Company Number 00166055

LEGAL & GENERAL

ASSURANCE SOCIETY LIMITED

REPORT AND ACCOUNTS

2010

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED

CONTENTS

Registered Office,
One Coleman Street
London EC2R 5AA

Registered in England and Wales No 00166055

DIRECTORS' REPORT

The directors submit their annual report together with the audited financial statements of Legal & General Assurance Society Limited ('Society') for the year ended 31 December 2010

Principal activities

Society is a composite insurance company authorised in the UK and has a number of operating subsidiaries The principal activity of Society is life and pensions business The principal activities of Society's main subsidiaries during the year were insurance and reinsurance A list of the principal operating subsidiaries appears on page 27

Significant events during the year:

Internal reinsurance arrangement with the subsidiaries of Legal & General America (LGA)

In December 2010, a reinsurance arrangement was established from LGA's subsidiaries to the Society which replaced the original reinsurance of this block of business from LGA's subsidiaries to First British American Reinsurance Company (FBARC) As security for the reinsurance in accordance with US regulations, the Society placed assets of $565m from the Shareholders Retained Capital (SRC) of the long term fund to US trusts

Review of business and future outlook

Society forms a material part of the activities of Legal & General Group Plc ('Group') and on this basis the review of business that is presented within Group's financial statements is not duplicated here This information can be found within the Director's Report included within the Group's financial statements The 2011 economic climate remains uncertain but are confident that we are well positioned to exploit opportunities throughout the current economic cycle

Principal risks and uncertainties may be categorised as follows:

- Legislation and Regulation
- Financial Market and Economic Conditions
- Counterparty and Third Party Risks
- UK Financial Services Sector contagion risks
- Mortality castastrophe and other assumption uncertainties
- Industry Change

A detailed review of Society's inherent exposures to market, credit, insurance, liquidity and operational risks, together with the framework for their management and control is set out on pages 54 to 69 of the financial statements The principal risks and uncertainties facing Society are

1) Legislation and Regulation

The markets in which the Society operates are highly regulated, with regulation defining the overall framework for the design, marketing and distribution of products, the acceptance and administration of business, and the prudential capital that regulated companies should hold Government fiscal policy may also influence the design of products, the retention of existing business and the required reserves for future liabilities

The Society bases its business strategy upon prevailing regulation and legislation, and known/anticipated change and engages with regulatory and legislative authorities where appropriate to assist in the evaluation of change on the sector and its stakeholders

2) Financial Market and Economic Conditions

The Society holds a broad range of investment assets to meet the obligations arising from writing insurance business The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of these assets as well as the value of the underlying obligations A potential mismatch of assets and liabilities may impact the earnings, profitability and the capital requirements of the Society Significant falls in investment asset values can also impact fee income from investment management activities, whilst broader economic conditions can influence the purchase of retail financial services products and the period over which the business is retained

The Society seeks to match asset and liability cash flows to reduce the impact of changing economic conditions Additionally, a range of risk management strategies are used to manage volatility in returns from the investment of assets and the broader effects of adverse market conditions The effect of market and economic conditions upon fee income and the timing of the purchase and retention of retail investment products are mitigated through the utilisation of a low cost scalable business model and by maintaining a diversified portfolio of products

3) Counterparty and Third Party Risk

The Society is exposed to default risk in respect of the issuers of corporate debt and financial instruments, through money market and reassurance transactions and as part of its banking arrangements Third party risk arises with regard to reliance upon external suppliers of certain administration and IT development services

The Society 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

4) UK Financial Services sector contagion risks

As a significant participant in the UK retail financial services sector, the earnings of the Society are influenced by the perception and confidence of the retail investor with the sector as a whole

Factors such as investment market performance, actions by regulators and shock events such as significant market failures can impact the confidence of retail investors and the timing of their purchase of financial service products Society seeks to mitigate these risks through differentiating its business model from that of its competitors This includes operating a diversified portfolio of businesses in the UK

5) Mortality catastrophe and other assumption uncertainties

Society writes significant levels of immediate and deferred annuity business and protection business The writing of long term insurance business necessarily requires the setting of assumptions for long term trends in factors such as mortality, persistency, valuation interest rates and credit defaults

The Society uses its pricing capabilities to assess and charge an appropriate premium for known risk factors, with stress testing undertaken to validate the appropriateness of key assumptions However, scenarios such as a rapid advance in medical science leading to significantly enhanced annuitant longevity or an event causing widespread mortality/morbidity, coupled with a reinsurer default may impact profitability and capital Extreme shifts in financial markets and in the broader economic environment may also require other assumptions to be recalibrated

6) Industry Change

The Society may not maximise opportunities from structural and other changes within the financial services sector

The financial services sector continues to go through a period of change This presents a range of challenges as well as opportunities to providers of sufficient scale such as the Society Significant changes in the markets in which we operate may require the review and re-alignment of elements of our business strategy A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives We seek to ensure we have market leading expertise in the core fields in which we operate, and actively focus on retaining the best personnel with the knowledge to design and support our products, and manage their evolution as market and consumer requirements change

Key performance indicators

The directors review a range of performance indicators in monitoring the performance of the Society with the following regarded as key performance indicators

Profit before tax - £515m (2009 £391m) - This measures the loss or profit in a single period before deducting tax This gives an insight into the Society's ability to generate cash flows to support dividends during a period

Shareholder funds - £4,464m (2009 £4,120m) - This represents the assets that remain once all the Society's liabilities have been accounted for

Society regulatory capital surplus - £3,146m[1] (2009 £2,454m) - This is the dominant regulatory surplus capital measure for Society

1 Figure extracted from draft unaudited regulatory returns

Further details of the Group's key performance indicators can be found in its published financial statements

Results for the year and dividend

The results for the year are set out on pages 9 to 10

A final dividend of £300m was paid in 2010 (2009 £154m) No interim dividend was paid during the year (2009 Nil)

Directorate

The dırectors of Socıety who served durıng the year, together wıth theır dates of appoıntment and resıgnatıon, where approprıate, are shown below

T J Breedon (Chaırman)
M J Bolton - resıgned 24/06/2010
J M Bury
M J Gregory
G J Hoskın
J B Pollock
N D Wılson

Financial risk management objectives

Socıety's exposure to financıal rısk through ıts financıal assets and lıabılıtıes ıs provıded ın detaıl ın note 34 of the financıal statements

Creditors

Legal & General Group Plc agrees terms and condıtıons for ıts busıness transactıons wıth supplıers Payment ıs made ın accordance wıth these terms provıded the supplıer meets ıts oblıgatıons As at 31 December 2010, the average number of days of payments outstandıng for the Legal & General Group of companıes was 34 days (2009 33)

Directors' Indemnities and Insurance

As permıtted by Artıcles of Assocıatıon, the Dırectors have the benefit of an ındemnıty whıch ıs a qualıfyıng thırd party ındemnıty provısıon as defined by Sectıon 234 of the Companıes Act 2006 The ındemnıty was ın force throughout the last financıal year and ıs currently ın force The ultımate parent company, Legal & General Group Plc, maıntaıns an approprıate level of Dırectors' and Officers' lıabılıty ınsurance whıch ıs revıewed annually

Auditors

The Company has appoınted PrıcewaterhouseCoopers LLP as ındependent audıtor

There ıs no requırement under the Companıes Act or the Company's artıcles of assocıatıon to hold an Annual General Meetıng or lay the Company's Report and Accounts before the shareholders

Statement of Directors' Responsibilities

The dırectors are responsıble for preparıng the Dırectors' Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Statement of Directors' Responsibilities (continued)

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors have complied with the above requirements in preparing the financial statements

In accordance with Section 418, each director in office at the date the directors' report is approved, confirms that

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By Order of the Board

Andrew D Fairhurst

A D Fairhurst
On behalf of Legal & General Co Sec Limited
Company Secretary
15 March 2011

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL ASSURANCE SOCIETY LIMITED

We have audited the financial statements of Legal & General Assurance Society Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 5 and 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED

REPORT OF THE INDEPENDENT AUDITORS' TO THE MEMBERS OF LEGAL & GENERAL ASSURANCE SOCIETY LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Richard Keers (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
15 March 2011

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED Company Number 00166055

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2010

Technical account - long term business
Continuing operations

	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Earned premiums, net of reinsurance					
Gross premiums written	2(i)		4,062		3,836
Outward reinsurance premiums			(2,913)		(2,543)
			1,149		1,293
Investment income and realised gains	3		2,255		1,675
Unrealised gains on investments	3		2,434		4,415
			5,838		7,383
Other technical income, net of reinsurance					
- profit arising on Part VII transfer			-		18
- other			553		533
			6,391		7,934
Claims incurred, net of reinsurance					
Claims paid					
- gross amount			3,501		3,295
- reinsurers' share			(1,860)		(1,737)
			1,641		1,558
Change in the provision for claims					
- gross amount		1		18	
- reinsurers' share		2		(18)	
			3		-
			1,644		1,558
Change in other technical provisions, net of reinsurance					
Long term business provision, net of reinsurance					
- gross amount		2,701		2,487	
- reinsurers' share		(2,342)		(2,331)	
		359		156	
Change in other technical provisions, net of reinsurance					
Technical provisions for linked liabilities		2,828		3,955	
			3,187		4,111
Net operating expenses	4		780		823
Investment expenses and charges	3		115		684
Other technical charges, net of reinsurance			71		75
Tax attributable to the long term business	5		193		213
Change in present value of non-participating value of in-force business in the with profit fund			(9)		(201)
Transfers to the fund for future appropriations			162		348
			6,143		7,611
Balance on the technical account - long term business			248		323

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED Company Number 00166055
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2010

Non-technical account **Continuing operations**	Notes	**2010** **£m**	**2010** **£m**	2009 £m	2009 £m
Profit from long term business					
Balance on the long term business technical account		**248**		323	
Tax credit attributable to balance on the long term business technical account	5	**84**		107	
			332		430
Other operations					
Investment income and realised gains	3	**161**		53	
Unrealised gains on investments	3	**50**		378	
Investment expenses and charges	3	**(2)**		(472)	
		209		(41)	
Other income		**1**		7	
Other charges		**(27)**		(5)	
			183		(39)
Profit on ordinary activities before tax			**515**		391
Tax on profit on ordinary activities	5		**(85)**		(138)
Profit for the financial year			**430**		253
Dividends	16		**(300)**		(154)
Retained profit			**130**		99

The notes on pages 14 to 76 form an integral part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2010 **£m**	2010 £m
Profit for the financial year	**430**	253
Profit on revaluation of investments in subsidiary undertakings	**214**	531
Total recognised gains for the financial year	**644**	784

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED Company Number 00166055
BALANCE SHEET

As at 31 December 2010

Assets	Notes	2010 £m	2010 £m	2009 £m	2009 £m
Investments					
Land and buildings	6	135		104	
Investments in group undertakings and participating interests	7	2,505		2,680	
Other financial investments	8	18,914		18,517	
			21,554		21,301
Non-participating value of in-force business in the with profit fund			337		328
Purchased interests in long term business	11		3		3
Assets held to cover linked liabilities	8		25,934		23,853
Reinsurers' share of technical provisions					
Long term business provision		18,299		15,955	
Claims outstanding		115		118	
Technical provisions for linked liabilities		7,876		6,725	
			26,290		22,798
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		51		38	
- intermediaries		4		4	
		55		42	
Debtors arising out of reinsurance operations		15		11	
Amounts owed by group undertakings		215		153	
Other debtors	19	451		551	
			736		757
Other assets					
Tangible assets	10	28		27	
Cash at bank and in hand		368		39	
			396		66
Prepayments and accrued income					
Accrued interest and rent		129		122	
Deferred acquisition costs	12	788		824	
Other prepayments and accrued income		15		12	
			932		958
Total assets			76,182		70,064

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED Company Number 00166055

BALANCE SHEET

As at 31 December 2010

Liabilities		**2010 £m**	**2010 £m**	2009 £m	2009 £m
Capital and reserves	Notes				
Called up share capital	13		**201**		201
Share premium account	13		**1,049**		1,049
Revaluation reserve	14		**(486)**		(700)
Profit and loss account					
- Shareholder retained capital	14	**1,352**		1,290	
- Other	14	**2,348**		2,280	
			3,700		3,570
Shareholders' funds	2(ii)		**4,464**		4,120
Fund for future appropriations			**1,446**		1,284
Technical provisions					
Short term business provision	15	**2**		2	
Long term business provision	17	**34,210**		31,691	
Claims outstanding		**211**		210	
			34,423		31,903
Technical provisions for linked liabilities	17		**33,852**		30,772
Provisions for other risks and charges	21(c)		**182**		162
Creditors					
Creditors arising out of direct insurance operations		**32**		32	
Creditors arising out of reinsurance operations		**111**		97	
Amounts owed to credit institutions	21(a)	**-**		1	
Other Creditors	21(b)	**1,281**		1,247	
			1,424		1,377
Accruals and deferred income			**391**		446
Total liabilities			**76,182**		70,064

The notes on pages 14 to 76 form an integral part of these financial statements

The financial statements on pages 9 to 76 were approved and authorised for issue by the directors on 15 March 2011 and were signed on their behalf by

T.J. BREEDON, Chairman

N.D. WILSON, Director

Registered No 00166055
One Coleman Street
London EC2R 5AA

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 December 2010

	Notes	2010 £m	2009 £m
At 1 January		**4,120**	3,490
Total recognised gains and losses		**644**	784
Dividends	16	**(300)**	(154)
At 31 December		**4,464**	4,120

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared under the provisions of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 relating to insurance companies except with regard to the non depreciation of investment properties These financial statements conform to the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business (SORP) issued in December 2005 and revised in December 2006 except with regards the accounting for hybrid contracts as set out in 1 (b) below

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss

Compliance with Statement of Standard Accounting Practice ('SSAP') 19 'Accounting for investment properties' requires departure from the requirement of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in Accounting policy 1(c) 'Investments' below

In accordance with accounting standard FRS 1, 'Cash flow statements' (Revised 1996), Society has not prepared a cash flow statement as the ultimate holding company, Legal & General Group Plc, has included a group cash flow statement in its financial statements

Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the balance sheet and profit and loss account and the disclosure of contingent assets and liabilities at the date of the financial statements Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly They are particularly relevant to the estimation of insurance and investment contract liabilities and associated balances, deferred acquisition costs, tax liabilities and the determination of fair values of unquoted financial investments and investment properties The significant estimates and assumptions used are disclosed in the relevant notes to these financial statements, including Note 18 on Long-term Insurance valuation assumptions

(b) Long term business

Product classification

The Society's products and reinsurance arrangements are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating) Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract Contracts which do not transfer significant insurance risk to the insurer are investment contracts Both insurance and investment contracts may contain a discretionary participating feature which is defined as a contractual right to receive additional benefits as a supplement to guaranteed benefits These are referred to as participating contracts

Hybrid contract types, containing both insurance and investment features, have been treated as investment contracts when accounting for premiums, claims and other revenue This accounting treatment does not comply with the Association of British Insurers' SORP, but it ensures that Society's participating investment contracts are treated consistently with other investment contracts and with the Group's accounting policy in this area

Premium income

For insurance contracts, premiums (net of refunds and rebates) and consideration for annuities are accounted for when due for payment

For investment contracts, amounts collected as premiums are not included in the profit and loss account but are reported as contributions to investment contract liabilities in the balance sheet

1. Accounting policies

(b) Long term business

Revenue from investment contracts

Fees charged for investment management services are recognised as revenue as the services are provided Initial fees, which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided

Acquisition costs

Acquisition costs for insurance contracts comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business

Acquisition costs, relating to non-participating insurance contracts written outside of the with-profits part of the long term fund (LTF), which are incurred during a financial year, are deferred to the extent that they are recoverable out of future revenue margins Deferral is effected by the use of an explicit asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the incidence of future related margins For business written within the with-profits part of the LTF, acquisition costs are charged to the profit and loss account when incurred

For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business The costs are charged to the profit and loss account when incurred

For non-participating investment contracts, only directly related acquisition costs, which vary with, and are related to, securing new contracts and renewing existing contracts, are deferred and amortised over the period during which the costs are expected to be recoverable from future revenue All other costs are recognised as expenses when incurred

Claims

Death claims are accounted for on notification of death Surrenders for non-linked policies are accounted for when payment is made Critical illness claims are accounted for when admitted All other claims and surrenders are accounted for when payment is due Claims payable include the direct costs of settlement

For investment contracts, claims are not included in the profit and loss account but are deducted from investment contract liabilities The movement in investment contract liabilities consists of claims incurred in the period less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders

Non-participating investment contracts

Non-participating investment contracts include unit linked contracts and are carried at amortised cost The amortised cost of these financial liabilities is equivalent to the amount payable on demand without penalty calculated by reference to the underlying net assets

Long term business provision

Insurance contract provision is determined following an annual investigation of the LTF in accordance with regulatory requirements The provisions are calculated on the basis of current information and using the gross premium valuation method For participating contracts the liabilities to policyholders are determined on a realistic basis in accordance with FRS 27 'Life Assurance' This includes an assessment of the cost of any future options and guarantees included in this business on a market consistent basis The calculation also takes account of bonus decisions which are consistent with Society's Principles and Practices of Financial Management The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability

1. Accounting policies (continued)

(b) Long term business (continued)

Long term insurance provisions, together with related reinsurance recoveries, are established on the basis of current information Such provisions are subject to subsequent reassessment as changes to underlying factors such as mortality and morbidity occur These factors are discussed in more detail in Note 18

Technical provisions for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property Unit-linked contracts which transfer significant insurance risk, including guaranteed benefits, are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date Unit-linked contracts which principally involve the transfer of financial risk are classified as investment contracts and are carried in the balance sheet at amortised cost The amortised cost of these financial liabilities is equivalent to the amount payable on demand without penalty calculated by reference to the underlying net assets

Non-participating value of in-force business in the with profit fund

In determining the realistic value of liabilities for participating contracts, the value of non-participating business written in the with-profits fund is accounted for as part of the calculation The present value of future profits (PVFP) on this business is separately determined and its value is recognised as an asset

Fund for future appropriations (FFA)

The nature of benefits for participating contracts is such that the allocation of surpluses between equity holders and participating policyholders is uncertain The amount that has not been so allocated at the balance sheet date is classified within liabilities as the FFA Adjustments made to comply with FRS 27 are charged to the FFA

Reinsurance commission from Legal & General Pensions Ltd (LGPL)

Under the reinsurance arrangement with LGPL, Society receives a reinsurance commission The element of this commission that is attributable to mis-selling risks and investments contracts is recognised in the balance sheet as part of accruals and deferred income and amortised over the period during which the revenue is expected to be recoverable

Tax

The investment return on shareholders' funds within the UK LTF is included in the balance of the Technical Account - Long Term Business, gross of attributable tax, and is not subject to further grossing up The remainder of the balance of the Technical Account - Long Term Business is subject to a notional gross up at the corporate tax rate applicable for the period

Reinsurance

Society cedes long term business premiums and risk in the normal course of business in order to limit the potential for losses and provide financing Such contracts are accounted for as insurance contracts providing the risk transfer is significant Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded future life policy benefits Amounts recoverable from reinsurers are estimated in a manner consistent with the long term business liability associated with the reinsured policy Reinsurance is recorded as an asset in total in the balance sheet unless a right of offset exists

1. Accounting policies (continued)

(b) Long term business (continued)

Trail commissions

Society operates distribution agreements with intermediaries where further commission costs are payable in each period that a relevant policy remains in-force For relevant non-participating investment contracts, a liability for the present value of this future commission cost is recognised in the balance sheet on inception of the contract The present value of future commission costs are deferred as an asset and amortised over the period during which the related revenue will be recognised At each subsequent reporting date, the liability is measured at amortised cost Any increase in the liability is deferred as an additional asset If the future commission liability decreases, a corresponding adjustment is made to the amortisation of the asset

Other technical charges

Lapse, mortality and expense risk on certain unit linked investment contracts is insured with LGPL This transaction is regarded as an insurance transaction rather than reinsurance, and is therefore not included in reinsurance premiums or claims The sum of the transactions in the year is shown as other technical charges Should the net sum ever switch into a net reclaim scenario the amount will be included on other technical income

(c) Investments

Land and buildings

Land and buildings which are held for long term rental yields and capital growth are carried at fair value with changes in fair value recognised in the profit and loss account within investment income Land and buildings in the UK are valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value

In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run The requirement of the Companies Act 2006 is to depreciate all properties This requirement conflicts with the generally accepted accounting principle set out in SSAP 19 The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it it is necessary to adopt SSAP 19 in order to give a true and fair view Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified

Financial investments

Society classifies its financial investments on initial recognition as Held For Trading (HFT), designated at Fair Value Through Profit or Loss (FVTPL) or loans and receivables Initial recognition of financial investments is on the trade date

Certain financial investments held by Society are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Board of Directors and Society's investment strategy Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as available for sale under FRS 26 Assets backing participating and non-participating policyholder liabilities are designated as FVTPL For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life Society's non-participating contract liabilities are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the profit and loss account

1. Accounting policies (continued)

(c) Investments (continued)

Financial investments

All derivatives are classified as HFT

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

Fair value measurements are based on observable and unobservable inputs Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Society's view of market assumptions in the absence of observable market information Society utilises valuation techniques that maximise the use of observable inputs The levels of fair value measurement bases and principal asset classifications are defined as follows

Tier	Principally includes:	Fair values measured using
Level 1	listed equity instruments, government and certain supranational institution bonds and exchange traded futures and options	quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2	listed corporate bonds, commercial paper, derivative instruments which are not exchange traded and asset backed securities	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	unquoted equities, including investments in non traded property investment vehicles, venture capital, and suspended securities	valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs)

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the profit and loss account

Loans and receivables are initially measured at fair value less acquisition costs, and subsequently measured at amortised cost using the effective interest rate method

(d) Impairment policy

Society reviews the carrying value of its assets (other than those held at FVTPL and HFT) at each balance sheet date If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the profit and loss account There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset Impairment is only recognised if the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated

Non-financial assets which have an indefinite useful life are not subjected to amortisation and are tested annually for impairment Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable The recoverable amount is the higher of an asset's fair value less costs to sell and value in use

1. Accounting policies (continued)

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value Changes in the fair value are recognised immediately in the profit and loss account Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i e the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets

(f) Embedded derivatives

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment income in the profit and loss account

(g) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs Borrowings classified as liabilities are subsequently stated at amortised cost The difference between the proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method

(h) Investment return

The reporting of investment return comprises investment income, realised gains and losses from all financial assets and unrealised gains and losses from financial investments held at FVTPL Investment income includes dividends, interest and rent Dividends are accrued on an ex-dividend basis Interest and rent are included on an accruals basis Interest income for financial assets that are not classified as FVTPL is recognised using the effective interest method

(i) Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated at current value In accordance with the SORP, gains and losses on interests in subsidiary undertakings attributable to long term business are taken to the technical account for long term business and gains and losses on all other interests are taken to the revaluation reserve

Investments in subsidiaries also include loans to subsidiary undertakings that are long term in nature and the repayment of which is contingent on the emergence of surplus within the subsidiary The investments are valued at cost, including accrued interest, less provision for impairment where it is considered that the full balance is not recoverable

(j) Purchased interests in long term business

Blocks of in-force business purchased through the acquisition of a subsidiary undertaking are capitalised at fair value The value of business acquired represents the present value of anticipated future profits in acquired contracts These amounts are amortised over the anticipated lives of the related contracts in the portfolio

(k) General insurance

General insurance provisions, together with related reinsurance recoveries, are established on the basis of current information Such provisions can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis

1. Accounting policies (continued)

(k) General insurance (continued)

Claims

Claims and related reinsurance amounts are accounted for in respect of all incidents up to the year end Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement

(i) claims reported but not settled,
(ii) claims incurred but not yet reported

(l) Capital expenditure

Expenditure on computers, motor cars and large items of equipment is depreciated over periods ranging up to four years, having regard to expected residual values All other items of capital expenditure are charged to the profit and loss account as incurred

(m) Foreign currencies

Foreign currency transactions are translated into the functional currency (GBP) using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss

(n) Deferred tax

Deferred tax is recognised in respect of timing differences which have not reversed at the balance sheet date and which result in an obligation to pay more tax, or a right to pay less tax, at a future date Deferred tax is measured at rates expected to apply when the timing differences reverse, based on current tax rates and law Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

(o) Related party transactions

Society has taken advantage of the exemption in FRS 8, 'Related party disclosures' from disclosing related party transactions with other entities which are greater than 90% owned and are included in the consolidated financial statements of Legal & General Group Plc

(p) Dividend recognition

Dividend distribution to Society's shareholders is recognised as a liability in the period in which the dividend is authorised and is no longer at the discretion of Society Final dividends are accrued when approved by Society's Directors and interim dividends are accrued when paid

(q) Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term

(r) Provisions for other risks and charges

Society provides for a trail commission liability as the sum of the present value of future trail commission on the existing book of business, with the unit liabilities projected forward and the commission being discounted back at the risk free rate of return

2. Analysis of revenue

(i) Long term business

Gross premiums written

	2010				2009			
	Non-participating £m	Participating £m	Investment linked £m	Total £m	Non-participating £m	Participating £m	Investment linked £m	Total £m
Individual								
Periodic	916	141	30	1,087	873	165	33	1,071
Single	1,168	428	-	1,596	998	566	-	1,564
	2,084	569	30	2,683	1,871	731	33	2,635
Group								
Periodic	434	7	-	441	302	8	-	310
Single	936	2	-	938	891	-	-	891
	1,370	9	-	1,379	1,193	8	-	1,201
	3,454	578	30	4,062	3,064	739	33	3,836

Gross premiums written by destination are not materially different from gross premiums written by origin
The above figures include inward reinsurance premium of US$ 161m from Legal & General America (LGA)
This amount is reinsured to Legal & General Pensions Limited (LGPL) under the existing reinsurance arrangement

New business (gross of reinsurance)

New business is presented for all long term business written by Society, including both insurance and investment contracts Investment contracts are accounted for on a deposit accounting basis and are not included in gross premiums written in the above table

	2010				2009			
	Non-participating £m	Participating £m	Investment linked £m	Total £m	Non-participating £m	Participating £m	Investment linked £m	Total £m
Individual								
Periodic	118	2	368	488	122	2	245	369
Single	1,142	343	2,058	3,543	962	624	1,566	3,152
	1,260	345	2,426	4,031	1,084	626	1,811	3,521
Group								
Periodic	57	1	-	58	57	1	-	58
Single	897	2	-	899	883	-	-	883
	954	3	-	957	940	1	-	941
	2,214	348	2,426	4,988	2,024	627	1,811	4,462

There are three classes of business for conventional individual protection where there is a material difference between gross and net of reinsurance new business, term assurance which is 36 6% reinsured (2009 53 7%), whole of life assurance which is 18 1% reinsured (2009 12 4%) and income protection which is 63 1% reinsured (2009 39 1%)

Non-profit pension new business is 100% reinsured (2009 100%) and group protection new business is 43 7% reinsured (2009 63 9%)

New periodic premiums arise where the terms and conditions anticipate more than one premium being paid over the period of the policy, new single premiums comprise all premiums which do not fall to be categorised as periodic premiums

2. Analysis of revenue (continued)

(i) Long term business (continued)

Reinsurance balance

The reinsurance balance for long term business amounted to a profit of £1,937m (2009 profit of £2,427m) This represents the total of all items included in the technical account for long term business which relate to reinsurance outwards transactions

(ii) Shareholders' funds - equity interests

	2010	2009
	£m	£m
Long term business*	**1,352**	1,290
Other	**3,112**	2,830
	4,464	4,120

* These assets represent the shareholder retained capital (SRC) held within the LTF

3. Investment return

	Technical account - long term business 2010	Non-technical account 2010	Technical account - long term business 2009	Non-technical account 2009
	£m	£m	£m	£m
Investment income and realised gains				
Investment income				
Income in respect of land and buildings[1]	204	-	206	-
Income in respect of other investments				
Received from group undertakings	-	130	2	34
Loans and receivables interest income	16	-	45	-
Income from financial assets at fair value through profit or loss	1,412	20	1,422	19
	1,428	150	1,469	53
Net gains on realisation of investments	623	11	-	-
	2,255	161	1,675	53
Investment expenses and charges				
Interest on bank loans and overdrafts	(17)	-	(14)	-
Net losses on realisation of investments	-	-	(586)	(471)
Investment management expenses	(98)	(2)	(84)	(1)
	(115)	(2)	(684)	(472)
Net unrealised gains on investments[2]	2,434	50	4,415	378
Total investment return[3]	4,574	209	5,406	(41)

1 The income from investment properties held represents the rentals receivable for the year

2 Unrealised gains represent the fair value movements for the year on financial assets designated at fair value through profit and loss

3 Financial investment return includes fair value gains and losses, dividends and interest Net gains/(losses) (excluding interest and dividend income of £3,118m (2009 £3,736m) arose on financial investments designated as FVTPL and £55m (2009 £(81m)) arose on derivative contracts classified as HFT Investment income of £16m arose on loans and receivables (2009 £45m) No assets are designated as AFS

4. Net operating expenses

Technical account - long term business

	2010 £m	2010 £m	2009 £m	2009 £m
Acquisition costs		483		515
Change in deferred acquisition costs		36		27
Administrative expenses - maintenance	211		209	
- other	50		72	
Total administration expenses		261		281
		780		823

Included in the figures above is £271m of commissions for direct insurance business (2009 £290m)

5. Tax charge

	Technical account - long term business 2010 £m	Non-technical account 2010 £m	Technical account - long term business 2009 £m	Non-technical account 2009 £m
UK corporation tax at 28% (2009: 28%)				
Current tax for the year	83	12	29	5
Adjustments in respect of prior periods	(39)	(25)	(5)	5
	44	(13)	24	10
Deferred tax				
Origination and reversal of timing differences	134	14	173	21
	178	1	197	31
Foreign tax				
Current tax for the year	15	-	16	-
	193	1	213	31
Tax attributable to the balance on the technical account - long term business		84		107
		85		138

5. Tax charge (continued)

Factors affecting current tax charge for the period

The tax assessed for the period is lower (2009 higher) than the standard rate of corporation tax in the UK for a company 28% (2009 28%) The differences are explained below

	2010 £m	2009 £m
Profit on ordinary activities before tax	515	391
Corporation tax at 28% (2009 28%)	144	109
Effects of·		
Disallowable expenditure	7	(2)
Difference between taxable and accounting investment gains/losses	(23)	27
Non taxable dividends	(29)	(6)
Adjustments in respect of prior periods	(25)	5
(Lower) tax on SRC investment return	(3)	(16)
Current tax charge for the year	71	117

Factors which may affect future tax charge

No provision is made for deferred tax on gains recognised on the revaluation of subsidiaries to net asset value Such tax would become payable only if the subsidiaries were sold without it being possible to claim substantial shareholding relief and in the case of subsidiaries of the long term fund, if the revaluation gains (realised or unrealised) were released as surplus in the FSA return At present, it is not envisaged that any tax will become payable in the foreseeable future

Society has unrelieved capital losses of £188m as at 31 December 2010 (2009 £736m), which comprises losses of £122m (2009 £180m) in the shareholder fund, and £66m (2009 £556m) in the long term fund A partial deferred tax asset has been recognised in respect of these losses, to the extent it is considered more likely than not that there will be suitable profits emerging in future periods against which to relieve them The potential deferred tax asset unrecognised as at 31 December 2010 is £15m (2009 £15m), of which £nil relates to the shareholder fund and £15m relates to the long term fund

6. Land and buildings

	Shareholder assets	Non profit non-unit linked	With-profits	Total	Unit linked
	2010	2010	2010	2010	2010
	£m	£m	£m	£m	£m
Long leaseholds	1	-	10	11	238
Freehold properties	10	-	114	124	1,137
Total land and buildings	11	-	124	135	1,375
Original cost	7	-	77	84	1,691

	Shareholder assets	Non profit non-unit linked	With-profits	Total	Unit linked
	2009	2009	2009	2009	2009
	£m	£m	£m	£m	£m
Long leaseholds	1	-	11	12	227
Freehold properties	7	-	85	92	1,057
Total land and buildings	8	-	96	104	1,284
Original cost	5	-	58	63	1,688

Assets have been split across categories in line with exposure to risk Details can be found in Note 34

7. Investments in group undertakings and participating interests

	Investments in group companies	Loans to group undertakings	Total
	£m	£m	£m
At 1 January 2010	1,700	980	2,680
Profit on revaluation of investment in subsidiary undertakings	214	-	214
Repayment of loans to subsidiaries	-	(389)	(389)
At 31 December 2010	1,914	591	2,505
Cost at 31 December 2010	2,527	591	3,118
Cost at 31 December 2009	2,526	980	3,506

Loans to group undertakings comprise a £591m (2009 £980m) contingent loan to LGPL The repayment of the loan is contingent on the emergence of surplus within LGPL The loan is considered to be long term in nature Internal modelling indicates that the full balance will be repaid in the medium term and therefore no provision for impairment has been made

7. Investments in group undertakings and participating interests (continued)

Subsidiary undertakings

The significant subsidiary undertakings of Legal & General Assurance Society are listed below Each undertaking operates mainly in its country of incorporation and has only one class of issued ordinary shares

	Incorporated in
Held directly by the company	
Legal & General Insurance Limited	England and Wales
Legal & General Pensions Limited	England and Wales
Nationwide Life Limited	England and Wales
Held indirectly through subsidiary undertakings	
Legal & General Nederland Levensverzekering Maatschappij NV	Netherlands
Legal & General (France) S A	France
Legal & General Bank (France) S A	France

All subsidiaries are 100% owned and have 31 December financial year end

A full list of subsidiary undertakings is on pages 75 and 76

8 Financial investments

	Shareholder assets 2010 £m	Non Profit non-unit linked 2010 £m	With-profits 2010 £m	Total 2010 £m	Unit linked 2010 £m
Fair value through profit or loss	1,555	2	16,491	18,048	23,333
Held for trading	7	-	84	91	5
Financial investments at fair value (i)	1,562	2	16,575	18,139	23,338
Loans and receivables (iii)	105	3	788	896	901
Total financial investments	**1,667**	**5**	**17,363**	**19,035**	**24,239**
Cash at bank and in hand					199
Land and buildings					1,375
Total linked investments					**25,813**

Financial investments include £36m (2009 £17m) of debt securities pledged as collateral against derivatives liabilities The assets used as collateral are Treasury Gilts (2009 Treasury Gilts) having a residual maturity of over 33 years (2009 over 12 years) Society is entitled to receive all of the cash flows from an asset during the period when it is pledged as collateral Further, there is no obligation to pay or transfer these cash flows to another entity Society can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met

Assets held to cover linked liabilities on the balance sheet of £25,934m (2009 £23,853m) are made up of £25,813m of Unit linked assets (2009 £23,743m) and £121m of Index linked assets (2009 £110m) These assets are measured at FVTPL £70m (2009 £64m) of Index linked assets are classified as Non Profit non-unit linked and £51m (2009 £46m) as With-profits in line with the approach to risk management detailed in Note 34

8. Financial investments (continued)

	Shareholder assets 2009 £m	Non Profit non-unit linked 2009 £m	With-profits 2009 £m	Total 2009 £m	Unit linked 2009 £m
Fair value through profit or loss	1,083	162	15,968	17,213	20,509
Held for trading	-	2	63	65	10
Financial investments at fair value (i)	1,083	164	16,031	17,278	20,519
Loans and receivables (iii)	117	11	1,221	1,349	1,788
Total financial investments	1,200	175	17,252	18,627	22,307
Cash at bank and in hand					152
Land and buildings					1,284
Total linked investments					23,743

(i) **Fair value hierarchy**

The following table presents the Company's financial investments by FRS29 hierarchy level as at 31 December 2010

	Total 2010 £m	**Level 1 2010 £m**	**Level 2 2010 £m**	**Level 3 2010 £m**
Shareholder assets				
Equity securities - FVTPL	**1,072**	**852**	**115**	**105**
Debt securities - FVTPL	**476**	**236**	**240**	-
Accrued interest - FVTPL	**7**	**3**	**4**	-
Derivative assets - HFT (Note 9)	**7**	**4**	**3**	-
Non profit non-unit linked				
Equity securities - FVTPL	**1**	**1**	-	-
Debt securities - FVTPL	**1**	-	**1**	-
Accrued interest - FVTPL	-	-	-	-
Derivative assets - HFT (Note 9)	-	-	-	-
Unit linked				
Equity securities - FVTPL	**18,653**	**18,173**	**218**	**262**
Debt securities - FVTPL	**4,620**	**2,164**	**2,456**	-
Accrued interest - FVTPL	**59**	**17**	**42**	-
Derivative assets - HFT (Note 9)	**5**	**5**	-	-
With profits				
Equity securities - FVTPL	**6,575**	**4,470**	**17**	**2,088**
Debt securities - FVTPL	**9,735**	**2,670**	**7,065**	-
Accrued interest - FVTPL	**177**	**34**	**143**	-
Derivative assets - HFT (Note 9)	**84**	**6**	**78**	-
Total financial investments	**41,472**	**28,635**	**10,382**	**2,455**

8. Financial investments (continued)

(i) Fair value hierarchy (continued)

	Total 2009	Level 1 2009	Level 2 2009	Level 3 2009
Shareholder assets	£m	£m	£m	£m
Equity securities - FVTPL	995	807	100	88
Debt securities - FVTPL	87	70	17	-
Accrued interest - FVTPL	1	1	-	-
Non profit non-unit linked				
Equity securities - FVTPL	1	1	-	-
Debt securities - FVTPL	160	152	8	-
Accrued interest - FVTPL	1	1	-	-
Derivative assets - HFT (Note 9)	2	-	2	-
Unit linked				
Equity securities - FVTPL	16,664	16,390	45	229
Debt securities - FVTPL	3,783	1,756	2,027	-
Accrued interest - FVTPL	62	16	46	-
Derivative assets - HFT (Note 9)	10	10	-	-
With profits				
Equity securities - FVTPL	5,921	4,127	2	1,792
Debt securities - FVTPL	9,839	2,704	7,135	-
Accrued interest - FVTPL	204	37	167	-
Derivative assets - HFT (Note 9)	62	5	57	-
Total financial investments	37,792	26,077	9,606	2,109

	Total 2010 £m	**Level 1 2010 £m**	**Level 2 2010 £m**	**Level 3 2010 £m**
Non profit non-unit linked				
Derivative liabilities (Note 9)	-	-	-	-
Unit linked				
Derivative liabilities (Note 9)	**10**	**10**	-	-
With profits				
Derivative liabilities (Note 9)	**93**	**12**	**81**	-
Total derivative liabilitities	**103**	**22**	**81**	-

8. Financial investments (continued)

(i) Fair value hierarchy (continued)

	Total 2009 £m	Level 1 2009 £m	Level 2 2009 £m	Level 3 2009 £m
Unit linked				
Derivative liabilities (Note 9)	2	2	-	-
With profits				
Derivative liabilities (Note 9)	55	7	48	-
Total derivative liabilities	57	9	48	-

In current market conditions, the liquidity of certain financial instruments is less than it has been in the past All of Society's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg 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 concluded that these prices are not from an active market and have been classified as level 2

Our holdings in swaps are priced using industry standard internal models which utilise market assumptions Accordingly these assets have also been classified in level 2 Level 3 assets, where internal models are used to estimate fair vale represent a small proportion of assets to which shareholders are exposed, consist of unquoted equities including investments in venture capital and property investment vehicles 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, Society will determine 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 Society has classified as level 3

(a) Assets measured at fair value based on level 3

Equity securities	**2010**	2009
	£m	£m
As at 1 January	**2,109**	1,448
Total gains or losses for the period		
- in profit and loss	**298**	(37)
Purchases	**193**	927
Sales	**(145)**	(229)
As at 31 December	**2,455**	2,109

8. Financial investments (continued)

(i) Fair value hierarchy (continued)

(b) Effect on changes in significant unobservable inputs (level 3) to reasonably possible alternative assumptions

As discussed above, the fair value of financial instruments are, in certain circumstances measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on unobservable market data The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions

			Reasonably possible	
	Main assumptions	**Current fair value 2010 £m**	**Increase in fair Value 2010 £m**	**Decrease in fair Value 2010 £m**
Financial instruments				
Assets				
Shareholder				
- Private equity investment vehicles[1]	Price earnings multiple	**13**	**1**	**(1)**
- Property investment vehicles[2]	Property yield, occupancy	**92**	**1**	**(1)**
With profits				
- Private equity investment vehicles[1]	Price earnings multiple	**126**	**9**	**(9)**
- Property investment vehicles[2]	Property yield, occupancy	**1,962**	**93**	**(93)**
Unit linked				
- Property investment vehicles[2]	Property yield, occupancy	**262**	**12**	**(12)**
Total		**2,455**	**116**	**(116)**

			Reasonably possible	
	Main assumptions	Current fair value 2009 £m	Increase in fair Value 2009 £m	Decrease in fair Value 2009 £m
Financial instruments				
Assets				
Shareholder				
- Private equity investment vehicles[1]	Price earnings multiple	9	-	-
- Property investment vehicles[2]	Property yield, occupancy	79	5	(5)
With profits				
- Private equity investment vehicles[1]	Price earnings multiple	98	7	(7)
- Property investment vehicles[2]	Property yield, occupancy	1,694	99	(99)
Unit linked				
- Property investment vehicles[2]	Property yield, occupancy	229	17	(17)
Total		2,109	128	(128)

1 Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines

2 Unquoted investments in property vehicles are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions

8. Financial investments (continued)

(ii) Financial instruments by category

In accordance with FRS 29, the following table shows financial instruments analysed by category

	Assets at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	2010 £m	2010 £m	2010 £m	2010 £m
Assets and liabilities per balance sheet				
Financial investments	18,029	896	-	18,925
Assets held to cover linked liabilities	24,823	1,100	-	25,923
Loans to group undertakings	-	591	-	591
Due from group undertakings	-	215	-	215
Other debtors	-	451	-	451
Cash at bank and in hand	-	368	-	368
Other creditors	-	-	(1,281)	(1,281)
Technical provisions for linked liabilities	-	-	(33,852)	(33,852)
Total	42,852	3,621	(35,133)	11,340

	Assets at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	2009 £m	2009 £m	2009 £m	2009 £m
Assets and liabilities per balance sheet				
Financial investments	17,168	1,349	-	18,517
Assets held to cover linked liabilities	21,913	1,940	-	23,853
Loans to group undertakings	-	980	-	980
Due from group undertakings	-	153	-	153
Other debtors	-	551	-	551
Cash at bank	-	39	-	39
Other creditors	-	-	(1,247)	(1,247)
Amounts owed to credit institutions	-	-	(1)	(1)
Technical provisions for linked liabilities	-	-	(30,772)	(30,772)
Total	39,081	5,012	(32,020)	12,073

8. Financial investments (continued)

(iii) Loans and receivables	Shareholder assets 2010 £m	Non Profit non-unit linked 2010 £m	With-profits 2010 £m	Total 2010 £m	Unit linked 2010 £m
Loans and receivables					
Deposits with credit institutions	**105**	**3**	**787**	**895**	**901**
Policy loans	**-**	**-**	**1**	**1**	**-**
Total loans and receivables	**105**	**3**	**788**	**896**	**901**

The fair value of the loans and receivables is not materially different from the carrying value

	Shareholder assets 2009 £m	Non Profit non-unit linked 2009 £m	With-profits 2009 £m	Total 2009 £m	Unit linked 2009 £m
Loans and receivables					
Deposits with credit institutions	117	11	1,220	1,348	1,788
Policy loans	-	-	1	1	-
Total loans and receivables	117	11	1,221	1,349	1,788

(iv) Original cost of investments

	2010 £m	2009 £m
Equity securities	**6,198**	6,168
Debt securities	**10,452**	10,064
Derivative assets	**8**	6
Policy loans	**1**	1
Deposits with credit institutions	**259**	1,344
Assets held to cover unit linked liabilities	**20,454**	20,280
Assets held to cover index linked liabilities	**154**	182
	37,526	38,045

(v) Listed investments

Included in the carrying values of other financial investments in note 8(i) above are amounts in respect of listed investments as follows

	2010 £m	2009 £m
Shares and units in unit trusts	**6,549**	5,881
Debt securities	**10,213**	10,086
	16,762	15,967

8. Financial investments (continued)

Table (vi) provides information regarding the carrying value of financial assets that have been impaired and the ageing analysis of financial assets that are past due but not impaired

(vi) Ageing of non-unit linked financial assets that are past due but not impaired

Shareholder assets	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months - 1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
As at 31 December 2010							
Government securities	222	-	-	-	-	-	222
Other fixed rate securities	243	-	-	-	-	-	243
Variable rate securities	11	-	-	-	-	-	11
Total debt securities	476	-	-	-	-	-	476
Accrued interest	7	-	-	-	-	-	7
Loans and receivables	11	-	-	-	-	-	11
Derivative assets	7	-	-	-	-	-	7
Cash equivalents	94	-	-	-	-	-	94
Financial assets	595	-	-	-	-	-	595
Reinsurers' share of contract liabilities	-	-	-	-	-	-	-
Amounts owed by group undertakings	76	-	-	-	-	-	76
Other assets	23	-	-	-	-	-	23
	694	-	-	-	-	-	694

Non profit non-unit linked	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months - 1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
As at 31 December 2010							
Other fixed rate securities	1	-	-	-	-	-	1
Variable rate securities	1	-	-	-	-	-	1
Total debt securities	2	-	-	-	-	-	2
Cash equivalents	3	-	-	-	-	-	3
Financial assets	5	-	-	-	-	-	5
Reinsurers' share of contract liabilities	1,791	-	-	-	-	-	1,791
Amounts owed by group undertakings	139	-	-	-	-	-	139
Other assets	110	-	-	-	-	-	110
	2,045	-	-	-	-	-	2,045

8. Financial investments (continued)

(vi) Ageing of non-unit linked financial assets that are past due but not impaired

With-profits	**Neither past due nor impaired**	**Financial assets that are past due but not impaired** 0-3 months	3-6 months	6 months - 1 year	Over 1 year	**Financial assets that have been impaired**	**Carrying value**
As at 31 December 2010							
Government securities	1,672	-	-	-	-	-	1,672
Other fixed rate securities	7,974	-	-	-	-	-	7,974
Variable rate securities	94	-	-	-	-	-	94
Total debt securities	9,740	-	-	-	-	-	9,740
Accrued interest	177	-	-	-	-	-	177
Loans and receivables	88	-	-	-	-	-	88
Derivative assets	84	-	-	-	-	-	84
Cash equivalents	700	-	-	-	-	-	700
Financial assets	10,789	-	-	-	-	-	10,789
Other assets	122	-	-	-	-	-	122
	10,911	-	-	-	-	-	10,911

Shareholder assets	Neither past due nor impaired £m	Financial assets that are past due but not impaired 0-3 months £m	3-6 months £m	6 months - 1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
As at 31 December 2009							
Government securities	69	-	-	-	-	-	69
Variable rate securities	18	-	-	-	-	-	18
Total debt securities	87	-	-	-	-	-	87
Accrued interest	1	-	-	-	-	-	1
Loans and receivables	33	-	-	-	-	-	33
Cash equivalents	85	-	-	-	-	-	85
Financial assets	206	-	-	-	-	-	206
Reinsurers' share of contract liabilities	2	-	-	-	-	-	2
Amounts owed by group undertakings	112	-	-	-	-	-	112
Other assets	21	-	-	-	-	-	21
	341	-	-	-	-	-	341

8 Financial investments (continued)

(vi) Ageing of non-unit linked financial assets that are past due but not impaired (continued)

Non Profit non-unit linked	Neither past due nor impaired	Financial assets that are past due but not impaired					
		0-3 months	3-6 months	6 months - 1 year	Over 1 year	Financial assets that have been impaired	Carrying value
As at 31 December 2009	£m	£m	£m	£m	£m	£m	£m
Government securities	140	-	-	-	-	-	140
Other fixed rate securities	20	-	-	-	-	-	20
Total debt securities	160	-	-	-	-	-	160
Accrued interest	1	-	-	-	-	-	1
Loans and receivables	1	-	-	-	-	-	1
Derivative assets	2	-	-	-	-	-	2
Cash equivalents	10	-	-	-	-	-	10
Financial assets	174	-	-	-	-	-	174
Reinsurers' share of contract liabilities	1,623	-	-	-	-	-	1,623
Amounts owed by group undertakings	41	-	-	-	-	-	41
Other assets	12	96	2	1	2	-	113
	1,850	96	2	1	2	-	1,951

With-profits	Neither past due nor impaired	Financial assets that are past due but not impaired					
		0-3 months	3-6 months	6 months - 1 year	Over 1 year	Financial assets that have been impaired	Carrying value
As at 31 December 2009	£m	£m	£m	£m	£m	£m	£m
Government securities	1,665	-	-	-	-	-	1,665
Other fixed rate securities	8,014	-	-	-	-	-	8,014
Variable rate securities	165	-	-	-	-	-	165
Total debt securities	9,844	-	-	-	-	-	9,844
Accrued interest	204	-	-	-	-	-	204
Loans and receivables	296	-	-	-	-	-	296
Derivative assets	63	-	-	-	-	-	63
Cash equivalents	925	-	-	-	-	-	925
Financial assets	11,332	-	-	-	-	-	11,332
Reinsurers' share of contract liabilities	3	-	-	-	-	-	3
Other assets	54	25	-	-	2	-	81
	11,389	25	-	-	2	-	11,416

9. Derivative assets and liabilities

	Contract/ notional amount 2010 £m	Fair values Assets[1] 2010 £m	Fair values Liabilities[2] 2010 £m	Contract/ notional amount 2009 £m	Fair values Assets[1] 2009 £m	Fair values Liabilities[2] 2009 £m
Shareholder assets derivatives:						
Interest-rate contracts - held for trading	**212**	**3**	**(7)**		-	-
Forward foreign exchange contracts - held for trading		**5**	**(1)**		-	-
Equity/index derivatives - held for trading	**(43)**	**-**	**(1)**	2	-	-
Total shareholder assets derivatives		**8**	**(9)**		-	-
Non profit non-unit linked derivatives:						
Equity/index derivatives - held for trading	**112**	**-**	**-**	112	2	-
Total non-unit linked derivatives		**-**	**-**		2	0
With-profits derivatives:						
Interest-rate contracts - held for trading	**1,469**	**51**	**(57)**	917	35	42
Forward foreign exchange contracts - held for trading		**4**	**(10)**	-	3	6
Equity/index derivatives - held for trading	**472**	**28**	**(16)**	398	23	7
Other derivatives - held for trading	**1**	**1**	**-**	2	2	-
Total with-profits derivatives		**84**	**(83)**		63	55
Unit linked derivatives:						
Forward foreign exchange contracts - held for trading		**4**	**(7)**	-	8	1
Equity/index derivatives - held for trading	**(267)**	**-**	**(3)**	36	2	1
Other derivatives - held for trading	**8**	**1**	**-**	5	1	-
Total unit linked derivatives		**5**	**(10)**		11	2
Total derivative assets and liabilities		**97**	**(102)**		76	57

1 Derivative assets are reported in the balance sheet within financial investments (Note 8)

2 Derivative liabilities are reported in the balance sheet within other creditors

The notional amounts of some derivative instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate Society's exposure to credit or price risks

9. Derivative assets and liabilities (continued)

The gross contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity

Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks

		Maturity profile of undiscounted cash flows					
	Fair values	Within 1 year	1-5 years	5-15 years	15-25 years	Over 25 years	Total
As at 31 December 2010	£m	£m	£m	£m	£m	£m	£m
Cash inflows							
Shareholder assets derivatives							
Derivative assets	7	280	4	22	16	4	326
Derivative liabilities	(9)	99	14	11	-	-	124
With-profits derivatives							
Derivative assets	84	225	132	102	30	4	493
Derivative liabilities	(83)	796	67	131	52	8	1,054
Total undiscounted cash inflows		1,400	217	266	98	16	1,997
Cash outflows							
Shareholder assets derivatives							
Derivative assets	7	(277)	(6)	(16)	(12)	(4)	(315)
Derivative liabilities	(9)	(105)	(19)	(10)	-	-	(134)
With-profits derivatives							
Derivative assets	84	(201)	(75)	(99)	(27)	(4)	(406)
Derivative liabilities	(83)	(845)	(92)	(144)	(58)	(9)	(1,148)
Total undiscounted cash outflows		(1,428)	(192)	(269)	(97)	(17)	(2,003)
Total		(28)	25	(3)	1	(1)	(6)
Net shareholder assets derivatives cash flows		(3)	(7)	7	4	-	1
Net with-profits derivatives cash flows		(25)	32	(10)	(3)	(1)	(7)

9. Derivative assets and liabilities (continued)

		Maturity profile of undiscounted cash flows					
As at 31 December 2009	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Non profit non-unit linked derivatives							
Derivative assets	2	-	2	-	-	-	2
With-profits derivatives							
Derivative assets	63	289	93	84	28	4	498
Derivative liabilities	(55)	255	83	108	49	11	506
Total undiscounted cash inflows		544	178	192	77	15	1,006
Cash outflows							
Non profit non-unit linked derivatives							
Derivative assets	2	-	-	-	-	-	-
With-profits derivatives							
Derivative assets	63	(267)	(52)	(85)	(24)	(3)	(431)
Derivative liabilities	(55)	(271)	(122)	(111)	(54)	(13)	(571)
Total undiscounted cash outflows		(538)	(174)	(196)	(78)	(16)	(1,002)
Total		6	4	(4)	(1)	(1)	4
Net non profit non-unit linked derivatives cash flows		-	2	-	-	-	2
Net with-profits derivatives cash flows		6	2	(4)	(1)	(1)	2

10. Tangible assets

Fixtures, fittings, tools and equipment (principally computer equipment)	2010 £m	2009 £m
Cost		
At 1 January	83	85
Additions	13	7
Disposals	(9)	(9)
At 31 December	87	83
Depreciation		
At 1 January	56	51
Provided during the year	10	12
Disposals	(7)	(7)
At 31 December	59	56
Net book value at 31 December	28	27

11. Purchased interests in long term business

	2010 £m	2009 £m
Cost		
At 1 January	21	21
At 31 December	21	21
Amortisation		
At 1 January	18	17
Provided during the year	-	1
At 31 December	18	18
Net book value at 31 December	3	3

The net book value of purchased interests in long term business represents the remaining unamortised portion of the actuarially determined fair values of purchased long term in-force business The value of the in-force business purchased on the acquisition of the Alliance & Leicester Life Assurance Company Ltd is amortised over its economic life

12. Deferred acquisition costs

	2010 £m	2009 £m
Insurance contract deferred acquisition costs	1	5
Investment contract deferred acquisition costs	787	819
Total deferred acquisition costs	**788**	824

13 Share capital

	Number of shares 000's	2010 £m	2009 £m
Issued share capital			
Fully paid ordinary shares of £1 each			
At 31 December fully paid ordinary shares of £1	201,430	201	201
Share premium			
At 31 December		1,049	1,049

14. Movement in reserves

	Profit and loss account 2010 £m	Revaluation reserve 2010 £m	Profit and loss account 2009 £m	Revaluation reserve 2009 £m
Balance at 1 January	3,570	(700)	3,471	(1,231)
Retained profit	130	-	99	-
Profit on revaluation of investments in subsidiaries	-	214	-	531
Balance At 31 December	3,700	(486)	3,570	(700)

Included in the profit and loss reserves is a non-distributable amount of £350m (2009 £400m) in respect of the Board's commitment to support the with-profits business

15. General insurance business provisions

	2010 £m	2009 £m
General reinsurance unearned premium	2	2
Gross claims outstanding	2	2

A technical account - general insurance business has not been presented on the grounds of materiality

16. Dividends

	2010 £m	2009 £m
Dividend paid in the year		
Current year dividend of 148 9p per share (2009 76 5p)	300	154

17. Technical provisions

	2010 £m	2009 £m
Long Term		
Non linked participating insurance contracts	9,123	9,142
Non linked non-participating insurance contracts	19,983	17,544
Non linked participating investment contracts	5,104	5,005
Long term business provision - gross	34,210	31,691
Claims outstanding - gross	209	208
Linked non-participating insurance contracts	7,961	7,292
Linked non-participating investment contracts	25,891	23,480
Technical provision for linked liabilities	33,852	30,772
Reinsurers' share	(26,290)	(22,798)
Deferred acquisition costs	(788)	(824)
Fund for future appropriations	1,446	1,284
Non-participating value of in-force business in the With Profits fund	(337)	(328)
SRC in the UK Long Term Fund	1,352	1,290
Total long term insurance funds	43,654	41,295

Valuation assumptions have been determined in accordance with rules relating to the valuation of liabilities as published by the FSA Full disclosure of valuation assumptions, including the assumed margins for the risk of default on assets backing technical provisions, are disclosed in the Abstract of Valuation Report contained within the FSA returns These FSA returns are due to be submitted to the regulator by 31 March 2011 and will then be available to any policyholder on request

17. Long term insurance funds (continued)

(ii) Expected undiscounted cash flows

	Date of undiscounted cash flow					
	0-5 years	5-15 years	15-25 years	Over 25 years	Total	Carrying value
As at 31 December 2010	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Long Term Business Provision						
Life and pensions participating insurance contracts	5,755	3,515	973	320	10,563	9,123
Life and pensions non-participating insurance contracts	8,013	16,900	13,551	15,755	54,219	26,858
Life and pensions participating investment contracts	2,268	2,943	1,195	102	6,508	5,104
Claims outstanding - gross	209	-	-	-	209	209
Technical provisions for non-unit linked liabilities	**16,245**	**23,358**	**15,719**	**16,177**	**71,499**	**41,294**

	Date of undiscounted cash flow					
	0-5 years	5-15 years	15-25 years	Over 25 years	Total	Carrying value
As at 31 December 2009	£m	£m	£m	£m	£m	£m
Long Term Business Provision						
Life and pensions participating insurance contracts	5,695	3,829	1,067	369	10,960	9,142
Life and pensions non-participating insurance contracts	7,077	14,577	12,442	15,300	49,396	23,764
Life and pensions participating investment contracts	2,243	2,982	1,365	142	6,732	5,005
Claims outstanding - gross	208	-	-	-	208	208
Technical provisions for non-unit linked liabilities	15,223	21,388	14,874	15,811	67,296	38,119

Amounts under unit linked contracts are generally repayable on demand and Society is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions Accordingly unit linked liabilities have been excluded from the table

18. Long term insurance valuation assumptions

Non-participating business

For its non-participating business Society seeks to make prudent assumptions about its future experience based on current market conditions and recent experience The approach used to set non-participating assumptions is generally similar to that used to determine the assumptions used for FSA Regulatory Peak 1, although the actual assumptions may sometimes differ from those used for regulatory reporting purposes These assumptions incorporate prudent margins in excess of best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed

Valuation rates of interest and discount rates

The valuation interest rate for each contract type is based on the yield on the assets backing the contract adjusted for the risk that asset proceeds are not received by Society For some business, this yield is the gross redemption yield on fixed interest securities and the running yield on variable interest securities For other business it is the Internal Rate of Return on the portfolio of backing assets

In 2010 Society continued to hold reserves to protect against the risk of credit default For approved securities and swaps backing both with and non-profit business, the allowance remains at 3 bps per annum (2009 3bps) For unapproved securities backing non-profit annuity business the credit default allowances equate to £1 5bn, or 64 bps per annum (2009 £1 5bn, or 68 bps respectively) when expressed over the duration of the assets held A similar methodology has been used for assets backing with-profits business

Society believes the total default allowance is prudent to cover all reasonably foreseeable circumstances

For equity investments, the yield is based on the current dividend yield, adjusted for prudence

For property holdings, yields are based on the rental income payable calculated by considering different categories of tenant separately, adjusted for the possibility of default Default rates used in the calculations vary by tenant category

Mortality and morbidity

Mortality and morbidity assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries These tables are based on industry wide experience

The majority of internal statistical investigations are carried out at least annually to determine the extent to which Society's experience differs from that of the industry and suggest appropriate adjustments which need to be made to the valuation assumptions

Persistency

Society monitors its persistency experience and carries out detailed investigations annually Persistency can be volatile and past experience may not be an appropriate future indicator

Society tries to balance past experience and future conditions by making prudent assumptions about the future expected long term average persistency levels

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date

18. Long term insurance valuation assumptions (continued)

Expenses

Society monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business An allowance for expense inflation in the future is also made taking account of both salary and price information

Participating business

For its participating business Society seeks to establish its liabilities at their realistic value in line with the requirements set out in FRS 27

Non-economic assumptions are set to represent Society's best estimates of future experience

Economic assumptions

Realistic valuation requires a market consistent economic model The model is calibrated using market data from a variety of market sources This enables assumptions to be determined for the term structure of risk-free interest rates, property and equity volatility Risk-free interest rates are determined with reference to the gilt-yield curve on the valuation date increased by 10bps

Property volatility is set with reference to historic variations in property prices Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives Correlations between asset classes are based on historic data

Each investment scenario contains a consistent set of assumptions for investment returns and inflation

Future bonuses

Future reversionary and terminal bonuses are consistent with the bonus policies set out in Society's Principles and Practices of Financial Management

Value of in-force for non-participating business

Society creates an asset for the expected value of future profits arising on non-participating contracts written in the with-profits part of the Society LTF

The economic assumptions used to calculate the value of these profits are consistent with those used to calculate liabilities for with-profits business, with the addition of a liquidity premium in respect of assets backing non-participating annuity business Non-economic assumptions represent best estimates of expected future experience on this business An explicit allowance is made for non-market risk

Guaranteed annuity options

The guarantees are valued on a market consistent basis The valuation methodology allows for the correlation between interest rates and the proportion of policyholders who take up the option

Guaranteed cash options

The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement

18. Long term insurance valuation assumptions (continued)

Premiums - non-participating business

For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether

Persistency - non-participating business

Lapse rates are used in the valuation of certain classes of long term business Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions See the tables on pages 48 & 49 for the major products where lapse rates have been used

For term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is being treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability) The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability The direction of the margin is assessed for unit life business and unit pensions business separately

A summary of the lapse basis for major classes of business, as defined by the requirements of the annual returns to the FSA, is shown in table (iii) on page 48

The following notes refer to tables (i) and (ii) on page 47

1 For product groups where liabilities are positive, the lower interest rate of 2 25% or 2 50% – 3 50% is used (2009 2 50% – 3 75%) However, for product groups where liabilities are negative, the higher rate of 7 60% (2009 7 60%) is used

2 For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0 50% pa for males and 0 75% pa for females (2009 0 50% pa for males and 0 75% pa for females) There is an additive loading of 1% for guaranteed term contracts post policy duration 5 (2009 An additional loading was applied for guaranteed level term contracts of 0 85% multiplied by policy term less 5 years, for decreasing term contracts the rate was 0 65% multiplied by policy term less 5 years)

3 For vested annuities, mortality rates are assumed to reduce according to CMIB's mortality improvement model CMI 2009 with the following parameters Males Long Term Rate of 2% p a up to age 85 tapering to 0% at 120 Females Long Term Rate of 1 5% p a up to age 85 tapering to 0% at 120 (2009 CMIB Working Paper 30 projection MC with a minimum of 2 0% pa up to age 90 tapering a minimum of 0% pa at age 120 for males For females, mortality rates are assumed to reduce according to 75% CMIB projection MC with a minimum of 1 5% pa up to age 90 tapering to a minimum of 0% pa at age 120) For certain annuities, a further allowance is made for the effect of initial selection

4 Table created by blending PCXA00 with PNXA00 tables The base table used is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males The identical method is applied to females using PNFA00 and PCFA00

18. Long term insurance valuation assumptions (continued)

The table below sets out the current valuation assumptions used to establish the long term liabilities for Society

Full disclosure of the valuation assumptions are set out in the Abstract of the Valuation Report contained within the FSA returns

The principal assumptions are

(i) Rate of interest/discount rate

Non-Participating Business

	2010	2009
Life assurances	**2 25%pa and 7.60%pa [1]**	2 25%pa and 7 60%pa [1]
Pension assurances	**2.50 - 3.50% pa and 7 60%pa [1]**	2 75 - 3 75% pa and 7 60%pa [1]
Annuities in deferment	**4.975% pa**	5 49%pa
Annuities in deferment (RPI linked, net rate after allowance for inflation)	**1 040% pa**	1 31%pa
Vested annuities	**4.79 - 4 975% pa**	5 05 - 5 49%pa
Vested annuities (RPI linked, net rate after allowance for inflation)	**0.40 - 1.040% pa**	0 50 - 1 31%pa

Participating Business

	2010	2009
Risk free rate (10 years)	**3.78% pa**	4 39%pa
Future bonuses	**Determined stochastically in line with bonus policy as stated in PPFM**	Determined stochastically in line with bonus policy as stated in PPFM
UK Equity volatility (10 year option term)	**26 2%**	26 5%
Property volatility	**15.0%**	15 0%

(ii) Mortality Tables

Non-Participating Business

	2010	2009
Non-linked individual term assurances		
- Smokers	**96 - 116% TMS00 / TFS00 Sel 5 [2]**	105 - 114% TMS00 / TFS00 Sel 5 [2]
- Non-smokers	**93 - 136% TMN00 / TFN00 Sel 5 [2]**	95 - 115% TMN00 / TFN00 Sel 5 [2]
- Smoker status unknown	**103% TM00 / TF00 Sel 5 [2]**	129% TM00 / TF00 Sel 5 [2]
Non-linked individual term assurances with critical illness	**68 - 99% CIBT93M / F Ult Comb [2]**	66 - 101% CIBT93M / F Ult Comb [2]
Other non-linked non profit life assurances	**A67/70 suitably age adjusted [2]**	A67/70 suitably age adjusted [2]
Annuities in deferment	**88 - 92% PNMA00/PNFA00 [4]**	67 - 70% AM92 / AF92
Vested annuities [3]		
- Bulk purchase annuities	**89 - 93% PCMA00/PCFA00**	90% - 94% PCMA00 / PCFA00
- Other annuities	**55 - 86% PCMA00/PCFA00**	60% - 88% PCMA00 / PCFA00

18. Long term insurance valuation assumptions (continued)

(iii) Persistency - non-participating business (continued)

Product	2010 Average lapse rate for the policy years 1 - 5 %	6 - 10 %	11 - 15 %	16 - 20 %
Level term	13.9	9.4	6.0	3.1
Decreasing term	14.1	9.5	6.4	6.0
Accelerated critical illness cover	21.2	10.7	5.5	5.2
Pensions term	12.7	8.5	6.0	5.6
Whole of Life (conventional non-profit)	4.1	1.9	0.9	0.0
Savings endowment (unitised with-profit)	0.0	1.7	2.2	4.4
Target cash endowment (unitised with-profits)	3.2	3.2	3.2	2.6
Savings endowment (unit linked)	0.0	1.7	2.2	4.4
Target cash endowment (unit linked)	3.2	3.2	3.2	2.6
Bond (unitised with-profits)	1.1	2.0	2.5	2.4
Bond (unit linked)	2.6	6.3	3.9	3.5
Individual pension regular premium (unitised with-profits)	1.2	1.1	1.1	1.1
Individual pension regular premium (unit linked)	2.2	1.6	1.4	1.4
Group pension regular premium (unitised with-profits)	2.1	2.1	2.0	2.0
Group pension regular premium (unit linked)	2.1	1.9	1.3	1.3
Trustee Investment Plan regular premium (unitised with-profits)	1.4	1.4	1.4	1.4
Trustee Investment Plan regular premium (unit linked)	1.3	1.3	1.3	1.3
Individual pension single premium (unitised with-profits)	3.4	3.3	3.2	3.2
Individual pension single premium (unit linked)	4.0	3.5	2.7	2.7
Group pension single premium (unitised with-profits)	11.2	11.2	11.2	11.2
Group pension single premium (unit linked)	7.6	7.6	7.6	7.6
Trustee Investment Plan single premium (unitised with-profits)	6.4	5.3	3.8	3.8
Trustee Investment Plan single premium (unit linked)	6.8	5.8	4.3	4.3

18. Long term insurance valuation assumptions (continued)

(iii) Persistency - non-participating business (continued)

Product	2009 Average lapse rate for the policy years			
	1 - 5 %	6 - 10 %	11 - 15 %	16 - 20 %
Level term	13 9	9 5	6 0	3 1
Decreasing term	14 2	9 7	6 5	6 0
Accelerated critical illness cover	20 0	10 6	5 4	5 0
Pensions term	12 5	8 6	5 7	5 1
Whole of Life (conventional non-profit)	4 2	2 0	0 7	0 0
Savings endowment (unitised with-profit)	0 0	1 7	2 3	4 3
Target cash endowment (unitised with-profits)	3 7	3 4	3 7	2 9
Savings endowment (unit linked)	0 0	1 7	2 3	4 3
Target cash endowment (unit linked)	3 7	3 4	3 7	2 9
Bond (unitised with-profits)	1 2	3 0	2 9	3 0
Bond (unit linked)	2 4	6 3	3 9	3 7
Individual pension regular premium (unitised with-profits)	1 4	1 3	1 3	1 3
Individual pension regular premium (unit linked)	2 1	1 5	1 6	1 6
Group pension regular premium (unitised with-profits)	1 7	1 7	1 7	1 7
Group pension regular premium (unit linked)	1 4	1 4	1 2	1 2
Trustee Investment Plan regular premium (unitised with-profits)	0 4	0 4	0 4	0 4
Trustee Investment Plan regular premium (unit linked)	1 3	1 3	1 3	1 3
Individual pension single premium (unitised with-profits)	3 1	2 9	2 9	2 9
Individual pension single premium (unit linked)	3 6	3 2	2 5	2 5
Group pension single premium (unitised with-profits)	9 5	9 5	9 5	9 5
Group pension single premium (unit linked)	7 3	7 3	7 3	7 3
Trustee Investment Plan single premium (unitised with-profits)	9 3	9 0	8 6	8 6
Trustee Investment Plan single premium (unit linked)	6 4	5 5	4 1	4 1

Endowment reserve

The endowment reserve has been set taking reasonable account of an assessment of the expected future population of complaints, the expected uphold rate for these complaints, the potential impact of any Financial Ombudsman Service decisions on referred complaints and the average compensation per complaint

Overseas business

In calculating the long term business provisions for international long term business operations, local actuarial tables and interest rates are used

19. Analysis of other debtors

	2010	2009
	£m	£m
Deferred tax asset (note 20)	251	399
Other debtors	200	152
	451	551

20. Deferred tax (see Note 5)

	2010	2009
	£m	£m
(Asset) at 1 January	(399)	(579)
Deferred tax movement arising from Part VII transfer-in of business	-	(14)
Charge for the year	148	194
(Asset) at 31 December	(251)	(399)

The provision for deferred tax consists of the following amounts

	2010	2009
	£m	£m
Unrealised net gains on investments	125	18
The excess of depreciation over capital allowances	(39)	(40)
Tax losses carried forward	(205)	(233)
Timing difference between accounts and tax deduction for expenses of management	(131)	(143)
Other	(1)	(1)
	(251)	(399)

Deferred tax has been determined using the rate of corporation tax applicable from 31 December 2010 of 28% (2009 28%)

The deferred tax asset of £251m has been recognised based on projections of taxable profits

21. (a) Amounts owed to credit institutions

	2010	2009
	£m	£m
Unsecured bank loans and overdrafts repayable, otherwise than by instalments, within one year	-	1

(b) Analysis of other creditors

	2010	2009
Tax	140	123
Amounts owed to group undertakings and participating interests	888	950
Other Creditors	253	174
	1,281	1,247

All creditors are payable within 5 years

(c) Provisions

	2010	2009
Trail Commission	164	147
Other	18	15
	182	162

The trail commission liability is the present value of future trail commission on the existing business book at 31 December 2010 Trail commission is amortised over a period representing twice the expected average term of the business This is currently 13 years for life business and 20 years for pensions business

22. Parent companies and fellow subsidiaries

The immediate parent company is Legal & General Insurance Holdings Limited, a company incorporated in England and Wales The immediate parent company for Legal & General Insurance Holdings Limited is Legal & General Insurance Holdings (No 2) Limited Legal & General Insurance Holdings Limited and Legal & General Insurance Holdings (No 2) Limited are exempt from the obligation to prepare and deliver group accounts as they are wholly-owned subsidiaries of Legal & General Group Plc, which heads the smallest and largest group of undertakings for which consolidated financial statements are prepared, a company incorporated in England and Wales

The results of Legal & General Assurance Society Limited are included in the Legal & General Group Plc consolidated financial statements and therefore Legal & General Assurance Society Limited does not prepare consolidated financial statements These accounts therefore provide information about Legal & General Assurance Society Limited as an individual undertaking Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available, at the Registered Office, One Coleman Street, London EC2R 5AA, on the group website at www legalandgeneralgroup com or from the Company Secretary

23. Auditors' remuneration

Fees payable to Society's auditor for the audit of Society's financial statements were £405,937 (2009 £399,704)

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because this has been disclosed in the consolidated financial statements of Society's ultimate holding company

24. Contingent liabilities, guarantees and indemnities

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

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

In 1975 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 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 Society against any liability Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of Society would not apply to policies written or renewed after the acquisition Whether Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain Society has made no payment or provision in respect of this matter

Society has given indemnities and guarantees, including interest rate guarantees, as a normal part of its operating activities or in relation to capital market transactions

25. Commitments

Authorised and contracted commitments by the LTF not provided for in respect of investments, relating to property development and Private Equity, payable after 31 December 2010 are £225m (2009 £134m)

26 Pension costs

Society has no direct employees and hence makes no direct contributions towards retirement benefits

27. Directors' emoluments

	2010	2009
	£'000	£'000
Aggregate emoluments	**1,640**	1,370

These figures represent that portion of the directors' emoluments allocated in respect of their services to Society No fees were paid by Society to the directors Directors are not employees of the Society, but their services are reflected in a management charge levied by the parent Emoluments relate to salaries and performance bonuses

Retirement benefits are accruing to 5 directors under a defined benefit pension scheme One director is a member of a defined contribution pension scheme and the value of the apportioned company contribution in the year is £22,179

Highest paid director

Emoluments	**565**	452
Defined benefit pension scheme accrued at end of year*	**25**	23

* Accrued pension represents the amount of the annual pension that would be payable to the director when he reaches normal pension age

Directors' emoluments for the Group during the year have been attributed to Society on the basis of the time spent on Society business by each Director

Directors' loans

At 31 December 2010 there were no loans to directors (2009 none)

Directors' transactions and arrangements

No director had any material interest in any contract or arrangement of significance in relation to the business of Society during 2010

28. Associated undertakings

Society has the following significant holdings which have been included as investments designated as FVTPL

Company name	Country of incorporation	% equity shares held by Society
English Cities Fund	England and Wales	37 50
Meteor Industrial Partnership	England and Wales	49 95
The Leisure Fund Unit Trust	England and Wales	22 31
The Warrington Retail Unit Trust	Jersey	49 05
Arlington Business Parks Unit Trust	Jersey	32 51
Bracknell Property Unit Trust	Jersey	43 39
Northampton Shopping Centre Unit Trust	Jersey	86 03
Central St Giles Unit Trust	Jersey	45 39
Ealing Shopping Centre Unit Trust	Jersey	86 03
Chineham Shopping Centre Unit Trust	Jersey	86 03
UK Logistics Unit Trust	Jersey	36 71
ARC Property Fund	Jersey	80 00
Gresham Street Unit Trust	Jersey	100 00
Bucklersbury House Unit Trust	Jersey	86 03
L&G UK Property Income Fund Jersey Ltd	Jersey	31 00
Performance Retail Unit Trust	Jersey	66 67
Legal & General Life Fund Limited Partnership	England and Wales	100 00

29. Employee information

Society does not have direct employees since they are employed by a fellow subsidiary of Legal & General Group Plc Society is recharged a proportion of the staff costs

30. Related party transactions

Transactions involving directors and key management

No contract of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8

Unit trusts

During the year, the long term business fund of Society has invested in a number of unit trusts managed by Legal & General (Unit Trust Managers) Limited, a subsidiary of Legal & General Group Plc As at 31 December 2010 the value of the units held by the long term business funds was £5,335m (2009 £4,585m)

31. Share based payments

Legal & General Group Plc (the Group) grants share based payments to employees within the Group The Group recognises an expense for these payments measured indirectly by reference to the fair value of the equity instruments granted The expense is recognised over the vesting period as the services are received The relevant company has recharged its share of this expense with reference to the benefits it receives from the employees The full disclosures required by FRS 20 are provided in the consolidated Group IFRS financial statements

The total expense recharged to the Society in relation to share based payments was £9 1m (2009 £11 4m)

32. Exchange rates

Principal rates of exchange used for translation into sterling at the end of the year

	2010	2009
Euro	**1.17**	1 13
US dollar	**1.57**	1 62

33. Operating lease commitments and rentals

Society has annual commitments in respect of non-cancellable operating leases as follows

	2010	2009
Operating leases which expire	**£m**	£m
Within one year	**12**	12
Between one and five years	**44**	47
After five years	**83**	92
	139	151

34. Financial risk management

34.1 Financial risk management objective

Society's primary objective in undertaking risk management activity is to manage risk exposure in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes

34.2 Risk Management Approach

Society is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities The most important components of this financial risk are market risk, credit risk and liquidity risk and these are defined below

Market risk is the risk arising from fluctuations in interest rates, exchange rates, share prices, property values and other relevant market prices

Credit risk is the risk of loss if another party fails to perform its financial obligations to Society

Overall responsibility for the management of Society's exposure to risk is vested in Society's Board To support it in this role, a risk framework is in place comprising a structure of formal committees, risk assessment and reporting processes and risk review functions The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed

34.3 Management of risks

Society seeks to manage its exposures to financial risk through control techniques so as to ensure that the residual risk exposures that are within acceptable tolerances agreed by the Board The key control techniques for the major categories of financial risk exposure are summarised below

34. Financial risk management (continued)

34.3 Management of risks (continued)

Asset Analysis

The Society has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks The four categorisations presented are

Unit linked

For unit linked contracts, there is a direct link between the investments and the obligations Unit linked business is written in the Society LTF The financial risk on these contracts is borne by the policyholders The Society is, therefore, not directly exposed to any market risk, currency risk or credit risk for these contracts Detailed risk disclosures have not been presented for unit linked assets and liabilities

With-profits

Policyholders and shareholders share in the risks and returns of the with-profits part of the Society LTF Participating contracts offer policyholders the possibility of payment of benefits in addition to the guarantees under the contract The return to shareholders on virtually all participating contracts is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the Society LTF and is dependent upon the bonuses credited or declared on policies in that year The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns The with-profits classification excludes unit linked contracts

At 30 June 2005 an assessment was made of the expected cost of guarantees and options to be paid in the future, and funds with the same value to meet these costs were associated from the capital in the With Profits sub fund The value of the funds is regularly assessed and is reduced by the cost of guarantees and options paid since 1 July 2005 At each assessment point, if the value of the funds is lower than the expected cost of guarantees and options, it is intended to make deductions from Asset Shares to cover the difference It is intended to limit deductions to no more than 0 75% each year, up to a maximum of 5% per policy

Following the movement in the expected cost and the value of the associated funds up to 31 December 2010 a deduction of 0 2% was made to the asset shares This followed a refund of 0 4% made in respect of the year to 31 December 2009 In the technical provisions, allowance was also made for future deductions in respect of the expected costs of meeting future guarantees and options not covered by the current year deduction For policyholders who decide to surrender, a charge will generally be made in respect of the expected cost of guarantees and options not covered by the charge already taken

Non profit non-unit linked

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business held within UK LTFs

Shareholder assets

All other assets are classified as shareholder assets Shareholders of the Society are directly exposed to market and credit risk on these assets

34.4 Market risk

Society's exposure to market risk is influenced by one or more external factors, including changes in specified interest rates, financial instrument prices, foreign exchange rates, and indices of prices or rates

Significant areas where Society is exposed to these risks are

- Assets backing insurance and investment contracts other than linked contracts
- Assets and liabilities denominated in foreign currencies
- Other financial assets and liabilities

34. Financial risk management (continued)

34.5 Currency risk

Society is exposed to foreign exchange risk due to long term business assets and liabilities denominated in non-sterling currencies and its holdings in overseas subsidiaries Where appropriate, Society protects its exposure to exchange rate fluctuations through currency derivatives

The table below summarises Society's exposure to foreign currency exchange risk expressed in Sterling However there is no risk in respect of Sterling as it is the functional currency Non-linked assets and liabilities are reported in their underlying currency

Exposure to currency risk

Shareholder assets	Sterling 2010 £m	Euro 2010 £m	US 2010 £m	Yen 2010 £m	Other 2010 £m	Carrying value 2010 £m
Assets						
Tangible assets	28	-	-	-	-	28
Investments	1,793	30	97	-	37	1,957
Investments in group undertakings	2,500	-	-	-	-	2,500
Purchased interests in long term business	3	-	-	-	-	3
Other operational assets	131	-	-	-	-	131
Total assets	**4,455**	**30**	**97**	**-**	**37**	**4,619**
Liabilities						
Deferred liabilities	-	-	-	-	-	-
Other creditors	(1,031)	(14)	-	-	-	(1,045)
Total liabilities	**(1,031)**	**(14)**	**-**	**-**	**-**	**(1,045)**

Non profit non-unit linked	Sterling 2010 £m	Euro 2010 £m	US 2010 £m	Yen 2010 £m	Other 2010 £m	Carrying value 2010 £m
Assets						
Tangible assets	-	-	-	-	-	-
Investments	30	-	-	-	-	30
Investments in group undertakings	-	-	-	-	-	-
Purchased interests in long term business	-	-	-	-	-	-
Other operational assets	27,256	-	-	-	-	27,256
Total assets	**27,286**	**-**	**-**	**-**	**-**	**27,286**
Liabilities						
Technical provisions	(24,976)	-	-	-	-	(24,976)
Deferred liabilities	(329)	-	-	-	-	(329)
Other creditors	(62)	-	-	-	-	(62)
Total liabilities	**(25,367)**	**-**	**-**	**-**	**-**	**(25,367)**

34. Financial risk management (continued)

34.5 Currency risk (continued)

Exposure to currency risk (continued)

With-profits	**Sterling 2010 £m**	**Euro 2010 £m**	**US 2010 £m**	**Yen 2010 £m**	**Other 2010 £m**	**Carrying value 2010 £m**
Assets						
Tangible assets	-	-	-	-	-	-
Investments	13,698	1,626	914	505	797	17,540
Investments in group undertakings	5	-	-	-	-	5
Purchased interests in long term business	-	-	-	-	-	-
Other operational assets	517	-	3	-	-	520
Total assets	14,220	1,626	917	505	797	18,065
Liabilities						
Technical provisions	(16,322)	-	-	-	-	(16,322)
Fund for future appropriations	(1,446)	-	-	-	-	(1,446)
Senior borrowings	(8)	-	-	-	-	(8)
Deferred liabilities	(57)	-	-	-	-	(57)
Other creditors	452	(650)	(204)	-	-	(402)
Total liabilities	(17,381)	(650)	(204)	-	-	(18,235)

Shareholder assets	Sterling 2009 £m	Euro 2009 £m	US 2009 £m	Yen 2009 £m	Other 2009 £m	Carrying value 2009 £m
Assets						
Tangible assets	27	-	-	-	-	27
Investments	1,067	14	103	-	30	1,214
Investments in group undertakings	2,675	-	-	-	-	2,675
Purchased interests in long term business	3	-	-	-	-	3
Other operational assets	177	-	-	-	-	177
Total assets	3,949	14	103	-	30	4,096
Liabilities						
Deferred liabilities	57	-	-	-	-	57
Other creditors	(958)	-	-	-	-	(958)
Total liabilities	(901)	-	-	-	-	(901)

34. Financial risk management (continued)

Exposure to currency risk (continued)

Non Profit non-unit linked	Sterling	Euro	US	Yen	Other	Carrying value
	2009	2009	2009	2009	2009	2009
	£m	£m	£m	£m	£m	£m
Assets						
Tangible assets	-	-	-	-	-	-
Investments	175	-	-	-	-	175
Investments in group undertakings	-	-	-	-	-	-
Purchased interests in long term business	-	-	-	-	-	-
Other operational assets	24,018	-	-	-	-	24,018
Total assets	24,193	-	-	-	-	24,193
Liabilities						
Technical provisions	(21,999)	-	-	-	-	(21,999)
Deferred liabilities	(324)	-	-	-	-	(324)
Other creditors	(152)	-	-	-	-	(152)
Total liabilities	(22,475)	-	-	-	-	(22,475)

With-profits	Sterling	Euro	US	Yen	Other	Carrying value
	2009	2009	2009	2009	2009	2009
	£m	£m	£m	£m	£m	£m
Assets						
Tangible assets	-	-	-	-	-	-
Investments	14,929	721	645	406	681	17,382
Investments in group undertakings	5	-	-	-	-	5
Purchased interests in long term business	-	-	-	-	-	-
Other operational assets	202	-	1	-	-	203
Total assets	15,136	721	646	406	681	17,590
Liabilities						
Technical provisions	(16,123)	-	-	-	-	(16,123)
Fund for future appropriations	(1,284)	-	-	-	-	(1,284)
Senior borrowings	-	-	-	-	-	-
Deferred liabilities	(177)	-	-	-	-	(177)
Other creditors	(264)	(19)	(23)	(1)	(1)	(308)
Total liabilities	(17,848)	(19)	(23)	(1)	(1)	(17,892)

34. Financial risk management (continued)

Exposure to currency risk (continued)

Currency sensitivity

The Society's management of currency risk reduces shareholders exposure to exchange rate fluctuations The Society's exposure to a 10% exchange movement in the euro and US dollar, is detailed below

	Euro 2010 £m	**US 2010 £m**	Euro 2009 £m	US 2009 £m
10% appreciation impact on profit after tax/equity	**71**	**58**	52	52

The impact of a depreciation impact is expected to be symmetrical

34.6 Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk These changes may be as a result of features of the individual instrument, its issuer or factors affecting all similar financial instruments traded in the market

Society controls its exposure to geographic price risks by using internal country ratings These ratings are based on macroeconomic data and key qualitative indicators The latter take into account the economic, social and political environments The table indicates Society's exposure to different equity markets around the world Unit linked equity instruments are excluded from the table as the risk is retained by the policyholder

34. Financial risk management (continued)

Exposure to worldwide markets

	Shareholder assets	Non profit non-unit linked	With-profits	Shareholder assets	Non profit non-unit linked	With-profits
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
UK	**422**	**-**	**2,199**	375	-	2,027
North America	**-**	**-**	**422**	-	-	363
Europe	**25**	**-**	**688**	22	-	630
Japan	**-**	**-**	**492**	-	-	401
Asia Pacific	**26**	**-**	**448**	28	-	461
Other	**11**	**-**	**144**	3	-	57
Listed equities	**484**	**-**	**4,393**	428	-	3,939
Unlisted UK equities	**89**	**-**	**1,009**	82	-	953
Holdings in unit trusts	**499**	**-**	**1,173**	485	1	1,029
Total equities	**1,072**	**-**	**6,575**	995	1	5,921

34.7 Credit risk

Significant areas where Society is exposed to credit risk are

- Society holds corporate bonds to back part of its insurance liabilities Significant exposures are managed by the application of concentration limits, with allowance being made in the actuarial valuation of the insurance liabilities for possible defaults

- Society limits its exposure to insurance risk by ceding part of the risks it assumes to the reinsurance market To limit the risk of reinsurer default Society operates a credit rating policy when arranging cover When selecting new reinsurance partners, Society considers only companies that have a minimum credit rating equivalent to A- from Standard & Poors Exposure limits for new and existing reinsurers are determined based on credit ratings and projected exposure

Aggregate counterparty exposures are regularly monitored

The table overleaf shows the credit profile of Society's assets exposed to credit risk The credit rating bands are provided by independent rating agencies For unrated assets the group maintains internal ratings which are used to manage exposure to these counterparties Unit linked assets have not been included as shareholders are not directly exposed to risk The carrying amount of non-unit linked assets included in the balance sheet represents the maximum credit exposure

34. Financial risk management (continued)

Exposure to credit risk

Shareholder assets	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Unrated £m	Total £m
31 December 2010							
Government securities	222	-	-	-	-	-	222
Other fixed rate securities	33	23	103	61	22	1	243
Variable rate securities	7	2	2	-	-	-	11
Total debt securities	262	25	105	61	22	1	476
Accrued Interest	3	-	2	2	1	(1)	7
Loans & receivables	-	6	6	-	-	(1)	11
Derivative assets	-	4	3	-	-	-	7
Cash and cash equivalents	-	46	332	-	-	-	378
Financial investments	265	81	448	63	23	(1)	879
Amounts owed by group undertakings	-	-	-	-	-	76	76
Other assets	-	19	-	-	-	4	23
	265	100	448	63	23	79	978

Non profit non-unit linked	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Unrated £m	Total £m
31 December 2010							
Other fixed rate securities	-	1	-	-	-	-	1
Variable rate securities	-	-	1	-	-	-	1
Total debt securities	-	1	1	-	-	-	2
Derivative assets	-	-	-	-	-	1	1
Cash and cash equivalents	-	7	20	-	-	1	28
Financial investments	-	8	21	-	-	2	31
Reinsurers' share of contract liabilities	-	770	860	-	-	24,420	26,050
Amounts owed by group undertakings	-	-	-	-	-	139	139
Other assets	-	-	-	-	-	110	110
	-	778	881	-	-	24,671	26,330

34. Financial risk management (continued)

Exposure to credit risk (continued)

With-profits					**BB &**		
	AAA	**AA**	**A**	**BBB**	**below**	**Unrated**	**Total**
31 December 2010	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Government securities	1,667	4	-	-	-	1	1,672
Other fixed rate securities	2,803	1,098	2,290	1,270	140	373	7,974
Variable rate securities	47	12	26	4	-	5	94
Total debt securities	4,517	1,114	2,316	1,274	140	379	9,740
Accrued Interest	68	19	56	29	1	4	177
Loans & receivables	-	40	47	-	-	1	88
Derivative assets	-	6	49	-	-	29	84
Cash and cash equivalents	278	300	178	-	-	1	757
Financial investments	4,863	1,479	2,646	1,303	141	414	10,846
Reinsurers' share of contract liabilities	-	-	1	-	-	(1)	-
Other assets	-	-	-	-	-	122	122
	4,863	1,479	2,647	1,303	141	535	10,968

At the year end Society held collateral in respect of derivative assets of £16m (2009 £9m)

Shareholder assets					BB &		
	AAA	AA	A	BBB	below	Unrated	Total
31 December 2009	£m	£m	£m	£m	£m	£m	£m
Government securities	69	-	-	-	-	-	69
Variable rate securities	11	2	4	-	-	1	18
Total debt securities	80	2	4	-	-	1	87
Accrued Interest	1	-	-	-	-	-	1
Loans and receivables	-	17	16	-	-	-	33
Cash and cash equivalents	-	7	83	-	-	-	90
Financial investments	81	26	103	-	-	1	211
Reinsurers' share of contract liabilities	-	-	-	-	-	2	2
Amounts owed by group undertakings	-	-	-	-	-	112	112
Other assets	-	15	-	-	-	6	21
	81	41	103	-	-	121	346

34. Financial risk management (continued)

Exposure to credit risk (continued)

Non profit non-unit linked 31 December 2009	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Unrated £m	Total £m
Government securities	140	-	-	-	-	-	140
Other fixed rate securities	20	-	-	-	-	-	20
Variable rate securities	-	-	-	-	-	-	-
Total debt securities	160	-	-	-	-	-	160
Accrued Interest	1	-	-	-	-	-	1
Loans and receivables	-	-	-	-	-	1	1
Derivative assets	-	-	2	-	-	-	2
Cash and cash equivalents	-	2	7	-	-	-	9
Financial investments	161	2	9	-	-	1	173
Reinsurers' share of contract liabilities	31	689	872	-	-	21,017	22,609
Amounts owed by group undertakings	-	-	-	-	-	41	41
Other assets	-	-	-	-	-	113	113
	192	691	881	-	-	21,172	22,936

With-profits 31 December 2009	AAA £m	AA £m	A £m	BBB £m	BB & below £m	Unrated £m	Total £m
Government securities	1,643	16	5	-	-	1	1,665
Other fixed rate securities	2,987	709	2,358	1,326	121	513	8,014
Variable rate securities	92	21	43	4	-	5	165
Total debt securities	4,722	746	2,406	1,330	121	519	9,844
Accrued Interest	74	17	58	41	3	11	204
Loans and receivables	-	147	148	-	-	1	296
Derivative assets	-	1	58	-	-	4	63
Cash and cash equivalents	1	52	906	-	-	-	959
Financial investments	4,797	963	3,576	1,371	124	535	11,366
Reinsurers' share of contract liabilities	-	-	1	-	-	2	3
Amounts owed by group undertakings	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	81	81
	4,797	963	3,577	1,371	124	618	11,450

34. Financial risk management (continued)

34.8 Liquidity risk

Liquidity risk is the risk that Society, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost The Group does not seek exposure to liquidity risk in its own right, but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies

The liquidity risks to which Society's insurance businesses may be exposed primarily stem from low probability events that if not adequately planned for may result in unanticipated liquidity requirements Such events may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected and extreme market conditions impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe Collateral requirements for derivative/futures transactions and other types of financial instrument can also give rise to liquidity risk if sufficient cash or suitable alternative assets are not be available to meet collateral calls when due

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance However, the Group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events The level of required liquidity to be maintained by insurance funds is identified using techniques including cash flow analysis for ranges of extreme scenarios and stress tests for shock events

To ensure an appropriate pool of liquid assets is maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business are structured to include an appropriate proportion of cash and other readily realisable assets The required profile is formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmarks The amount of insurance funds held in cash and other readily realisable assets at 31 December 2010 was £406m (2009 £99m)

In addition to each insurance fund maintaining a pool of liquid assets, the Group's Treasury function provides formal facilities to the Group's operating subsidiaries to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable The facility available to each subsidiary is determined through analysis of potential shock events and the potential timing differences that may arise in cash flows

Specific liquidity risks associated with the Society's core product lines and the risk mitigation techniques are as follows -

Annuities Potential for liquidity risk arises as follows -

Future pension commitments - Once business has been written, cash outflows for pensions in payment are generally predictable, enabling Society to structure the liquidity, income and maturity profile of investment assets backing long term liabilities to meet projected cash outflows Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies

34. Financial risk management (continued)

34.8 Liquidity risk (continued)

The majority of the annuity portfolio is reassured by agreement to another group company, thereby reducing the risk to Society Liquidity risk may arise if the reassurer fails to meet its obligations under the reassurance treaty Cash flows under the treaty are settled on a weekly basis thereby mitigating the liquidity risk to Society

Protection Potential for liquidity risk within the Society's protection businesses may arise should the rate of claims diverge significantly from that anticipated, typically as a consequence of an extreme event

The risk of being unable to settle claims as they fall due is actively managed with provision being made and cash pools maintained within investment portfolios for a prudent estimate of the potential claims that may arise from in force business, taking account of extreme events Such provisions are validated using stress tests The use of reassurance also acts as to mitigate liquidity risk, the effect of the treaties being to limit the Society's liability for the overall sums assured, with a recovery being made from the reinsurance counterparty for that element of the claim covered by the treaty Whilst timing differences can arise between the payment of claims and reimbursement by reinsurance counterparties, Society seeks to ensure that these are accommodated from cash pools and intra group facilities

With-profits Exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to With-profit policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return

Liquidity risks associated with With-profit business are managed through the analysis of the maturity profile of the fund taking account of projected future levels of bonus, policyholders reasonable expectations and projected early withdrawals, and ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due Where policyholders have discretion to require early payment of policy proceeds (for example by requesting a surrender value), appropriate contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion

Unit Linked business Investment risks associated with unit linked business, including those associated with liquidity, are generally borne by the holders of units in these funds Liquidity risk specifically arises for unit holders in that certain asset classes in which the funds invest such as property in certain market conditions may not be readily realisable or only realisable in a specified timeframe at a diminution of value Liquidity risks associated with these asset classes are documented and communicated to customers in point of sale product literature Product terms & conditions also highlight that for certain product types that include asset classes that may be illiquid, the Group retains the right to defer the possessing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests To minimise the need to invoke these terms, the funds seek to maintain sufficient holdings in cash assets to meet foreseeable withdrawal activity

34. Financial risk management (continued)

34.8 Liquidity risk (continued)

The Group's Treasury function manages the banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends for all companies in the Group including Society The Group seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows In addition, it ensures that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities The Group has in place a £960m syndicated borrowing facility, expiring in 2012, which provides flexibility in the management of the Group's liquidity Society has a borrowing facility of £500m from Legal & General Group Plc, which expires in 2012

34.9 Sensitivity analysis

The objective of embedded value is to provide shareholders with realistic information on the financial position and current performance of the Society

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 European Embedded Value (EEV) basis

Cash flow projections are determined using realistic assumptions for each component of cash flow and for each policy group Future economic and investment return assumptions are based on conditions at the end of the financial year Future investment returns are projected based on an assumed investment return attributed to assets at their market value The assumed discount and inflation rates are consistent with the investment return assumptions

The table below shows the effect of alternative assumptions on the long term embedded value, prepared in accordance with the guidance issued by the CFO Forum in October 2005, and are different to the numbers reported on a UK GAAP basis

The Group uses embedded value (EV) financial information to manage and monitor performance, and hence the financial risks, as it is believed to provide information about the value which is being created from Society's insurance business

Effect of embedded value

	Embedded value at end period £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
As at 31 December 2010	**6,877**	**420**	**(363)**	**187**	**(170)**	**96**
As at 31 December 2009	6,026	370	(322)	29	(52)	106

34. Financial risk management (continued)

34.9 Sensitivity analysis (continued)

	Embedded value at end period £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse sensitivity £m	5% lower mortality/ morbidity sensitivity £m
As at 31 December 2010	**6,877**	**(182)**	**78**	**85**	**(123)**
As at 31 December 2009	6,026	(148)	68	74	(99)

Detailed projection assumptions including, mortality, persistency, morbidity and expenses, reflect recent operating experience and are 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 services relating to UK covered business are charged on a cost recovery basis, with the exception of investment services provided to Society, which have been charged at market referenced rates since 1 July 2007 Profits arising on the provision of these services are valued on a "look through" basis

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 withing Legal & General Pensions Limited (LGPL), but after allowance for long term default risk, are shown below

For 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 of 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 was 29bps at 31 December 2010 (40bps at 31 December 2009)

34. Fınancıal rısk management (contınued)

34 9 Sensıtivity analysıs (continued)

Economıc assumptıons	2010 % p.a.	2009 % p a
Equıty rısk premıum	3.5	3 5
Property rısk premıum	2.0	2 0
Investment return		
Gılts		
- Fıxed ınterest	3 4 - 4 0	4 0
- RPI lınked	4 1	4 5
Non gılts		
- Fıxed ınterest	3.6 - 5 0	4 4 - 6 2
Equıtıes	7 5	8 0
Property	6 0	6 5
Long term rate of return on non profit annuıtıes reınsured to LGPL	5 5	6 1
Rısk free Rate[1]	4.0	4 5
Rısk margın	3 3	3 5
Rısk dıscount rate (net of tax)	7.3	8 0
Inflatıon		
- Expenses/earnıngs	4 1	4 6
- Indexatıon	3.6	3 6

[1]The rısk free rate ıs the gross redemptıon yıeld on the 15 year gılt ındex (31 December 2009 20 year gılt gılt ındex)

(ı) Assets are valued at market value

(ıı) Future bonus rates have been set at levels whıch would fully utılıse the assets supportıng the polıcyholders' portıon of the wıth-profits busıness The proportıon of profits derıved from wıth-profits busıness allocated to shareholders has been assumed to be 10% throughout

(ııı) The value of ın-force busıness reflects the cost, ıncludıng admınıstratıon expenses, of provıdıng for benefit enhancement or compensatıon ın relatıon to certaın products

(ıv) Other actuarıal assumptıons have been set at levels commensurate wıth recent operatıng experıence, ıncludıng those for mortalıty, morbıdıty, persıstency and maıntenance expenses (excludıng the development costs referred to below) These are normally revıewed annually

An allowance ıs made for future ımprovements ın annuıtant mortalıty based on experıence and externally publıshed data Male annuıtant mortalıty ıs assumed to ımprove ın accordance wıth 100% of CMI2009 Workıng Paper 41, wıth a mınımum annual ımprovement of 1 5% for future experıence, and 2 0% for statutory reservıng Female annuıtant mortalıty ıs assumed to ımprove ın accordance wıth 100% of CMI2009, wıth a mınımum annual ımprovement of 1% for future experıence and 1 5% for statutory reservıng In each case, the annual ımprovement ıs assumed to reduce lınearly after age 85 to zero at age 120

34.9 Sensitivity analysis (continued)

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

35 Management of capital resources

The Society's total capital resources of £5 9bn (2009 £5 4bn) on a UK GAAP basis comprise ordinary equity holders capital, £4 5bn (2009 £4 1bn) and Fund for Future Appropriation, £1 4bn (2009 £1 3bn)

The Society writes a range of long term insurance and investment business in the LTF This fund is segregated from the Society's other assets The fund includes participating (with-profits) business where policyholders and shareholders share in the risks and rewards, and non-participating (non profit) business, where the shareholders receive the profits Capital in excess of an amount required to cover the liabilities is currently held both within and outside of the Society LTF This capital provides support for new and existing non profit business within Society

Capital management policies and objectives

The Society aims to manage its capital resources to maintain financial strength, policyholder security and relative external financial strength ratings advantage The Society also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt, subordinated debt and reinsurance

Capital measures

The Society measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Society operates and those which the directors consider most appropriate for managing the business The measures used by the Society are

Accounting bases

Management manage capital and cash flow usage and to determine dividend paying capacity in accordance with the primary financial statements prepared under UK GAAP

In addition, the directors believe that the supplementary accounts to the Legal & General Group Plc report and accounts, prepared using EEV principles, provide an alternative view of the Group's long-term operations and the value of the business to shareholders Accordingly the Company's net asset value and total capital employed are also analysed and measured on this basis and form part of the EEV Group accounts

Regulatory bases

The financial strength of the Society is measured under local regulatory requirements (see below) One of these regulatory measures, Individual Capital Assessment (ICA), measures capital using risk based techniques, and provides a measure of economic capital

35. Management of capital resources (continued)

Basis of regulatory capital and corresponding regulatory capital requirements

Required capital for the life business is based on the rules of the FSA Society must hold assets in excess of the higher of two amounts, the first being calculated using the FSA rules (Pillar 1), the second being an economic capital assessment by Society which is reviewed by the FSA (Pillar 2, otherwise known as ICA)

The public Pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk There are further stress tests for participating liabilities as measured in the Realistic Balance Sheet, which may increase the required capital

The private Pillar 2 capital calculation is an assessment of the economic capital required to ensure that the company can meet its liabilities, with a high likelihood, as they fall due This is achieved by stochastic modelling and scenario testing The result is reviewed and may be modified by the FSA

Society has not breached any regulatory capital requirements at any time during the year

Available regulatory capital resources

Capital resources available to meet the UK capital requirements are determined using FSA valuation rules The asset valuation rules are based on UK GAAP, adjusted for both admissibility limits and specific valuation differences Society's regulatory capital position statement in the table below sets out the different sources of capital held within the Society Society's total available capital resources, based on the unaudited draft[1] FSA returns, are £4 9bn (2009 £4 3bn) of which £1 8bn (2009 £1 5bn) is held by the LTF

The total available capital resources of the Society's with-profits business of £1 0bn (2009 £0 8bn) is determined in accordance with the realistic balance sheet rules prescribed by the FSA The capital resources reflect the surplus in that part of the fund which is in excess of any constructive obligation to policyholders The liabilities within the consolidated balance sheet do not include the amount representing the shareholders' share of future bonuses However, for capital reporting, the shareholders' share is deducted from capital resources in the capital statement

At 31 December 2010 the realistic value of the UK participating liabilities was £14 2bn (2009 £14 1bn) under the FSA realistic capital regime The excess of realistic assets over realistic liabilities was £1 0bn (2009 £0 8bn)

1 The FSA returns are audited and filed subsequent to the finalisation of these financial statements

35. Management of capital resources (continued)

Regulatory capital position statement

As at 31 December 2010	With profits 2010 £m	Non profit SRC 2010 £m	Total life 2010 £m	Share-holders' equity 2010 £m	Total 2010 £m
Ordinary shareholders' equity outside the LTF[1]	-	-	-	3,112	3,112
Ordinary shareholders' equity held in the LTF	-	1,352	1,352	-	1,352
Capital and reserves attributable to ordinary equity holders of the Company	-	1,352	1,352	3,112	4,464
Adjustments onto regulatory basis[1]					
Fund for Future Appropriation	1,446		1,446		1,446
Other	(493)	(507)	(1,000)	(40)	(1,040)
Total available capital resources	953	845	1,798	3,072	4,870
UK GAAP liability analysis:					
UK participating liabilities on realistic basis					
- Options and guarantees	768	-	768	-	768
- Other policyholder obligations	13,431	28	13,459		13,459
Fund for Future Appropriation	1,446	-	1,446	-	1,446
Value of in-force non-participating contracts	(337)		(337)	-	(337)
Participating contract liabilities	15,308	28	15,336	-	15,336
Unit linked non-participating life assurance liabilities	564	522	1,086	-	1,086
Non-linked non-participating life assurance liabilities	2,062	24,796	26,858	-	26,858
Unit linked non-participating investment contract liabilities	8,677	17,214	25,891	-	25,891
Non-participating contract liabilities	11,303	42,532	53,835	-	53,835

1 Figures extracted from draft unaudited regulatory returns

35. Management of capital resources (continued)

Regulatory capital position statement (continued)

As at 31 December 2009	With profits 2009 £m	Non profit SRC 2009 £m	Total life 2009 £m	Share-holders' equity 2009 £m	Total 2009 £m
Ordinary shareholders' equity outside the LTF[1]	-	-	-	2,830	2,830
Ordinary shareholders' equity in the LTF	-	1,290	1,290	-	1,290
Capital and reserves attributable to ordinary equity holders of the Company	-	1,290	1,290	2,830	4,120
Adjustments onto regulatory basis[1]					
Fund for Future Appropriation	1,284	-	1,284	-	1,284
Other	(443)	(602)	(1,045)	(62)	(1,107)
Total available capital resources	841	688	1,529	2,768	4,297
UK GAAP liability analysis:					
UK participating liabilities on realistic basis					
- Options and guarantees	723	-	723	-	723
- Other policyholder obligations	13,391	33	13,424	-	13,424
Fund for Future Appropriation	1,284	-	1,284	-	1,284
Value of in-force non-participating contracts	(328)		(328)	-	(328)
Participating contract liabilities	15,070	33	15,103	-	15,103
Unit linked non-participating life assurance liabilities	554	518	1,072	-	1,072
Non-linked non-participating life assurance liabilities	1,953	21,811	23,764	-	23,764
Unit linked non-participating investment contract liabilities	8,152	15,328	23,480	-	23,480
Non-participating contract liabilities	10,659	37,657	48,316	-	48,316

1 Figures extracted from draft unaudited regulatory returns

35. Management of capital resources (continued)

Available regulatory capital resource risks

The Society's available capital resources are sensitive to change in market conditions, due to both changes in the value of the assets and to the effect that changes in investment conditions may have on the value of the liabilities Capital resources are also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency

The most significant sensitivities arise from the following four risks

(i) market risk in relation to UK participating business which would crystallise if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the liability for guarantees and options in the realistic balance sheet

(ii) market risk in relation to the UK annuity business, which would crystallise if the return from the fixed interest investments supporting this business were lower than that assumed for reserving The majority of the UK annuity business is reasssured to Legal & General Pensions Limited

(iii) mortality risk in relation to the UK annuity business, which would crystallise if the mortality of annuitants improved more rapidly than the assumptions used for reserving

(iv) mortality risk in relation to UK term assurance business, which would crystallise if mortality of the lives insured was higher than that assumed, possibly because of an epidemic

35. Management of capital resources (continued)

Movements in life business regulatory capital resources

The movement in the life business regulatory capital resources is shown below

Movements in life business capital resources

	With profits 2010 £m	Non profit SRC 2010 £m	Total life 2010 £m	Share-holders' equity 2010 £m	Total 2010 £m
Balance at 1 January	841	688	1,529	2,768	4,297
Effect of investment variations	210	76	286	-	286
Effect of changes in non-economic assumptions	(41)	58	17	-	17
Changes in regulatory requirements	-	-	-	-	-
New business	(17)	(77)	(94)	-	(94)
Cash distributions	-	(150)	(150)	150	-
Other factors	(40)	250	210	154 [1]	364
Balance at 31 December	**953**	**845**	**1,798**	**3,072**	**4,870**

[1] Other factors in Shareholders' equity include movement in revaluation reserve £214m, payment of dividend (£300m), movement in inadmissable assets and valuation differences £21m and net movement in profit and loss account £218m

36. Bonuses

The aggregate value of the bonuses declared on with-profit policies in the year was £411m (2009 £413m)

37. Post balance sheet event

On 11 March 2011 the directors of Legal & General Pensions Limited, under the contingent loan agreement, approved a payment to Society equivalent to £375m in respect of surplus generated during 2010 Whilst there is no requirement under the contingent loan agreement to make any repayment as accumulated operating losses still exist within LGPL, because there were sufficient distributable reserves, it was agreed that this payment should be made

38. Subsidiary undertakings

The subsidiary undertakings of Legal & General Assurance Society Limited are listed below Each undertaking operates mainly in its country of incorporation and has only one class of issued ordinary shares, unless stated otherwise

Held directly by the Company	**Nature of business**	**Incorporated in**
City & Urban Developments Limited	Holding Company	England & Wales
Insurebeam Limited	Holding Company	England & Wales
Legal & General (Meteor) Limited	Dormant Company	England & Wales
Legal & General Direct (Holdings) Limited [1]	Dormant Company	England & Wales
Legal & General Estate Agencies Limited	Holding Company	England & Wales
Legal & General Insurance Limited [2]	Insurance Company	England & Wales
Legal & General International (Holdings) Limited	Holding Company	England & Wales
Legal & General Investment Management Dormant (Holdings) Limited	Non-trading	England & Wales
Legal & General Pensions Limited	Insurance Company	England & Wales
Legal & General Professional Trust Services Limited	Insurance Company	England & Wales
Legal & General Retail (Holdings) Limited	Holding Company	England & Wales
Legal & General Shellco (No 1) Limited	Dormant Company	England & Wales
Nationwide Life Limited	Insurance Company	England & Wales
The Cavendish Land Company Limited	Investment Holding Company	England & Wales
Held indirectly through subsidiary undertakings		
Banner International Holdings BV	Dormant Company	Netherlands
Banner Life Insurance Company Limited	Dormant Company	England & Wales
Bridge End Computers Limited	Dormant Company	England & Wales
Commercial International Life Company SAE [3]	Life Insurance	Egypt
Glanfield Securities Limited	Non-trading	England & Wales
Infoplacement fr	Management Company	France
Key Consultants Mortgages Nationwide Limited	Non-trading	England & Wales
Key Mortgage & Property Limited	Leasehold Property	England & Wales
Key Surveyors Nationwide Limited	Non-trading	England & Wales
Legal & General "Holdings" (France)	Holding Company	France
Legal & General Asset Management (France)	Investment Company	France
Legal & General Bank (France)	Financial Services	France
Legal & General Deutschland Service-GmbH	Financial Services	Germany
Legal & General Direct Limited	Dormant Company	England & Wales
Legal & General Finance Europe BV	Dormant Company	Netherlands
Legal & General GI Computer Services Limited	Dormant Company	England & Wales
Legal & General Healthcare Limited	Dormant Company	England & Wales
Legal & General International Limited	Holding Company	England & Wales
Legal & General Investment Trust Limited	Non-trading	England & Wales
Legal & General Nederland Beleggingen B V	Financial Services	Netherlands
Legal & General Nederland Exploitatie Maatschappij B V	Real Estate	Netherlands
Legal & General Nederland Levensverzekering Maatschappij N V	Long term business	Netherlands
Legal & General Nederland Vastgoed Maatschappij B V	Real Estate	Netherlands

38. Subsidiary undertakings (continued)

Held indirectly through subsidiary undertakings	**Nature of business**	**Incorporated in**
Legal & General Overseas Holdings B V	Holding Company	Netherlands
Legal & General Overseas Holdings Limited	Holding Company	England & Wales
Legal & General Retail (Holdings) Limited	Holding Company	England & Wales
Legal & General Shellco (No 1) Limited	Dormant Company	England & Wales
Legal & General Surveying Services Limited	Surveying Services	England & Wales
Legal and General (France) SA	Life Insurance	France
Legal et General Risques Divers (France)	Insurance Company	France
Southgate Associates Limited	Dormant Company	England & Wales
Tringham Housing Limited	Dormant Company	England & Wales

1 Legal & General Direct (Holdings) Limited has both Ordinary A and Ordinary B shares in issue All shares are held by Legal and General Assurance Society Limited

2 Legal & General Insurance Limited has both Ordinary and Preference shares in issue All shares are held by Legal and General Assurance Society Limited

3 Legal and General Assurance Society Limited has an indirect holding of 55% of the issued shares of Commercial International Life Company SAE

Unless stated above, all subsidiaries are 100% owned and all have a 31 December financial year end