- US Dollar Triple X securitisation 2037	**283**	274
- Suffolk Life unit linked borrowings	**154**	158
- LGV 6 Private Equity Fund Limited Partnership	**86**	40
Client fund holdings of Group debt[1]	**(45)**	(45)
Total senior borrowings	**1,435**	1,407
Total borrowings	**3,332**	3,277
Total borrowings (excluding non recourse financing)	**2,748**	2,543

1. £57m (2009: £72m) of the Group's subordinated and senior debt is currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total borrowings in the tables above.

Subordinated borrowings

6.385% Sterling perpetual capital securities
In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. Simultaneous with the issuance, the fixed coupon was swapped into six month LIBOR plus 0.94% pa. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For regulatory purposes these securities are treated as innovative tier 1 capital. These securities have been classified as liabilities as the interest payments become mandatory in certain circumstances.

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as upper tier 2 capital for regulatory purposes. These securities have been classified as liabilities as the interest payments become mandatory in certain circumstances.

4.0% Euro subordinated notes 2025
In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% pa. These notes mature on 8 June 2025 and are treated as lower tier 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041
On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041 and are treated as lower tier 2 capital for regulatory purposes.

Notes to the Financial Statements

2.14 Analysis of borrowings (continued)

Non recourse financing

US Dollar Triple X securitisation 2025
In 2004, a subsidiary of Legal & General America Inc issued US$550m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written up to 2005. It is secured on the cash flows related to that tranche of business. As at 31 December 2010, $443m of the outstanding debt had been bought back.

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

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

LGV6 Private Equity Fund Limited Partnership
These borrowings are non recourse bank borrowings.

Syndicated credit facility

As at 31 December 2010, the Group had in place a £960m syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2012. The Group also had in place a £60m bilateral committed revolving credit facility from one of its key relationship banks also maturing in December 2012. No drawings were made under these facilities during 2010.

Holding company short term assets

Short term assets available at the holding company level exceeded the amount of non-unit linked short term borrowings of £288m (Euro Commercial Paper and Bank Loans).

2.15 Non-controlling interests

Non-controlling interests represent third party interests in property investment vehicles which are consolidated in the Group's results. The increase in the non-controlling interests in 2010 arises from the Group's acquisitions in Performance Retail Unit Trust and L&G UK Property Ungeared Fund Limited Partnership which has increased the Group's ownership to above 50%.

Notes to the Financial Statements

2.16 Insurance contract liabilities

(a) Analysis of insurance contract liabilities

	Notes	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
Participating insurance contracts	2.16(b)	**9,383**	**(1)**	9,404	(1)
Non-participating insurance contracts[1]	2.16(c)	**31,064**	**(2,096)**	28,353	(1,902)
General insurance contracts	2.16(d)	**261**	**(6)**	230	(9)
Insurance contract liabilities		**40,708**	**(2,103)**	37,987	(1,912)

1. Excluding General insurance contracts.

(b) Movement in participating insurance contract liabilities

	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
As at 1 January	**9,404**	**(1)**	9,384	(1)
New liabilities in the year	**483**	**-**	658	-
Liabilities discharged in the year	**(1,273)**	**-**	(1,157)	-
Unwinding of discount rates	**69**	**-**	92	-
Effect of change in non-economic assumptions	**45**	**-**	48	-
Effect of change in economic assumptions	**658**	**-**	430	-
Other	**(3)**	**-**	(51)	-
As at 31 December	**9,383**	**(1)**	9,404	(1)

(c) Movement in non-participating insurance contract liabilities

	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
As at 1 January	**28,353**	**(1,902)**	25,582	(1,847)
New liabilities in the year	**2,122**	**(330)**	2,339	(312)
Liabilities discharged in the year	**(1,818)**	**163**	(2,004)	136
Unwinding of discount rates	**1,299**	**(125)**	1,233	(103)
Effect of change in non-economic assumptions	**(151)**	**108**	(319)	188
Effect of change in economic assumptions[1]	**1,277**	**(1)**	1,871	(2)
Foreign exchange adjustments	**(18)**	**(8)**	(363)	33
Acquisitions	**-**	**-**	-	-
Other	**-**	**(1)**	14	5
As at 31 December	**31,064**	**(2,096)**	28,353	(1,902)

1. The economic assumptions changes in 2010 principally reflect the narrowing of credit spreads. Movements in credit spreads also increased the value of the corresponding backing assets.

Notes to the Financial Statements

2.16 Insurance contract liabilities (continued)

(d) Analysis of General insurance contract liabilities

	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
Outstanding claims	**99**	**(1)**	87	(3)
Claims incurred but not reported	**28**	**-**	23	-
Unearned premiums	**134**	**(5)**	120	(6)
General insurance contract liabilities	**261**	**(6)**	230	(9)

(e) Movement in General insurance claim liabilities

	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
As at 1 January	**110**	**(3)**	128	(4)
Claims arising	**199**	**(1)**	188	(1)
Claims paid	**(161)**	**3**	(177)	2
Adjustments to prior year liabilities	**(21)**	**-**	(29)	-
As at 31 December	**127**	**(1)**	110	(3)

2.17 Investment contract liabilities

(a) Analysis of investment contract liabilities

	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
Participating investment contracts	**7,323**	**-**	7,139	(1)
Non-participating investment contracts	**253,426**	**(233)**	234,502	(180)
Investment contract liabilities	**260,749**	**(233)**	241,641	(181)

(b) Movement in investment contract liabilities

	Gross 2010 £m	Reinsurance 2010 £m	Gross 2009 £m	Reinsurance 2009 £m
As at 1 January	**241,641**	**(181)**	203,690	(138)
Reserves in respect of new business	**30,088**	**(1,474)**	37,618	(750)
Amounts paid on surrenders and maturities during the year	**(38,647)**	**1,029**	(32,382)	571
Investment return and related benefits	**28,064**	**393**	33,221	136
Management charges	**(322)**	**-**	(313)	-
Foreign exchange adjustments	**(75)**	**-**	(193)	-
As at 31 December	**260,749**	**(233)**	241,641	(181)

Notes to the Financial Statements
2.18 Sensitivity analysis

UK long term business	**Impact on pre-tax profit net of reinsurance 2010 £m**	**Impact on equity net of reinsurance 2010 £m**	Impact on pre-tax profit net of reinsurance 2009 £m	Impact on equity net of reinsurance 2009 £m
Sensitivity test				
1% increase in interest rates	**(62)**	**(44)**	(92)	(66)
1% decrease in interest rates	**64**	**46**	71	51
Credit spread widens by 100bps with no change in expected defaults	**(120)**	**(86)**	(141)	(101)
1% increase in inflation	**17**	**12**	(3)	(2)
Default of largest reinsurer	**(681)**	**(490)**	(589)	(424)
5% decrease in annuitant mortality	**(321)**	**(231)**	(281)	(202)

The table above shows the impact on pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the non-participating business written in the non profit part of the UK LTF.

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

General insurance	**Impact on pre-tax profit net of reinsurance 2010 £m**	**Impact on equity net of reinsurance 2010 £m**	Impact on pre-tax profit net of reinsurance 2009 £m	Impact on equity net of reinsurance 2009 £m
Sensitivity test				
Single storm event with 1 in 200 year probability	**(55)**	**(40)**	(50)	(36)
Subsidence event – worst claims ratio in last 30 years	**(39)**	**(28)**	(41)	(29)
Economic downturn	**(38)**	**(28)**	(39)	(28)
5% decrease in overall claims ratio	**9**	**6**	8	6
5% surplus over claims liabilities	**6**	**4**	5	4

Notes to the Financial Statements

2.19 Provisions

(i) Analysis of provisions

	Notes	2010 £m	2009 £m
Retirement benefit obligations	(ii)	**748**	746
Other provisions		**13**	11
		761	757

(ii) Retirement benefit obligations

	Fund and Scheme 2010 £m	Overseas 2010 £m	Fund and Scheme 2009 £m	Overseas 2009 £m
Gross pension obligations included in provisions	**(749)**	**1**	(747)	1
Annuity obligations insured by Society	**514**	**-**	465	-
Gross defined benefit pension deficit	**(235)**	**1**	(282)	1
Deferred tax on defined benefit pension deficit	**66**	**-**	79	-
Net defined benefit pension deficit	**(169)**	**1**	(203)	1

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 2010, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £169m (2009: £203m). These amounts have been recognised in the financial statements with £100m charged against shareholder equity (2009: £121m) and £69m against the unallocated divisible surplus (2009: £82m).

2.20 Contingent liabilities, guarantees and indemnities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance between actual experience from tha assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the FSA, ombudsman rulings, industry compensation schemes and court judgments.

Various Group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the Group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

In 1975, Legal & General Assurance Society Limited (the Society) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

Group companies have given indemnities and guarantees as a normal part of their business and operating activities or in relation to capital market transactions. Legal & General Group plc has provided indemnities and guarantees in respect of the liabilities of Group companies in support of their business activities including Pension Protection Fund compliant guarantees in respect of certain Group companies' liabilities under the Group pension fund and scheme.

Notes to the Financial Statements

2.21 Basis of preparation

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and as adopted by the European Commission (EC) for use in the European Union and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements also comply with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the IASB. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The Group presents its balance sheet in order of liquidity. This is considered to be more relevant than a before or after 12 months presentation, given the long term nature of the Group's core business. However, for each asset and liability line item which combines amounts expected to be recovered or settled before and after 12 months from the balance sheet date, disclosure of the split is made by way of a 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 any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the Group.

IFRS 3 (revised), "Business combinations", and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", have been applied prospectively to business combinations made during 2010. The revised standard continues to apply the acquisition method to business combinations but has made some changes, including the requirement to expense all acquisition related costs.

Reportable segments

The Group has five reporting segments comprising Risk, Savings, Investment management, International, and Group capital and financing. The composition of the Savings and Investment management segments has changed. Institutional retail business is now included in retail investments as part of the Savings segment; previously this was reported in the Investment management segment. Comparative information has been amended to reflect the change.

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

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

The Investment management segment comprises institutional fund management.

The International segment comprises businesses in the United States, France, the Netherlands and emerging markets.

Shareholders' equity supporting the non profit Risk and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within Group capital and financing. This also includes capital within the Group's treasury function and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

The Group assesses performance and allocates resources on the basis of IFRS supplementary operating profit before tax. Segmental IFRS supplementary operating profit before tax is reconciled to the consolidated profit from continuing operations before tax attributable to equity holders and consolidated profit from ordinary activities after income tax.

Net Cash and Capital

3.01 Operational cash generation

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

Year ended 31 December 2010	**Operational cash generation £m**	**New business strain £m**	**Net cash £m**	**Inter-national £m**	**Variances £m**	**Investment gains and losses £m**	**Other £m**	**IFRS profit/(loss) after tax £m**	**Tax expense/ (credit) £m**	**IFRS profit/(loss) before tax £m**
Total Risk operating profit	**439**	**(10)**	**429**	**-**	**(26)**	**-**	**-**	**403**	**157**	**560**
Total Savings operating profit	**138**	**(70)**	**68**	**-**	**21**	**-**	**(9)**	**80**	**35**	**115**
Investment management operating profit	**162**	**-**	**162**	**-**	**-**	**-**	**-**	**162**	**44**	**206**
International	**44**	**-**	**44**	**33**	**-**	**-**	**-**	**77**	**25**	**102**
Group capital and financing	**25**	**-**	**25**	**-**	**-**	**32**	**-**	**57**	**1**	**58**
Investment projects	**-**	**-**	**-**	**-**	**-**	**-**	**(28)**	**(28)**	**(11)**	**(39)**
Operating profit	**808**	**(80)**	**728**	**33**	**(5)**	**32**	**(37)**	**751**	**251**	**1,002**
Investment variance	**-**	**-**	**-**	**-**	**-**	**74**	**-**	**74**	**16**	**90**
Impact of change in UK tax rates	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**	**5**	**-**
Property losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**808**	**(80)**	**728**	**33**	**(5)**	**106**	**(42)**	**820**	**272**	**1,092**
Dividends paid in the year			**(238)**							
Net cash available for reinvestment			**490**							

Year ended 31 December 2009	Operational cash generation £m	New business strain £m	Net cash £m	Inter-national £m	Variances £m	Investment gains and losses £m	Other £m	IFRS profit/(loss) after tax £m	Tax expense/ (credit) £m	IFRS profit/(loss) before tax £m
Total Risk operating profit	454	50	504	-	27	-	-	531	204	735
Total Savings operating profit	106	(77)	29	-	16	-	(8)	37	13	50
Investment management operating profit	125	-	125	-	-	-	-	125	47	172
International	8	-	8	78	-	-	-	86	41	127
Group capital and financing	33	-	33	-	-	16	-	49	8	57
Investment projects	-	-	-	-	-	-	(23)	(23)	(9)	(32)
Operating profit	726	(27)	699	78	43	16	(31)	805	304	1,109
Investment variance	-	-	-	-	-	58	-	58	(74)	(16)
Property losses attributable to non-controlling interests	-	-	-	-	-	-	(19)	(19)	-	(19)
Total	726	(27)	699	78	43	74	(50)	844	230	1,074
Dividends paid in the year			(185)							
Net cash available for reinvestment			514							

Variances

	Notes	**Risk £m 31.12.10**	**Savings £m 31.12.10**	Risk £m 31.12.09	Savings £m 31.12.09
Experience variances	2.01(c)/2.02(c)	**67**	**10**	113	(1)
Changes to valuation assumptions	2.01(d)/2.02(d)	**30**	**28**	169	9
Changes to FSA reporting and capital rules	2.01(b)/2.02(b)	**-**	**-**	15	50
Movements in non-cash items	2.01(e)/2.02(e)	**(122)**	**(21)**	(229)	(64)
Other	2.01(b)/2.02(b)	**(1)**	**4**	(41)	22
Total		**(26)**	**21**	27	16

Net Cash and Capital

3.02 Regulatory capital resources

(a) Insurance Group's Directive (IGD)

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

	At 31.12.10 £bn	At 31.12.09 £bn
Core tier 1	**5.9**	4.8
Innovative tier 1	**0.6**	0.6
Upper tier 2	**0.4**	0.4
Lower tier 2	**0.8**	0.8
Deductions[1]	**(1.0)**	(1.0)
Group capital resources	**6.7**	5.6
Group capital resources requirement[2]	**3.0**	2.5
IGD surplus[3]	**3.7**	3.1
Coverage ratio (Group capital resources / Group capital resources requirement)[4]	**2.26 times**	2.24 times

1. Deductions comprises inadmissible assets in Legal & General America of £0.8bn (2009: £0.8bn), in Society of £0.1bn (2009: £0.1bn) and in other subsidiaries of £0.1bn (2009: £0.1bn).
2. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.3bn (2009: £nil).
3. The IGD surplus is stated after accruing for the period end dividend and excludes £0.3bn of restricted assets in the Society long term fund (LTF).
4. Coverage ratio is calculated on unrounded values.

A segmental analysis is given below.

	At 31.12.10 £bn	At 31.12.09 £bn
Society long term fund[1]	**2.9**	2.1
Society shareholder capital	**2.2**	2.2
General insurance	**0.1**	0.1
France	**0.2**	0.2
Netherlands	**0.2**	0.2
Nationwide Life	**0.1**	0.1
USA	**0.5**	0.2
Investment management	**0.3**	0.3
Other[2]	**1.1**	0.9
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.2
Debt	**(2.7)**	(2.5)
Group capital resources	**6.7**	5.6
Society long term fund[1]	**2.6**	2.1
Other	**0.4**	0.4
Group capital resources requirement	**3.0**	2.5

1. The Society LTF capital requirement of £2.6bn (2009: £2.1bn) is met by £2.9bn (2009: £2.1bn) of capital resources in the LTF.
2. Other includes corporate assets held within the Group's Treasury function.

3.02 Regulatory capital resources (continued)

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

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

	At 31.12.10 £bn	At 31.12.09 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**4.8**	4.2
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.2
Proposed dividends	**(0.2)**	(0.2)
Additional capital available from Society	**1.1**	0.6
Adjustment to reflect regulatory value of the USA operation	**(0.8)**	(0.8)
Other regulatory adjustments	**-**	-
Group capital resources	**6.7**	5.6

(b) With-profits realistic balance sheet

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

	At 31.12.10 £bn	At 31.12.09 £bn
With-profits surplus	**0.9**	0.8
Risk capital margin	**0.2**	0.2
Surplus	**0.7**	0.6

Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis (peak 2). The risk capital margin is calculated based on the most onerous capital requirement calculated after performing five stresses specified by the FSA. The surplus includes the present value of future shareholder transfers of £0.4bn (2009: £0.3bn) as a liability in the calculation.

(c) Society capital surplus

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

	31.12.10 Long term business £bn	**31.12.10 General insurance £bn**	31.12.09 Long term business £bn	31.12.09 General insurance £bn
Available capital resources - Tier 1	**5.6**	**0.1**	4.8	0.1
Insurance capital requirement	**2.3**	**0.1**	2.1	0.1
Capital requirements of regulated related undertakings	**0.2**	**-**	0.2	-
With-profits Insurance Capital Component	**0.3**	**-**	-	-
Capital resources requirement	**2.8**	**0.1**	2.3	0.1
Regulatory capital surplus	**2.8**	**-**	2.5	-

Movement in Society long term insurance capital requirement

Pillar 1 capital requirement	**At 31.12.10 £bn**	At 31.12.09 £bn
Protection	**0.6**	0.6
Annuities	**0.9**	0.8
Non profit pensions and unit linked bonds	**0.1**	0.1
Non profit	**1.6**	1.5
With-profits	**0.7**	0.6
Long term insurance capital requirement	**2.3**	2.1

On a regulatory basis (peak 1), Society long term business regulatory capital surplus of £2.8bn (2009: £2.5bn) comprises capital resources within the long term fund of £2.9bn (2009: £2.1bn) and capital resources outside the long term fund of £2.7bn (2009: £2.7bn) less the capital resources requirement of £2.8bn (2009: £2.3bn).

The With-profits Insurance Capital Component (WPICC) is an additional capital requirement calculated if the surplus in the with-profits fund on a peak 2 basis is lower than on a peak 1 basis and represents the difference in the surplus between the two bases. It is calculated based on the most onerous risk capital margin stress referred to in 3.02 (b). A further adjustment is made to the peak 2 surplus to remove the present value of future shareholder transfers which is treated as a liability in Society's with-profits realistic surplus. At 31 December 2010, this adjustment amounted to £0.4bn (2009: £0.3bn).

4.01 Investment portfolio

	Notes	Market value At 31.12.10 £bn	Market value At 31.12.09 £bn
Worldwide funds under management		**365**	334
Client and policyholder assets		**(311)**	(283)
Non-unit linked with-profits assets[1]		**(20)**	(20)
Assets to which shareholders are directly exposed		**34**	31
Comprising:			
Assets held to back the UK non-linked non profit business:			
Legal & General Pensions Limited (LGPL)[2]		**25.1**	22.5
Other UK non profit insurance business		**0.6**	1.2
		25.7	23.7
Assets held to back other insurance businesses (including Triple-X reserves)[3]		**3.3**	3.2
Society shareholder capital	4.05	**3.2**	2.3
Other Group capital	4.05	**2.2**	1.9
		34.4	31.1

1. Includes assets backing participating business in France of £2bn (2009: £2bn).
2. LGPL is the main operating subsidiary for the UK's annuity business.
3. £0.8bn (2009: £0.8bn) of index linked assets within Legal & General Netherlands have been reclassified from client and policyholder assets to assets to which shareholders are directly exposed. 2009 comparatives have been reclassified accordingly.

Analysed by asset class:

	LGPL At 31.12.10 £bn	Other UK non profit insurance business At 31.12.10 £bn	Other insurance business At 31.12.10 £bn	Society shareholder capital At 31.12.10 £bn	Other Group capital At 31.12.10 £bn	Total At 31.12.10 £bn	Total At 31.12.09 £bn
Equities	**-**	**-**	**-**	**1.0**	**-**	**1.0**	0.9
Bonds[1]	**23.4**	**0.2**	**2.9**	**1.2**	**1.2**	**28.9**	26.5
Derivative assets[2]	**1.1**	**0.3**	**-**	**-**	**0.3**	**1.7**	1.5
Property	**0.1**	**-**	**-**	**0.1**	**-**	**0.2**	0.1
Cash (including cash equivalents)	**0.5**	**0.1**	**0.4**	**0.9**	**0.7**	**2.6**	2.1
	25.1	**0.6**	**3.3**	**3.2**	**2.2**	**34.4**	31.1

1. Further information can be found in Note 4.02.
2. Derivative assets are shown gross of derivative liabilities. Exposures arise from:
a. The use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.
b. Derivatives matching guaranteed equity bonds within the Nationwide Life portfolio.

4.02 Bond portfolio summary

(i) Analysed by sector

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

	Notes	LGPL At 31.12.09 £m	LGPL At 31.12.09 %	Total At 31.12.09 £m	Total At 31.12.09 %
Sovereigns, Supras and Sub-Sovereigns		1,241	6	2,916	11
Banks - Tier 1[2]	4.04	459	2	528	2
- Tier 2 and other subordinated	4.04	1,854	9	2,078	8
- Senior		1,539	7	2,242	9
Utilities		2,811	13	3,009	11
Consumer Services and Goods		2,286	11	2,624	10
Financial Services		906	4	1,141	4
Technology and Telecoms		1,463	7	1,665	6
Insurance		1,067	5	1,219	5
Industrials		893	4	1,086	4
Oil and Gas		984	5	1,155	4
Health Care		590	3	608	2
Property		509	2	584	2
ABS	4.03	3,546	16	4,441	17
CDO		1,205	6	1,212	5
Total		21,353	100	26,508	100

1. The increase in Sovereigns, Supras and Sub-Sovereigns was the result of management action taken to de-risk the LGPL portfolio. This resulted in an increase in holdings of Treasury Gilts which lead to an increase in UK dominated bonds and an increase in holdings of AAA bonds, see tables 4.02 (ii) & (iii).
2. Tier 1 holdings include £55m (2009: £45m) of preference shares

4.02 Bond portfolio summary (continued)

(ii) Analysed by domicile

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

	LGPL At 31.12.09 £m	LGPL At 31.12.09 %	Total At 31.12.09 £m	Total At 31.12.09 %
United Kingdom	7,825	36	9,192	35
North America	6,958	33	8,964	34
Europe	5,361	25	7,020	26
Other	1,209	6	1,332	5
Total	21,353	100	26,508	100

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

(iii) Analysed by credit rating

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

	LGPL At 31.12.09 Restated £m	LGPL At 31.12.09 Restated %	Total At 31.12.09 Restated £m	Total At 31.12.09 Restated %
AAA	2,404	11	5,086	19
AA	2,621	12	3,274	13
A	8,819	41	9,891	37
BBB	5,269	25	5,864	22
BB or below	378	2	425	2
Unrated: Bespoke CDOs	1,104	5	1,104	4
Other	758	4	864	3
	21,353	100	26,508	100

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

The methodology for analysing assets by credit rating has been amended in 2010 to present the average of the available external credit ratings. This provides a more realistic view of the credit quality of the Group's assets. In previous periods, the credit ratings were presented using the lowest of the available external credit ratings. 2009 comparatives have been restated accordingly.

4.02 Bond portfolio summary (continued)

(iv) CDOs

The Group holds collateralised debt obligations (CDO) with a market value of £1,022m at 31 December 2010 (2009: £1,212m).

These holdings include £875m (2009: £1,063m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The Group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The Group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although substitutions in 2009 were limited and no substitutions were made in 2010. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector

	At 31.12.10 %	At 31.12.09 %
Banks	**14**	14
Utilities	**10**	10
Consumer Services & Goods	**26**	26
Financial Services	**6**	6
Technology & Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil & Gas	**6**	6
Health Care	**3**	3
	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 28%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.

Beyond 28% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. For illustration a £200m loss could be incurred if default losses to the reference portfolios exceeded 31% or if 44% of the names in the diversified global investment grade portfolio defaulted, with an average 30% recovery rate. (All figures are averages across the four CDOs.)

The underlying reference portfolio has had no reference entity defaults in 2009 or 2010.

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

These CDOs also incorporate features under which, in certain circumstances, the Group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependant on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs in 2010 (2009: £nil). During the year the Group received £155m of previously posted collateral, which was the primary reason for the reduction in the CDOs market value.

These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation.

For the purposes of valuing the non profit annuity regulatory and IFRS liabilities the yield on the CDOs is included within the calculation of the yield used to calculate the valuation discount rate for the annuity liabilities. An allowance for the risks, including default, is also made. For EEV purposes, the yield on the CDOs, reduced by the realistic default assumption, is similarly included in assumed future investment returns.

The balance of £147m of CDO holdings includes a £37m (2009: £41m) exposure to an equity tranche of a bespoke CDO.

Asset Disclosures

4.03 Asset backed securities summary

(i) By security

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

	LGPL At 31.12.09 £m	LGPL At 31.12.09 %	Total At 31.12.09 £m	Total At 31.12.09 %
Traditional ABS:				
Residential Mortgage-Backed Securities - Prime[1]	365	11	646	15
Residential Mortgage-Backed Securities - Sub-prime[2]	-	-	22	-
Commercial Mortgage-Backed Securities	230	7	376	8
Credit Card	17	-	297	7
Auto	2	-	83	2
Consumer Loans	47	1	56	1
Student Loans	31	1	51	1
	692	20	1,531	34
Other:				
Secured Bond	1,413	39	1,431	32
Commercial Property Backed Bonds	211	6	211	5
Infrastructure / Private Finance Initiative / Social housing	945	27	946	21
Whole Business Securitisation	250	7	250	6
Other secured holdings[3]	35	1	72	2
	2,854	80	2,910	66
Total	3,546	100	4,441	100

1. 54% (2009: 64%) of Prime RMBS holdings relate to UK mortgages.
2. 52% (2009: 54%) of Sub-prime RMBS holdings have a credit rating of AAA and 54% (2009: 57%) relate to the UK.
3. Other secured holdings in LGPL include covered bonds of £17m (2009: £11m).

4.03 Asset backed securities summary (continued)

(ii) By credit rating

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

	LGPL At 31.12.09 Restated £m	LGPL At 31.12.09 Restated %	Total At 31.12.09 Restated £m	Total At 31.12.09 Restated %
AAA	1,129	32	1,821	41
AA	739	21	675	15
A	1,002	28	1,120	25
BBB	540	15	563	13
BB or below	9	-	107	2
Unrated	127	4	155	4
Total	3,546	100	4,441	100

Of the £847m of traditional ABS holdings held outside of LGPL, 79% are rated AAA (2009: £839m of which 79% are rated AAA).

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

The methodology for analysing assets by credit rating has been amended in 2010 to present the average of the available external credit ratings. This provides a more realistic view of the credit quality of the Group's assets. In previous periods the credit ratings were presented using the lowest of the available external credit ratings. 2009 comparatives have been restated accordingly.

4.04 Group subordinated bank exposures

	Total At 31.12.10 £m	Total At 31.12.10 %	Total At 31.12.09 £m	Total At 31.12.09 %
Tier 1				
United Kingdom[1]	**244**	**10**	224	8
North America	**119**	**5**	101	4
Europe	**114**	**5**	174	7
Others	**36**	**2**	29	1
Total tier 1	**513**	**22**	528	20
Lower tier 2				
United Kingdom	**806**	**35**	853	33
North America	**520**	**22**	569	22
Europe	**184**	**8**	311	12
Others	**79**	**3**	79	3
Upper tier 2				
United Kingdom	**94**	**4**	89	3
North America	**19**	**1**	24	1
Europe	**55**	**3**	73	3
Others	**3**	**-**	4	-
Other subordinated				
United Kingdom	**-**	**-**	3	-
North America	**51**	**2**	72	3
Europe	**-**	**-**	1	-
Others	**-**	**-**	-	-
Total tier 2 and other subordinated	**1,811**	**78**	2,078	80
Total	**2,324**	**100**	2,606	100

1. The exposure to UK tier 1 debt includes issuances from the UK subsidiaries of European banks where there is no explicit parental guarantee.

4.05 Group capital asset mix

	Society shareholder capital At 31.12.10 %	Other Group shareholder assets At 31.12.10 %	Total At 31.12.10 %	Society shareholder capital At 31.12.09 %	Other Group shareholder assets At 31.12.09 %	Total At 31.12.09 %
Equities	**31**	**-**	**19**	39	-	21
Bonds	**38**	**54**	**43**	35	58	46
Derivative assets	**-**	**14**	**6**	-	11	5
Property	**3**	**-**	**2**	4	-	2
Cash (including cash equivalents)	**28**	**32**	**30**	22	31	26
	100	**100**	**100**	100	100	100
Invested assets (£bn)	**3.2**	**2.2**	**5.4**	2.3	1.9	4.2

4.06 Value of policyholder assets held in Society and LGPL

	At 31.12.10 £bn	At 31.12.09 £bn
With-profits business	**26.4**	25.6
Non profit business	**40.2**	35.9
	66.6	61.5

Asset Disclosures

4.07 Non-linked business invested asset mix and investment return

As at 31 December 2010	Investment return %	UK with-profits asset share %	UK with-profits non par %	UK with-profits other %	UK non linked non profit business %
Equities	**13**	**40**	**3**	**(65)**	**-**
Bonds	**10**	**39**	**86**	**153**	**97**
Property	**17**	**15**	**-**	**(1)**	**1**
Cash	**1**	**6**	**11**	**13**	**2**
		100	**100**	**100**	**100**
Investment return (% pa)	**10**	**12**	**8**	**4**	**10**
Invested assets (£bn):					
Net of derivative liabilities		**13.8**	**2.4**	**1.5**	**24.5**
Gross of derivative liabilities		**14.0**	**2.4**	**1.5**	**25.7**

As at 31 December 2009					
Equities	19	37	4	(68)	-
Bonds	13	42	87	161	98
Property	3	13	1	-	-
Cash	2	8	8	7	2
		100	100	100	100
Investment return (% pa)	12	14	10	(19)	15
Invested assets (£bn):					
Net of derivative liabilities		13.6	2.3	1.4	22.4
Gross of derivative liabilities		13.7	2.3	1.4	23.7

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

4.08 Analysis of fair value measurement bases

As at 31 December 2010	Fair value measurement at the end of the reporting period based on: Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn
Group capital and other insurance business				
Equities	**0.8**	**0.1**	**0.1**	**1.0**
Bonds	**2.1**	**3.2**	**-**	**5.3**
Derivative assets	**-**	**0.3**	**-**	**0.3**
	2.9	**3.6**	**0.1**	**6.6**
Non profit non-unit linked				
Equities	**-**	**-**	**-**	**-**
Bonds	**2.6**	**21.0**	**-**	**23.6**
Derivative assets	**0.1**	**1.3**	**-**	**1.4**
	2.7	**22.3**	**-**	**25.0**

As at 31 December 2009	Fair value measurement at the end of the reporting period based on Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn
Group capital and other insurance business				
Equities	0.7	0.1	0.1	0.9
Bonds	1.7	3.0	-	4.7
Derivative assets	-	0.2	-	0.2
	2.4	3.3	0.1	5.8
Non profit non-unit linked				
Equities	-	-	-	-
Bonds	1.0	20.8	-	21.8
Derivative assets	-	1.3	-	1.3
	1.0	22.1	-	23.1

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

The analysis excludes cash, loans and receivables and property investments of £2.8bn (2009: £2.2bn), as disclosed in note 4.01.

4.08 Analysis of fair value measurement bases (continued)

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arms length transaction.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflects the Group's view of market assumptions in the absence of observable market information. The Group utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 : fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

In current market conditions, the liquidity of financial instruments is lower than it has been in the past. All of the Group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg except for bespoke CDO and swaps holdings (see below). In normal market conditions, we would consider these market prices to be observable market prices. However, following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have prudently classified them as level 2.

Our holdings in bespoke CDOs and swaps are priced using an external model which utilise market assumptions. The CDO valuations have also been verified using an internal model. Accordingly, these assets have also been classified in level 2.

Level 3 assets, where internal models are used to represent a small proportion of assets to which shareholders are exposed and reflect unquoted equities including investments in private equity, property vehicles and suspended securities.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Group has classified within level 3.

The Group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Group's credit standing, liquidity and risk margins on unobservable inputs.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Group's financial instruments. As a result, there is generally limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

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

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
From continuing operations			
Risk	5.01	**663**	913
Savings[1]	5.01	**204**	77
Investment management[1]	5.08	**179**	144
International	5.09	**163**	170
Group capital and financing	5.10	**54**	47
Investment projects[2]		**(39)**	(32)
Operating profit		**1,224**	1,319
Variation from longer term investment return	5.11	**161**	(413)
Effect of economic assumption changes	5.12	**292**	(335)
Property losses attributable to non-controlling interests		**-**	(19)
Profit before tax attributable to equity holders of the Company		**1,677**	552
Tax expense on profit from ordinary activities	5.14	**(446)**	(114)
Effect of UK Budget tax changes	5.14	**33**	-
Tax impact of corporate restructure	5.14	**-**	59
Profit for the year		**1,264**	497
Loss attributable to non-controlling interests	2.15	**-**	19
Profit attributable to equity holders of the Company		**1,264**	516

		p	p
Earnings per share	5.15		
Based on profit attributable to equity holders of the Company		**21.71**	8.86
Diluted earnings per share	5.15		
Based on profit attributable to equity holders of the Company		**21.41**	8.81

1. The composition of the Savings and Investment management segments has changed. Institutional retail business is now included in the Savings segment. The 2009 comparatives have been amended accordingly in line with the new definition. The effect has been to reduce Savings 2009 operating profit by £5m with an offsetting increase in the Investment management segment's operating profit.
2. Investment projects relate to strategic investments including Solvency II.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 £m	2009 £m
Profit for the year	**1,264**	497
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**(5)**	(88)
Actuarial (losses) on defined benefit pension schemes	**(5)**	(90)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**4**	62
Total comprehensive income for the year	**1,258**	381
Total comprehensive income/(expense) attributable to:		
Non-controlling interests	**-**	(19)
Equity holders of the Company	**1,258**	400

Consolidated Balance Sheet

As at 31 December 2010

	Notes	2010 £m	2009 £m
Assets			
Investments		**317,234**	290,550
Long term in-force business asset		**3,060**	2,645
Other assets		**6,482**	6,348
Total assets		**326,776**	299,543
Equity			
Shareholders' equity	5.17/5.18	**7,730**	6,695
Non-controlling interests	2.15	**47**	2
Total equity		**7,777**	6,697
Liabilities			
Subordinated borrowings	2.14	**1,897**	1,870
Unallocated divisible surplus		**1,469**	1,284
Participating contract liabilities		**16,329**	16,176
Non-participating contract liabilities		**284,751**	263,085
Senior borrowings	2.14	**1,435**	1,407
Other liabilities and provisions		**13,118**	9,024
Total liabilities		**318,999**	292,846
Total equity and liabilities		**326,776**	299,543

Notes to the Financial Statements

5.01 Profit/(loss) for the year

For the year ended 31 December 2010	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	5.03/5.05	333		44		377
Contribution from in-force business:						
- expected return[1]		407		120		527
- experience variances	5.07	188		6		194
- operating assumption changes	5.07	(58)		(20)		(78)
Development costs		(15)		-		(15)
Contribution from shareholder net worth[2]				22	138	160
Operating profit on covered business		855	-	172	138	1,165
Business reported on an IFRS basis:						
General insurance	2.01(f)	(8)				(8)
Savings investments non-covered business[3]		20				20
Investment management[4]	5.08		179			179
Group capital and financing	5.10				(84)	(84)
Investment projects[5]					(39)	(39)
International non-covered business[6]				(9)		(9)
Total operating profit		867	179	163	15	1,224
Variation from longer term investment return	5.11	115	(8)	43	11	161
Effect of economic assumption changes	5.12	252	-	40	-	292
Property losses attributable to non-controlling interests		-	-	-	-	-
Profit before tax		1,234	171	246	26	1,677
Tax (expense)/credit on profit from ordinary activities		(332)	(34)	(84)	4	(446)
Effect of UK Budget tax changes		-	-	-	33	33
Profit for the year		902	137	162	63	1,264
Operating profit attributable to:						
Risk		663				
Savings		204				

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £3,679m in 2010. This is adjusted for effects of opening model changes of £39m to give an adjusted opening base VIF of £3,718m. This is then multiplied by the opening risk discount rate of 8.0% and the result grossed up at the notional attributed tax rate of 27% to give a return of £407m.
2. The 2010 Group capital and financing contribution from shareholder net worth (SNW) comprises £146m from the average return of 5.9% on the average balance of invested assets of £2.5bn; offset by pre-tax corporate expenses charged to shareholders' funds of £(8)m.
3. Savings investments non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and business conducted in Germany.
4. Investment management operating profit excludes £27m (2009: £28m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.
5. Investment projects comprises Solvency II and other strategic investments.
6. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m (2009: £4m) allocated to the International segment.

Notes to the Financial Statements

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

For the year ended 31 December 2009	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	305		23		328
Contribution from in-force business:						
- expected return[1]		496		118		614
- experience variances	5.07	46		17		63
- operating assumption changes	5.07	156		1		157
Development costs		(30)		-		(30)
Contribution from shareholder net worth[2]				16	125	141
Operating profit on covered business		973	-	175	125	1,273
Business reported on an IFRS basis:						
General insurance	2.01(f)	17				17
Other Risk non-covered business		(3)				(3)
Savings investments non-covered business[3]		3				3
Investment management[4]	5.08		144			144
Group capital and financing	5.10				(78)	(78)
Investment projects					(32)	(32)
International non-covered business[5]				(5)		(5)
Total operating profit		990	144	170	15	1,319
Variation from longer term investment return	5.11	(501)	(4)	62	30	(413)
Effect of economic assumption changes	5.12	(249)	-	(97)	11	(335)
Property losses attributable to non-controlling interests		-	-	-	(19)	(19)
Profit before tax		240	140	135	37	552
Tax (expense)/credit on profit from ordinary activities		(67)	(37)	(43)	33	(114)
Tax impact of corporate restructure[6]		-	-	-	59	59
Profit for the year		173	103	92	129	497

Operating profit attributable to:		
Risk		913
Savings		77

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £4,268m in 2009. This is adjusted for the effects of opening model changes of £31m to give an adjusted opening base VIF of £4,299m. This is then multiplied by the opening risk discount rate of 8.3% and the result grossed up at the notional attributed tax rate of 28% to give a return of £496m.
2. The 2009 Group capital and financing contribution from shareholder net worth (SNW) of £125m comprises the average return of 7% on the average balance of invested assets of £2.1bn (£138m); offset by an adjustment for opening tax and other modelling changes of £(2)m and pre-tax corporate expenses charged to shareholders' funds of £(11)m.
3. Savings investments non-covered business comprises Savings investments on an IFRS basis, and adjustments for Suffolk Life and other Savings operations.
4. 2009 Investment management operating profit excludes £28m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.
5. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £4m allocated to the International segment.
6. In 2009, in addition to current year investment return, £469m was released from the Shareholder Retained Capital and declared as surplus for tax purposes. As a result of the 2007 corporate restructure, this release along with current year movements did not give rise to any incremental tax and therefore resulted in a £59m benefit to embedded value.

Notes to the Financial Statements

5.02 New business summary[1]

	Notes	APE[2] 2010 £m	PVNBP[3] 2010 £m	Margin[4] 2010 %	APE 2009 £m	PVNBP 2009 £m	Margin 2009 %
Risk	5.03	**382**	**2,925**	**10.3**	366	2,728	10.4
Savings	5.03	**628**	**3,934**	**0.8**	532	3,676	0.5
International	5.05	**116**	**1,017**	**4.3**	109	876	2.6
		1,126	**7,876**	**4.8**	1,007	7,280	4.5

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

5.03 Risk and Savings[1] new business by product

For the year ended 31 December 2010	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
Protection	**175**	**860**	**4.9**	**-**	**860**	**55**	**6.4**
Annuities	**-**	**-**	**-**	**2,065**	**2,065**	**245**	**11.9**
Total Risk	**175**	**860**	**4.9**	**2,065**	**2,925**	**300**	**10.3**
Unit linked bonds[4]	**-**	**-**	**-**	**586**	**586**	**8**	**1.4**
Pensions, stakeholder and other non profit	**300**	**1,135**	**3.8**	**1,373**	**2,508**	**3**	**0.1**
With-profits savings	**71**	**232**	**3.3**	**608**	**840**	**22**	**2.6**
Total Savings	**371**	**1,367**	**3.7**	**2,567**	**3,934**	**33**	**0.8**
Total Risk and Savings	**546**	**2,227**	**4.1**	**4,632**	**6,859**	**333**	**4.9**
Cost of capital						**47**	
Contribution from new business before cost of capital						**380**	

For the year ended 31 December 2009	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor	Single premiums £m	PVNBP £m	Contri-bution from new business £m	Margin %
Protection	180	866	4.8	-	866	68	7.9
Annuities	-	-	-	1,862	1,862	217	11.7
Total Risk	180	866	4.8	1,862	2,728	285	10.4
Unit linked bonds	-	-	-	677	677	(4)	(0.6)
Pensions, stakeholder and other non profit	144	515	3.6	1,289	1,804	(11)	(0.6)
With-profits savings	103	316	3.1	879	1,195	35	2.9
Total Savings	247	831	3.4	2,845	3,676	20	0.5
Total Risk and Savings	427	1,697	4.0	4,707	6,404	305	4.8
Cost of capital						40	
Contribution from new business before cost of capital						345	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. For 2010, business written through International (Ireland) has been removed from covered business. This business is now reported on an IFRS basis within Other savings, making the presentation comparable with the IFRS financial statements. If International (Ireland) had been removed from covered business in 2009, the contribution from new business would be increased by £2m. Comparatives have not been restated.

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Notes to the Financial Statements

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

	IRR 2010 %	Payback period 2010 years	IRR 2009 %	Payback period 2009 years
Protection	**15**	**5**	17	5
Annuities[2]	**>30**	**<0**	>30	<0
Unit linked bonds	**11**	**7**	8	9
Pensions, stakeholder and other non profit	**8**	**13**	6	14

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

5.05 International[1] new business

For the year ended 31 December 2010	APE £m	PVNBP £m	Contri-bution from new business[2] £m	Cost of capital £m	Margin %
USA[3]	**52**	**443**	**40**	**4**	**8.9**
Netherlands	**18**	**166**	**2**	**2**	**1.4**
France	**46**	**408**	**2**	**4**	**0.6**
Total	**116**	**1,017**	**44**	**10**	**4.3**
For the year ended 31 December 2009					
USA	49	354	17	2	4.9
Netherlands	22	193	5	3	2.7
France	38	329	1	5	0.1
Total	109	876	23	10	2.6

1. Excludes core retail investments in France and new business from joint operations in Egypt and India which are reported on an IFRS basis.
2. Contribution from new business is reported after the cost of capital.
3. The 2010 USA margin primarily reflects an increase to the reinvestment rate following a change in methodology. The 10-year treasury spot yield was replaced by the average treasury forward rates weighted according to the expected timing and amounts of future reinvestment cash flows.

5.06 International[1] new business in local currency

For the year ended 31 December 2010	Annual premiums m	Present value of annual premiums m	Capital-isation factor	Single premiums m	PVNBP m	Contri-bution from new business[2] m	Cost of capital m	Margin %
USA[3]	**$80**	**$690**	**8.6**	**-**	**$690**	**$62**	**$7**	**8.9**
Netherlands	**€7**	**€48**	**6.9**	**€146**	**€194**	**€3**	**€2**	**1.4**
France	**€27**	**€203**	**7.5**	**€277**	**€480**	**€3**	**€5**	**0.6**
For the year ended 31 December 2009								
USA	$76	$553	7.3	-	$553	$27	$3	4.9
Netherlands	€9	€61	6.8	€157	€218	€6	€3	2.7
France	€15	€105	7.2	€264	€369	€1	€5	0.1

1. Excludes core retail investments in France and new business from joint operations in Egypt and India which are reported on an IFRS basis.
2. Contribution from new business is reported after the cost of capital.
3. The 2010 USA margin primarily reflects an increase to the reinvestment rate following a change in methodology. The 10-year treasury spot yield was replaced by the average treasury forward rates weighted according to the expected timing and amounts of future reinvestment cash flows.

Notes to the Financial Statements

5.07 Analysis of experience variances and operating assumption changes

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

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

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

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

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

2009 Risk and Savings persistency operating assumption changes relate to the strengthening of lapse assumptions for individual protection and unit linked bond policies; partially offset by improved persistency for with-profits products.

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

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

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

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

Notes to the Financial Statements

5.08 Investment management operating profit

	2010 £m	2009 £m
Pension funds (managed and segregated)[1]	**148**	128
Other non-pension[2]	**20**	16
Investment management services for internal funds[3]	**11**	-
Total Investment management operating profit	**179**	144

1. The managed pension funds business within Investment management has been reported on an IFRS basis as management believe IFRS to be the most appropriate reporting basis for the Investment management business.
2. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). The increase has been driven by non-pension segregated mandates.
3. Investment management services for internal funds excludes £27m (2009: £28m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis within the Risk and Savings covered business on an EEV basis.

5.09 International operating profit

	2010 £m	2009 £m
Europe		
Netherlands	**52**	29
France[1]	**(9)**	37
Total Europe operating profit	**43**	66
USA	**129**	109
Other[2]	**(9)**	(5)
Total International operating profit	**163**	170

1. The EEV operating loss in France reflects £26m of adverse operating assumption changes. These changes relate to Group risk morbidity, following higher claims experience in 2010, and also a reduction in the assumed future investment margin applied to the main savings product.
2. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m (2009: £4m) allocated to the International segment.

5.10 Group capital and financing operating profit[1]

	2010 £m	2009 £m
Investment return[2]	**187**	191
Interest expense[3]	**(121)**	(127)
Investment expenses	**(3)**	(3)
Unallocated corporate expenses	**(5)**	(4)
Other	**(4)**	(10)
Total Group capital and financing operating profit	**54**	47
Analysed as:		
On an EEV basis	**138**	125
On an IFRS basis	**(84)**	(78)

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. Of the £187m investment return, £146m is reported on an EEV basis within contribution from SNW based on a 5.9% average return on the average balance of invested assets of £2.5bn.
3. Interest expense excludes non recourse financing (see Note 2.14).

Notes to the Financial Statements

5.11 Variation from longer term investment return

	2010 £m	2009 £m
Business reported on an EEV basis:		
Risk and Savings[1]	**103**	(513)
International[2]	**43**	62
Group capital and financing	**82**	(8)
	228	(459)
Business reported on an IFRS basis:		
Risk and Savings	**12**	12
Investment management	**(8)**	(4)
Group capital and financing[3]	**(71)**	38
	161	(413)

1. The £103m Risk and Savings covered business variation from longer term investment return reflects the strong recovery in equity and property markets resulting in a £85m investment variance from the Savings business on assets backing with-profit policies together with higher expected management charges on unit linked policies. A further £73m investment variance is due to the impact on projected tax within the embedded value from both prior year tax adjustments and market recoveries during 2010. Increased cost of capital arising from the reduction in the equity ratio for assets backing solvency capital has resulted in a £(71)m negative variance. Additionally, favourable market conditions during 2010 have allowed the annuity business to reduce some of its credit exposure to corporates and overall trading impact has resulted in a £18m positive variation.
2. International covered business variation from longer term investment return primarily reflects the impact of the US capital restructure.
3. Group capital and financing primarily relates to negative debt related investment variance. (See Note 2.07).

5.12 Effect of economic assumption changes

	2010 £m	2009 £m
Business reported on an EEV basis:		
Risk and Savings[1]	**252**	(249)
International	**40**	(97)
Group capital and financing	**-**	11
	292	(335)

1. 2010 Risk and Savings economic assumption changes include £341m (2009: £125m) relating to the decrease in the UK risk discount rate in 2010 from 8.0% to 7.3%, and £39m as a result of a fall in expense inflation assumptions. These are offset by £(138)m as a result of the lower expected returns, higher cost of capital on increased annuity reserves and other consequential impacts within lower yielding environments.

5.13 Time value of options and guarantees

	2010 £m	2009 £m
Risk and Savings[1]	**15**	13
International	**13**	19
	28	32

1. Includes £10m (2009: £9m) relating to UK with-profits business, and £5m (2009: £4m) relating to UK non profit business.

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5.14 Tax

	Profit/(loss) before tax 2010 £m	**Tax (expense)/ credit 2010 £m**	Profit/(loss) before tax 2009 £m	Tax (expense)/ credit 2009 £m
From continuing operations				
Risk	**663**	**(179)**	913	(254)
Savings	**204**	**(54)**	77	(23)
Investment management	**179**	**(36)**	144	(38)
International	**163**	**(54)**	170	(57)
Group capital and financing	**54**	**(8)**	47	(8)
Investment projects	**(39)**	**11**	(32)	9
Operating profit	**1,224**	**(320)**	1,319	(371)
Variation from longer term investment return	**161**	**(43)**	(413)	158
Effect of economic assumption changes	**292**	**(83)**	(335)	99
Property losses attributable to non-controlling interests	**-**	**-**	(19)	-
Effect of UK Budget tax changes	**-**	**33**	-	-
Tax impact of corporate restructure	**-**	**-**	-	59
Profit/(loss) before tax / Tax	**1,677**	**(413)**	552	(55)

The UK EEV calculations and the tax rate used for grossing up in the income statement are based on a UK corporation tax rate of 27% (2009: 28%). See Note 5.21 for further details of tax assumptions.

5.15 Earnings per share

(a) Earnings per share

	Profit before tax 2010 £m	**Tax expense 2010 £m**	**Profit after tax 2010 £m**	**Per share 2010 p**	Profit before tax 2009 £m	Tax expense 2009 £m	Profit after tax 2009 £m	Per share 2009 p
Earnings per share based on profit/(loss) attributable to equity holders	**1,677**	**(413)**	**1,264**	**21.71**	571	(55)	516	8.86

(b) Diluted earnings per share

	Profit after tax 2010 £m	**Number of shares[1] 2010 £m**	**Per share 2010 p**	Profit after tax 2009 £m	Number of shares[1] 2009 £m	Per share 2009 p
Profit attributable to equity holders of the Company	**1,264**	**5,827**	**21.71**	516	5,824	8.86
Net shares under options allocable for no further consideration	**-**	**79**	**(0.30)**	-	33	(0.05)
Diluted earnings per share	**1,264**	**5,906**	**21.41**	516	5,857	8.81

1. Weighted average number of shares.

The number of shares in issue at 31 December 2010 was 5,866,669,323 (31 December 2009: 5,862,216,780).

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5.16 Group embedded value reconciliation

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

1. The free surplus reduction of £258m to finance new business includes £80m IFRS new business strain and £178m additional required capital.
2. The increase in free surplus of £688m from the expected transfer from the in-force non profit business includes £522m of IFRS operational cash generation and a £166m reduction in required capital.
3. The capital movement of £184m reflects the capital contribution made to the US to enable the repurchase of Potomac securities.
4. UK intra-group distributions reflect a £300m dividend paid from Society to Group and dividends of £93m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of $53m from the USA, €10m from the Netherlands and €2m from France were also paid to Group.
5. The transfer to non-covered business represents the IFRS profits arising in the period from the provision of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
6. Other reserve movements primarily comprise the transfer from the covered business of Nationwide Life following the Part VII transfer of the majority of the insurance business in 2009.

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation (continued)

For the year ended 31 December 2009	Covered business UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m	International £m	Non-covered business £m	Total £m
At 1 January							
Value of in-force business (VIF)	-	-	4,268	4,268	1,059	-	5,327
Shareholder net worth (SNW)	509	1,369	-	1,878	404	(1,088)	1,194
	509	1,369	4,268	6,146	1,463	(1,088)	6,521
Exchange rate movements	-	-	-	-	(153)	65	(88)
	509	1,369	4,268	6,146	1,310	(1,023)	6,433
Operating profit for the year:							
- New business contribution[1]	(189)	155	253	219			
- Expected return on VIF	-	-	358	358			
- Expected transfer from Non profit VIF to SNW[2]	648	(147)	(501)	-			
- With-profits transfer	46	-	(46)	-			
- Expected return on SNW	34	61	-	95			
Generation of embedded value	539	69	64	672			
- Experience variances	30	29	(31)	28			
- Operating assumption changes	285	(23)	(152)	110			
- Development costs	(21)	-	-	(21)			
Variances	294	6	(183)	117			
Operating profit/(loss) for the year	833	75	(119)	789	117	42	948
Non-operating (loss)/profit for the year:							
- Investment variances	(66)	2	(276)	(340)			
- Economic assumption changes	(66)	75	(180)	(171)			
- Tax impact of corporate restructure	59	-	-	59			
Non-operating (loss)/profit for the year	(73)	77	(456)	(452)	(21)	22	(451)
Profit/(loss) for the year	760	152	(575)	337	96	64	497
Capital movements	-	-	-	-	50	(50)	-
Intra-group distributions[3]	(154)	-	-	(154)	(10)	164	-
Dividends to equity holders of the Company	-	-	-	-	-	(185)	(185)
Net movements in employee share schemes	-	-	-	-	-	19	19
Loss attributable to non-controlling interests	-	-	-	-	-	19	19
Transfer to non-covered business[4]	(20)	-	-	(20)	-	20	-
Other reserve movements including pension deficit	(28)	-	(14)	(42)	-	(46)	(88)
Embedded value	1,067	1,521	3,679	6,267	1,446	(1,018)	6,695
Represented by:							
- Non profit			3,213				
- With-profits			466				
Value of in-force business	-	-	3,679	3,679	928	-	4,607
Shareholder net worth	1,067	1,521	-	2,588	518	(1,018)	2,088

1. The free surplus reduction of £189m to finance new business includes £27m IFRS new business strain and £155m additional required capital. Other items have a net positive impact of £7m.
2. The increase in free surplus of £648m from the expected return on the in-force non profit business includes £496m of IFRS operational cash generation and a £147m reduction in required capital. Other items have a net positive impact of £5m.
3. Intra-group distributions comprise a £154m dividend paid from Society to Group, and distributions from the covered businesses of USA ($6m), Netherlands (€5m) and France (€3m).
4. The transfer to non-covered business represents the IFRS profits arising in the period from the provision of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.

Notes to the Financial Statements

5.17 Analysis of shareholders' equity

As at 31 December 2010	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	**265**	**324**	**1,664**	**2,574**	**4,827**
Additional retained profit/(loss) on an EEV basis	**3,886**	**-**	**136**	**(1,119)**	**2,903**
Shareholders' equity on an EEV basis	**4,151**	**324**	**1,800**	**1,455**	**7,730**
Comprising:					
Business reported on an IFRS basis	**265**	**324**	**37**	**(1,580)**	**(954)**
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]			**501**	**1,395**	**1,896**
- Required capital to cover solvency margin			**247**	**1,640**	**1,887**
Value of in-force					
- Value of in-force business	**4,220**		**1,090**		**5,310**
- Cost of capital	**(334)**		**(75)**		**(409)**

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

1. Shareholders' equity supporting the non profit Risk and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the Group capital and financing segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.

Further analysis of shareholders' equity is included in Note 5.18.

Notes to the Financial Statements

5.18 Segmental analysis of shareholders' equity

	Covered business EEV basis 2010 £m	**Other business IFRS basis 2010 £m**	**Total 2010 £m**	Covered business EEV basis 2009 £m	Other business IFRS basis 2009 £m	Total 2009 £m
Risk						
- Risk reported on an EEV basis	**2,563**	**-**	**2,563**	2,530	-	2,530
- General insurance	**-**	**120**	**120**	-	120	120
- Other	**-**	**3**	**3**	-	-	-
Total Risk	**2,563**	**123**	**2,686**	2,530	120	2,650
Savings						
- Savings reported on an EEV basis	**1,323**	**-**	**1,323**	1,149	-	1,149
- Savings investments	**-**	**121**	**121**	-	100	100
- Other	**-**	**21**	**21**	-	13	13
Total Savings	**1,323**	**142**	**1,465**	1,149	113	1,262
Investment management	**-**	**324**	**324**	-	305	305
International						
- USA	**1,220**	**-**	**1,220**	904	-	904
- Netherlands	**335**	**-**	**335**	316	-	316
- France	**208**	**-**	**208**	226	-	226
- Emerging markets	**-**	**37**	**37**	-	34	34
Total International	**1,763**	**37**	**1,800**	1,446	34	1,480
Group capital and financing	**3,035**	**(1,580)**	**1,455**	2,588	(1,590)	998
	8,684	**(954)**	**7,730**	7,713	(1,018)	6,695

5.19 Reconciliation of shareholder net worth

	UK covered business 2010 £m	**Total 2010 £m**	UK covered business 2009 £m	Total 2009 £m
SNW of long term operations (IFRS basis)	**4,154**	**5,781**	3,876	5,214
Other liabilities (IFRS basis)	**-**	**(954)**	-	(1,018)
Shareholders' equity on the IFRS basis	**4,154**	**4,827**	3,876	4,196
Purchased interest in long term business	**(86)**	**(91)**	(114)	(126)
Deferred acquisition costs/deferred income liabilities	**(253)**	**(1,211)**	(250)	(1,132)
Contingent loan[1]	**(551)**	**(551)**	(421)	(421)
Deferred tax[2]	**(238)**	**85**	(324)	(33)
Other[3]	**9**	**(230)**	(179)	(396)
Shareholder net worth on the EEV basis	**3,035**	**2,829**	2,588	2,088

1. On an EEV basis the contingent loan (between Society and LGPL) is modelled within the VIF. On an IFRS basis the contingent loan asset is included within the Group capital and financing net assets.
2. Deferred tax represents all tax which is expected to be paid under current legislation.
3. Other total business also includes the different treatment of the US Triple X securitisation on an EEV and IFRS basis.

Notes to the Financial Statements

5.20 Sensitivities

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

Effect on embedded value as at 31 December 2010

	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	6,921	426	(368)	186	(169)	96
International	1,763	130	(111)	23	(37)	5
Total covered business	8,684	556	(479)	209	(206)	101

	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	6,921	(183)	87	86	(166)	43
International	1,763	(6)	16	20	n/a	100
Total covered business	8,684	(189)	103	106	(166)	143

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	333	52	(44)	26	(23)	12
International	44	15	(13)	(1)	1	-
Total covered business	377	67	(57)	25	(22)	12

	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	333	(18)	12	16	(14)	6
International	44	-	2	1	n/a	12
Total covered business	377	(18)	14	17	(14)	18

Opposite sensitivities are broadly symmetrical.

5.21 Assumptions

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. Indicative yields on the portfolio, excluding annuities within Legal & General Pensions Limited (LGPL), but after allowance for long term default risk, are shown below.

For LGPL annuities, separate returns are calculated for new and existing business. Indicative combined yields, after allowance for long term default risk and the following additional assumptions, are also shown below. These additional assumptions are:

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

ii. Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.70% p.a. at 31 December 2009) greater than the swap rate at that time (i.e. the long term credit rate).

iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 29bps at 31 December 2010 (42bps at 31 December 2009).

Economic assumptions

As at 31 December	**2010**	2009	2008
	% p.a.	% p.a.	% p.a.
Equity risk premium	**3.5**	3.5	3.5
Property risk premium	**2.0**	2.0	2.0
Investment return (excluding annuities in LGPL)			
- Gilts:			
- Fixed interest	**3.4 – 4.0**	4.0	3.7
- RPI linked	**4.1**	4.5	4.0
- Non gilts:			
- Fixed interest	**3.6 – 5.0**	4.4 – 6.2	4.2 – 8.4
- Equities	**7.5**	8.0	7.3
- Property	**6.0**	6.5	5.8
Long-term rate of return on non profit annuities in LGPL	**5.5**	6.1	7.3
Risk free rate[1]	**4.0**	4.5	3.8
Risk margin	**3.3**	3.5	4.5
Risk discount rate (net of tax)	**7.3**	8.0	8.3
Inflation			
- Expenses/earnings	**4.1**	4.6	3.6
- Indexation	**3.6**	3.6	2.6

1. The risk free rate is the gross redemption yield on the 15 year gilt index (20 year gilt index for 31 December 2009 and 31 December 2008).

UK covered business

i. Assets are valued at market value.

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

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

5.21 Assumptions (continued)

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

An allowance is made for future improvements in annuitant mortality based on experience and externally published data. Male annuitant mortality is assumed to improve in accordance with 100% of CMI2009 Working Paper 41, with a Long Term Rate of improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 100% of CMI2009, with a Long Term Rate of improvement of 1.0% for future experience and 1.5% for statutory reserving. In each case, the annual improvement is assumed to reduce linearly after age 85 to zero at age 120.

On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 24.0 years (31 December 2009: 24.5 years). The expectation of life on the regulatory reserving basis is 25.6 years (31 December 2009: 25.7 years).

v. Development costs relate to investment in strategic systems and development capability that are charged to the covered business. Projects charged to the non-covered business are included within Investment projects in Group capital and financing.

International

vi. Key assumptions:

As at 31 December	**2010** **% p.a.**	2009 % p.a.	2008 % p.a.
USA			
Reinvestment rate	**5.5**	5.1	5.4
Risk margin	**3.3**	3.5	4.5
Risk discount rate (net of tax)	**6.6**	7.4	6.8
Europe			
Government bond return	**3.2**	3.6	3.5
Risk margin	**3.3**	3.5	4.5
Risk discount rate (net of tax)	**6.5**	7.1	8.0

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

Tax

viii. The profits on the covered business, except for the profits on the Society shareholder capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 27% (2009: 28%) taking into account the enacted rate of corporation tax of 27%, which applies from 1 April 2011. The profits on the Society shareholder capital held outside the long term fund are calculated before tax and therefore tax is calculated on an actual basis.

Stochastic calculations

ix. The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

This section describes the models used to generate future investment simulations, and gives some sample statistics for the simulations used. A single model has been used for UK and international business, with different economic assumptions for each territory.

Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

Asset classes

The significant asset classes are:

- UK with-profits business – equities, property and fixed rate bonds of various durations;
- UK annuity business – fixed rate and index-linked bonds of various durations; and
- International business – fixed rate bonds of various durations.

5.21 Assumptions (continued)

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2010 for the most significant asset classes. Correlations between asset classes have been set based on an internal assessment of historical data.

	10-year return		20-year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
UK Business (Sterling)				
Government bonds	3.8%	3.9%	4.8%	4.3%
Corporate bonds	5.4%	4.0%	6.1%	4.5%
Property (excess returns)	2.0%	15.2%	2.0%	14.9%
Equities (excess returns)	3.5%	20.2%	3.6%	20.5%
European Business (Euro)				
Long Government bonds[3]	3.4%	4.5%	4.1%	4.4%
Short Government bonds[4]	3.4%	3.9%	4.1%	7.3%
US Business (US Dollar)				
Long Government bonds[3]	3.7%	6.0%	5.0%	6.1%

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

Risk discount rate:

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

Sensitivity calculations

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

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.3% 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 covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

5.22 Methodology

Basis of preparation

The supplementary financial statements have been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

The supplementary financial statements have been audited by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuaries; Towers Watson in the UK and Milliman in the USA.

Covered business

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

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

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

Description of methodology

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

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

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

i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and

ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

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

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

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

Service companies

All services relating to the UK covered business are charged on a cost recovery basis, with the exception of investment management services provided to Legal & General Pensions Limited (LGPL) and to Legal & General Assurance Society Limited (Society). Profits arising on the provision of these services are valued on a look through basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the Investment management segment and are instead included in the results of the Risk and Savings segments on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the Risk and Savings segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the Investment management segment on an IFRS basis. Since the look through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, regular premium and recurrent single premium contracts.

5.22 Methodology (continued)

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

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

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

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial period. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used in the US, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

Detailed projection assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are normally reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to the covered business, whether incurred in the covered business or elsewhere in the Group, are allocated to that business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known future changes.

Allowance for risk

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

i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;

ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and

iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

Regulatory capital for the Risk and Savings businesses is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long term fund and the excess assets in LGPL (collectively Society shareholder capital).

Society shareholder capital is either required to cover EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society shareholder capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

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

For Legal & General Netherlands, required capital has been set at 100% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 100% and 212% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

5.22 Methodology (continued)

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

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

Financial options and guarantees

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

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

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

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

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

In the US, FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

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

In France, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. Local statutory accounting rules require the establishment of a specific liability when the accounting income for a company is less than 125% of the guaranteed minimum credited returns, although this has never been required. In general, the guaranteed annual bonus rates are between 0% and 4.5%.

Risk free rate

The risk free rate is set to reflect both the pattern of the emerging profits under EEV and the relevant duration of the liabilities where backing assets reflect this assumption (e.g. equity returns). Following a review, the risk free rate for 31 December 2010 is set by reference to the gross redemption yield on the 15 year gilt index. For 31 December 2009 and 31 December 2008 a 20 year gilt index was referenced.

Risk discount rate

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

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

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be

5.22 Methodology (continued)

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

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 27%.

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 2010 results, the risk margin was decreased to 3.3% (2009: 3.5%).

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.

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.

6.01 Investment management new business

	2010 £m	2009 £m	Increase/ (decrease) %
Managed pension funds[1]			
Pooled funds	**19,898**	25,606	(22)
Segregated funds	**5,756**	3,381	70
Total managed funds	**25,654**	28,987	(11)
Other funds[2]	**8,932**	4,297	108
Total new funds	**34,586**	33,284	4
Attributable to:			
Legal & General Investment Management	**33,134**	31,485	5
Legal & General Retail Investments	**1,452**	1,799	(19)

6.02 Investment management new business quarterly progression

	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Managed pension funds[1]								
Pooled funds	**3,569**	**4,009**	**4,936**	**7,384**	6,742	7,076	5,763	6,025
Segregated funds	**490**	**221**	**4,777**	**268**	1,344	790	533	714
Total managed funds	**4,059**	**4,230**	**9,713**	**7,652**	8,086	7,866	6,296	6,739
Other funds[2]	**2,955**	**1,400**	**981**	**3,596**	869	1,326	1,382	720
Total new funds	**7,014**	**5,630**	**10,694**	**11,248**	8,955	9,192	7,678	7,459
Attributable to:								
Legal & General Investment Management	**6,669**	**5,307**	**10,305**	**10,853**	8,450	8,853	7,166	7,016
Legal & General Retail Investments	**345**	**323**	**389**	**395**	505	339	512	443

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude £5.9bn (2009: £7.9bn) held through the year on a temporary basis, generally as part of portfolio reconstructions.
2. Includes segregated property, property partnerships, private equity partnerships and institutional clients funds managed by Legal & General Investment Management and institutional investments in unit trust funds managed by Legal & General Retail Investments.

6.03 Legal & General Investment Management new business by investment approach

	2010 %	2009 %
Indexed equities	**47**	49
Indexed bonds (including index linked funds and cash)	**24**	27
Active bonds (including index linked funds and cash)	**12**	14
Liability driven investments	**15**	10
Property	**1**	-
Active equities	**1**	-
Total	**100**	100

6.04 Funds under management

	At 31.12.10 £m	At 31.12.09 £m	Increase/ (decrease) %
Total investments	**353,520**	315,101	12
Represented by			
Index tracking funds:			
- UK equities	**71,982**	68,971	4
- Overseas equities	**85,999**	73,858	16
- Fixed interest	**36,496**	36,534	-
- Index linked	**33,872**	28,245	20
- Cash/deposits	**188**	695	(73)
Total index tracking funds	**228,537**	208,303	10
Actively managed funds	**84,207**	76,860	10
Liability driven investments	**40,776**	29,938	36
	353,520	315,101	12
By investment approach			
Index equities	**157,981**	142,828	11
Index bonds (including index linked funds and cash)	**70,556**	65,475	8
Active bonds (including index linked funds and cash)	**66,564**	61,167	9
Liability driven investments	**40,776**	29,938	36
Active equities	**9,137**	8,788	4
Property	**8,136**	6,675	22
Private equity	**370**	230	61
	353,520	315,101	12
By source of business			
Institutional funds under management[1]:			
- Managed pension funds pooled	**206,400**	190,792	8
- Liability driven investments	**40,776**	29,938	36
- Other	**16,772**	11,261	49
- Managed pension funds segregated	**3,508**	4,330	(19)
Total institutional funds under management	**267,456**	236,321	13
UK businesses (life and general insurance funds)	**70,024**	65,106	8
UK businesses (unit trusts - excluding life fund investment)	**16,040**	13,674	17
	353,520	315,101	12

1. Excludes institutional investments in unit trust funds.

Funds under management of £11bn (31 December 2009: £19bn) derived from retail investments and additional funds managed overseas, take total worldwide funds under management to £365bn (31 December 2009: £334bn).

6.05 Savings net flows

	2010 £m	2009 £m	Increase/ (decrease) %
Investments	**4,149**	2,557	62
Insured	**476**	89	435
With-profits	**(1,480)**	(898)	65
Total net flows	**3,145**	1,748	80

6.06 Savings net flows quarterly progression

	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Investments	**985**	**1,106**	**1,123**	**935**	788	822	417	530
Insured	**211**	**163**	**74**	**28**	47	(29)	32	39
With-profits	**(483)**	**(369)**	**(290)**	**(338)**	(457)	(77)	(343)	(21)
Total net flows	**713**	**900**	**907**	**625**	378	716	106	548

6.07 Worldwide new business

	Annual premiums 2010 £m	Single premiums 2010 £m	APE 2010 £m	Annual premiums 2009 £m	Single premiums 2009 £m	APE 2009 £m	Increase/ (decrease) %
Protection							
- Individual	**118**	**-**	**118**	123	-	123	(4)
- Group	**57**	**-**	**57**	57	-	57	-
	175	**-**	**175**	180	-	180	(3)
Annuities							
- Individual (non profit)	**-**	**1,142**	**114**	-	962	96	19
- Individual (with-profits)	**-**	**26**	**3**	-	17	2	50
- Bulk purchase	**-**	**897**	**90**	-	883	88	2
	-	**2,065**	**207**	-	1,862	186	11
Total Risk	**175**	**2,065**	**382**	180	1,862	366	4
Investments[1]	**26**	**6,169**	**643**	32	4,092	441	46
Insured business	**299**	**1,795**	**478**	144	1,307	275	74
With-profits	**71**	**608**	**132**	103	879	191	(31)
Total Savings	**396**	**8,572**	**1,253**	279	6,278	907	38
- USA	**52**	**-**	**52**	49	-	49	6
- Netherlands	**6**	**124**	**18**	8	142	22	(18)
- France	**22**	**237**	**46**	14	237	38	21
- India (26% share)	**13**	**7**	**14**	-	-	-	N/A
- Egypt (55% share)	**10**	**-**	**10**	-	-	-	N/A
	103	**368**	**140**	71	379	109	28
France retail investment business	**-**	**60**	**6**	-	56	6	-
Total International	**103**	**428**	**146**	71	435	115	27
Total worldwide new business	**674**	**11,065**	**1,781**	530	8,575	1,388	28

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.01).

New Business

6.08 Worldwide new business APE quarterly progression

	3 months to 31.12.10 £m	**3 months to 30.09.10 £m**	**3 months to 30.06.10 £m**	**3 months to 31.03.10 £m**	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Protection								
- Individual	**30**	**31**	**29**	**28**	31	32	30	30
- Group	**15**	**14**	**14**	**14**	16	11	16	14
	45	**45**	**43**	**42**	47	43	46	44
Annuities								
- Individual (non profit)	**24**	**30**	**33**	**27**	16	22	25	33
- Individual (with-profits)	**2**	**-**	**1**	**-**	1	-	1	-
- Bulk purchase	**36**	**9**	**30**	**15**	9	5	24	50
	62	**39**	**64**	**42**	26	27	50	83
Total Risk	**107**	**84**	**107**	**84**	73	70	96	127
Investments[1]	**157**	**143**	**179**	**164**	134	118	108	81
Insured business	**106**	**182**	**124**	**66**	66	68	68	73
With-profits	**29**	**27**	**39**	**37**	34	39	66	52
Total Savings	**292**	**352**	**342**	**267**	234	225	242	206
- USA	**16**	**14**	**13**	**9**	9	11	13	16
- Netherlands	**5**	**3**	**4**	**6**	5	4	6	7
- France	**8**	**6**	**19**	**13**	7	1	6	24
- India (26% share)	**3**	**3**	**2**	**6**	-	-	-	-
- Egypt (55% share)	**2**	**3**	**5**	**-**	-	-	-	-
	34	**29**	**43**	**34**	21	16	25	47
France retail investment business	**1**	**1**	**1**	**3**	2	1	1	2
Total International	**35**	**30**	**44**	**37**	23	17	26	49
Total worldwide new business	**434**	**466**	**493**	**388**	330	312	364	382

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

6.09 Worldwide new business annual premium quarterly progression

	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Protection								
- Individual	**30**	**31**	**29**	**28**	31	32	30	30
- Group	**15**	**14**	**14**	**14**	16	11	16	14
	45	**45**	**43**	**42**	47	43	46	44
Annuities								
- Individual (non profit)	**-**	**-**	**-**	**-**	-	-	-	-
- Individual (with-profits)	**-**	**-**	**-**	**-**	-	-	-	-
- Bulk purchase	**-**	**-**	**-**	**-**	-	-	-	-
	-	**-**	**-**	**-**	-	-	-	-
Total Risk	**45**	**45**	**43**	**42**	47	43	46	44
Investments[1]	**7**	**4**	**10**	**5**	5	8	10	9
Insured business	**47**	**138**	**81**	**33**	30	38	36	40
With-profits	**17**	**13**	**18**	**23**	18	17	36	32
Total Savings	**71**	**155**	**109**	**61**	53	63	82	81
- USA	**16**	**14**	**13**	**9**	9	11	13	16
- Netherlands	**1**	**2**	**1**	**2**	2	2	2	2
- France	**2**	**-**	**12**	**8**	-	(5)	-	19
- India (26% share)	**2**	**3**	**2**	**6**	-	-	-	-
- Egypt (55% share)	**2**	**3**	**5**	**-**	-	-	-	-
	23	**22**	**33**	**25**	11	8	15	37
France retail investment business	**-**	**-**	**-**	**-**	-	-	-	-
Total International	**23**	**22**	**33**	**25**	11	8	15	37
Total worldwide new business	**139**	**222**	**185**	**128**	111	114	143	162

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

6.10 Worldwide new business single premium quarterly progression

	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Protection								
- Individual	-	-	-	-	-	-	-	-
- Group	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Annuities								
- Individual (non profit)	243	298	334	267	165	214	260	323
- Individual (with-profits)	11	5	6	4	6	4	4	3
- Bulk purchase	361	89	298	149	91	54	234	504
	615	392	638	420	262	272	498	830
Total Risk	615	392	638	420	262	272	498	830
Investments[1]	1,513	1,377	1,692	1,587	1,274	1,110	988	720
Insured business	591	441	434	329	372	290	319	326
With-profits	113	144	207	144	157	229	290	203
Total Savings	2,217	1,962	2,333	2,060	1,803	1,629	1,597	1,249
- USA	-	-	-	-	-	-	-	-
- Netherlands	42	16	23	43	29	27	31	55
- France	61	53	78	45	66	61	61	49
- India (26% share)	2	3	1	1	-	-	-	-
- Egypt (55% share)	-	-	-	-	-	-	-	-
	105	72	102	89	95	88	92	104
France retail investment business	11	9	11	29	13	11	16	16
Total International	116	81	113	118	108	99	108	120
Total worldwide new business	2,948	2,435	3,084	2,598	2,173	2,000	2,203	2,199

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

New Business

6.11 International new business in local currency

	Annual premiums 2010	**Single premiums 2010**	**APE 2010**	Annual premiums 2009	Single premiums 2009	APE 2009	Increase/ (decrease) %
USA ($m)	**80**	**-**	**80**	76	-	76	5
Netherlands (€m)	**7**	**146**	**22**	9	157	25	(12)
France (€m):							
- Life and pensions	**27**	**277**	**55**	15	264	41	34
- Unit trusts	**-**	**70**	**7**	-	63	6	17
India (Rs m) - Group's 26% interest	**934**	**459**	**980**	-	-	-	N/A
Egypt (Pounds m) - Group's 55% interest	**87**	**3**	**87**	-	-	-	N/A

6.12 UK APE by channel quarterly progression

	3 months to 31.12.10 £m	**3 months to 30.09.10 £m**	**3 months to 30.06.10 £m**	**3 months to 31.03.10 £m**	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Retail IFA	**166**	**150**	**164**	**156**	131	117	126	136
Employee benefit consultants	**118**	**178**	**145**	**84**	69	72	105	128
Tied agents	**11**	**9**	**12**	**8**	9	11	13	7
Bancassurance	**97**	**93**	**115**	**94**	91	89	83	52
Direct	**7**	**6**	**13**	**9**	7	6	11	10
Total	**399**	**436**	**449**	**351**	307	295	338	333

6.13 UK APE by channel

For the year ended 31 December 2010	**Annual £m**	**Single £m**	**Total APE £m**	**% of total**
Retail IFA	**75**	**5,610**	**636**	**39**
Employee benefit consultants	**389**	**1,360**	**525**	**32**
Tied agents	**29**	**110**	**40**	**3**
Bancassurance	**57**	**3,420**	**399**	**24**
Direct	**21**	**137**	**35**	**2**
Total	**571**	**10,637**	**1,635**	**100**

For the year ended 31 December 2009	Annual £m	Single £m	Total APE £m	% of total
Retail IFA	84	4,263	510	40
Employee benefit consultants	259	1,149	374	29
Tied agents	30	104	40	3
Bancassurance	65	2,495	315	25
Direct	21	129	34	3
Total	459	8,140	1,273	100