Annual Report and Accounts 2007

Our strategy today
will deliver further value tomorrow

Legal & General

Legal & General combines strategic clarity, operational excellence and financial strength to deliver sustainable benefits for customers, shareholders and employees.

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Find further information online
www.legalandgeneralgroup.com/ara2007

EEV[1] basis

	2007	2006
Operating profit before tax[2]	**£912m**	£1,233m
Contribution from new business[3]	**£468m**	£479m
Ordinary shareholders' equity	**£8,468m**	£7,931m
Dividend cover[4]	**1.7**	2.4

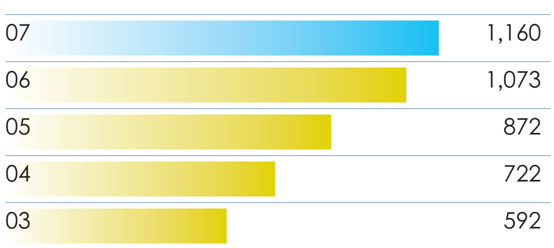
IFRS[5] basis

	2007	2006
Operating profit before tax[2]	**£658m**	£1,720m[7]
Ordinary shareholders' equity	**£5,446m**	£5,425m
Dividend cover[4]	**1.3**	3.9[7]

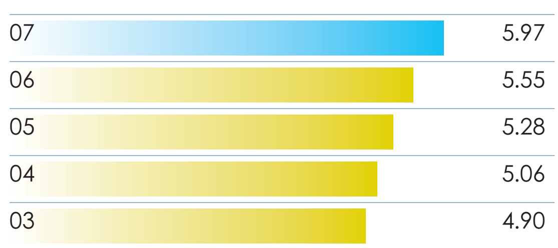
	2007	2006
Worldwide new business APE[6]	**£1,437m**	£1,301m
New institutional funds	**£54.4bn**	£26.0bn
Group funds under management	**£301bn**	£237bn

1. European Embedded Value.
2. Supplementary operating profit before tax from continuing operations.
3. Includes pensions managed funds.
4. Dividend cover is calculated as operating profit after tax divided by the current year interim dividend plus the proposed final dividend.
5. International Financial Reporting Standards.
6. Annual Premium Equivalent (APE) is total new annual premiums plus 10% of single premiums. Excludes institutional investments in unit trust funds which are disclosed under institutional funds.
7. Restated, see Note 3 of the Financial Statements for details.

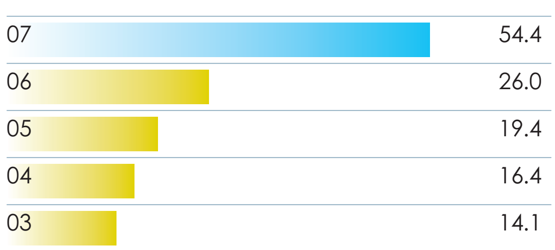
UK Life and Pensions New Business (£m APE)



Dividend per share (p)



New Institutional Funds (£bn)



What we do: our three businesses at a glance

Risk

Financial security for customers and their families:

- Life assurance
- Critical illness cover
- Retirement income (annuities)
- Buildings and contents insurance

Major Locations

- Kingswood (Surrey)
- Birmingham
- Ipswich
- Swindon
- Rockville (Maryland)
- New York
- Hilversum (the Netherlands)
- Paris

Key Strengths

- Risk pricing expertise
- Strong balance sheet
- Customer service ethic

550,000

individual protection policies underwritten in 2007 in the UK

Savings

Financial planning, savings and investments for customers:

- Pensions
- Unit trusts and ISAs
- Bonds
- With-profits

Major Locations

- Cardiff
- Hove
- Kingswood (Surrey)
- London
- Shoreham
- Swindon
- Hilversum (the Netherlands)
- Paris

Key Strengths

- Product range and quality
- Multi-channel distribution
- Reliable administration

£665m

in With-profits bonuses declared in 2007 in the UK

Investment Management

Investing on behalf of institutional and retail customers:

- Index tracking funds
- Active equity and fixed income
- Structured solutions

Major Locations

- London
- Chicago

Key Strengths

- Scale
- Value
- Expertise

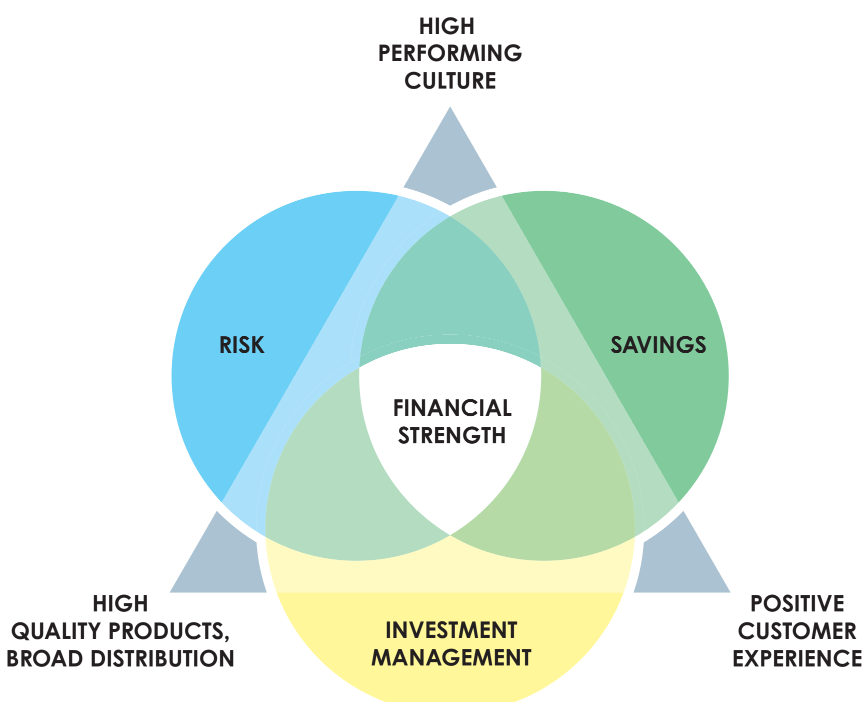
£297bn

funds under management at end of 2007 in the UK

How we do it: our Group strategic focus

OUR DIVERSIFIED BUSINESS

The Group Strategic Focus diagram shows how we see Legal & General's **diversified business model**. Each of the three businesses – Risk, Savings and Investment Management – could stand alone. But it is the combination which gives us our strength, and the areas of overlap between businesses which create opportunities for synergy.



High quality products and broad distribution, a **positive customer experience** and a **high performing culture** are attributes we regard as necessary for success across all three businesses. **Financial strength** is at the core of our business model, enabling us to grow and giving confidence to our customers and business partners.

Chairman's Statement

"Your Company again performed well in 2007, making significant operational progress. A broad range of products, accessible through a variety of channels, and backed by a strong balance sheet combine to create a powerful proposition for customers in a competitive market."

Sir Rob Margetts
Chairman

A Strategy for Long Term Growth
Legal & General's strategy remains consistent year on year, as does our continued determination to improve our delivery of that strategy. In 2007 we focused on widespread implementation of operational improvements across Legal & General. We took important steps to restructure our balance sheet and improve our competitive position through more effective deployment of our resources – our staff and your capital.

We added to our range of partnerships with leading UK financial institutions, signed a Memorandum of Understanding with two major Indian banks to set up a joint venture in India, and continued to drive further improvements to technology, efficiency and customer service. In several areas, this studied approach to building the business organically has yielded outstanding results, none more so than in Legal & General Investment Management, where we finished the year with total funds under management of £297bn, up an impressive £64bn during the year.

Financial Highlights
UK Life and Pensions delivered increased new business sales, up 8% to £1,160m on an Annual Premium Equivalent (APE) basis, and worldwide new business increased by 10% to £1,437m APE. European Embedded Value (EEV) Operating Profit after significant one-off effects in 2006 and 2007 was £912m (2006: £1,233m). The Company retains its AA+ financial strength rating, one of the strongest in the sector.

Shareholder Return, Dividend and Share Buyback
The Total Shareholder Return (TSR) for 2007 was -14%. This reflects the fact that our share price, like those of other companies in the sector, fell during the year. The comparable figure for 2006 was +34%. The Board continues to pursue its progressive dividend policy. In July 2007 we increased the interim dividend by 7.5% to 1.87p. We now recommend an increase of 7.6% or 0.29p to the final dividend, making a full year increase of 7.6% or 0.42p. This will be paid on 19 May. In July, we updated the stock market on our capital position and announced a share buyback of £1 billion. As at 17 March the buyback has returned over £568m to shareholders. Our recommended dividend and our capital return programme are based on a thorough review of the Company's financial strength and current market conditions, bearing in mind our

commitment to a strong credit rating and continued profitable growth.

Board Changes

Robin Phipps retired from the Board in July having served for 11 years as an executive director, latterly with responsibility for UK Operations. During a distinguished 25 year career with Legal & General, Robin was instrumental in building your company's UK business to become one of the country's leading providers of protection, annuity and savings products, and we are very grateful for his immense contribution. Following Robin's retirement, executive directors John Pollock and Kate Avery have continued in their existing UK business management roles, reporting directly to Group Chief Executive Tim Breedon. John and Kate have been members of the Board since 2003 and 2001, with responsibilities for our Risk and Savings businesses, respectively. Beverley Hodson stood down from the Board at the 2007 Annual General Meeting (AGM). We would like to thank her for her contribution over six and a half years as a non-executive director.

Our Staff

During 2007, we celebrated 10 years of partnership with Unite (formerly Amicus), our Trade Union. Together we have worked hard to bring about a working environment which we feel offers an excellent context for over 9,000 UK staff. They again responded magnificently to the challenges of the business. I and the whole Board would like to express our appreciation of their hard work in making your Company the success it is today. Their engagement in the business drives the unique Legal & General culture, and enables the Company to make powerful progress and to play a positive role in the wider communities in which we operate.

Shareholder Communications and AGM

Last year we introduced a new shorter alternative to the Annual Report and Accounts: the Summary Financial Statements. This was positively received by shareholders, and this year our communications continue to evolve. When we sent out the Interim Report, we offered you some choices as to how you would prefer to receive information in future. We are now responding by sending you information in your preferred format. For the majority, this means receiving Annual Report materials electronically. Of those who elected to receive a printed document, most wanted to receive the shorter Summary Financial Statements. I am delighted that we have been able to work with you to make this transition, which is not only better for the environment but also saves us printing and mailing large volumes of paper.

This year's AGM will be held on 14 May at the Institution of Engineering and Technology, Savoy Place, London WC2R 0BL.

Outlook

Our combination of clear strategic goals and a commitment to continuous operational improvement positions us well in a changing environment. In the coming year we expect the more difficult conditions to continue with, in particular, a slower housing market and less confidence among UK consumers and investors. Despite this, we believe our business is robust, capable of generating sustained profitable growth and value, and increasingly well positioned competitively for the future. Your Company is in a long term business, and we believe the underlying demographics of our market continue to offer very considerable potential for Legal & General as a leading UK risk, savings and investment management business.

Sir Rob Margetts
Chairman

£912m	£1,437m	+7.6%
EEV operating profit	Worldwide new business APE	Growth in full year dividend

Directors' Report
Group Chief Executive's Review

"Legal & General has a clear purpose and a strong sense of strategic direction. Our aim now is to implement that strategy, building a company which, every single day, becomes even better at serving customers and rewarding shareholders."

Tim Breedon
Group Chief Executive

Financial Results

Our 2007 financial results show Legal & General continuing to perform strongly. While 2006 profits benefited from significant one-off gains from regulatory changes, 2007 was, by contrast, a year in which we chose to add to reserves. Setting aside these exceptionals, the business shows a remarkably consistent performance across two very different years for our markets.

Our £1,437m of new business APE and £912m of EEV Operating profit (£658m of IFRS Operating profit) in 2007 were achieved against the backdrop of increased volatility in investment markets, a decline in housing activity and increasing uncertainty around the regulatory and tax environment in which we operate. Fixed income markets experienced a sharp widening in credit spreads and increased volatility. The quality of the Group's fixed income portfolio however remains high, and there has been no adverse impact on our corporate bond default experience.

This year's EEV pre-tax results include a strengthening of annuitant longevity assumptions of £269m. The equivalent effect to the IFRS pre-tax result is £214m. These changes, as well as our continuing investment in the business, stand us in good stead for the future.

Despite delivering improvements in underlying business performance, our General Insurance business was impacted by significant (£84m) claims arising from storm Kyrill and the summer floods. Regulatory uncertainty and change impacted some other markets, including traditional Bulk Purchase Annuities, where a restriction was placed on buyouts by schemes eligible for the Government's Financial Assistance Scheme, and investment bonds, where uncertainty over the Chancellor's Pre-Budget Report proposals for changes to Capital Gains Tax impacted confidence.

More positively, towards the end of 2007 we saw the emergence of the new market for open-scheme Bulk Purchase Annuities, which we had been predicting for some time. This enabled us to deliver record Bulk Purchase Annuity new business volume for the year, with a particularly strong fourth quarter.

2007 Achievements
In more difficult markets, Legal & General's strategic clarity and operational strength becomes more important than ever. We have three focused and successful businesses: Risk, Savings and Investment Management. These provide diversity of earnings, focusing on growing profitable new business and increasing the value of the business already in force. Our approach to business maximises the strength of our balance sheet, our powerful brand, and the skills of our people, building on success in our home market and exporting experience where appropriate.

During 2007, Legal & General achieved significant financial and operational advances within this strategic framework.

Total Risk Premiums reached a record high of £428m, with the annuities businesses enjoying a strong year. Individual Annuity sales grew by 18%, while in the Bulk Purchase Annuity market we won record volumes of new business. In Savings, we achieved significant sales growth for the majority of our products while investing for future growth and taking steps which will help in improving our margins in future. Progress in Investment Management was outstanding, with £53bn of new funds entrusted to us by clients.

During the year we completed the major components of our balance sheet restructure, and began our £1 billion share buyback programme. Our capital review aimed to ensure that we have the right amount of capital, of the right type, held in the right places within the Group. This complex exercise was achieved in a short timeframe and in total has added £0.5bn to the embedded value of the Company during 2006 and 2007. Our step-by-step approach to ensuring that capital is used in the most efficient and flexible way and our commitment to returning excess capital to shareholders place us at the forefront of our sector in terms of balance sheet management.

Our work in 2007:

Serving Customers	• extending product range • adding distribution partners • communicating more clearly
Rewarding Shareholders	• growing embedded value • increasing dividend • returning excess capital

We added to distribution capability, negotiating a number of new partnerships with UK banks and building societies. We continued to work closely with Nationwide Building Society on the implementation of our major new partnership, which launched on 1 February 2008. Nationwide has over 13 million members, serviced through 900 locations. In addition, we extended the duration of our contract with Cofunds, the leading platform provider, and broadened the range of products it provides.

Overseas, we concluded a Memorandum of Understanding to establish a joint venture company with Bank of Baroda and Andhra Bank in India. The two banks collectively have over 40 million customers through approximately 4,000 branches and offices. This is an excellent bancassurance distribution network in a fast growing insurance market, and presents us with significant opportunities in the medium term.

Achieving greater operational efficiency was an important objective during the year. In 2007, we took significant steps towards outsourcing some non customer facing parts of our IT, a move which will generate considerable expense savings over the next few years.

During the year, Legal & General continued to play an active part in the wider community. Our commitment to building a sustainable business is important to us, and this is reflected in our commitment to Corporate Social Responsibility (CSR), as detailed on pages 37-38 and in the CSR Report: www.legalandgeneralgroup.com/csr.

Outlook
The more turbulent environment of 2007, we believe, underlines many of the core strengths of Legal & General for its customers. Quality of product, diversity of distribution, good customer service and administrative capability, a skilled, dedicated and adaptable workforce, robust capital and a strong reputation are strengths which we believe will continue to serve us well.

Directors' Report
Strategic Overview

Three Businesses: Risk, Savings and Investment Management

Legal & General's strategic focus is on three broad categories of business: Risk, Savings and Investment Management. The Business Review describes these businesses in more detail, and provides separate commentary on the International segment.

1. Risk

Includes life assurance and other forms of financial protection for individuals, group protection through employers' schemes, individual and bulk purchase annuities, and general insurance. Risk businesses can require significant capital commitment and can earn commensurate margins given appropriate pricing and scale. Legal & General's strength in these markets is founded on a strong balance sheet and the ability to assess, price and manage these risks expertly.

2. Savings

Enables individuals to accumulate and manage their savings for the medium and long term. We provide both with-profits and non profit products. Our product range includes ISAs and Unit Trusts, investment bonds and pensions provided both direct to individuals and through their employer. Products are structured and priced to provide good value to the saver, and can be bought through a variety of channels. Legal & General's success is underscored by product and investment expertise, financial strength and administrative capability.

3. Investment Management

Aggregates our customers' funds and those of third party institutions such as pension funds, investing them so as to maximise the benefits of our market leading scale, specialist skills and experience. We invest on our clients' behalf based on their preferred risk approach, and offer a range of passive and active fund management products. Legal & General Investment Management's (LGIM's) position as one of the UK's largest fund managers means we can provide a highly competitive combination of cost and service.

Five Strategic Imperatives

Five strategic imperatives or principles, which are summarised here, guide our business. The application of these principles is reflected in our Key Performance Indicators, which measure the Group's financial success. We use other indicators and achievements to record progress elsewhere. Some of these, including those pertaining to customers, employees and Corporate Social Responsibility are covered in later sections of this Report.

1. Diversified Business

We aim to diversify earnings streams across, and within, our three core businesses, so as to minimise reliance on any single area. We assess markets on the basis of their potential for profitable growth, our share of market and the required resource commitment in both financial and human capital. We seek to make best use of our skills across different markets and maximise synergies.

2. High Quality Products, Broad Distribution

The creation of a stable stream of high quality new business is a key driver of our business. We believe that this is achieved through products which offer demonstrable value to the customer, distributor and ourselves. Central to our new business model is the maintenance of diversified distribution capability. We do not wish to be overly dependent on any single distributor or distribution category. Building scale in diversified markets creates an ability to maintain growth as distribution patterns shift.

3. Positive Customer Experience

We recognise that long term relationships are at the heart of a long term business. We work hard to ensure that we develop relationships with all our customers and distributors on mutually beneficial terms. This means that we ensure that customers are treated fairly and efficiently throughout their relationship with us. By managing our existing customer business well, we can encourage them to stay with us and hold our products longer. This greater persistency in turn helps grow the embedded value of our business.

4. Financial Strength

Achieving profitable growth for shareholders and security for customers requires a robust, well-designed capital structure. We aim to have the right amount of capital, of the right type, deployed in the right places. Our capital strength, which is subject to annual review and rigorous stress testing, is evidenced by our strong credit rating, which we regard as a strategic differentiator.

5. High Performing Organisation

Our employees are a vital asset: they are strongly committed to the success of the business, and to an ethical approach which is focused on 'doing the right thing' for customers, shareholders and colleagues. Strategically, we seek to build on our existing cultural strengths, to involve all employees in our goal of continuous improvement to the business, and to enable each employee to maximise their personal contribution, and that of their team members, to the business.

Key Performance Indicators (KPIs)

KPI Definitions

EEV Operating Profit

Definition: Legal & General provides supplementary financial statements prepared on the European Embedded Value (EEV) basis for long term insurance contracts (see Supplementary Financial Statements). The EEV basis provides an assessment of the value which has been generated by the business during a period. Operating profit on the EEV basis reports the change in embedded value in a period, but excludes fluctuations from assumed longer term investment return.

Purpose: In the Board's opinion, EEV operating profit provides shareholders with a good understanding of the value which is being created on the Group's long term insurance contracts.

2007	2006
£912m	£1,233m

IFRS Operating Profit

Definition: The Group's primary financial statements (see Financial Statements) are prepared on the International Financial Reporting Standards (IFRS) basis which all EU listed companies are required to follow. IFRS operating profit measures the pre-tax result using a smoothed longer term investment return. Any variance between actual and smoothed investment return is reported below operating profit along with the release of the 1996 Sub-fund. For UK Life and Pensions, the operating profit will comprise the profits and losses emerging from this business on an IFRS basis, adjusted to include a longer term investment return on the Society shareholder assets held within the Society Shareholder Capital (SSC).

Purpose: IFRS operating profit gives an insight into the Group's ability to generate cash flows to support dividends during a period.

2007	2006 restated
£658m	£1,720m

Return on Embedded Value (RoEV)

Definition: RoEV measures the return earned by shareholders on shareholder capital retained within the business. RoEV is calculated as EEV operating profit after tax divided by opening EEV shareholders' funds.

Purpose: RoEV provides a link between performance and balance sheet management and ensures that an appropriate balance is maintained.

2007	2006
8.0%	12.5%

Insurance Groups Directive (IGD) Surplus*

Definition: The IGD surplus is an FSA regulatory measure which calculates surplus capital within the Group. IGD surplus is defined as Group regulatory capital employed less the Group regulatory capital requirement. Surplus capital held within our Society Long Term Fund cannot be included in the IGD definition of capital employed.

Purpose: IGD surplus is the Group level regulatory surplus capital measure.

2007	2006
£4.1bn	£2.0bn

Total Shareholder Return (TSR)

Definition: TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to the shareholder. The TSR shown is the change in share price over a three year performance period, plus the value of reinvested dividends, relative to the performance of all the other companies in the FTSE 100.

Purpose: TSR measures total return to shareholders over the medium term.

	2007	2006
Legal & General	**34%**	80%
FTSE 100	**48%**	54%
Performance relative to the FTSE 100	**71%**	148%

* Figures extracted from draft unaudited regulatory returns.

Principal Risks and Uncertainties

There is an ongoing process for identifying, evaluating and managing significant risks which is comprehensive and systematic. Our governance structure for risk is outlined in Fig 1 on page 10.

A significant part of the Group's business involves the acceptance and management of risk. A detailed review of the Group's inherent exposures to market, credit, insurance, liquidity and operational risks, together with the framework for their management and control, is set out at Note 49 to the Financial Statements. An overview of the Group's risk management framework is given as part of the review of Corporate Governance – Management of Risk on page 46.

Whilst, at present, the Board considers that there are no immediate risks likely to have a significant impact on the short or long term value of the Group, principal risks and uncertainties may be categorised as follows:

- Legislation and Regulation
- Confidence in the UK Financial Services Sector
- Market and Economic Conditions
- Mortality and Catastrophe Risks
- Future Savings Market
- Resources

Legislation and Regulation

The financial services markets in which the Group 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 distributed by the Group and the mechanisms for reserving for future liabilities. Additionally, there is a continuing growing international dimension and the volume of regulatory and legislative change is increasing.

Directors' Report
Strategic Overview continued

The Group's activities and strategies are based upon prevailing legislation and regulation, with continuous monitoring to ensure that the Group meets its regulatory obligations. The potential for change is continuously identified and analysed. Sudden, unanticipated changes in legislation, or the differing interpretation and application of regulation over time, may have a detrimental effect on the Group's strategy and profitability both in terms of the generation of new business and the retention of in-force books.

Confidence in the UK Financial Services Sector

The Group has followed a strategy of offering value-for-money products to its customers and continually improving customers' overall experience of doing business with Legal & General. Whilst this enables the Group to differentiate itself from its competitors, earnings and profitability are also influenced by the confidence of the retail investor in the financial services sector as a whole, a number of drivers of which are beyond the Group's control. Such factors include the adverse performance of investment markets, actions by regulators within the sector and shock events such as significant market failures, although the Group seeks wherever practicable to mitigate the effects of these contagion risks.

Market and Economic Conditions

Legal & General is a significant provider of term assurance and critical illness products. These products are typically purchased as part of the house buying event or when a property is being remortgaged. The Group also provides household and buildings insurance. Whilst the Group is structured to enable resources to be redirected to other product lines, a downturn in the housing market could impact product volumes and short term earnings.

Legal & General is also a leading provider of index-tracking funds to both pension schemes and retail customers. The fees for managing these funds are directly linked to the value of funds under management. As such, significant falls in the value of tracker funds would impact earnings for these businesses.

The Group utilises a range of investments to meet obligations arising from insurance business which it has written. The majority of investment assets are in securities traded on recognised exchanges and property. Controlled use is also made of financial instruments utilising strongly rated counterparties. Whilst the Group holds capital and performs stress tests for falls in asset values, extreme events in other markets over which the Group has no direct influence, or a failure in market infrastructure may impact asset values or the ability to value assets fairly, which in turn may impact profitability.

Mortality and Catastrophe Risks

The Group writes significant levels of immediate and deferred annuity business. The Group uses its pricing capability for longevity risks to ensure that an appropriate risk premium is applied to the business, taking account of all known risk factors. However, significant unforeseen medical advances may result in the requirement to increase reserves for these lines of business. With regard to the Group's significant portfolio of protection business, whilst the risk of adverse claims experience is fully assessed and reserved for, an event causing widespread mortality or morbidity, coupled with a reinsurer default, may impact the capital available to the Group. Similarly, a series of extreme weather events coupled with reinsurer default may impact earnings to the Group from its general insurance business.

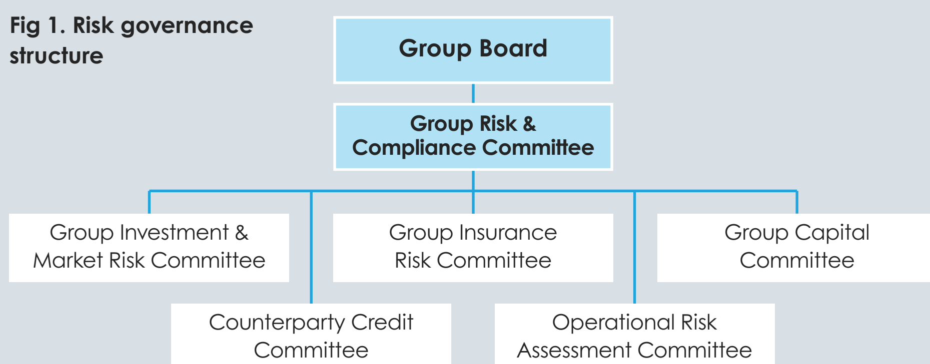
Future Savings Market

A number of Legal & General's businesses are focused on the long term savings and retirement product markets. The reasons customers save and make provision for old age are influenced by a number of factors including government policy, social conditions and the general economic environment. The Group seeks to participate actively in debate to highlight those matters which are key to encouraging consumers to save and make adequate provision for old age. However, consumer uncertainty in any of the above factors may have a detrimental effect on these markets.

Resources

Legal & General has market leading expertise in a number of the fields in which it operates. The Group actively focuses on retaining the best personnel, and ensures that key dependencies do not arise, through employee training and development programmes, remuneration strategies and succession planning. However, the sudden unanticipated loss of teams of expertise may, in the short term, impact certain segments of Legal & General's businesses.

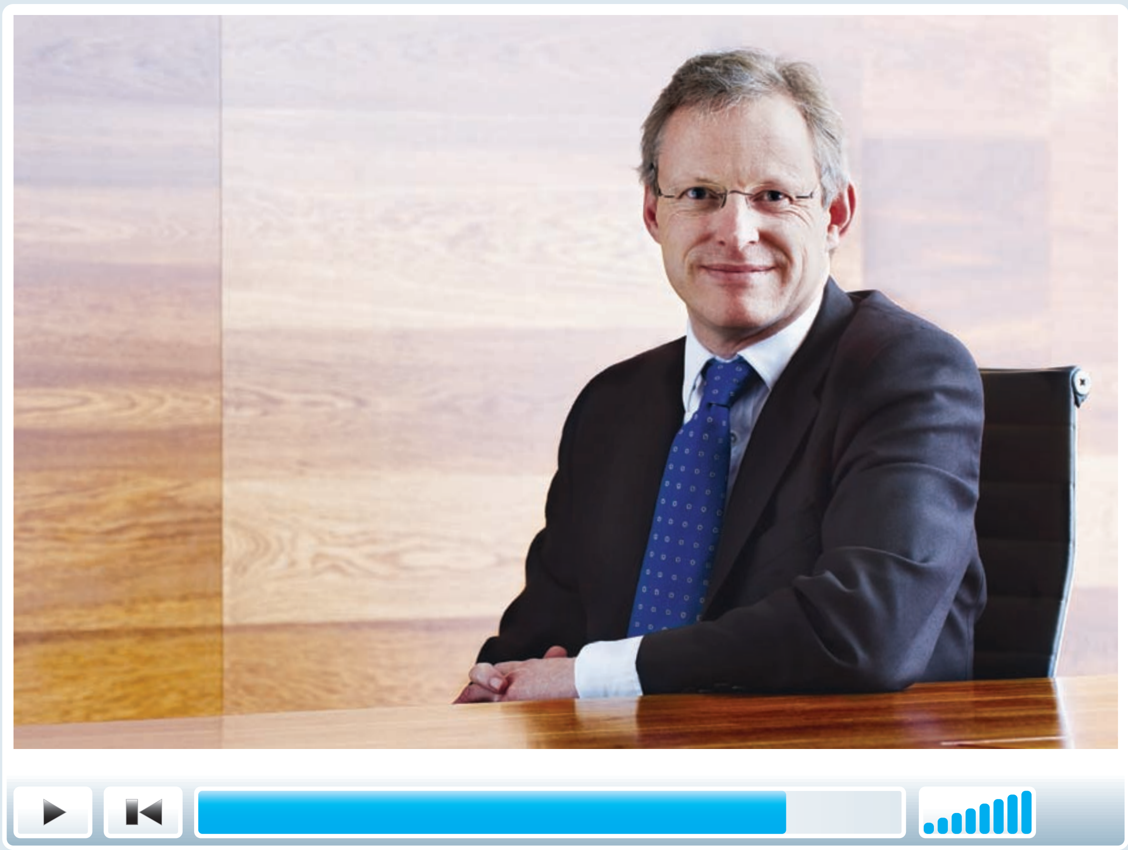
Fig 1. Risk governance structure



Diversified Business

Strategy Live!

"The most important strategic goal for Legal & General is to build our exposure profitably across three distinctive business areas." Tim Breedon, Group Chief Executive



View the webcast at:
www.legalandgeneralgroup.com

"Each business presents valuable growth opportunities for Legal & General in its own right. But it is the combination which really gives us the strong and diversified business model to which we aspire…

…it means exposure to the entire financial life cycle of our customers; from early investment, through family saving, to asset accumulation, to pensionable income. And it means we can leverage our strengths: in investment, in customer distribution and in administration across a broad range of products and markets…

For shareholders, I think the message is clear: balance maximises use of our strengths and our resources. It spreads risk. And it creates a coherent link between what we do and what households in the UK, and increasingly overseas, need with respect to their long term financial planning.

That is the strength of our brand; and the strength of our financial proposition."

Diversified Business

Record BPA Business

Fourth quarter Bulk Purchase Annuity (BPA) Sales set a new record for Legal & General with over £600m single premium wins from companies which have chosen to insure all or part of their pensions with us.

These 'new style' BPA transactions for employers are evidence that a broader market is opening and that it plays to Legal & General's expertise in pension scheme buyouts and strength in delivering high quality service.

Postcode Annuity Pricing

Annuities have traditionally been priced to reflect the likely lifespan of annuitants, based on gender (women typically outlive men) and age. However, wide discrepancies exist between different geographical locations, and these have not traditionally been factored into pricing. Using its huge bank of experience data and statistics, Legal & General has been able to offer better deals for those living in some areas. The scheme was trialled in autumn 2007, and is now being rolled out more broadly following a good take-up. As annuity pricing becomes more sophisticated, Legal & General is at the forefront of a more tailored product, offering better value for money for customers.

Directors' Report
Business Review

Legal & General's 2007 results show the continuing strong performance of the business despite more difficult market conditions.

This section of the Annual Report sets out information on the Group's principal activities together with a review of the development and performance of the Group, including financial performance, in accordance with Section 234ZZB Companies Act 1985. Disclosures in Governance form part of this Directors' Report.

Legal & General Group Plc is the ultimate holding company for a group of Risk, Savings and Investment Management businesses. The Company's principal operating subsidiaries are set out in Note 45 of the Financial Statements. The way in which Legal & General reports its financial results differs for historical reasons from its business division management structure. For financial reporting purposes the business is covered under three main business segments: Life and Pensions, Investment Management and General Insurance. Life and Pensions includes Protection and Annuities, Wealth Management and With-profits businesses in the UK and the international businesses.

Two reporting bases are used: European Embedded Value (EEV) and International Financial Reporting Standards (IFRS). These are explained in the Finance Director's Review on page 33.

Overview of Results

Legal & General's 2007 results show the continuing strong performance of the business despite more difficult market conditions. They are measured against a very strong year in 2006, which additionally included exceptional gains arising from the positive impact of PS 06/14 regulatory changes. The 2007 results also reflect a number of steps taken as part of the capital review announced in 2006, and the significant costs of strengthening our reserves against the probability of annuitants living longer. This is discussed below under Significant Events.

Worldwide operating profit on an EEV basis was £912m (2006: £1,233m), a decrease of 26%. These results reflect significant reserving and regulatory changes, including annuitant longevity strengthening in 2007 and the impact of implementing the FSA's more realistic reserving basis (PS 06/14). Contribution from new Life and Pensions business decreased by 14% to £359m (2006: £418m). Total Groupwide experience and operating assumption changes were negative at £106m. The principal assumption change relates to strengthening annuity longevity reserving. UK Life and Pensions operating profit declined by 18% to £720m (2006: £874m). Operating profit from our international business declined by 13% to £136m (2006: £156m).

On an IFRS basis, worldwide operating profit was £658m (2006: £1,720m). This decrease is distorted by the significant reserve releases in 2006 and the effect of strengthened annuitant mortality assumptions in 2007. The £84m of weather related claims in 2007 also impacted IFRS profits negatively. Operating profits at Legal & General Investment Management grew by 17% to £155m (2006: £133m). Following the capital review completed in 2007, the Group has taken the opportunity to redefine the IFRS operating profit definition. This is explained further in Note 3 of the Financial Statements.

The IFRS profit attributable to equity holders of the Company for the financial year was £724m (2006: £1,564m) and the earnings per share were 11.24p (2006: 24.12p). The consolidated balance sheet and the consolidated income statement show the affairs of the Group as at, and for the year ended, 31 December 2007. An analysis of worldwide gross written premiums is shown on Note 4 of the Financial Statements.

Group profit after tax was £1,212m (2006: £1,446m) on an EEV basis, £718m (2006: £1,631m) on an IFRS basis.

Dividend

The directors recommend the payment of a final dividend of 4.10p per share. With the interim dividend of 1.87p per share paid on 1 October 2007, this brings the total dividend recommended for 2007 of 5.97p per share (2006: 5.55p), an increase of 7.6%. The final dividend will be paid on 19 May 2008 to members registered at the close of business on 18 April 2008. The cost of the dividend paid for the year is £369m. The retained profit was £355m.

Significant Events

The following significant events took place during 2007.

LGPL Conversion to ISPV

On 1 November 2007, Legal & General Pensions Limited (LGPL) was converted into the UK's first Insurance Special Purpose Vehicle (ISPV). An ISPV is a new type of insurance entity regulated by the FSA, which was introduced in 2006 as part of the implementation of the EU Reinsurance Directive. The conversion reversed, as planned, a £500m capital inefficiency dating from the establishment of LGPL. In total £283m was added to the embedded value of the Company in 2006/7 (2007: £112m; 2006: £171m).

Modernisation of Long Term Fund Structure

On 31 December 2007, Legal & General implemented changes to the balance sheet structure of Legal & General Assurance Society Limited (Society) as part of the capital review programme announced in 2006. Shareholder assets held in the 1996 Sub-fund were merged with the Shareholder Retained Capital (SRC) and alternative capital support established for With-profits policyholders. In addition, the formula determining distributions to shareholders from the non profit part of the Society Long Term Fund was abolished. This enabled us to transfer £1.7bn of capital out of the long term fund. This capital is retained within Society. The new structure allows us to deploy capital more flexibly in support of future business objectives. £210m was added to the embedded value of the Company in 2007.

Annuitant Longevity

Regular review of our assumptions is standard practice within Legal & General and, whilst the industry and professional debate on the life expectancy of people who buy annuities continues, we have taken the decision to strengthen our reserves by £214m on an IFRS basis to take into account future longevity risk. On an EEV basis, there was a reduction in embedded value of £194m.

Investment Strategy Changes

We have further evolved the investment approach for LGPL in 2007. The new investment strategy for assets underlying new business is designed to facilitate close matching of liabilities and greater diversification of the asset portfolio. Greater use of derivative instruments as part of the portfolio management has enabled even better risk management and laid the foundation for significant diversification of sources of return and a reduced reliance on UK physical bonds. The new investment approach also enables more active management of the assets in the annuity portfolio.

Fig 2. Summary of financial impacts arising from significant events

	LGPL[2] Conversion	LTF[3] Restructure	Annuitant Longevity
IFRS			
Operating profit	–	–	£(214)m
Profit before tax	–	£321m	£(214)m
EEV			
Profit before tax	£156m	£5m	£269m
Profit after tax	£112m	£210m	£194m
Capital[1]			
IGD surplus capital	£0.5bn	£1.7bn	–
Society surplus capital	£0.5bn	–	£(0.2)bn

Note: more detail of the impacts is set out in Note 2 of the Financial Statements and Note 14 of the Supplementary Financial Statements.

1. Management estimates based on unaudited draft regulatory returns.
2. Legal & General Pensions Limited.
3. Long Term Fund.

Industry and Markets

Business Environment: Market Overview

UK financial services markets have grown strongly over the last 10 years, driven by underlying economic growth, a strong housing market and a continuing shift towards individuals providing for their own long term financial security. Between 1995 and 2006, our Risk markets have grown by over 200% with Legal & General taking leading market share in protection and annuities. In Savings (excluding drawdown) the market grew by 147% over the same period. This long term growth has also been reflected in the investment management sector, with an estimated £3.1 trillion of funds now managed in the UK.

Growth for a number of long term financial products, however, slowed from mid-2007. Affordability concerns dampened housing market activity, while increased volatility in asset markets and tighter credit conditions affected savings and investment markets. Global bond markets experienced widening credit spreads, lower liquidity and increased volatility – the 'credit crunch'. The average credit rating of the Group's bond portfolios remain high, for instance the Annuity Fund continues to enjoy an AA- rating. Returns on all the bond portfolios have generally been in line with market expectations.

Competition across the financial services sector remained intense in 2007. A number of specific developments affected individual products. These are discussed below.

Regulatory and Political Environment

Legal & General's business is largely UK-based and regulated by the Financial Services Authority (FSA). FSA regulation applies to most of our operating subsidiaries, including Society, and Legal & General Investment Management Ltd (LGIM). The FSA's responsibilities include ensuring financial services firms have proper systems and controls to manage risk, maintain sufficient capital and that they treat their customers fairly.

Legal & General monitors UK and EU regulatory developments closely, responding in detail to proposals and consultation papers as appropriate. We engage directly with Government where relevant and also work with the Association of British Insurers (ABI) on issues affecting the insurance industry more broadly. Legal & General made representations to Government on a variety of issues during 2007.

The Government further progressed its plans for an additional contributory pensions scheme ('Personal Accounts'), and legislated to establish a Personal Account Delivery Authority (PADA). A further Pensions Bill in 2008 will determine details of auto-enrolled Personal Accounts, which are expected to be launched in 2012. Legal & General has had detailed discussions on various aspects of Personal Accounts with the Government. We support widening access to personal pensions, though the detail of any scheme needs to ensure it focuses on its target market, does not dilute good existing provision and is not unfairly subsidised to compete with private sector providers.

In 2007 the FSA published a Consultation Paper on Retail Distribution in Financial Services. This involved the FSA, industry and consumer representatives looking at ways to improve the distribution of retail investment products. Legal & General has responded in detail to the proposals. We favour changes which allow a less complex sales process for simple products, delivered to customers through a variety of channels. This should broaden access to financial services products whilst ensuring that consumers still receive regulatory protection.

Tax treatment of long term retail savings and investment products can have a significant impact on our business. The principal development in 2007 was the potential negative impact on investment bonds of changes to the Capital Gains Tax regime announced in the October Pre-Budget Report. We made representations on this subject, as did the ABI. Our position continues to reflect the need for equitable treatment between different classes of savings product, and for a reasonable degree of tax certainty for the consumer.

Outlook

Long term fundamentals for UK financial services remain strong – awareness of increased longevity and a greater need to take personal responsibility for their own long term welfare continue to prompt customers to engage with the financial services industry, while technological developments assist distribution.

The ongoing evolution of pension schemes from Defined Benefit to Defined Contribution will continue to generate opportunities for Legal & General, and we expect further growth in Bulk Purchase Annuities as a wider range of schemes consider using buyouts. Although we see the A-day effect easing, pension transfers will remain a significant feature of the market.

During 2008, we anticipate slower growth and some reduction in interest rates in the UK. We expect activity in the housing market to remain subdued, with continued volatility in asset markets as the implications of the 2007 credit upheaval work through the financial system.

We expect to see continuing competitive pressure in a number of our markets. Legal & General's approach to its business – using product and distribution diversity to reduce reliance on any particular segment or channel – is designed to mitigate the impact of over-competitive pricing in any particular product line.

It is our intention to remain closely engaged with the Government and the regulator on Personal Accounts, and to play a role in the evolving debates around the FSA's Retail Distribution Review and the provision of Generic Financial Advice as proposed by the Thoreson Review.

We believe it is important that consumer protection is balanced by a continuing awareness of the costs of regulation to the industry and consumers, and of the need for the industry to retain the flexibility to evolve new products and services. Against a background of increasingly principles-based regulation, we will continue to work towards regulatory simplification where appropriate – for example in the treatment of basic life assurance products. We will also continue to seek to ensure that additional burdens are not created as a result of 'gold-plating' European Directives where these interact with existing UK law or regulation.

After two years in which fiscal uncertainty and change has had a negative effect on business volumes first through the introduction and then withdrawal of Pension Term Assurance in 2006, then through the proposals for Capital Gains Tax, we will continue to support those steps which create more equivalence between tax treatment of different products and which give the customer greater certainty about tax outcomes.

>200%

growth in risk markets since 1995

Directors' Report
Business Review continued

Risk Businesses

Our Businesses
Legal & General's Risk businesses comprise Group and Individual Protection, Annuities and General Insurance (GI) together with housing related business conducted through our Mortgage Club. The Protection, Annuities and GI businesses are founded on the assessment of risk, pricing of risk using a comprehensive statistical framework and the continual analysis of changes to underlying risk assumptions. The Mortgage Club business in turn drives protection and GI by providing access to customers at a typical point when purchases are made. Some risk businesses are capital intensive, requiring a strong and efficient balance sheet, and utilise large volumes of historical and current data.

The protection business offers cover for individuals and families against financial losses arising from defined events such as death, disability or critical illness. Legal & General is the UK's largest provider of individual protection, with a market share of over 20%. We also offer Group Protection products for corporate clients seeking protection for their employees. In this market we work with employers to intervene rapidly, using a range of specialised medical services to help employees to recover quickly from illness and injury.

Our annuity business includes both Individual Annuities and Bulk Purchase Annuities (BPAs). Individual Annuities are bought by people converting a lump sum (often money saved in a pension scheme) into a lifelong income. Annuities can offer a flat rate or indexed income for life, and can to a certain extent be structured to reflect the purchaser's requirements. Pricing depends on a number of factors including prevailing interest rates and statistically-derived assumptions about longevity.

BPAs allow company pension schemes to insure the retirement income their members expect in large block transactions. Historically, BPAs have been used by closed pension schemes, often for companies which have ceased trading. BPAs now, however, have broader application to other companies and trustees seeking to manage their pension fund liabilities.

Legal & General's GI business focuses on the household sector. We insure the fabric of properties and their contents but do not provide commercial property, business or motor insurance. This business has synergies with the protection business as both are frequently bought when taking out a new mortgage or moving house.

Legal & General's specialist housing business, The Mortgage Club, provides the link with lender partners, utilising the strength of Legal & General's distribution to source mortgages for our clients. Legal & General provides the technology support to deliver the synergies that exist in the housing market between individual protection, GI and mortgage sales. In 2007 over £23bn of mortgage lending was sourced through The Mortgage Club.

Our Strategy
We aim to maximise the benefits of scale and market leadership to maintain and build upon our leading competitive position in the Risk businesses. We continually improve the skills and technology to select, price and underwrite risks effectively, leveraging expertise in product manufacture, distribution and customer service to add value to new and existing business. We use scale to keep unit costs low and service standards high.

The quality and extent of our data enables us to price quickly and accurately and to develop products, like the new postcode annuity, which depend for their effectiveness on a statistically robust, but sophisticated and granular approach to pricing. We have particular expertise in modelling longevity and in medical underwriting. The quality of our underwriting is very important to us, and we run regular audits to measure this on a risk weighted scoring basis.

We maintain flexibility between products, responding rapidly to changing markets. In individual and bulk purchase annuities, the key drivers are our appetite for longevity risk and our ability to achieve satisfactory margins. We continuously improve our mortality models, as shown by our strengthening of annuity assumptions, while seeking profitable growth, and adjust our participation accordingly, particularly in the very price-sensitive individual annuity market. In the BPA market, we have historically focused on executing buyouts for smaller schemes, which have provided a steadier income stream, though we are now increasingly active in the new market for larger open schemes. As a first step to buyout, open schemes are commonly looking to insure pensions in payment, which will generally be shorter duration liabilities than full buyout. In practice almost every scheme contemplating buyout will seek pricing input from Legal & General as a market leader and we will participate where the risk rate of return is acceptable.

Realignment of management in 2006 created greater accountability and ownership of business performance and cost. This helps us make better decisions, adjusting our expense base in response to market changes and achieving competitive unit costs and better focus. Efficient capital management is important in

20.1%

market share
(individual protection)

Risk businesses due to the capital strain from new business, and we seek to make best use of our financial strength. Technology is a similarly important component in the business model. In 2007 we invested in technological improvements in the annuities area, enabling us to load data more quickly, and in the protection business to provide interactive underwriting with many of our intermediaries.

The Risk businesses share several synergies with other business areas within Legal & General. We seek to work closely across divisions to bring a broad range of Risk, Savings and Investment Management expertise to bear on any particular issue for which a holistic approach is appropriate.

Our Performance in 2007

Total new Risk premiums rose to a new high in 2007. Individual Protection new business APE of £160m broadly held up despite more difficult housing markets (2006: £167m).

Group Protection total premiums were £272m and new business APE was £63m (2006: £64m). In an intensely price-competitive market Legal & General continued to differentiate itself by product quality and to focus on claims management, which enabled us to resolve cases more quickly and deliver a strong performance particularly in the second half of the year.

£112m

BPA new business APE

As we predicted, Protection new business margins at 9.3% were lower (2006:10.9%). This was due to market pricing leading to a downward adjustment of the temporarily high margins which were a legacy of easing capital requirements under PS 06/14 in 2006, the costs of continued investment in our market leading IT platform, and the withdrawal of Pension Term Assurance late in 2006. Legal & General reduced administration expenses to adjust to slowing sales, and responded with a number of initiatives to attract customers, including the easing of ongoing duty of disclosure requirements for protection cover.

Individual Annuities sales grew in 2007 as market conditions became more favourable and Legal & General increased its presence in the market. New business APE increased by 18% to £93m (2006: £79m). Further refinement was introduced to product pricing, notably the introduction of postcode pricing.

Bulk Purchase Annuities had a record year as the new schemes market opened. New business APE was £112m (2006: £103m). Our traditional market of smaller schemes from insolvent companies was negatively impacted by the Government's decision in July to prevent FAS-eligible schemes from executing buyouts for a nine month period. This slowed smaller scheme activity, but Legal & General won a number of large new market schemes during the fourth quarter of the year, driving record new business performance. Legal & General quotes on the majority of BPA schemes, but it should be noted that large schemes buyouts close only sporadically. Legal & General historically has a high market share in this sector, though the level of our participation is driven by longevity risk appetite and available asset pricing.

Margins for annuity business (individual and BPA) for the year were 9.1% (2006: 10.7%). The decline in margin principally reflects the shorter duration of 'new' bulk purchase annuities, and the strengthening of longevity assumptions.

General Insurance had a difficult year, reporting an operating loss of £67m (2006: £9m profit). The cost of flood related claims in June and July 2007, as well as those relating to storm Kyrill, was £84m. During the year, we took steps to focus more closely on the household sector where purchases can often coincide with new mortgages and protection purchasing decisions.

Outlook

We expect the housing market to remain slow in 2008, but believe that the protection market still has underlying potential as remortgaging activity perseveres and protection products continue to be sold on a stand-alone basis. We expect additional sales growth from our partnership with Nationwide Building Society, which came on stream in the first quarter of 2008. We envisage market conditions to favour our combination of an established product set and multi-channel distribution. We remain optimistic about the prospects for growth in the individual annuities market as personal pensions bought in the 1980s mature, and we also expect continued growth on the 'new' BPA market. Both annuities markets are price sensitive, and our policy is only to compete for profitable new business, and large case sizes in BPAs are likely to produce earnings volatility quarter-on-quarter. We continue to refine our approach to GI business. We anticipate market price rises for household insurance following last year's floods to lead to greater consumer switching between providers, and expect this to benefit companies such as Legal & General, which has a relatively small existing book of business.

Savings: Wealth Management

Our Businesses
Legal & General's Savings Businesses consist of Wealth Management and the With-profits business. With-profits is discussed separately on page 22.

The product range within Wealth Management includes pension and investment bond products, unit trusts and Individual Savings Accounts (ISAs), as well as group pension products sold to corporate clients to provide for their employees. We sell traditional products as well as those designed to be held on electronic platforms.

In addition, some savings products are sold to professional clients or institutions. This business, consisting of large single sum transfers of institutional business, has volatile new business levels due to the transaction size and nature of the investing party, and is reported separately from core savings.

Our Strategy
Our Wealth Management business provides the means for customers to maximise their current and future wealth. It is designed as an efficient, technology-driven, quality asset business. We are committed to achieving growth in assets under administration by providing a mix of good value investment products, distributed through a variety of channels and administered efficiently with a strong onus on customer service and retention. We utilise a variety of technology platforms and distribution mechanisms in our dealings both with customers and financial intermediaries, and we encourage greater persistency from existing customers by enabling them to hold or grow their investments in Legal & General products.

Our strategy recognises the importance to a modern wealth business of a comprehensive, balanced product set which meets short to long term needs, and which provides flexible investment instruments with varying degrees of sophistication, suitable for a customer range which includes relatively small-scale savers, mass-affluent and some higher net worth markets. These include both advised and non-advised products. We utilise a variety of distribution channels, with sales being both direct and intermediated, largely through bank and building society partners and IFAs. We actively adapt to changes in market technology, as evidenced by our partnership with our online platform provider Cofunds, which, as one of the UK's leading fund supermarkets, provides customers and IFAs with access to a number of Legal & General products.

We regard the wealth sector as a market with good growth potential for Legal & General, and an area where we utilise synergies with other parts of the Group. These include those between pensions and annuities when retirees convert a pension 'pot' into a lifetime income, and those which leverage the investment expertise of Legal & General Investment Management (LGIM) to structure products for the retail savings markets. Customers meanwhile benefit from the strength of the Legal & General balance sheet and the Company's established administrative competence.

Our Performance in 2007
Individual UK non profit pensions new business APE for the year was £253m, an increase of 22% against the prior year. This equates to 18% of Legal & General's total worldwide new business APE. This growth was evident both in individual and grouped individual (corporate client) pensions business. We continued to benefit from an A-day related increase in pension transactions in 2007, with individuals taking the opportunity of greater flexibility to improve and consolidate pension arrangements. Pensions margins for the year were -0.8% (2006: -0.7%). These negative margins are largely due to the regulated nature of charges in this market. We are increasing the proportion of Self-invested Personal Pensions (SIPP) sales relative to basic stakeholder pensions and increasing investment in our systems to enhance future efficiency. Legal & General's UK

+22%

non profit pensions APE growth

Quality Products and Distribution

Strategy Live!

"We believe our customers want access to good value, high quality products which they can buy in a way which is most convenient to them."

Kate Avery, Group Executive Director (Wealth Management)

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"We believe that today's world is epitomised by change, whether that be in our careers or our family lives. And that means our products need to be more flexible than ever. We believe very few people now regard their job as being there for life with a generous company pension scheme on retirement.

At the heart of our strategy is providing a choice of how customers wish to purchase our products…

At the end of the day, we know that our job is to act as a steward of our customers' money, making it possible for them to make important financial decisions in the knowledge that they are working with a reliable, secure long term partner."

Quality Products and Distribution

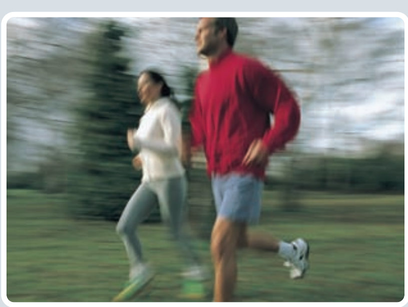
First Maturing Share Schemes SIPP Plan for UK FTSE 100 Company

GlaxoSmithKline became the first UK FTSE 100 Company to offer employees a group self-invested personal pension (SIPP) designed to provide self investment of long term employer-sponsored saving initiatives such as share incentive plans, SAYE share schemes or other approved share arrangements. The Legal & General plan which sits alongside employees existing pension arrangements also has the potential to provide employees with additional opportunities to save for retirement through bonus sacrifice, a wider range of investment funds, and the significant tax savings offered by SIPPs. Other large employers are expected to follow suit.

Cofunds

Cofunds Relationship Strengthened

Legal & General and Cofunds have extended their distribution relationship to 2013. This follows the on platform launch of an international bond from Legal & General's life company in the Republic of Ireland, and a funds only self-invested personal pension broadening the product offering which Cofunds provides to the UK IFA market.



Enabling Rapid Returns to Work

Group Protection's fast-paced approach to getting customer companies' employees fit to return to work after periods of ill-health has shortened periods of absence and reduced claims. A notable success from our approach of early intervention and expert medical outsourcing has been the reduction in the average employee absence period for mental health problems from 54 to 28 months in companies using our Group Income Protection policies.

Strategy Live!

www.legalandgeneralgroup.com

market share in pensions is now 6.3%. Almost 96% of With-profits APE is pension-related and this is discussed later in the With-profits section.

Unit Linked Bonds new business APE for the year was £251m (2006: £261m). Investment bonds accounted for 17% of total worldwide new business growth for Legal & General (2006: 20%), and as a company we have a market share of 6.7%. Sales increased by 9% during the first nine months of the year, but the impact of tax uncertainty for investors following proposals in the Pre-Budget Report (PBR) led to our fourth quarter sales being 34% lower than in 2006. During the year, we broadened the investment bond product base by launching an International Bond, issued by our newly established Dublin subsidiary, and rolling out our Discounted Gift Scheme for customers with significant inheritance tax liabilities.

Margins for Unit-linked Investment Bonds were 0.8% (2006: 2%). In an increasingly competitive market, we have used special offers to balance our volume and profit margin objectives. Having increased investment in our systems and launched our international investment bond, the impact of the PBR on sales in the fourth quarter was clearly disappointing.

Core retail sales of unit trusts and ISAs generated new business APE of £161m in 2007 (2006: £123m). This increase was driven by the expansion of our specialist sales channel. Institutional unit trust and ISA gross inflows of £1,809m (2006: £5,383m) reflect the volatile nature of these sales. A disproportionate volume of institutional business was written in 2006 as a result of an arrangement with a single large institution.

Outlook

We expect the UK long term savings market to remain underpinned by supportive demographics, particularly growth in the numbers of High Net Worth and mass affluent 'baby boomer' households making provisions for retirement and long term financial security. This will remain a powerful positive driver for total assets under management and new business volume growth over the medium term. We see our distribution strength as a strong advantage against this market background. This year, we expect savings markets to remain competitive, but anticipate a return to more rational pricing, particularly for more sophisticated products. We anticipate a more difficult outlook for sales of ISAs and shorter-term products pending greater consumer certainty about the broader economy, but expect to see good growth in individual and group SIPP sales. The outlook for investment bonds remains uncertain, due to the changes to Capital Gains Tax rules announced in the PBR.

31%

core retail investments APE growth

Directors' Report
Business Review continued

Savings: With-profits

Our Business
Legal & General's With-profits business is primarily a savings business built around the £30bn of funds invested for With-profits customers within the long term fund. The business includes products – predominantly bonds, endowments and pensions – where customers receive bonuses as a result of direct participation in surplus profits. It also includes products, typically pensions, where a with-profits investment option exists, as well as annuities resulting from former with-profits pensions.

Our Strategy
With-profits business has become less prevalent in the broader UK financial services sector, but its continued growth and strong performance remains strategically important to Legal & General. A well-performing with-profits business contributes to overall new business growth and, by proactively managing customers to keep their policies for longer, to the increase in embedded value of the existing book of business.

Our financial strength enables us to take long term investment decisions on behalf of with-profits policyholders. The resulting performance supports greater policyholder persistency. Appropriate asset allocation, and a detailed understanding of the different liabilities of the varied policy types within our fund, enable us to balance customer expectations with the need to manage risk for customers and shareholders.

£665m

With-profits bonuses paid

Our Performance in 2007
In 2007, our With-profits fund achieved a good relative performance. In a more difficult investment environment, assets backing the With-profits participating policies generated a 4.5% return gross of tax and investment charges, compared with 11.2% in 2006. £665m in With-profits bonuses were paid to customers (2006: £596m). On a five-year view, the fund has delivered a 77% total return. During 2007 we used our investment expertise to take advantage of market opportunities by making some significant switches between asset classes. The investment freedom we have to do this is made possible by our financial strength.

In 2007, With-profits Savings APE of £228m accounted for 17% of UK new business APE (2006: 16%), with value added of £19m, a 46% increase against 2006. With-profits Annuities generated £5m APE with £2m value added (2006: £8m APE with £4m value added). The embedded value of the total With-profits business increased by 10% to £864m before the shareholder transfer in the year of £74m.

Significant activity this year has centred on retaining monies invested in the With-profits part of Society's long term fund, whether bonds, endowments or pensions. During the year, the basis on which our With-profits fund pays investment management charges to Legal & General Investment Management was adjusted to reflect more closely prevailing market rates.

Outlook
There are definite signs of renewed investor interest in with-profits. Sales of with-profits products in the UK marketplace have been growing in recent years and with the increased levels of volatility being witnessed in investment markets, we believe that with-profits will remain an attractive fund choice in 2008, especially for those investors with a more cautious attitude to risk. Legal & General is well placed to pursue this opportunity.

In common with the wider pensions market, with-profits pensions sales have benefited from the stimulus created since the introduction of the Pensions Simplification legislation in April 2006. We believe, however, that much of this effect has now materialised and therefore expect with-profits pensions sales to revert to more normalised levels in 2008.

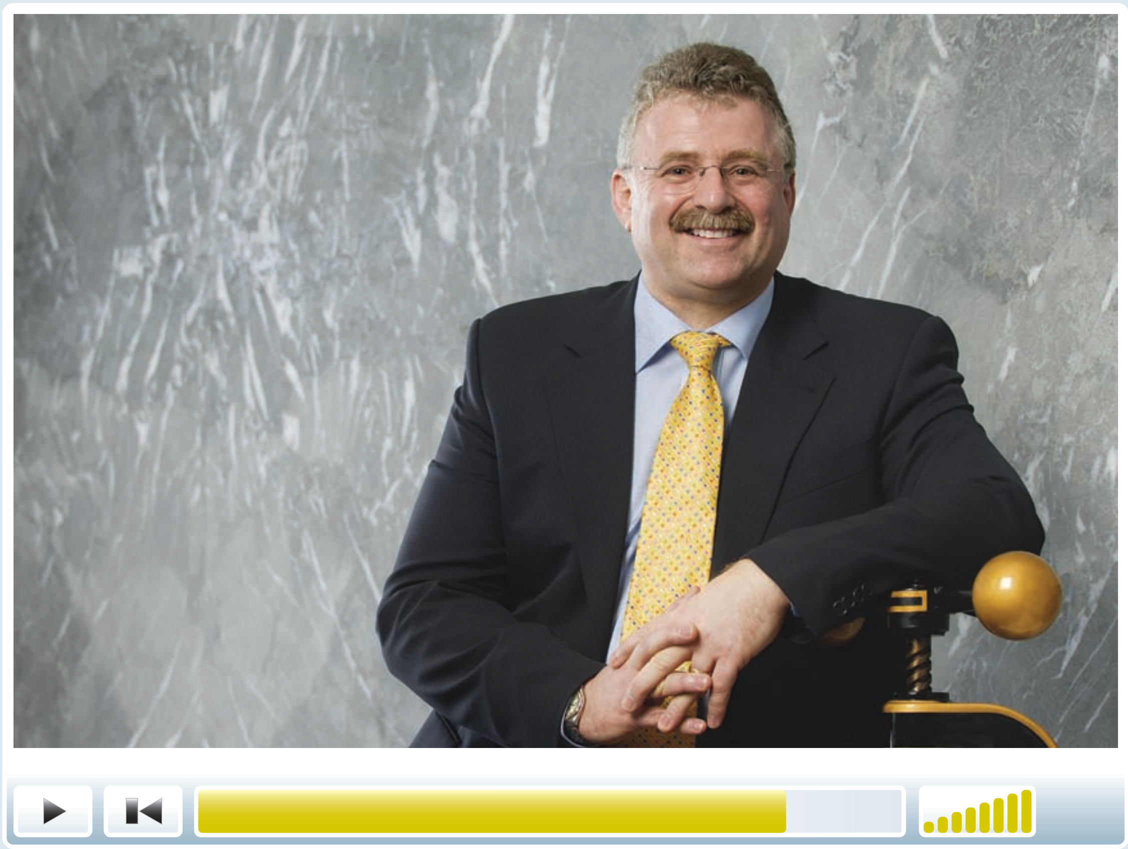
With regard to our strategy for the assets in the Legal & General With-profits fund, we will continue to use our investment expertise, together with the freedom made possible by our financial strength, to develop market opportunities.

Positive Customer Experience

Strategy Live!

"Our aim is to make every customer experience with Legal & General a positive one. Positive for the customer, and positive for us as a Company, too."

John Pollock, Group Executive Director (Protection and Annuities)



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"This means treating the customer fairly, making sure we are responsive to customer needs and operating a reliable infrastructure in terms of administration…

This is what we mean when we say that every day matters, and one reason why we take the ABI's 'Customer Initiative' and the FSA's 'Treating Customers Fairly' initiative so seriously.

The customer experience should be a positive one for our shareholders, too. If our service levels encourage customers to hold our products for longer, then that increase in persistency will be reflected in the embedded value of our business. If we outperform our own assumptions of customer persistency, it benefits our bottom line.

A positive experience with our customers can help us achieve enhanced synergies between product lines and business divisions. Someone who has been well served, for example, as an ISA customer, will be more likely to look favourably on Legal & General when the time comes to buy other financial products…"

Positive Customer Experience

Customer Satisfaction: Legal & General Ranked in Top 10

A customer satisfaction survey featured in Marketing Week ranked Legal & General sixth out of the 35 UK companies which took part. Legal & General was the top placed financial institution for customer service. The survey conducted by FDS/Comparisat gave Legal & General an Overall Satisfaction score of 8.2 out of 10. The Overall Satisfaction score included measures of value for money, people, product range, product quality, innovation, trust, loyalty and willingness to recommend.

New Industry Commitment on Protection Claims

For protection products it is essential that our customers are confident that claims will get paid should ill-health or tragedy strike. Over recent years media coverage of claims in the industry being declined due to customers failing to disclose important details of their medical history has undermined some of this confidence. As the leading provider of protection products, Legal & General has been at the forefront of industry moves to rebuild confidence by working with the Association of British Insurers (ABI) to issue a new industry agreed commitment on paying protection claims. Bernie Hickman, Legal & General's Managing Director of Protection, chaired the ABI committee that devised this new guidance, which will reduce the number of declined claims and ensure that all providers give customers the benefit of the doubt when it comes to medical disclosures.

Investment Management

Our Business
Legal & General Investment Management (LGIM) has £297bn of funds under management and is one of the UK's largest asset managers. LGIM's holdings of UK equities account for around 5% of the total capitalisation of the FTSE All-Share index. LGIM manages institutional and retail funds, with the bulk of assets under management coming from pension funds and other investing institutions. More than three-quarters of funds under management are derived from clients outside the Legal & General Group, and in total, LGIM manages funds for over 3,000 institutional clients.

LGIM's historic strength has been in index tracking, where we are the UK's clear market leader with £214bn index funds under management (2006: £162bn). LGIM increasingly offers a complementary range of actively managed products including active fixed income, active equity and structured solutions. During 2007, the creation of LGIM's Chicago office established our capability in the US fixed income market.

Our Strategy
LGIM's success in index fund management provides a stable core of low-risk, scalable, value-for-money products and a strong track record of service delivery for a broad range of clients. The index fund business model is built around the use of pooled funds. This pooled approach and the size of LGIM funds – the UK Equity Index Fund now exceeds £86bn in size – mean economies of scale can be shared with clients.

LGIM's product diversification strategy builds on its client relationships. Offering structured solutions and actively managed products enables the business to grow and diversify alongside clients, assisting them as their investment requirements change. The LGIM business model is designed to cope efficiently with complexity, offering a series of 'building blocks' that can be configured to suit clients' needs.

The success of this strategy was demonstrated in 2007 as LGIM not only added significantly to core index funds but also grew its Liability Driven Investment (LDI) business to become a major provider in the UK corporate pensions market.

Less than one-quarter of LGIM's assets under management are derived from within Legal & General, but significant synergies exist between LGIM and the broader Group. These include utilising LGIM's wide range of asset management capabilities and funds for the retail markets served by the UK Savings business, taking advantage of complementary skillsets to develop pension buyout solutions, and executing effective asset and liability management strategies on behalf of Legal & General and its policyholders.

Our Performance in 2007
LGIM delivered outstanding performance in 2007. Gross new funds inflows were £53bn, an increase of 155% over 2006, itself a record year. This success was driven by a combination of exceptionally strong organic growth generating on average £2.5bn of gross new funds per month, plus large additional inflows of index funds as Hermes withdrew from that business sector. As at the end of 2007, LGIM had been appointed to manage approximately £20bn of funds by former clients of Hermes. On a net basis, LGIM ended the year with £297bn in funds under management (2006: £233bn).

£297bn

funds under management

LGIM's operating profit for 2007 was £155m on the IFRS basis, an increase of 17% on 2006.

Outlook
LGIM's 2007 new business performance, in particular the new mandates gained from Hermes clients, was exceptional. We expect a reversion to more normal levels of business in 2008, against a backdrop of continued uncertainty and volatility in asset markets. However, LGIM's strategy, in particular its phased expansion into Structured Solutions/LDI markets and actively-managed products is expected to continue to generate additional value beyond the proven core business of index fund management. We expect to realise greater synergies between LGIM and the broader Legal & General Group, and to continue to make operational improvements such as the implementation of the 'IRIS' straight-through processing system for pension funds, which will continue to refine and improve our client offering as the UK's leading institutional asset manager.

Directors' Report
Business Review continued

International

Our Businesses
Our core Risk, Savings and Investment Management businesses operate in the UK and, selectively, in a number of overseas markets, with the main international operations located in the United States, France and the Netherlands.

Our American protection business is based on expert mortality risk pricing, underwriting and specialist distribution. Our French savings business was a pioneer in France in introducing a modern, transparent single-charge unit-linked savings product for high net worth customers and has built a successful Group Risk business. In Holland we have grown competitive high net worth savings and protection businesses.

Our Strategy
Our strategy is to pursue growth opportunities which help us achieve the long term objective of a diversified and successful Risk, Savings and Investment Management business.

Increasingly, our experience and research suggests that growth opportunities are emerging overseas and that in the right circumstances our core competencies are becoming increasingly relevant to these new growth markets.

We only invest, in a measured way, when opportunities meet the strict strategic, operating and financial criteria that we have set ourselves.

Our Performance in 2007
Legal & General's overseas businesses generated new business of £116m APE in 2007, compared with £105m for the prior year. Sales volumes grew by 7% in the United States due to more favourable market conditions whereas regulatory and consumer concerns over the market for unit-linked products led to a 7% decline in sales in the Netherlands. New business APE in France rose by 31% to £42m, while French retail investment business volumes remained flat against the prior year.

Operating profit from our international operations decreased to £136m (2006: £156m) on an EEV basis. On an IFRS basis, operating profits from our international operations were £86m (2006: £75m), an increase of 15%.

During the year, we signed a memorandum of understanding to set up a joint venture with two leading Indian state-owned banks, Bank of Baroda and Andhra Bank, which between them have over 40 million existing customers.

Outlook
We expect that the Indian joint venture will remain in preparatory phase during 2008, with launch anticipated in 2009. During the coming year we will continue to pursue other international opportunities that fit our strategy and meet our criteria.

£136m
EEV operating profit from international operations

£116m
new business APE from overseas businesses

Distribution

Legal & General balances distribution of its products, operating a multi-channel strategy which utilises Independent Financial Advisers (IFAs), a tied adviser network, Bank and Building Society Partners and direct distribution. Distribution mix varies between different products, but in 2007, our overall distribution mix was: IFAs 74%, Tied Partners 23% and Direct 3%.

Our aim is to maintain diversity in distribution. This reduces the risk of over-reliance on any single channel and prepares us for potential regulatory changes affecting the distribution of financial products, such as those envisaged by the FSA's Review of Retail Distribution. It also enables rapid reaction to changing customer distribution preferences and helps us transfer learning between channels.

IFAs

In addition to servicing the product requirements of core individual and national IFAs, this component of distribution focuses on Employee Benefit Consultants for corporate business, and specialists in products including pensions and annuities. Unit trust business is distributed through private client investment managers and stockbrokers as well as IFAs. Bulk Purchase Annuities are also frequently intermediated through specialist consultants who work with pension funds.

Legal & General has a partnership with fund supermarket Cofunds, and provides bond and pension products on the Cofunds platform. This includes the product wrapper and administration, which enables access to a wide variety of Legal & General investment products via the Cofunds platform. Additionally, a branded version of the Cofunds platform is available to our business partners. Legal & General is a 25% shareholder in Cofunds. A further example of the growing use of technology in the advised sector is access to our 'AdviserCentre' technology which enables online underwriting.

Partnerships

Legal & General has over 20 Bank and Building Society partners with a combined total of over 40 million customer relationships. We pride ourselves on our ability to work in close partnerships or strategic alliances with other financial institutions. Individual partnerships vary in precise scope, but relationships can include the sale of financial products by Legal & General staff within the partner institution, or tie-ups which facilitate sales of products directly to the partner's customers. In most cases, we are the sole supplier to the partner institution, though we do have some partnerships that are multi-tie based.

In addition, we operate a large network of intermediated sole suppliers, many of whom are mortgage advisers operating under the auspices of Legal & General Partnership Services Limited.

During 2007, we continued to prepare ourselves for the launch of a major new partnership with Nationwide Building Society, which went live in February 2008. Nationwide has 13 million members and is represented in 900 locations. Our work in partnership with other financial distributors is a major driver for the sale of protection, general insurance and savings products, and informs our broader approach to bancassurance markets, including internationally.

Direct

Direct is the smallest of our distribution channels accounting for some 3% of APE, reflecting the fact that relatively few of our products are sold direct to customers on a non-advised basis. Direct distribution is conducted through both core and partner channels, but in both cases uses our own resources: call centres, leaflets and promotions, direct mail and website channels.

Partners with

>40m

customer relationships

"Getting it right for our customers means getting it right for our shareholders."

Andrew Palmer
Group Director (Finance)

Group Capital

Introduction

As stated, one of our strategic imperatives is Financial Strength. Achieving profitable growth for shareholders and security for customers requires a robust, well-designed capital structure. We aim to have the right amount of capital, of the right type, deployed in the right places. Our capital strength is evidenced by our financial strength rating, which we regard as a strategic differentiator.

Capital management

Legal & General has developed a balanced scorecard for capital management to help us demonstrate how we manage capital and to provide a transparent framework for shareholders. This can be seen in Fig 3, together with 2007 values and target operating ranges.

We currently use four inter-related scorecard measures. The first two measures, the Insurance Groups Directive (IGD) surplus capital and the regulatory surplus capital for Legal & General Assurance Society Limited (Society), are key measures of financial strength for our regulator, the Financial Services Authority (FSA). The Economic Capital measure reflects our aim to run the business to a strong AA financial strength rating, and it is the capital requirement supporting this rating which is the primary constraint. The fourth measure, Return on Embedded Value (RoEV), ensures that there is an appropriate tension between

Fig 3. Balanced scorecard for capital management

	2007	Target operating range
IGD surplus capital *	£4.1bn	£3bn–£4bn
Society surplus capital *	£4.4bn	£2.5bn–£3.5bn
Economic capital	Very strong AA	Strong AA
Return on EV	8.0%	Increase over medium term

* Figures extracted from the unaudited draft regulatory terms.

Fig 4. Regulatory surplus capital

As at 31 December 2007	IGD[1] £bn	Society[1,2] £bn
Available capital resources	8.3	8.4
Capital resources requirement	4.2	4.0
Surplus capital	4.1	4.4

1 Figures extracted from unaudited draft regulatory terms.
2 Long term business only.

Financial Strength

Strategy Live!

"Our credibility is tied up in the promise we make to customers. And delivering on our promise presupposes that we have sufficient financial strength to do so."

Andrew Palmer, Group Director (Finance)

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"Insurance companies, as FSA regulated entities, have to carry a minimum level of regulatory capital. We go beyond that, taking as our determinant of capital strength the AA+ financial strength rating from Standard & Poor's. We don't think anyone in Europe has a stronger life fund.

For us, this is a key strategic differentiator. We think it can give confidence to consumers, business partners and financial intermediaries. It is evidence that we have the necessary capital to be able to remain strong even through a downturn, and it means we have the capital to keep growing new business profitably."

Financial Strength

Group Capital Actions

2006

December
- Established LGPL as a reinsurer
- Ceded non-linked non profit pension and annuity business to LGPL
- Implemented PS 06/14
- Reviewed annuity investment policy

2007

May
- Issued £600m Innovative Tier 1 capital

July
- Announced and initiated £1bn share buyback
- Change to internal investment fee arrangements

November
- Converted LGPL into ISPV
- Communicated proposals to policyholders relating to restructuring of long term fund, and removal of formula restriction on long term fund transfers

December
- Merged 1996 Sub-fund and Shareholder Retained Capital
- Removed the long term fund transfer formula
- Introduced alternative capital support for the With-profits business

High Performing Approach to Financial Strength

Since announcing its capital review in November 2006, Legal & General has substantially overhauled its capital structure. This demanding, technical project places the Company at the forefront for balance sheet management and has enhanced embedded value by £0.5bn, while returning capital to shareholders and preserving Legal & General's distinctive financial strength.

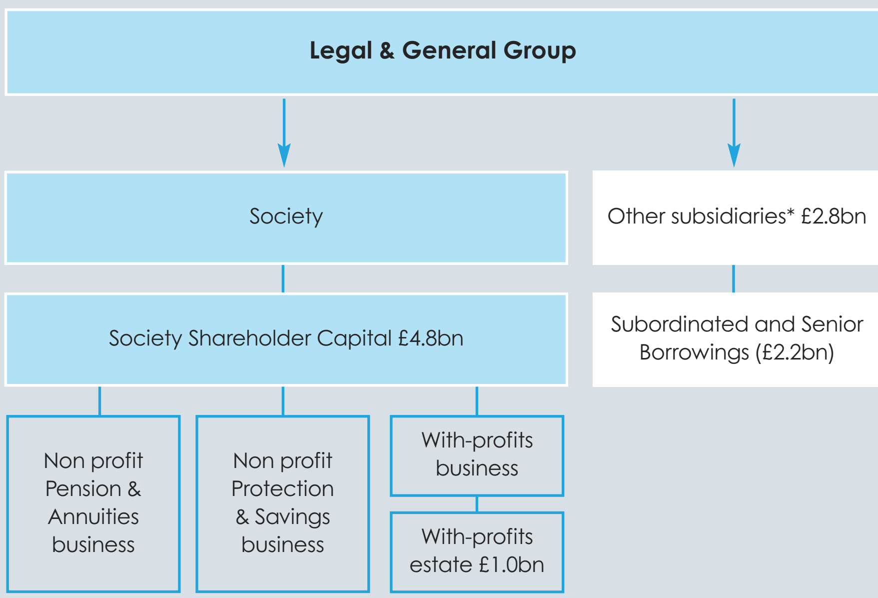
Along the way, the Company achieved a number of notable successes: the creation of the UK's first Insurance Special Purpose Vehicle (ISPV) and the issue of an award-winning Tier 1 Bond issue, to give just two examples.

All this has been achieved in less than two years.

Strategy Live!

www.legalandgeneralgroup.com

Fig 5. Group capital resources



* Investment Management, General Insurance, the Netherlands, France, USA and Group Plc.

quantum of capital and the return earned on that capital.

We anticipate that the scorecard target ranges will continue to evolve as industry performance and capital measures develop.

Capital review

During 2007, we completed our review of the Group's capital structure, which we outlined in last year's report. We have achieved our key priority of a flexible and transparent capital structure, whilst retaining a strong underpin to our dividend policy.

A schedule of the key achievements of the review is set out on page 30. The £600m issue of Innovative Tier 1 capital in May has subsequently received two 'Deal of the Year' awards, from IFR and Credit Magazine. The £1bn capital return programme initiated in July is succeeding in returning significant value to shareholders, and had repurchased shares to a value of £320m at year end. The conversion of Legal & General Pensions Limited (LGPL), into the UK's first Insurance Special Purpose Vehicle (ISPV) has, as planned, reversed the capital inefficiency reported in 2006.

The 1996 Sub-fund has been merged with the Shareholder Retained Capital and new capital support for our with-profits policyholders has been established. An initial amount of £500m of shareholder assets is available for the support of with-profits policies and this amount will be amortised over a period of not more than 10 years.

The removal of the transfer formula, which restricted transfers to shareholders from the non profit part of the long term fund, has created a single, more fungible pool of shareholder capital to support our non profit Risk and Savings businesses. An initial transfer of £1.7bn from the long term fund has been agreed for the year ended 31 December 2007. This is higher than historic transfers and includes the reserves released by the implementation of PS 06/14 in 2006.

This transfer has increased IGD surplus capital and the target range reported in Fig 3 has been adjusted upwards to reflect this structural change.

Capital resources

From a regulatory perspective the Group is required to measure and monitor its capital resources on an ongoing basis and to comply with the minimum capital requirements of regulators in each territory in which we operate. Legal & General's total capital resources are in excess of the level of regulatory capital we are required to hold. Fig 4 on page 28 compares available capital resources with the capital resources requirement for Group and Society.

Fig 5 shows the structure of the Group's resources on an IFRS basis. The largest pool of shareholder capital is held within Society, reflecting the significance of this operation and the importance of ensuring its financial strength to support long term growth of our Risk and Savings businesses.

Society continues to be one of the top two highest rated European life insurance funds. As at March 2008, our financial strength ratings from Standard & Poor's, Moody's and A.M. Best were maintained at AA+, Aa1 and A+ respectively. All ratings have a stable outlook.

Individual Capital Assessment (ICA)

The FSA requires UK life insurance companies to hold capital on the greater of two bases. The first basis (Pillar 1) encompasses the rules-based regulatory capital requirements in the FSA's Prudential Source Book for Insurers, including the with-profits realistic balance sheet. The second basis (Pillar 2) is the insurer's own internal assessment of its capital requirements, together with any additional amount which may be required by the FSA.

The Group's own economic capital is calculated using an integrated model which captures dependencies and diversification benefits between different risk categories. The capital requirement is determined based on a multi-year projection, thus taking into account the long term nature of the Group's liabilities.

These measures provide a consistent basis for comparing the risk profiles and capital requirements of different business areas.

Solvency II

During 2007, the European Commission and its advisers have continued work on developing revised capital and solvency standards for EU insurers under the Solvency II project. A new directive was issued in July 2007 which also integrates 13 earlier insurance and reinsurance directives. The finalised directive will be laid before the European Parliament in 2008. This is not expected to impact Legal & General.

Legal & General participates actively in the development of Solvency II through working groups of the Association of British Insurers (ABI), FSA and Government and through European consultation processes. The Group endorses the approach taken by FSA to ensure that Solvency II benefits and builds on the experience of the FSA's implementation of ICA for UK insurers.

Group Cash Flows

Fig 6 shows that Society and LGIM continue to be the Group's main sources of subsidiary dividends.

During 2007, an interim dividend of £400m was paid by Society to support the share buyback programme.

In addition, we have phased in the introduction of market-referenced fees for the investment management services which LGIM provides to our UK life and pensions businesses. The LGIM dividend has increased by £21m in 2007 to reflect this.

Following the removal of Society's transfer formula (described in the Capital review section), we have redefined IFRS operating profit for UK non profit Life and Pensions business to be:

- the net capital invested/released from the non profit business and;
- a smoothed investment return on all Society shareholder capital.

There has been no change to the definition of the other components.

We believe this new definition of operating profit will increase transparency over the cash flows supporting Society's dividend to Group Plc, although the reported result will be more volatile. For example, the restated 2006 operating profit includes the release of reserves from adopting the FSA's new more realistic rules for certain non profit business and from changes we made to annuity investment policy.

The Group dividend recommended to shareholders is determined by the Directors after taking account of future capital requirements, our projections of future dividends from subsidiaries and current and projected investment market conditions. The final dividend per share proposed for 2007 has been increased by 7.6% to 4.10p.

Fig 6. Group cash flows

	2007 £m	2006 £m
Dividends received		
Society	**728**	380
LGIM	**71**	50
Other	**1**	3
	800	433
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Financing Cash flows	**862**	(510)
Repurchase of shares under share buyback programme	**(320)**	–
Working capital movements	**(84)**	(52)
Net cash inflow/(outflow)	**889**	(478)

Debt and Debt Facilities

Access to the capital markets is maintained through a £2bn Medium Term Note programme, which allows debt capital to be raised in both senior and subordinated form. The latter satisfies the FSA's criteria for Upper Tier II and Lower Tier II forms of capital for insurance companies. The Group also makes use of a US$2bn Commercial Paper programme, which facilitates access to both international and domestic money markets. Additionally, the Group has a £1bn five year committed credit facility which matures in 2012. Together these facilities satisfy the Group's liquidity and working capital needs.

During 2007 we raised £600m of Innovative Tier 1 capital as noted in the Capital review section above.

Total debt at the end of 2007 was £2.8bn (2006: £2.4bn) of which £0.6bn (2006: £0.6bn) was non-recourse funding. £2.1bn (2006: £1.5bn) carries a fixed rate of interest. The weighted average interest cost of the Group's core borrowings during 2007 was 6.0% annually (2006: 5.1%).

The Group has maintained its current long term and short term debt ratings from Standard & Poor's, at AA- and A1+, and from Moody's, at Al and P1.

Financial Reporting Overview

Legal & General, in common with other European listed life assurers, reports financial information to shareholders under two complementary reporting bases.

The primary financial statements, which are found in the Financial Statements section of this report, are prepared on the International Financial Reporting Standards (IFRS) basis. This basis is the one which all EU listed companies are required to follow. We believe this gives an insight into the Company's ability to generate cash flows to support dividends.

For companies which write long term insurance contracts, the emphasis of the IFRS basis on movements in a single year gives an incomplete assessment as it does not provide information on the value created over the life of the contracts. Legal & General therefore provides supplementary financial statements which are prepared on the European Embedded Value (EEV) basis. Those statements provide an assessment of the value which has been generated by the business during a financial year.

In our Business Review we provide information on operating profit on the EEV basis, which we believe provides shareholders with a good understanding of the value generated by the Group.

Operating profit reports the change in embedded value in a financial year, but excludes fluctuations from assumed longer term investment returns.

The key differences between the EEV and IFRS bases are set out in Fig 7.

Financial Reporting Developments

The IASB is continuing to develop an accounting policy for valuing insurance contracts. In May it issued a discussion paper 'Preliminary Views on Insurance Contracts'. This recommended a valuation model which includes all the expected cash flows associated with a contract. We believe that such a model would reflect the underlying economics of the insurance contract. The Group contributed to the responses to the IASB discussion paper from the European Chief Financial Officer (CFO) Forum and the ABI. We will continue our involvement as the IASB develops an exposure draft (expected to be issued in 2009) and final standard.

During 2007, the CFO Forum has made considerable progress in developing the embedded value methodology. We have actively participated in this work and anticipate that the CFO Forum will issue principles for Market Consistent Embedded Value (MCEV) reporting in 2008. The MCEV methodology builds upon existing market-consistent valuation techniques and has been used by some European insurers in their adoption of EEV.

Tax

On the EEV basis, the reported rate of tax was 26% (2006: 27%). Movements in UK EEV were predominantly grossed up at 28% (2006: 30%), the UK corporation tax rate expected to be in force for the majority of the projection period.

On the IFRS basis, the reported rate of tax attributable to equity holders was 19% (2006: 19%). The principal reason for the rate for 2007 being lower than the UK corporate tax rate of 30% was that no tax arose on the release of the 1996 Sub-fund. For 2006, the principal reason was the deferred tax credit in respect of the initial loss in LGPL.

Fig 7. Key differences between the EEV and IFRS basis

EEV	IFRS
EEV seeks to recognise, at the point new business is written, the inherent value to shareholders of that business over its entire lifetime. This is achieved by projecting future shareholder cash flows arising from new business using best estimate assumptions and then discounting those cash flows using an appropriate risk discount rate.	IFRS does not recognise, in the year of sale, profits expected to arise on the contract in future years. Instead it recognises only the profit or loss arising on new business in the year it is written. Despite IFRS allowing some acquisition costs to be deferred, some product lines will incur a loss in the year business is first written, reflecting the initial cost and reserving 'strain' of writing long term business.
EEV profit arising on in-force business represents the unwind of the risk discount rate, reflecting the fact that future cash flows projected are one year nearer to realisation, together with the impact of actual experience in the period varying from best estimate assumptions.	Under IFRS, the loss recognised in the first year of writing new business due to the typical expense strains in acquiring it will be offset by the profits emerging in future years over the lifetime of the business.

Directors' Report
People and Operational Resources

People

Legal & General's employees are the main drivers of our success as a high-performing organisation. The Group seeks to achieve employee awareness of corporate objectives and performance, financial and economic factors affecting the business and other matters which concern them. In 2007, staff were kept informed through briefings by managers, training courses, email bulletins, staff newspapers, circulars and the intranet.

We seek the active engagement of our employees in the business and we actively seek feedback through regular employee surveys.

Legal & General prides itself on the capability and diligence of its workforce, and in return aims to improve consistently as an employer. We monitor and encourage diversity in the workforce and our Equality and Diversity Committee is chaired by Group Executive Director Kate Avery. Our policy is to treat employees without discrimination and to operate equal opportunity employment practices designed to achieve this end.

The Group's policy on diversity includes giving full and fair consideration to applications for employment made by disabled persons; to continue, wherever possible, the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees.

We offer good career progression within the Company, as well as considerable flexibility in working patterns. Where business changes mean we have to reduce staff in a particular area, we aim where possible to redeploy people within the Group. Our efforts are underpinned by the strength of our relationship with Unite, the trade union, with whom we celebrated 10 years of partnership during 2007.

Our 2007 Employee Survey showed encouraging evidence that our approach was working. We recognise, however, that we have continually to improve the way we recruit, manage and train our employees to keep pace with a fast-changing business environment.

The Company operates a savings related share option scheme (SAYE), a Company Share Option Plan and an Employee Share Plan, all of which are approved by Her Majesty's Revenue & Customs. Details of employee share schemes and long term incentives are included in the Directors' Report on Remuneration.

Operational Resources

Legal & General commits a wide variety of resources to the conduct of its business. These include a significant investment made over time in technology to support the collection and analysis of data and the administration of customer accounts. At present, our systems processing capability amounts to 1,024 terabytes of storage (equivalent to storing 500 billion pages of standard printed text). In support of the business and the customer we use a telephony infrastructure that consists of over 4,000 telephone lines, and our switchboard receives over 1,000,000 calls a year.

We consistently aim to upgrade our technology with improvements which enable us to maintain service and improve cost efficiencies. This includes reducing the number of servers being managed by using virtualisation technology and encryption software to ensure that our data is secure from intrusion. At the same time we aim to improve cost efficiencies and are currently reviewing the effectiveness of provision – in terms of both service levels and cost – of a number of non customer-facing IT areas.

Our UK business is based in five main locations: Kingswood (Surrey), Cardiff, Hove, Birmingham and London. We are additionally represented in a number of UK locations where we have offices or staff based in the offices of our distribution partners. During 2007, we relocated our London office from Temple Court to a purpose-built new building at One Coleman Street. This move was conducted without disruption to our business. As a result of our new partnership with Nationwide Building Society, we now employ over 200 Swindon-based staff. Our predominant UK focus, and in particular the location of our customer services centres in the UK, is important to our customers. We employ over 750 people outside the UK.

We regard our financial strength as a key resource enabling us to support business growth and providing customers with confidence about the future direction and strength of the Company.

Our brand, working culture and reputation, all built over many years, are also important resources. These underpin both our promise to the customer and our ability to work in close partnership with a wide variety of other financial institutions and intermediaries.

10,067*

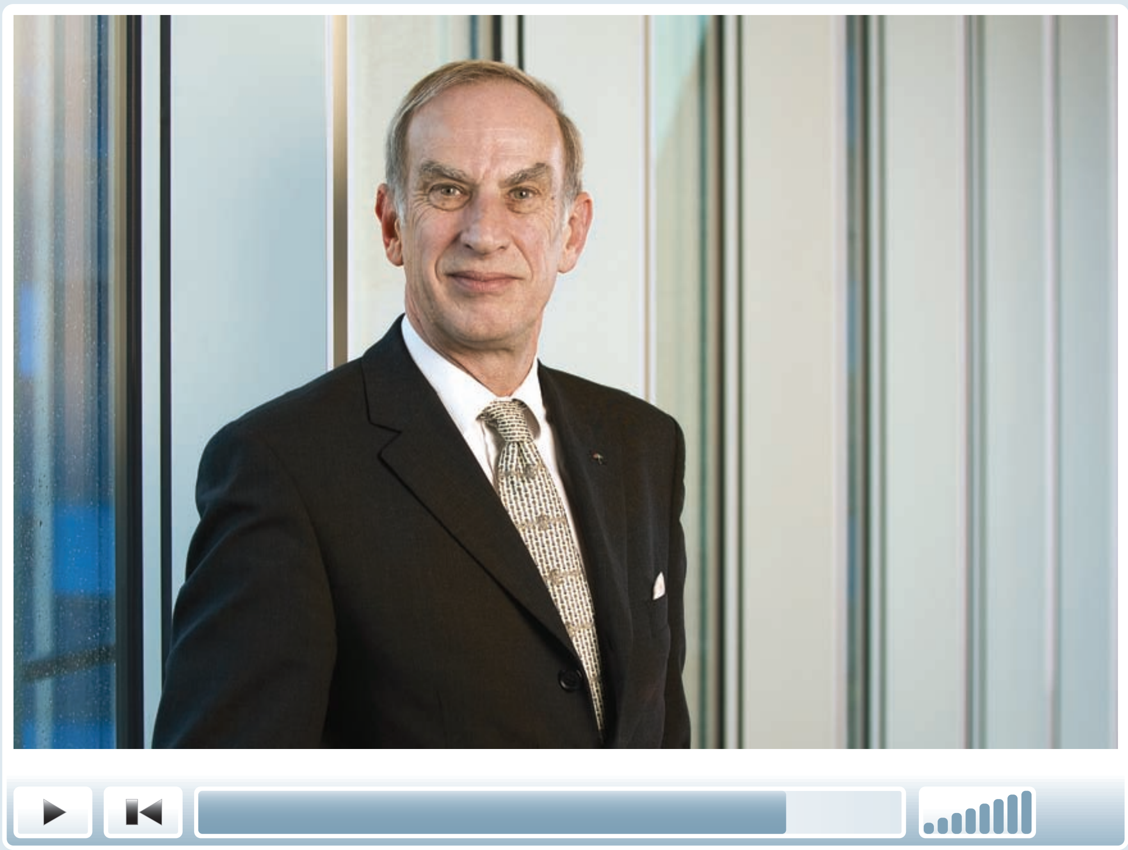
worldwide employees

* Average number of staff employed during 2007.

High Performing Organisation

Strategy Live!

"Legal & General's performance and prospects are driven by the capability, contribution and creativity of its staff." **Sir Rob Margetts,** Chairman



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"Legal & General has a highly developed culture. Our staff are team focused and customer oriented, with a powerful sense of the need to do the right thing…

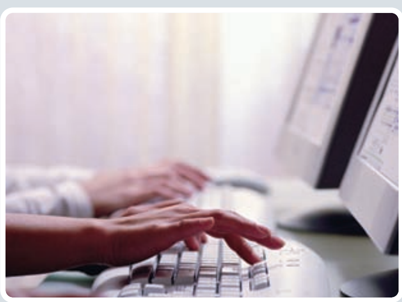
…Our approach to our staff and our workplace brings a number of benefits which are as relevant to shareholders as to those who work here. As a good employer, we are able to attract and retain a highly capable and committed workforce. This brings a strong continuity which is very important to the complex long term business of the Company. And we are able to carry our staff with us as we make changes and adapt to different business problems and opportunities."

High Performing Organisation

Powerful Pensions Infrastructure

Legal & General is responsible for pension payments to over 420,000 annuitants. These include individuals who have bought annuities directly from us and those whose schemes have been transferred in a Bulk Purchase Scheme. This universe of annuitants presents a wide variety of administrative challenges: products purchased differ as to whether they are paid monthly or annually, and whether there are dependants' benefits attached. The actual benefits payable to annuitants also vary widely, particularly for Bulk Purchase Annuity schemes, and annuitants' circumstances vary, with some living overseas and requiring payment in local currency.

Our administrative infrastructure is designed to cope with these challenges, and our customer-facing staff are well-attuned to the important and sometimes personal issues involved in looking after peoples' pension payments. These include dealing with personal financial data, handling the notification of bereavement and informing survivors, often themselves elderly or financially vulnerable, about pension benefits going forward. We do not outsource this work: the personal touch is important to us and our customers.



LGIM Pioneers Straight Through Processing for Pensions

For several years Legal & General Investment Management (LGIM) has been working to achieve a common standard across the institutional pensions market to enable investment managers and pension administrators to process transactions with each other electronically without unnecessary human intervention – a system commonly known as Straight Through Processing (STP). In 2007 that initiative became a reality when administrators Capita Hartshead, Mercers and Watson Wyatt, plus investment manager Barclays Global Investors joined with LGIM to establish such a standard using the latest ISO20022 message scheme. They have all built the appropriate system capability and are transacting business with each other using the standard which has now been adopted by the National Markets Practice Group as the standard for the UK corporate pensions market. The manner in which the standard was achieved is being heralded internationally as an example of best practice in how to achieve an industry consensus and is already being used as a model to develop STP in both South Africa and Australia.

Directors' Report
Corporate Social Responsibility

"With over 170 years of history, Legal & General understands the importance of sustainable business."

Tim Breedon
Group Chief Executive

Our commitment to business sustainability is reflected in the involvement of the most senior management within the Company in our Corporate Social Responsibility (CSR) programme. The programme itself is structured through a set of well-defined objectives and measurable outputs. CSR is built into Legal & General's governance structure.

The Company engages with a wide variety of external organisations on CSR issues. Legal & General is a constituent of the FTSE4Good and Dow Jones Sustainability indices, as well as a member of Business in the Community. Our CSR performance is regularly benchmarked by these organisations, while our environmental performance is subject to external verification by Bureau Veritas.

One important objective is to embed CSR principles in the daily business of Legal & General. We do this by focusing on five key areas: customers, employees, our communities, the environment and our suppliers.

Customers

The long term nature of our business means our relationships with our customers are often conducted over many years – sometimes decades. We try to make the customer's experience a positive one throughout. This means acting as responsible stewards of their financial affairs, by providing fit for purpose products which meet or exceed customers' reasonable expectations and by communicating in a clear, appropriate and accessible way.

We measure progress by regularly surveying customer attitudes to our work in the CSR field. We are active supporters of industry programmes such as the Association of British Insurers' Customer Impact Scheme and we embrace the Financial Services Authority's Treating Customers Fairly principles.

Our corporate strategy explicitly recognises the importance of the existing customer base. The embedded value of our in force business improves where our treatment of customers encourages them to hold our products for longer.

Employees

Legal & General employs over 9,000 people in the UK. They are the interface with our markets, and the representatives of our brand and culture, and one of our most important assets.

We have for many years recognised that being a good employer is not only a worthwhile end in itself, but also crucial to the longer-term success of our business. We believe that our partnership with Unite, our Trade Union, and our commitment to maximising opportunities for all employees helps foster a culture where customer-focused, responsible and ethical behaviour is deeply embedded in our approach to business.

Our corporate strategy emphasises building a culture in which we have high expectations of our employees. They in turn expect us to take our wider corporate responsibilities seriously. Achieving long term, sustainable success through recruiting, retaining and motivating our people is therefore core to our CSR programme.

Our Communities

Legal & General actively supports the communities in which it operates. For many employees this is the most immediate way for the Company to play a role beyond day-to-day business, incorporating elements of good corporate citizenship.

We engage closely with local communities, developing partnerships with charities which operate locally to our offices. This supplements our national programme and is driven by CSR representatives in each of our main locations. We facilitate employee involvement through matching individual gifts, through tax-efficient payroll giving schemes and by supporting local initiatives. In 2007, our total community contribution was £2.4m.

During 2007, our Hove office was the first to run trials for a volunteering programme. By donating time and effort as well as money, we were able to help employees make a further difference locally. We intend to build on this approach.

The success of local links is widely recognised inside Legal & General as generating significant goodwill and providing an additional positive motivation for employees. Its value as an important part of our sustainability programme is acknowledged by our annual Making a Difference Awards, which honour employees who have made a particularly significant contribution in their area.

Directors' Report
Corporate Social Responsibility continued

Environment
Our CSR guiding principles require us to minimise any negative impact on the environment arising from our business activities. In practical terms, we do this by setting measurable, progressive targets for energy consumption, emissions, waste disposal and use of recycled materials. These are set out in detail in our CSR Report.

The extent of flood claims in 2007 is a timely reminder of the direct importance of climate change to the insurance industry, and Legal & General is a supporter of the Association of British Insurers' (ABI's) Climate Change Initiative.

Socially Responsible Investment (SRI)
As one of the UK's largest investors, with investments totalling £297bn, including holdings equivalent to almost 5% of the FTSE All Share Index, Legal & General's responsibilities extend beyond ensuring its own behaviour is ethical and appropriate. Our specialist team intervenes regularly in support of governance and ethical issues with investee companies, and seeks to encourage the application of the ABI's corporate governance code. We also offer a range of ethical investment choices.

Supply Chain
Managing an efficient and mutually beneficial supply chain is an important aspect of executing our business in a sustainable way. Legal & General regularly assesses its suppliers, ensuring that they comply with our environmental, social and ethical policies. We also help them implement a series of guidelines which we have developed to support our CSR standards. For our part, we recognise the important contribution suppliers make to our business and treat them fairly and in an ethical manner.

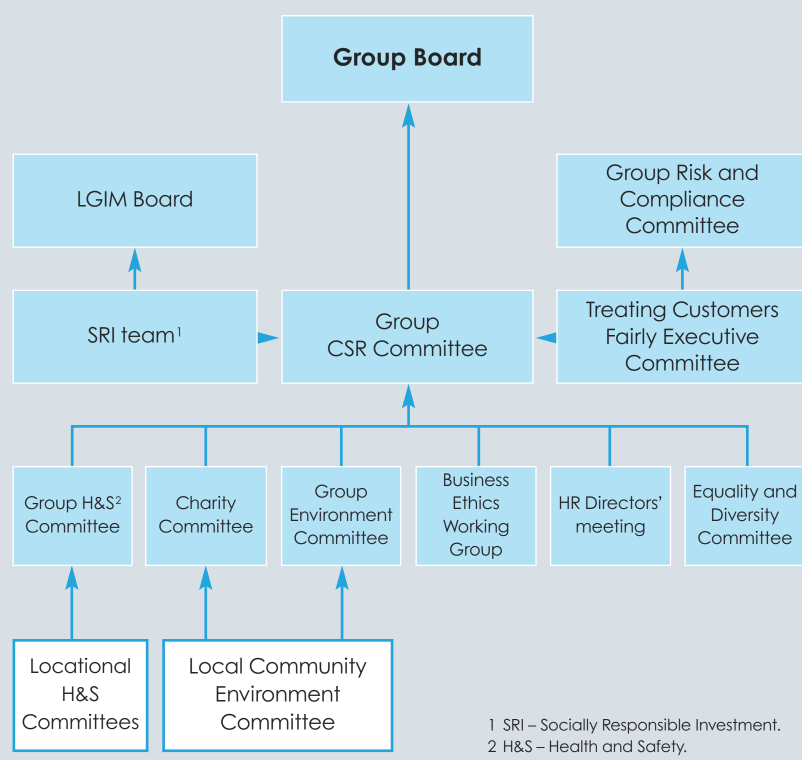
Payments to Suppliers
The Group agrees terms and conditions for its business transactions with suppliers. Payment is made in accordance with these terms provided the supplier meets its obligations. The Company has no trade creditors. As at 31 December 2007, the average number of days of payments outstanding for the Legal & General Group of companies was 32 (2006: 31).

Governance
CSR is part of our corporate governance at Legal & General, the framework of which can be seen in Fig 8. The CSR Committee is chaired by Group Chief Executive Tim Breedon and meets four times per year. Its work is driven by the guiding principles set out in our CSR Report and includes an annual review of social, environmental and ethical risks and opportunities. It sets measurable targets where appropriate. These, and our performance against them, are set out in the CSR Report, which is verified by Legal & General Internal Audit Department. In addition, the Board receives an annual CSR presentation and subject-specific updates as appropriate.

United Kingdom Donations
During 2007, charitable donations totalling £2.4m (2006: £2.3m) were made. Legal & General has a policy not to make any donations to political parties or organisations. As in 2006, no political donations were made during the year.

For further information please visit our CSR Report 2007: www.legalandgeneralgroup.com/csr

Fig 8. CSR governance framework



1 SRI – Socially Responsible Investment.
2 H&S – Health and Safety.

Directors' Report
Other Statutory Information

Directors

A list of the current directors of the Company, together with biographical notes, is shown in the Board of Directors section of this report. All current directors remained in office throughout 2007.

Beverley Hodson retired from the Board at the conclusion of the Annual General Meeting (AGM) on 16 May 2007. Robin Phipps retired as a director of the Company on 13 July 2007.

The directors retiring by rotation at the 2008 AGM are Tim Breedon, Frances Heaton, Sir Rob Margetts, Henry Staunton and Sir David Walker who, being eligible, offer themselves for re-election.

The terms and conditions of appointment for Frances Heaton, Sir Rob Margetts, Henry Staunton and Sir David Walker are available for inspection at the Company's registered office and at the AGM.

As an executive director and Chief Executive Officer, Tim Breedon has a service contract which is terminable by him or the Company on receipt of no less than six months' written notice. On termination, in addition to his notice period, he would become entitled to six months' salary, pension and car allowance.

If the directors are not re-elected at the AGM, their appointments will terminate automatically with immediate effect.

The Directors' Report on Remuneration provides details of the current incentive schemes, the interests of directors in the share capital of the Company and details of their share options and other long term incentives.

Changes in directors' share interests between 1 January 2008 and 17 March 2008 (being the last date that the figures were available prior to publication) are outlined in Fig 9 and Fig 10.

Purchase of Own Shares

On 26 July 2007, the Company announced a £1bn share buyback programme. As at 31 December 2007, a total of 241,207,267 ordinary shares, each with a nominal value of 2.5p, were repurchased for cancellation. This represented 3.83% of the issued share capital. The aggregate consideration paid was £318m (£320m including expenses) at an average price of £1.33 per share.

Since the year end, additional purchases have been made. As at 17 March 2008, a further 198,508,564 ordinary shares, each with a nominal value of 2.5p, were re-purchased for cancellation. This represented 3.25% of the issued share capital. The aggregate consideration paid was £250m (£251m including expenses) at an average price of £1.26 per share.

The directors propose to seek shareholders' approval to renew the authority for the Company to purchase its own shares up to a total of 611,414,917 ordinary shares of 2.5p each, having an aggregate nominal value of £15,285,372, being 10% of the issued nominal ordinary share capital as at 17 March 2008 (being the last date that the figures were available prior to the preparation of the AGM Notice).

A Special Resolution seeking shareholders' consent to renew the authority is set out in the notice of the AGM in the accompanying Circular to Shareholders.

Share Capital

As at 17 March 2008, the Company had received notifications from Schroders plc, Aviva plc and its subsidiaries, Swiss Reinsurance Company and its subsidiary companies, Axa S.A. group of companies, Prudential plc group of companies and Barclays, of holdings of the Company's share capital with voting rights amounting to 5.01%, 4.81%, 4.07%, 3.94%, 3.14% and 3.14%, respectively.

Resolution 11, set out in the notice of the AGM, will authorise the directors to allot up to an aggregate nominal amount of £15,285,372, being 10% of the total issued capital as at 17 March 2008.

Resolution 12, set out in the notice of the AGM, will authorise the directors to issue further shares up to the equivalent of 5% of the Company's issued share capital as at 17 March 2008 for cash without offering the shares first to existing shareholders by way of rights.

Fig 9. The executive directors' share purchases were made pursuant to their participation in the Employee Share Plan:

2008	2 January	1 February	3 March
Tim Breedon	111	110	118
Kate Avery	111	110	118
Andrew Palmer	111	110	118
John Pollock	111	109	119

Fig 10. The non-executive directors' share purchases were made pursuant to their regular monthly purchase arrangements:

2008	2 January	1 February	3 March
Sir Rob Margetts	6,029	5,925	6,399
Frances Heaton	1,103	1,176	1,270
Rudy Markham	1,103	1,176	1,270
Ronaldo Schmitz	1,103	1,176	1,270
Henry Staunton	1,475	1,632	1,763
James Strachan	1,103	1,176	1,270
Sir David Walker	1,475	1,998	2,157

Directors' Report
Other Statutory Information continued

It is not intended, without prior consultation with the Investment Committee of the Association of British Insurers, to issue in this way more than 7.5% of the unissued share capital in any rolling three year period. The resolution will also authorise the directors to allot shares in connection with a rights issue otherwise than strictly pro rata where practical considerations, such as fractions and foreign securities laws, make this desirable.

Details of the number, the consideration and the reason for the issue of shares by the Company during the year are set out in Note 26 to the Financial Statements.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the Company without prior approval of the members in general meeting.

Where the information has not been provided in another part of this Directors' Report, the following provides the additional information required for shareholders as a result of the implementation of the Takeover Directive into English Law.

As at 31 December 2007, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the ordinary share capital can be found in Note 26 to the Financial Statements.

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the general meeting. All proxy votes are counted and the numbers for, against or witheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- Certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws).
- Pursuant to the Listing Rules of the UK Listing Authority the Company requires certain employees to seek the Company's permission to deal in the Company's ordinary shares.

Barclays Private Bank & Trust (Isle of Man) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, holds 0.43% of the issued share capital of the Company as at 17 March 2008 in trust for the benefit of the Executive Directors, senior executives and managers of the Group. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting the shares or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision.

Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust, holds 0.02% of the issued share capital of the Company as at 17 March 2008 in the trust. The trust is in the process of being wound up and the shares are held on behalf of the beneficiaries of the trust. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting the shares or accept or reject any offer relating to shares, at its own discretion.

Under the rules of the Legal & General Group Employee Share Plan ('the Plan') eligible employees are entitled to acquire shares in the Company. Plan shares are held in trust for participants by Equiniti Share Plan Trustees Limited ('the trustees'). Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees no vote is registered. In addition, the trustees do not vote any unawarded shares held under the Plan as surplus assets. As at 17 March 2008, Equiniti Share Plan Trustees Limited held 0.43% of the issued share capital of the Company.

The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

There are no agreements between the Company and its Directors or employees for compensation providing for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. Directors are entitled to 6 months salary, pension and car allowance. The Company has a committed £1bn bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30 day period after change of control (the Company currently has no borrowings under this facility). There are no change of control conditions in the terms of any of the Company's outstanding debt securities. The terms of the Company's agreements with its banking counterparties, under which derivative transactions are undertaken, include the provision for termination of transactions upon takeover/merger if the resulting merged entity has a credit rating materially weaker than the Company. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

Articles of Association

The Company's Articles of Association may only be amended by Special Resolution at a general meeting of shareholders. At the AGM a Special

Resolution, Resolution 14, set out in the notice of AGM, will be put to shareholders proposing the adoption of new Articles of Association to reflect the provisions of the new Companies Act 2006.

Directors' Indemnities
The Company has agreed in writing to indemnify each of the directors against any liability incurred by the director in respect of acts or omissions arising in the course of their office. The indemnity only applies to the extent permitted by law. Copies of the Deeds of Indemnity are available for inspection at the Registered Office and at the AGM.

Insurance
Legal & General maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Auditors
A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the AGM.

Disclosure of Information to Auditors
Each of the directors at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant information of which the Company's auditors are unaware; and

2. the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 234 ZA of the Companies Act 1985.

Annual General Meeting
The Annual General Meeting will be held at 11.30am on Wednesday, 14 May 2008 at The Institution of Engineering and Technology, Savoy Place, London WC2R 0BL. Shareholders will receive details of the AGM in the Circular to Shareholders. All the documents in connection with the AGM are available on the Company's website: www.legalandgeneralgroup.com

On behalf of the Board

Claire A Davies

Claire Davies
Group Secretary
17 March 2008

Directors' Report
Board of Directors

Sir Rob Margetts CBE, Chairman, Aged 61.

Rob was appointed as a non-executive director in June 1996 and Chairman in February 2000. He is senior non-executive director of Anglo American Plc, Chairman of Ensus Limited and a director of Falck Renewables Plc. Rob is also a Trustee of the Council for Industry and Higher Education and Chairman of the Energy Technologies Institute. Former roles include: Chairman of BOC Group Plc; Chairman of the Natural Environment Research Council and Vice Chairman of ICI Plc.

NC, RC

Tim Breedon, Group Chief Executive, Aged 50.

Tim was promoted to Group Chief Executive in January 2006 from Deputy Group Chief Executive. He joined the Board as Group Director (Investments) in January 2002, having joined Legal & General in 1987. Tim is also a director of the Association of British Insurers. Former roles include: Managing Director (Index Funds) and Director (Index Funds).

GRCC, CSR, GCC, GIRC, IMRC

Andrew Palmer, Group Director (Finance), Aged 54.

Andrew was appointed to the Board in January 1996, having joined Legal & General in 1988. Andrew is a non-executive director and Chairman of the Audit Committee for SEGRO Plc, Chairman of the Association of British Insurers (ABI) Financial Regulation and Taxation Committee and is Chairman of the ABI's Financial Reporting Panel. Former roles include: Group Director (Corporate Business) and Group Director (Services).

GRCC, GCC, CCC, GIRC, IMRC, ORAC

Frances Heaton, Independent Non-Executive Director, Aged 63.

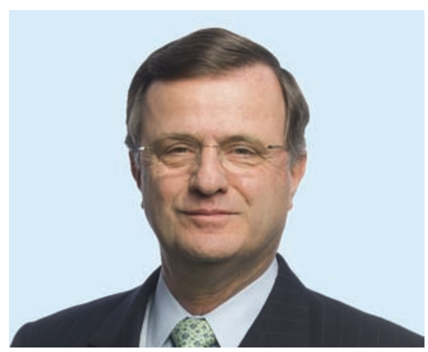
Frances was appointed to the Board in July 2001. Frances is also a non-executive director of Jupiter Primadona Growth Trust Plc and BMT Limited. Former roles include: non-executive director AWG PLC, member of the Court of Directors of the Bank of England; Deputy Chairman of WS Atkins PLC and executive director of Lazard Brothers & Co. Limited.

AC, NC

Rudy Markham, Independent Non-Executive Director, Aged 62.

Rudy was appointed to the Board in October 2006. Rudy is a non-executive director of Standard Chartered Plc and is Chair of its Audit and Risk Committee. He is also a non-executive director of the Financial Reporting Council, Moorfields Eye Hospital NHS Foundation Trust and United Parcel Service Inc. Former roles include: Chief Financial Officer, Director of Strategy and Technology and Treasurer of Unilever Plc; Chair and CEO of Unilever Japan, Chair of Unilever Australia.

AC, NC, RC



Dr Ronaldo Schmitz, Independent Non-Executive Director, Aged 69.

Ronaldo was appointed to the Board in October 2000. Ronaldo is also a non-executive director of GlaxoSmithKline Plc, Rohm & Haas Company, Cabot Corporation and Sick AG. Former roles include executive director of Deutsche Bank AG.

NC, RC

Kate Avery, Group Executive Director (Wealth Management), Aged 48.

Kate was appointed to the Board in January 2001, having joined Legal & General in 1996. Kate is a non-executive director of Kelda Group Plc and is a Member of the Association of British Insurers Life Insurance Committee. Former roles include: Retail Customer Director and Director (Group Marketing and Direct). Before joining Legal & General, Kate was Managing Director, Barclays Stockbrokers Limited and Managing Director, Barclays Bank Trust Company Limited.

GRCC and Chair of the EDC

John Pollock, Group Executive Director (Protection & Annuities), Aged 49.

John was appointed to the Board in December 2003, having joined Legal & General in 1980. Former roles include: Director, UK Operations, Managing Director, Legal & General Asia and various posts in Customer Services and IT.

GRCC, GCC, GIRC

Key to Committee Memberships

GRCC	Group Risk and Compliance Committee
AC	Audit Committee
CSR	Corporate Social Responsibility Committee
NC	Nominations Committee
RC	Remuneration Committee
GCC	Group Capital Committee
CCC	Group Counterparty Credit Committee
GIRC	Group Insurance Risk Committee
IMRC	Group Investment and Market Risk Committee
ORAC	Group Operational Risk Assessment Committee
EDC	Equality and Diversity Committee

Henry Staunton, Independent Non-Executive Director, Aged 59.

Henry was appointed to the Board in May 2004. Henry is also a non-executive director of Ladbrokes Plc and Standard Bank Plc. Former roles include: Finance Director of ITV Plc and Granada Group Plc; Chairman of Ashtead Group Plc and non-executive director of EMAP Plc, Independent Television News Limited and Vector Hospitality Plc.

AC, NC

James Strachan, Independent Non-Executive Director, Aged 54.

James was appointed to the Board in December 2003. James is also a Member of the Court of Directors of the Bank of England, a non-executive director of both Care UK Plc and Welsh Water Limited, a visiting fellow at the London School of Economics and a Trustee of Somerset House. Former roles include: Chairman of the Audit Commission, Managing Director of Merrill Lynch and Chairman of RNID.

AC, NC, RC

Sir David Walker, Vice Chairman and Senior Independent Non-Executive Director, Aged 68.

David was appointed to the Board in March 2002. Former roles include: Chairman and Chief Executive of Morgan Stanley International Limited; executive director of the Bank of England; Chairman of the London Investment Banking Association; Chairman of the Securities and Investments Board and Deputy Chairman of Lloyds Bank.

NC, RC

Corporate Governance

The Board of Legal & General Group Plc is committed to high standards of corporate governance. It supports the Combined Code on Corporate Governance 2006 (‘the Code’), which sets standards of good practice for UK listed companies.

This section of the Annual Report, together with the Directors’ Report, the Remuneration Report and the Nominations Committee Report, explains how Legal & General complies with the principles and relevant provisions of the Code.

The Board

The Board of Legal & General Group Plc is collectively responsible for determining the strategic direction of the Group and for ensuring that Legal & General meets its obligations to shareholders. During 2007, the Board met nine times and also held a strategy event at an offsite location.

The Board has a formal schedule of matters specifically reserved to it, including decisions on strategic issues, capital expenditure and material contracts. In addition, the Board regularly reviews major projects, considers operating and financial issues and monitors performance against plan. As well as dealing with the formal business of the Board, at each meeting, directors receive a detailed review from a senior manager of a key strategic or operational issue. This is designed not only to help non-executive directors develop a thorough understanding of key issues facing Legal & General but also to help them build working relationships with senior managers below Board level.

The Chairman and non-executives meet formally at least twice a year without executive directors being present.

The Chairman, in conjunction with the Group Secretary, ensures that the Board receives the information it needs to discharge its duties.

Board Composition and Structure

As at 31 December 2007, the Board comprised 11 directors. Biographies of all directors currently holding office appear on pages 42 and 43.

The Board consists of a part-time non-executive Chairman, four executive directors and six non-executive directors. Throughout 2007, the majority of directors were non-executive, all of whom (with the exception of the Chairman), the Board has determined to be independent in both character and judgement. Their diverse business experience and wide range of skills enable the non-executive directors to make a significant contribution at meetings of the Board and its Committees.

The remuneration of the non-executive directors consists only of fees; they do not participate in any performance-related pay arrangements. The terms and conditions of appointment of the non-executive directors are available for inspection at the Company’s registered office and at the Annual General Meeting (AGM). Attendance records for all directors who have held office during the year appear on Board Attendance.

2007 Board Changes

The following changes to the composition of the Board took place during 2007:

- Beverley Hodson retired as a non-executive director at the AGM on 16 May 2007
- Robin Phipps, Group Executive Director, UK, retired from Legal & General on 13 July 2007.

The above changes have been achieved without undue disruption to the business.

Responsibilities

The Board has agreed a clear division of responsibilities between the Chairman and the Group Chief Executive. The roles of the Chairman, Group Chief Executive and directors are clearly defined so that no single individual has unrestricted powers of decision.

The Chairman, Sir Rob Margetts, is responsible for leadership of the Board and for ensuring effective communication with shareholders. As part of its regular evaluation, the Board considers the Chairman’s availability and his capacity to undertake his role, against the background of his other commitments. The Board remains satisfied that the Chairman continues to be able to fulfil the normal time commitments required of his role and has the personal commitment and capacity to make himself available when unforeseen circumstances arise.

The Group Chief Executive is responsible for the day to day management of the Group and implementation of the strategy approved by the Board. The Board delegates responsibility to the Group Chief Executive, who is supported by the executive directors and heads of specialist functions. The Group Chief Executive chairs the Executive Committee (formerly the Management Committee) of which all executive directors are members. The International & Strategy Director; the Managing Director, With-profits; the Chief Executive Officer, Investments; the Strategy Director and the Group Secretary are all in regular attendance.

Sir David Walker is the Vice Chairman and senior independent director. He also chairs the Remuneration Committee. As senior independent director, Sir David Walker is available to shareholders if they have concerns which cannot be resolved through the usual channels.

The Group Secretary, through the Chairman, is responsible for advising the Board on all governance matters and for ensuring good information flows within the Board. All directors have access to the advice and services of the Group Secretary, as well as to external advice, as required, at the expense of the Group.

Board Evaluation

The Board and its directors participate in an evaluation process, the aim of which is to assess the effectiveness of the Board’s collective performance as well as the contributions of individual directors.

For 2007/8, the Board evaluation process was conducted by the Chairman and took the form of questionnaires and interviews with directors. Overall, there was a high level of satisfaction with the way in which the Board functions. A summary of the key findings was provided to the Board by the Chairman and an action plan was subsequently agreed and implemented. Feedback on individual performance was delivered to directors by the Chairman. In the case of the Chairman, feedback was delivered by the senior independent director.

A separate evaluation is carried out to assess the effectiveness of the Audit Committee.

In addition to the Board evaluation, executive directors are subject to an annual appraisal and to regular review of their performance by the Group Chief Executive. The Chairman conducts the annual appraisal, and regularly reviews the performance, of the Group Chief Executive.

Appointments to the Board

Appointments to the Board are the responsibility of the Board as a whole on the recommendation of the Nominations Committee.

All directors are subject to election by shareholders at the first AGM after their appointment and, thereafter, are subject to re-election once every three years. The removal and appointment of the Group Secretary are reserved to the Board.

Induction and Training

New directors participate in a formal induction programme tailored to their individual needs. The induction programme is designed to give directors an understanding of the Group, its business and the markets in which it operates. Introductory visits are arranged to Company sites and with key suppliers and stakeholders. All directors are required to maintain and develop their knowledge throughout their period of office. As part of its continuing training programme, the Group runs occasional training events solely for directors. Sessions run during 2007 include directors' duties and other changes arising from the Companies Act 2006 and Financial Reporting.

In addition, all directors are invited to participate in Legal & General's educational and business awareness seminars for senior management. 2007 sessions included Capital and Cashflow, Opportunities and Challenges in the UK Pensions Market and an update on the Investment Market.

Shareholder Relations

The Board attaches high importance to maintaining good relationships with shareholders. There is regular dialogue with institutional shareholders. Care is exercised to ensure that any price-sensitive information is released at the same time to all shareholders, whether institutional or private. The Board regards the AGM as an important opportunity to communicate directly with private investors. Board members, including the chairmen of the Remuneration, Nominations and Audit Committees, attend the meeting and are available to answer questions.

Board Committees

The Board has a number of standing committees:

Audit Committee (AC)

The role and work of the Audit Committee is set on page 58.

Corporate Social Responsibility Committee (CSR)

The role and work of the Corporate Social Responsibility Committee is set on page 38.

Nominations Committee (NC)

The role and work of the Nominations Committee is set on page 60.

Remuneration Committee (RC)

The role and work of the Remuneration Committee is set on page 49.

Group Risk and Compliance Committee (GRCC)

The role and work of the Group Risk and Compliance Committee is set on page 46.

Disclosure Committee

The Disclosure Committee advises the Board on the management and disclosure of insider information in accordance with the requirements of the Listing and Disclosure Rules. The Disclosure Committee is chaired by the Group Financial Controller and comprises the heads of specialist Group functions. It meets when circumstances dictate.

Internal Control

The Board has overall responsibility for the Group's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management. The performance of internal control systems is reviewed regularly by the Audit Committee, the GRCC and the boards of subsidiary companies.

The Board regularly reviews actual and forecast performance of its businesses compared with their one year plans, as well as other key performance indicators.

Lines of responsibility and delegated authorities are clearly defined. The Group's control policies and procedures are published on a dedicated intranet site, which is regularly updated and accessible throughout the Group. Directors are required to confirm compliance with these policies throughout the year. The results of this confirmation process are reported to the Audit Committee.

The Chairman and Group Chief Executive oversee the policies for employee selection, assessment and development and have direct involvement in senior management appointments. Succession planning and contingency arrangements are in place for senior management and have been reviewed by the Board. The Group seeks to conduct business in accordance with ethical principles and there is guidance for employees on the standards required.

The arrangements for establishing policies in respect of the key risks to the Group are set out below.

Review of Internal Control

The Combined Code requires directors to review and report to shareholders on the Group's internal control systems, which include financial, operational and compliance controls, and risk management.

The Board has controls in place to identify, evaluate and manage significant risks faced by the Company on an ongoing basis and for determining the effectiveness of the system of internal control. Where failings or weaknesses are identified, necessary actions are taken to remedy any such failings or weaknesses.

Established procedures, including those already described, are in place to comply with the Combined Code. The Board assesses the effectiveness of internal control systems on the basis of:

- Regular reports by management to the main operating boards and the Audit Committee, on the adequacy and effectiveness of internal control systems and significant control issues;
- The GRCC's review of the continuous Groupwide process for formally identifying, evaluating and managing the significant risks to the achievement of the Group's objectives;
- Compliance reports and presentations from the Director, Compliance, on at least a quarterly basis; and
- Presentations of the results of internal audits, by the Group Chief Internal Auditor, to the Audit Committee.

The Board takes regular account of the significance of social, environmental and ethical matters to the businesses of the Group.

The GRCC's review of the significant risks to the Group includes these matters. The work of the Corporate Social Responsibility Committee, which is chaired by the Group Chief Executive, can be found on page 38.

The Group's internal control systems are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and benefit from, internal control systems.

The results of the ongoing monitoring of financial, operational and compliance controls, and the risk management process, are reported to the Board. For 2007, the Board was able to conclude, with reasonable assurance, that appropriate internal control systems have been maintained throughout the year.

Internal Audit
Internal Audit advises management on the extent to which systems of internal control are adequate and effective to manage business risk, safeguard the Group's resources and ensure compliance with legal and regulatory requirements. It provides objective assurance on risk and control to senior management and the Board.

Internal Audit's work is focused on areas of greatest risk to the Group as determined by a structured risk assessment process involving executive directors and senior managers. The output from this process is summarised in a plan which is presented to the Audit Committee. The Group Chief Internal Auditor reports regularly to the Group Chief Executive and to the Audit Committee.

Compliance
The Group Compliance function is responsible for oversight of the Group's compliance with regulatory requirements and standards. This encompasses the provision of policy advice and guidance to the regulated firms, oversight of regulated firms' compliance arrangements to assess whether firms have appropriate systems, procedures and controls in place to manage their permitted regulatory activities, and oversight of regulatory risks arising from authorised firms' compliance responsibilities. The Director, Compliance, reports quarterly to the GRCC and regularly to the Group Board.

Management of Risk
The Group, in the course of its business activities, is exposed to Insurance, Market, Credit, Liquidity, and Operational risks. Overall responsibility for the management of these risks is vested in the Group Board. To support it in this role, a risk framework is in place comprising formal committees, risk assessment 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.

Committee Structure
Oversight of the risk management framework is performed on behalf of the Group Board by its sub-committee, the GRCC. The GRCC meets quarterly and is chaired by the Group Chief Executive. All executive directors are members. In addition, senior managers drawn from across the Group are regular attendees. The Chairman of the Audit Committee and PricewaterhouseCoopers LLP, as external auditors, have a standing invitation to attend.

The primary role of GRCC is to ensure there are appropriate processes in place across the Group to identify, assess, monitor and control critical risks facing the Group, including regulatory risks. It reports regularly to the Group Board and its minutes are provided to the Audit Committee.

The table below shows the sub committees of the GRCC that are in place. In addition, Risk and Compliance Committees (RCCs) are in place for each of the main operational business units of the Group. These committees are predominantly responsible for the oversight of the management of operational risks and regulation. RCCs formally report both to their operating boards and to the GRCC. Management of risks arising from the Group's overseas subsidiaries is performed by the Boards of the local holding companies, which provide reports to the GRCC.

Committee	Role	Membership
Group Capital Committee (GCC)	To assess the capital requirements (including the risk based capital requirements) of the Group; to monitor the sources of capital available to meet these requirements and oversee the allocation of capital to firms.	Group Chief Executive, Group Director (Finance), Group Executive Director (Protection & Annuities), Group Actuary, Actuary (UK)
Counterparty Credit Committee (CCC)	To set limits for the Group's exposure to any single counterparty failure and to manage exposures within these established limits.	Group Director (Finance), Chief Executive Officer (LGIM), Group Treasurer
Group Investment & Market Risk Committee (IMRC)	Determines the Group's overall framework for the management of market and liquidity risks and maintains oversight of exposures to ensure they remain in acceptable tolerances.	Group Chief Executive, Group Director (Finance), Group Actuary, Actuary (UK)
Group Insurance Risk Committee (GIRC)	Determines the Group's overall framework for the management of insurance risks and maintains oversight of exposures to ensure they remain in acceptable tolerances.	Group Chief Executive, Group Director (Finance), Group Executive Director (Protection & Annuities), Group Actuary, Actuary (UK)
Group Operational Risk Assessment Committee (ORAC)	Determines the Group's overall framework for the management of operational risks and ensures consistency in the approach to operational risk management across the Group.	Group Director (Finance), Senior Finance and Risk Managers, Group Secretary

Risk Assessment Processes
A continuous Groupwide process is in place formally identifying, evaluating and managing the significant risks to the achievement of the Group's objectives. A standard approach is used to assess risks. Senior management and the Risk Review Functions (see below) review the output of the assessments. A Groupwide risk assessment process is used to determine the key risks within the Group reported to the GRCC.

Risk Review Functions
Group and firm level Risk Review Functions provide oversight of the risk management processes within the Group. A central risk function is responsible for setting the risk management framework and standards. Risk Review Functions in each of the business operating units manage the framework in line with these standards. Their responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of these changes on risks to business and the monitoring of the mitigating actions. The Risk Review Functions also ensure that risk committees are provided with meaningful risk reports and that there is appropriate information to assess risk issues.

Details of the categories of risk to the Group, and high-level management processes, are summarised below. More detailed analysis may be found in Principal Risks and Uncertainties on page 9 and Note 49 on page 116. The Group has defined policies for the management of its key risks, the operation of which are supported by Risk Review Functions and are independently confirmed by Group Internal Audit. The GRCC reviews and approves these policies.

Insurance Risk
Insurance risk is the risk arising from higher claims being experienced than was anticipated.

Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of new business written and the concentration of risk, in particular, policies, or groups of policies, subject to the same risks.

The Group controls its insurance exposures through policies and delegated authorities for underwriting, pricing and reinsurance. Pricing is based on assumptions, such as mortality and persistency, which have regard to past experience and to trends. Insurance exposures are further limited through reinsurance.

Market Risk
Market risk is the risk arising from fluctuations in interest and exchange rates, share prices and other relevant market prices. The investment policies for long term and other businesses have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders. The interest rate risk of such liabilities is normally managed by investing in assets of similar duration, where possible. It is further managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios and by the use of derivatives.

The Group is also potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. Balance sheet foreign exchange translation exposure in respect of the Group's international subsidiaries is actively managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged.

Credit Risk
Credit risk is the risk that the Group is exposed to loss if another party fails to perform its financial obligations to the Group.

Credit risk is not sought in its own right. However, the investment of shareholders' and policyholders' monies requires credit risks to be taken. Exposure to credit risk also arises in the reinsurance of insurance contracts. Credit risk is managed through the setting and regular review of detailed counterparty credit and concentration limits. Compliance with these limits for investment and treasury transactions is monitored daily.

Liquidity Risk
Liquidity risk is the risk that the Group, 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.

A degree of liquidity risk is implicit in the Group's businesses. Liquidity risk arises as a consequence of the uncertainty surrounding the value and timing of cash flows. The Group's Treasury function manages liquidity to ensure the Group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows.

Operational Risk
Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events.

The Group identifies and assesses operational risk as part of its continuous risk assessment processes. RCCs ensure that appropriate policies and procedures are in place for these risks and that they are properly controlled. There are detailed procedures covering specific areas of operational risk.

Contagion Risk
The occurrence of a risk in one part of the Group may result in contagion risk elsewhere in the Group. Such matters are assessed and monitored by the GRCC.

Prudential Regulation of Insurance Business
Most of the activities of the Group relate to the businesses which are subject to prudential regulation and require management to operate in a sound and prudent manner. In the UK, the Financial Services and Markets Act 2000 (the Act) established the Financial Services Authority (FSA) as the regulator for most Group operations. The Act, in particular, requires long term insurance business to be written within long term insurance funds, for which the actuaries appointed under the Act have certain legal accountabilities. These actuaries are subject to the disciplines of professional conduct and guidance and have a reporting relationship to the directors of the relevant insurance company and to the FSA. The actuaries have access to their boards and must report fully and impartially on the financial condition of the funds, annually quantifying and confirming each fund's liabilities and solvency position. The FSA receives a copy of these reports, which are also subject to audit and overall peer review.

Going Concern
The directors have prepared the financial statements on the going concern basis consistent with their view, formed after making appropriate enquiries, that the Group is operationally and financially robust.

Compliance with the Code
For the year ended 31 December 2007, the Company believes it has complied with the principles and provisions of the Code to the extent that they apply to Legal & General Group Plc.

Corporate Governance continued

Board Attendance

The number of full Board meetings and Committee meetings attended by each director during the year was as follows:

	Scheduled Board Meetings	Remuneration Committee	Audit Committee	CSR Committee	Nominations Committee	Group Risk and Compliance Committee
Sir Rob Margetts Non-executive (Chairman)	9(9)	3(3)	–	–	2(2)	–
Tim Breedon Group Chief Executive	9(9)	–	–	4(4)	–	6(6)
Andrew Palmer Executive director Group Director (Finance)	9(9)	–	–	–	–	4(6)[1]
Kate Avery Executive director Group Executive Director (Wealth Management)	9(9)	–	–	–	–	6(6)
Robin Phipps Executive director Group Executive Director (UK)[2]	4(5)[1]	–	–	–	–	3(3)
John Pollock Executive director Group Executive Director (Protection & Annuities)	9(9)	–	–	–	–	6(6)
Frances Heaton Non-executive director	9(9)	–	4(4)	–	2(2)	–
Beverley Hodson Non-executive director[3]	4(4)	1(1)	–	–	1(1)	–
Rudy Markham Non-executive director	9(9)	2(2)[5]	3(3)[6]	–	2(2)	–
Ronaldo Schmitz Non-executive director	8(9)[1]	2(3)[1]	–	–	2(2)	–
Henry Staunton Non-executive director (Chairman of the Audit Committee)	9(9)	–	4(4)	–	2(2)	3(6)[4]
James Strachan Non-executive director	9(9)	3(3)	4(4)	–	2(2)	–
Sir David Walker Non-executive Vice Chairman, Chairman of the Remuneration Committee and Senior Independent Director	9(9)	3(3)	–	–	2(2)	–

1. Indicates that absence was agreed with the Chairman in advance.
2. Robin Phipps retired from the Board on 13 July 2007.
3. Beverley Hodson retired from the Board on 16 May 2007.
4. As Chairman of the Audit Committee, Henry Staunton has a standing invitation to attend the Group Risk & Compliance Committee but is not a member.
5. Rudy Markham was appointed to the Remuneration Committee at its second meeting of the year in July 2007.
6. Rudy Markham was appointed to the Audit Committee at its second meeting of the year in May 2007.

Directors' Report on Remuneration

Dear Shareholder,
I am pleased to present the Remuneration Committee's report on directors' remuneration for 2007, the forthcoming financial year, and subject to ongoing review, subsequent years.

For 2008, several changes are being made to the structure of performance-related pay for the executive directors, namely:

- The comparator group for measuring relative Total Shareholder Return (TSR) performance under the Performance Share Plan (PSP) will be amended for future awards. TSR will remain as the sole performance measure in the PSP, but while the FTSE 100 remains a valid means of aligning the interests of the executives and shareholders, the Committee believes that a stronger alignment with the insurance sector would also be beneficial. Accordingly, from 2008, half of the annual award will now be measured against the TSR of the Insurance constituents of the Euro Top 300 plus any FTSE 350 Life Insurers not already included in the Euro Top 300; the balance of the annual award will continue to be measured against the FTSE 100. Over the long term the expected value of the awards is anticipated to remain materially unchanged as a result of this amendment.
- For 2008 the bonus payment for on-target performance has been harmonised at 60% of the maximum for all the executive directors, reflecting a desire by the Committee to ensure that they are similarly rewarded for equivalent levels of performance. There will also be a higher proportion of shared objectives within the bonus, based on Group Financial KPIs. The maximum bonus opportunity for 2008 will be 125% of salary, which is being accompanied by more demanding targets for the achievement of stretch performance.

A resolution to vote for the Directors' Remuneration Report will be put to the Annual General Meeting (AGM). I hope that you will support this resolution.

Sir David Walker
Chairman of the Remuneration Committee

Directors' Report on Remuneration
The report of the Remuneration Committee has been prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002). It also describes the Group's compliance with the Combined Code of Corporate Governance in relation to remuneration. The Company is an active member of the ABI and the Committee, consistent with its approach of operating within the highest standards of corporate governance, takes significant account of guidelines from the ABI and other shareholder bodies (such as the NAPF) when setting an appropriate remuneration strategy for the Company. It also seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular.

Remuneration Committee
The Committee is chaired by Sir David Walker. The other members are Sir Rob Margetts, Rudy Markham, Ronaldo Schmitz and James Strachan. Sir Rob Margetts was independent on appointment. All other members of the Committee are independent. Beverley Hodson was a member of the Committee prior to her retirement from the Board at the Company's AGM on 16 May 2007.

The Group Chief Executive attends the meetings by invitation. The Group HR Director, Elaine MacLean and the Group International & Strategy Director, Gareth Hoskin, attend as the executives responsible for advising on remuneration policy. No person is present during any discussion relating to their own remuneration. Representatives of New Bridge Street Consultants LLP ('NBSC'), the Committee's independent adviser, are also invited to attend. NBSC does not provide any other services to the Company.

The remuneration strategy, policy and approach for all staff are reviewed annually by the Committee. The Committee considers the policy in relation to senior executive remuneration in the context of remuneration structures across the Group as a whole. All share schemes and long term incentive plans are established and monitored by the Committee. The Committee makes recommendations to the Board each year in respect of the Chairman's fees, executive directors' and other senior executives' remuneration. In March 2008, the recommendations were all accepted.

The Committee's terms of reference are available on the Company's website or on request. The terms of engagement between the Company and NBSC are available on request.

During the year the effectiveness of the Committee was reviewed and it was satisfied that it had been operating as an effective Remuneration Committee, meeting all regulatory requirements.

Remuneration Policy
The Group's remuneration policy is broadly consistent for all employees and is designed to support recruitment, motivation and retention. Remuneration is considered within the overall context of the Group's sector and the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market level with a package designed to align the interests of employees with those of shareholders, with an appropriate proportion of total remuneration dependent upon performance. Management work in partnership with the trade union, Unite, to ensure our pay policies and practices are free from unfair bias. This is monitored by an annual equal pay audit.

The policy for directors is described in more detail below.

Remuneration Policy for Non-Executive Directors
Non-executive directors are appointed for a period of three years. Their performance is reviewed annually. Non-executive directors may be reappointed for a further three year period and subsequently, if considered appropriate, for a final period of three years. Appointments may be terminated by either party without notice. Fees for the non-executive directors are determined by the Group Board, based on a range of external information and advice set within the aggregate limits contained in the Articles of Association. During 2007, the fees of the non-executive directors, including the Chairman, were reviewed. As a result of this review, the following fees will apply from 2008:

- Chairman: £325,000
- Chairman of the Remuneration Committee, Vice Chairman and Senior Independent Director: £110,000
- Chairman of the Audit Committee: £90,000
- All other Non-Executive Directors: £65,000

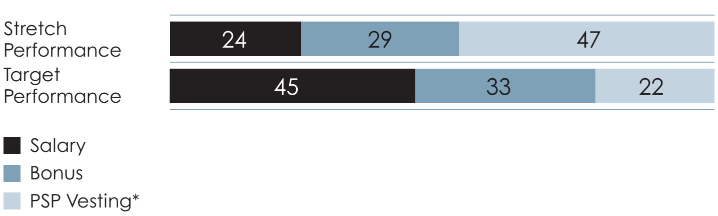
Non-executive directors use at least 50% of their fees, after UK tax, to buy Legal & General shares, to be retained by them for the remainder of their period in office. Fees paid to non-executive directors are non-pensionable. In addition to their fees, directors are entitled to be reimbursed for expenses properly and reasonably incurred in respect of their office. No further remuneration is payable.

NED	Current Letters of Appointment start date	Current Letters of Appointment end date
Frances Heaton	June 2007	May 2010
Sir Rob Margetts	October 2005	May 2008
Rudy Markham	October 2006	October 2009
Ronaldo Schmitz	September 2006	May 2010
Henry Staunton	May 2007	May 2010
James Strachan	December 2006	December 2009
Sir David Walker	February 2008	February 2011

Remuneration Policy for Executive Directors

The remuneration of the Group's executive directors comprises salary, participation in an annual bonus plan (paid partly in cash and partly in deferred shares) and the Group's Performance Share Plan (PSP), which is a long term incentive plan, plus pension and ancillary benefits. The variable elements of pay (for executive directors being the annual bonus plan and PSP) are designed to generate a strong alignment of interest between the individual and the shareholders through providing rewards which are linked to the generation of superior returns to shareholders and strong financial performance. The Company is committed to treating customers fairly and this is also reflected appropriately in bonus objectives. The chart illustrates that a significant proportion of both target and stretch pay is performance related.

Relative split of Salary, Bonus and PSP for Executive Directors at target and stretch performance for 2008 (%)



* Share price growth is ignored.

When setting remuneration the Committee takes into account the market sector, function, job size, and individual and Company performance. Data is obtained from a variety of independent sources (including NBSC, Towers Perrin, Watson Wyatt and Monks Partnership, which is part of PricewaterhouseCoopers, our auditors). Where possible, the practice is to use at least two independent sources of information for each individual role. The remuneration policy for executive directors is to pay at or around the relevant mid-market level. The market against which the remuneration for the executive directors is measured is primarily the FTSE 100, with special reference to companies in the UK financial services sector.

Remuneration Policy for Other Senior Executives

The remuneration policy for senior executives below Board level is consistent with that followed at executive director level. There are 30 executives in the UK whose salaries exceed £150,000.

Salary Range	Number of Executives
£150,000 – £175,999	15
£176,000 – £200,999	7
£201,000 – £225,999	5
£226,000 – £250,999	2
£251,000 +	1

The total salaries of these executives is £5,658,180.

Salary

The policy is generally to pay salaries around the mid-market level for the individual performance within the context of the relevant market for the job. However, when setting salaries, judgement is also exercised by the Committee, having regard to individual experience and responsibility.

Accordingly, particularly when a new appointment is made, salary levels may be set at a lower level than the mid-market position, with a view to increasing towards this position over the two to three years following promotion. The salary increases for Kate Avery and John Pollock for 2008 reflect the fact that the scope of their roles has increased since the retirement of Robin Phipps during 2007. However, in line with policy stated above, their salaries have been set below the mid market rate for roles of an equivalent size. It is anticipated that this differential will be addressed over the next two to three years.

Salary is the only pensionable remuneration and it is normally reviewed annually with effect from January.

The base salaries for the executive directors for the financial year beginning on 1 January 2008 are as follows:

Name	Salary	% increase since 2007
Kate Avery	£385,000	10.0%
Tim Breedon	£770,000	4.1%
Andrew Palmer	£460,000	4.5%
John Pollock	£370,000	15.6%

Annual Bonus

Maximum bonus levels and the proportion payable for on-target performance are considered in the light of market bonus levels for the job in other FTSE 100 financial services sector companies and the FTSE 100 as a whole. Taking this into account, for 2008, the maximum bonus payment for the executive directors will be 125% of salary, an increase from the current level of 105% of salary, but which remains below the median relative to both the FTSE 100 and other FTSE 100 financial services companies. This increase will be accompanied by more demanding stretch targets than are currently required in order to achieve the maximum payout.

The Committee has also reduced and aligned the proportion of bonus payable for on-target performance to 60% of the maximum for all the executive directors, replacing the previous amounts of 76% of maximum for the Group Chief Executive and 61% for all other executive directors. The alignment of the

SUMMARY OF KEY FEATURES OF EXECUTIVE DIRECTORS' REMUNERATION IN 2008

Element of remuneration package	Purpose	Policy	Summary of how it operates
Base Salary	• Help recruit and retain key employees • Reflect the individual's experience and role within the Group	• To pay at around the mid-market relative to the FTSE 100, with particular regard to other relevant financial institutions • Regard given to individual skills and experience • In specific circumstances (for example, a new appointment) may set salaries below mid-market, with a view to reaching mid-market level within two to three years	• Paid monthly in cash • Normally reviewed by the Committee annually and fixed for the 12 months commencing 1 January • Salary is supplemented with normal benefits available to Legal & General senior managers including car allowance and medical insurance. Legal & General products can be acquired by executive directors on the terms available to other members of staff
Annual Bonus	• Incentivise executives to achieve specific, pre-determined goals during a one year period • Reward ongoing stewardship and contribution to core values • Deferred element, awarded in shares, provides a retention element	• Maximum bonus potential set by reference to market comparators (currently 125% of base salary) • On-target bonus of 75% of base salary (60% of maximum) for all executive directors • Percentage of bonus deferred and awarded in shares	• All executive directors have objectives related to Group key performance indicators (KPIs), plus individual (where relevant) divisional and strategic targets • Bonus result determined by the Committee after year end, based on performance against targets • Normally, 62.5% of the bonus paid in cash and 37.5% paid in deferred shares to be held for three years
Performance Share Plan	• Incentivise executives to achieve superior returns to shareholders • Align interests of executives and shareholders through building a shareholding • Retain key executives over three year performance period	• Awards of nil cost shares made annually, with vesting conditional on relative Total Shareholder Return (TSR) measured over the three subsequent years • Executive directors normally receive annual grants of 200% of salary	• Vesting condition for half of the award measures the Group's TSR versus the FTSE 100. Vesting condition for the other half measures TSR versus the insurance constituents of the Euro Top 300 plus any FTSE 350 Life Insurance companies not in the Euro Top 300 • The two conditions are measured independently • The awards will vest in full if Legal & General is ranked at or above the twentieth percentile. One quarter of awards will vest if TSR is at median. No awards vest below median • The Remuneration Committee will also assess whether the TSR out-turn is reflective of the underlying financial performance of the Company and in exceptional cases may scale back vesting
Pension	• Reward sustained contribution	• Provide competitive post-retirement benefits • No compensation for public policy or tax changes	• Participation in a Group pension scheme • Accrue benefits according to length of service up to retirement • Cash alternative for executive directors opting for enhanced protection above the Lifetime Allowance
Share Ownership Guidelines	• To align the interests of executive directors and shareholders	• The Group Chief Executive is required to build and maintain a shareholding of 200% of base salary and, for other executive directors, 100% of base salary	• Executives are expected to build a shareholding through the vesting of shares under the Group's share incentive plans. Existing shareholdings and shares acquired in the market are also taken into account

on-target bonus payable at 60% of maximum reflects the Committee's desire to ensure that all the executive directors are similarly rewarded for equivalent levels of performance. For meeting target performance, all the executive directors will now receive 75% of salary.

In setting bonus targets, the Committee seeks to link targets to areas of the business in which the executive has particular influence and responsibility, whilst also seeking to maintain a keen team ethos. The executive directors' bonuses are based on a variety of targets, including Group KPIs (which for 2008 comprise 40% of the total bonus and are common to all executive directors), performance of the business unit for which the individual is responsible (where applicable), and strategic targets. The bonus which results from the delivery of these objectives will be reviewed by the Committee based on its view of the executive's overall performance and regulatory compliance.

62.5% of any bonus earned will normally be paid in cash, with the balance being paid in shares under the Share Bonus Plan (SBP) described below.

The chart on the opposite page summarises the key targets for the 2008 bonuses for each executive director.

Share Bonus Plan

As stated above, 37.5% of any bonus earned is normally deferred into shares under the SBP, under which conditional shares are awarded which are held in a trust for three years. The release of shares is not subject to further performance conditions, however, executives are normally required to remain in employment during the three year vesting period. As the shares have been earned prior to award, any dividends occurring on these shares are paid to the executives during the vesting period. The value of the shares awarded to directors is reported in the year of performance and shown in the Directors' Remuneration table on page 54.

In the case of Robin Phipps, who retired on 13 July 2007, his deferred shares were released in full at retirement. This reflected the fact that he expressed his intention of retiring from executive corporate life.

Performance Share Plan

Executive directors are entitled to participate in the Group's PSP. In March 2007 the Committee approved the introduction of a specific plan for LGIM senior executives (none of whom are executive directors). The PSP remains as the sole long term incentive arrangement for all other senior executives. The PSP was approved by shareholders in 2004.

Under the PSP, awards of shares are made to top managers. The Committee reviews the quantum of awards made each year to ensure that it is in line with the market. The maximum annual award in 2008 remains at 200% of salary, and it is the Committee's policy to make awards of this level to executive directors annually.

The number of shares which vest is dependent on Legal & General's relative Total Shareholder Return (TSR) performance. If the TSR is at median against the relevant comparator group, then one quarter of the shares subject to that measure will vest and be transferred to the executives. They will receive the maximum number of shares if Legal & General is ranked at the 20th percentile position or above at the end of the three year period, with the amounts reducing on a pro rata basis between 20th percentile position and median. The shares will lapse if Legal & General's TSR is ranked below median against the relevant comparator group at the end of the three year period.

In 2007, the Committee reviewed the performance measure used under the PSP and concluded that relative TSR remains the most effective reflection of longer term success. However, some changes are proposed to the TSR comparator group, which are detailed below.

Until 2007, the FTSE 100 was used to measure relative TSR performance, and the Committee still believes that this is relevant given that the Company is a member of this index. However, following the Committee's review of performance measures, it also concluded that there could be a greater alignment of reward if part of future awards was linked to specific insurance companies. Therefore, for the awards to be made in 2008 onwards, two distinct performance measures will be used: half will continue to be measured relative to the FTSE 100 constituents (as at the grant date), with the balance being measured against the Insurance constituents of the Euro Top 300 plus any FTSE 350 Life Insurers not in the Euro Top 300. Performance under the two elements will be assessed independently.

The TSR performance conditions are independently reviewed by NBSC.

Additionally, the Committee assesses whether the underlying performance of the Company is reflective of the TSR out-turn. In exceptional circumstances, the Committee may exercise its discretion to scale back the vesting of awards, if it was felt that the Company's financial performance did not justify the level of vesting. The parameters which the Committee uses in making this assessment include market share, partnerships gained and maintained, cost constraint, capital management and shareholder perception.

Robin Phipps' outstanding PSP awards crystallised on his retirement, with TSR performance measured up to that date and the vesting percentage reflecting the reduced period. Consequently, 20.7% of the 2005 award vested, the 2006 and 2007 awards did not meet the performance criteria and lapsed in full. This is shown in the PSP table on page 56.

Dilution Limits

The PSP and the SBP operate with market purchased shares that are held in an Employee Benefit Trust. The Company's all-employee plans may be satisfied using either new-issue or market purchased shares.

The Company's all-employee plans and the now-closed Executive Share Option Scheme operate within the ABI's dilution limit of 5% in 10 years for executive schemes and all its plans operate within the 10% in 10 years limit for all schemes. As at 31 December 2007, the Company had 4.39% share capital available under the 5% in 10 years limit, and 8.82% share capital available under the 10% in 10 years limit.

26,412,801 shares are currently held by the Employee Benefit Trust to hedge outstanding awards of 22,495,190 for the PSP and SBP. This means that the Trust holds 117% of outstanding awards.

SUMMARY OF EXECUTIVE DIRECTORS' BONUS TARGETS FOR 2008

	Group KPI's	Other Financial Targets	Other Strategic Targets	Example Targets
Kate Avery	40%	30%	30%	Deliver profitable growth in the wealth management business, improve customer experience and business efficiency
Tim Breedon	40%	30%	30%	Deliver returns to shareholders
Andrew Palmer	40%	30%	30%	Manage Group external financial reporting, manage capital requirements, execute strategic projects, monitor and strengthen the control environment
John Pollock	40%	30%	30%	Deliver profitable growth in the protection and annuity business, improve customer experience and business efficiency

Share Ownership Guidelines

In order to further align the interests of the executive directors and the shareholders, the executive directors are required to build a significant personal shareholding in the business. The Group Chief Executive is expected to build a holding of shares valued at twice salary while the other executive directors are expected to build towards a holding valued at one times their salary.

Although not contractually binding, the Committee retains the discretion to withhold future grants under the PSP if executives do not comply with the Guidelines.

Five Year Total Shareholder Return

The chart below shows the value, as at 31 December 2007, of a £100 investment in Legal & General shares on 31 December 2002, compared with £100 invested in the FTSE 100 on the same date.

Total Shareholder Return

Source: Thompson Financial
This graph shows the value, by 31 December 2007, of £100 invested in Legal & General on 31 December 2002 compared with £100 invested in the FTSE 100 Index on the same date. The other points plotted are the values at intervening financial year-ends.

Benefits

Other benefits for executive directors provided by the Group are:
– pension scheme;
– car allowance;
– medical insurance; and
– staff discounts. Legal & General products can be acquired by executive directors on the terms available to other members of staff.

Pensions

Each of the executive directors is a member of the Group UK Senior Pension Scheme ('the Plan'), details of which are given in the Pension Entitlements section.

Executives who elected solely for primary protection in response to the lifetime allowance introduced as part of the reforms to pensions legislation in 2006, remain in the Company pension scheme.

For those executives who elected for enhanced protection, they may opt out of the Plan for future service accrual. In such circumstances, for future service accrual after 6 April 2006 these executives are eligible for a non-bonusable cash supplement up to 35% of base salary. The exact level of cash supplement is set at a level to ensure the cost to the Company, including allowance for National Insurance costs, does not increase. Consistent with the legislation, affected executives will be entitled to a pension determined by reference to pensionable earnings at retirement, provided this does not breach the enhanced protection requirements.

All-Employee Share Schemes

There are share schemes for all UK employees. Executive directors participate on the same terms as all UK employees in the Savings-Related Share Option Scheme (SAYE) and the Employee Share Plan, which are all approved by Her Majesty's Revenue & Customs (HMRC).

Directors' Report on Remuneration continued

DIRECTORS' REMUNERATION FOR FINANCIAL YEAR ENDED 31 DECEMBER 2007

				Annual Bonus[2]		Total	
	Salary/fees £'000	Benefits[1] £'000	Cash in lieu of pension £'000	Cash £'000	Deferred £'000	**2007 £'000**	2006 £'000
Executive:							
Kate Avery	350	20	–	136	82	**588**	623
Tim Breedon	740	20	207	379	228	**1,574**	1,434
Andrew Palmer	440	29	–	205	123	**797**	823
John Pollock	320	20	86	140	84	**650**	602
	1,850	89	293	860	517	**3,609**	3,482
Non-executive:							
Frances Heaton	60	–	–	–	–	**60**	60
Sir Rob Margetts	325	2	–	–	–	**327**	301
Rudy Markham[3]	60	–	–	–	–	**60**	15
Ronaldo Schmitz	60	12	–	–	–	**72**	67
Henry Staunton	80	–	–	–	–	**80**	80
James Strachan	60	–	–	–	–	**60**	60
Sir David Walker	100	–	–	–	–	**100**	100
	745	14	–	–	–	**759**	683
Former Executive Director:							
Robin Phipps[4]	242	12	–	–	–	**254**	820
Former Non-executive Director:							
Beverley Hodson[5]	25	2	–	–	–	**27**	61
Total	2,862	117	293	860	517	**4,649**	5,046

No directors received any compensation for loss of office.

The information in this table has been audited by the independent auditors, PricewaterhouseCoopers LLP.

1. Benefits include car allowances, medical insurance and travel expenses for work purposes.
2. In respect of the financial year, executive directors earned bonuses of 62-82% of salary.
3. This amount was paid to his employer for the period January to 31 October 2007 inclusive.
4. Robin Phipps retired from the Board and the Company with effect from 13 July 2007. He received no compensation for loss of office and was a good leaver under the various share plans with details of his entitlement set out in last year's report.
5. Beverley Hodson retired at the 2007 AGM on 16 May 2007.

DIRECTORS' SHARE INTERESTS

The holdings of directors in office at the end of the year in the shares of the Company, including shares unvested award under the Employee Share Plan and Share Bonus Plan are shown below. These exclude unvested awards made by the Company under the Performance Share Plan.

	31 December 2007	1 January 2007
Kate Avery	**922,769**	**786,212**
Tim Breedon	**1,686,347**	**1,263,588**
Andrew Palmer	**1,306,014**	**721,816**
John Pollock	**469,694**	**381,606**
Frances Heaton	**87,772**	**75,874**
Sir Rob Margetts	**519,921**	**453,145**
Rudy Markham	**16,091**	**–**
Ronaldo Schmitz	**95,133**	**83,235**
Henry Staunton	**112,154**	**96,247**
James Strachan	**73,719**	**61,821**
Sir David Walker	**277,493**	**222,770**[1]

Note

1. The 31 December 2006 figure disclosed in the 2006 DRR for Sir David Walker omitted 5,623 shares held in a nominee account.

SHARE OPTIONS

Executive directors' options outstanding under the Company Share Option Plan (CSOP) and Executive Share Option Scheme (ESOS) or acquired under the Company's Savings-Related Share Option Scheme (SAYE) comprise:

MOVEMENTS IN YEAR

		Share options 1 Jan 2007	Options (exercised/ lapsed) granted[1]	**Share options 31 Dec 2007**	Exercise price (p)	Earliest exercise date	Latest exercise date
Kate Avery	SAYE[2]	**32,272**		**32,272**	55	1.5.10	31.10.10
	CSOP	**545**		**545**	158.47	11.4.03	10.4.10
	CSOP	**19,589**		**19,589**	148.62	10.4.04	9.4.11
	ESOS	**220,430**		**220,430**	148.62	10.4.04	9.4.11
Tim Breedon	SAYE	**9,220**		**9,220**	101.4	1.10.09	31.3.10
	CSOP	**545**		**545**	158.47	11.4.03	10.4.10
	ESOS	**78,115**		**78,115**	162.36	12.4.02	11.4.09
Andrew Palmer	SAYE	**29,863**		**29,863**	55	1.5.08	31.10.08
	CSOP	**545**		**545**	158.47	11.4.03	10.4.10
	CSOP	**19,589**		**19,589**	148.62	10.4.04	9.4.11
	ESOS	**307,710**		**307,710**	148.62	10.4.04	9.4.11
	ESOS	**436,400**		**436,400**	147.48	10.4.05	9.4.12
	ESOS	**700,000**	(700,000)	**–**	78	10.4.06	9.4.13
Robin Phipps[3]	SAYE	**2,493**	(2,493)	**–**	76	1.10.07	13.1.08
	SAYE	**6,393**		**6,393**	117	1.5.09	13.1.08
	CSOP	**545**		**545**	158.47	11.4.03	13.7.09
	CSOP	**19,589**		**19,589**	148.62	10.4.04	13.7.09
	ESOS	**362,260**		**362,260**	148.62	10.4.04	13.7.09
John Pollock	SAYE	**29,863**		**29,863**	55	1.5.08	31.10.08
	CSOP	**545**		**545**	158.47	11.4.03	10.4.10

Notes

1. No options lapsed during 2007. As at 31 December 2007, there were no options outstanding for executive directors where the exercise price exceeded the market price of 166.75p. The range of share price during 2007 was 122.3p to 166.75p.
2. The SAYE scheme is approved by HMRC and, in accordance with the relevant legislation, has no performance conditions.
3. Robin Phipps retired on 13 July 2007. His outstanding options crystallised on his retirement date, with exercise periods of 12 months for his CSOP and ESOP awards, and six months for his SAYE awards.

The Company's register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and share options.

GAINS ON THE EXERCISE OF SHARE OPTIONS

Gains on share options represent the difference between the market price of the shares at the date of exercise and the exercise price.

		Options exercised	Exercise price (p)	Market price at date of exercise (p)	**Gain 2007 £'000**	Gain 2006 £'000
Andrew Palmer	ESOS	700,000	78	162.6	**592**	–
Robin Phipps	SAYE	2,493	76	136.2	**2**	12

Note

The information in these tables has been audited by the independent auditors, PricewaterhouseCoopers LLP.

Directors' Report on Remuneration continued

SHARE BONUS PLAN (PRE 2005)

	Awards granted[1]	Number of shares awarded	Awards vesting during the year	**Outstanding awards as at 31 December 2007[2]**
Kate Avery	8 April 2004	62,500	(62,500)	**–**
Tim Breedon	8 April 2004	112,500	(112,500)	**–**
Andrew Palmer	8 April 2004	87,500	(87,500)	**–**
Robin Phipps	8 April 2004	90,625	(90,625)	**–**
John Pollock	8 April 2004	43,750	(43,750)	**–**

Note

1. These awards vest on the third anniversary of the award date.
2. Awards made since 2005 have been included within the Directors' Remuneration table in the year to which the bonus relates.

PERFORMANCE SHARE PLAN

	Awards granted[1]	Maximum award receivable for stretch performance	Awards vesting[2]	Awards lapsing	**Maximum outstanding awards as at 31 December 2007**
Kate Avery	8 April 2004	480,000	(276,000)	(204,000)	**–**
	7 April 2005	478,936			**478,936**
	24 April 2006	426,800			**426,800**
	25 April 2007	449,580			**449,580**
Tim Breedon	8 April 2004	600,000	(345,000)	(255,000)	**–**
	7 April 2005	635,032			**635,032**
	24 April 2006	960,304			**960,304**
	25 April 2007	950,544			**950,544**
Andrew Palmer	8 April 2004	680,000	(391,000)	(289,000)	**–**
	7 April 2005	635,032			**635,032**
	24 April 2006	569,068			**569,068**
	25 April 2007	565,188			**565,188**
Robin Phipps	8 April 2004	720,000	(414,000)	(306,000)	**–**
	7 April 2005	674,056	(140,038)[3]	(534,018)	**–**
	24 April 2006	569,068	–	(569,068)	**–**
	25 April 2007	578,032	–	(578,032)	**–**
John Pollock	8 April 2004	300,000	(172,500)	(127,500)	**–**
	7 April 2005	372,504			**372,504**
	24 April 2006	348,551			**348,551**
	25 April 2007	411,044			**411,044**

The table shows the maximum number of shares which could be awarded if awards were to vest in full. Participants do not receive dividends on unvested awards.

1. These awards vest on the third anniversary of the award date subject to the satisfaction of performance targets as described above. The share price on the date of grant for the 2007 awards was 155.7p.
2. The share price on the date of vesting for the 2004 award was 161.163p.
3. The share price on 13 July 2007 was 151.1p.

Note

In 2008, in respect of performance in 2007, the Remuneration Committee decided that executive directors should be granted awards of performance shares to the following values: Kate Avery £770,000, Tim Breedon £1,540,000, Andrew Palmer £920,000 and John Pollock £740,000.

The information in these tables has been audited by the independent auditors, PricewaterhouseCoopers LLP.

PENSION ENTITLEMENTS

	Age at 31 December 2007	Increase in accrued pension in 2007 £'000	Accumulated accrued pension at 31 December 2007 £'000	Transfer value of accrued benefits at 31 December 2007 £'000	Transfer value of accrued benefits at 31 December 2006 £'000	Increase/ (decrease) net of employee contributions in 2007 £'000
Kate Avery	47	7	30	390	308	65
Tim Breedon	49	12	255	3,714	3,489	225
Andrew Palmer	54	15	239	4,110	3,760	328
John Pollock	49	13	143	2,037	1,836	201

Notes

The information in this table has been audited by the independent auditors, PricewaterhouseCoopers LLP.
The increase in accrued pension during the year excludes any increase for inflation.

On retirement from Legal & General at age 60 and subject to statutory limits, executive directors are entitled to pensions as follows:

- Andrew Palmer: two thirds of his annual salary.
- Tim Breedon and John Pollock: one sixtieth of eligible salary for each year of service through to the date they opted for enhanced protection. Since opting for enhanced protection on 6 April 2006 they have received a cash supplement in lieu of pension accrual as shown in the Directors' Remuneration table. Consistent with the legislation, their pensionable earnings at their retirement will be used to determine their ultimate pension entitlements.
- Kate Avery: one sixtieth of eligible salary for each year of service.

Robin Phipps retired on 13 July 2007 and received a pension in accordance with the rules of the scheme.

On death in service, a capital sum equal to four times salary is payable, together with a spouse's pension of four ninths of the member's pensionable remuneration. Protection is also offered in the event of serious ill health. This latter benefit has no transfer value in the event of the insured leaving service.

Directors, like all managers, may elect, before its award, to sacrifice all or part of their cash bonus into pension.

Directors' Loans

At 31 December 2007 and 31 December 2006 there were no loans outstanding made to directors.

Service Contracts

The policy and practice for the notice entitlement of all executive directors is a six month rolling notice period, plus a six months' salary, pension and car allowance entitlement on termination. These entitlements may be mitigated and/or spread over the period of notice. Copies of executive directors' service contracts are available for inspection during normal working hours at the registered office. The date of the contract is the appointment date in the section on directors.

External Appointments

The Company considers that certain external appointments can help to broaden the experience and capability of the executive directors. Any such appointments are subject to annual agreement by the Remuneration Committee and must not be with competing companies. Subject to the Committee's agreement, any fees may be retained by the individual. Tim Breedon is an unpaid Board member of the ABI, Andrew Palmer receives fees of £44,000 as a non-executive director of SEGRO plc, Kate Avery received fees of £35,000 as a non-executive director of Kelda Group plc and sits on the Life Insurance Committee of the ABI. Robin Phipps was an unpaid member of the ABI Board until his retirement in July 2007.

The Directors' Report on Remuneration was approved by the directors on 11 March 2008.

Sir David Walker
Chairman of the Remuneration Committee

Independent Verification Review

New Bridge Street Consultants LLP (NBSC) act as advisers to the Remuneration Committee. In addition, they were asked to verify that the 2007 remuneration practice for executive directors followed the Remuneration Policy put to the 2007 Annual General Meeting.
In conducting this work, NBSC has reviewed the elements of executive director remuneration during 2007, as detailed in the policy statements of the Directors' Report on Remuneration 2006 (DRR 2006). They confirmed that they are satisfied that the remuneration practice during 2007 has been in line with the stated policy set out in the DRR 2006.

Report of the Audit Committee

Summary of the Role of the Audit Committee
The Audit Committee is appointed by the Board from the non-executive directors of Legal & General Group Plc. It is a Committee of the Board established pursuant to Article 113 of the Articles of Association.

The Audit Committee's terms of reference include all matters indicated by the Combined Code, except the oversight of compliance risks, (including adherence to the Financial Services and Markets Act 2000), which is the direct responsibility of the Board. (The Group Risk & Compliance Committee, which reports to the Group Board and whose minutes are copied to the Audit Committee, supervises the Group's Risk Framework and therefore considers all risks including compliance risk.) The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The primary objective of the Audit Committee is to assist the Board of Directors in fulfiling its responsibilities relating to:
- external financial reporting and associated announcements;
- the independence of the Group's external auditor;
- the resourcing, plans and overall effectiveness of the internal audit department;
- the adequacy and effectiveness of the control environment; and
- the Group's compliance with the Combined Code on Corporate Governance.

The Audit Committee Chairman reports the outcome of meetings to the Board, and the Board receives the minutes of all Committee meetings.

The Audit Committee has unrestricted access to Company documents and information, as well as to employees of the Company and the external auditor.

The members of the Audit Committee are:

	Date of appointment
Henry Staunton	26 July 2004 and appointed Chairman on 27 April 2005
Frances Heaton	14 November 2001
James Strachan	21 January 2004
Rudy Markham	15 May 2007

Membership of the Audit Committee is reviewed by the Chairman of the Committee, Henry Staunton, and the Group Chairman, who is not a member of the Audit Committee, at regular intervals.

Where necessary, they will recommend new appointments to the Nominations Committee for onward recommendation to the Board. Appointments are for a period of three years and are extendible by no more than two additional three year periods. The Audit Committee is normally comprised of four independent non-executive directors, with a minimum of three members at any time. Three members constitute a quorum.

The Audit Committee structure requires the inclusion of one financially qualified member (as recognised by the Consultative Committee of Accountancy Bodies). Currently the Audit Committee Chairman fulfils this requirement.

All Audit Committee members are expected to be financially literate and to have relevant corporate finance experience.

The Group provides an induction programme for new Audit Committee members and ongoing training to enable all of the Committee members to carry out their duties. The induction programme covers the role of the Audit Committee, its terms of reference and expected time commitment by members; and an overview of the Group's business, including the main business and financial dynamics and risks. New Audit Committee members also meet some of the Group's staff. Ongoing training includes attendance at formal conferences, internal Company seminars and briefings by external advisers.

The Board expects the Audit Committee members to have an understanding of the following areas:
- the principles of, contents of, and developments in financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Company's operations and risk control framework including corporate policies, company financing, products and systems of internal control;
- matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management;
- the regulatory framework for the Group's businesses;
- environmental and social responsibility best practices; and
- current issues pertaining to the above areas.

Meetings
The Audit Committee is required to meet four times per year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical and is therefore approved by the Audit Committee Chairman on behalf of his fellow members; each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee invites the Group Chief Executive, Group Director (Finance), Group Financial Controller, Group Chief Internal Auditor, Group Actuary and senior representatives of the external auditor to attend all of its meetings in full, although it reserves the right to request any of these individuals to withdraw. Other senior management are invited to present such reports as are required for the Audit Committee to discharge its duties.

Overview of the Actions Taken by the Audit Committee to Discharge its Duties
In order to fulfil its terms of reference, the Audit Committee receives and challenges presentations or reports from the Group's senior management, consulting as necessary with senior representatives of the external auditor and the independent actuaries.

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to external financial reporting and associated announcements. The Audit Committee reviewed the interim and annual financial statements, together with the associated Stock Exchange announcements, having received information on:
- the accounting principles, policies and practices adopted in the Group's accounts;
- changes proposed to those principles, policies and practices;
- significant accounting issues;
- current actuarial issues;
- the level of insurance provisions and reserves;
- litigation and contingent liabilities affecting the Group; and
- potential tax contingencies and the Group's compliance with statutory tax obligations.

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to the adequacy and effectiveness of the control environment and the Group's compliance with the Combined Code. To fulfil these duties, the Audit Committee reviewed:

- the report entitled 'Directors' view on Internal Controls', submitted to the Audit Committee by the Group Risk & Compliance Committee, which sets out the framework of risk management, control monitoring, and any control issues that have arisen;
- the minutes of the Group Risk & Compliance Committee meetings during 2007;
- the annual Internal Control Report for 2006 presented by the external auditor;
- Internal Audit reports on key audit areas and significant control environment deficiencies; and
- reports on frauds perpetrated against the Group and current fraud trends.

The Audit Committee Chairman reports back to the Audit Committee on the Group Risk & Compliance Committee meetings which he attends.

During the year the Audit Committee undertook a formal review of its own effectiveness and is satisfied that it had been operating as an effective Audit Committee meeting all applicable legal and regulatory requirements. These reviews are undertaken annually.

External Audit

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day-to-day responsibility to the Group Director (Finance). The policy states that the external auditor is jointly responsible to the Board and the Audit Committee and that the Audit Committee is the primary contact.

The Group's policy on external audit sets out the categories of non-audit services which the external auditor will and will not be allowed to provide to the Group. The policy requires pre-confirmation by the Audit Committee of any non-audit work subject to de minimis levels.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee reviewed:
- the changes in key external audit staff in the plan for the current year presented by the external auditor;
- the arrangements for day-to-day management of the audit relationship;
- a report identifying the number of former external audit staff now employed by the Group and their positions within the Group;
- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- the overall extent of non-audit services provided by the external auditor, in addition to their case-by-case approval of the provision of non-audit services by the external auditor.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:
- the fulfilment of the agreed audit plan and variations from the plan undertaken by the external auditor;
- the robustness and perceptiveness of the external auditor in handling the key accounting and audit judgements; and
- the content of the Internal Control Report presented by the external auditor.

To fulfil its responsibility for oversight of the external audit process, the Audit Committee reviewed:
- the terms, areas of responsibility, associated duties and scope of the audit as set out in the engagement letter for the forthcoming year from the external auditor;
- the overall work plan for the forthcoming year presented by the external auditor;
- the fee proposal presented by the external auditor;
- the major issues that arose during the course of the audit and their resolution;
- the key accounting and audit judgements;
- the levels of errors identified during the audit; and
- the recommendations made by the external auditor in the management letter, entitled 'The Internal Control Report', and the adequacy of management's response.

Internal Audit Function

The Audit Committee is committed to supporting Internal Audit and maintaining its ongoing relationship with the department to enable Internal Audit to assist the Audit Committee to fulfil its statutory responsibilities in relation to the adequacy and effectiveness of the control environment and the Group's compliance with the Combined Code.

The Audit Committee is also required to assist the Board to fulfil its responsibilities relating to the adequacy of the resourcing, plans and overall effectiveness of the Internal Audit department.

To fulfil all of these responsibilities, the Audit Committee reviewed:
- Internal Audit's plans for 2007 and its achievement of the planned activity;
- the results of key audits and other significant findings, the adequacy of management's response and the timeliness of resolution;
- statistics on staff numbers, qualifications and experience and timeliness of reporting; and
- the level and nature of non-audit activity performed by Internal Audit.

The Group's Public Interest Disclosure Policy (the 'Whistleblowing' Policy) sets out arrangements for employees, contractors and third parties to raise concerns or complaints regarding accounting, risk issues, internal controls, auditing issues and related matters with relevant line management or senior Group managers. These are escalated to the Group Chief Internal Auditor (GCIA) in confidence, for reporting to the Audit Committee as appropriate.

The Audit Committee holds private meetings with the external auditors and with the GCIA after Audit Committee meetings to review key issues within their spheres of interest and responsibility as considered necessary.

The GCIA reports functionally to the Audit Committee and administratively to the Group Director (Finance). The GCIA has a private meeting with the Audit Committee Chairman at least twice during the course of the year and has regular monthly meetings with the Group Chief Executive and the Group Director (Finance) where key risk and control issues are discussed.

The Chairman of the Audit Committee will be present at the AGM to answer questions, through the Chairman of the Board, on the report on the Audit Committee's activities, matters within the scope of the Audit Committee's responsibilities and any significant matters brought to the Audit Committee's attention by the external auditor.

The Corporate Governance pages of the Legal & General website provide supplementary information including the terms of reference for the Audit Committee and the Group's policy on external audit.

Report of the Nominations Committee

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. The Committee is chaired by the Group Chairman and comprises the non-executive directors, all of whom have been adjudged by the Board to be independent. Executive directors may attend meetings as appropriate by invitation. On any matter directly involving the Chairman, eg Chairman succession, the Committee is chaired by the Senior Independent Director.

Duties

The Committee's role is to make recommendations to the Board on the appointment of any director; to ensure that arrangements for Board and top management succession are adequate; to consider the reappointment (or otherwise) of any non-executive director on expiry of their term of office and other matters relating to the continuation in office of any director. No director is present during discussions relating to their appointment.

The Committee's approach is explained further below.

The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies. Appointments to the Board are made on merit and assessed against objective criteria. Before identifying prospective candidates, the Committee evaluates the balance of skills, knowledge and experience on the Board against the requirements of the business. Based on the outcome of this evaluation, the Committee prepares a description of the role and capabilities required. The Committee uses external advisers to facilitate searches for potential candidates. So far as possible, candidates from a wide range of backgrounds are considered.

The time commitment required of a non executive director is reviewed by the Committee on an ongoing basis. On appointment, non-executive directors undertake that they have sufficient time to meet the Company's expectations. Attendance at meetings and the performance of individual directors are kept under review.

The Committee keeps the structure, size and composition (including the skills, knowledge and experience) of the Board under regular review. It performs a key role in ensuring the orderly succession of Board and senior management appointments. In satisfying the Board that succession arrangements are appropriate, the Committee has regard to the existing balance of skills and expertise, as well as likely future needs, taking account of the challenges and opportunities facing the Company. The Committee keeps under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the Company's continued ability to compete effectively in the marketplace.

Activities

During 2007, the Committee met three times. Matters considered included the retirement of Robin Phipps, reappointment of non-executive directors at the end of their term of office, succession planning for the Board and top management, and the Group Chief Executive's performance review.

Terms of reference

The terms of reference of the Committee are available for inspection at the Company's registered office and can be viewed on the Company's corporate website www.legalandgeneralgroup.com.

The terms of appointment of non-executive directors can also be inspected at the Company's registered office or via the corporate website.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Group consolidated financial statements

Supplementary financial statements

Company financial statements

Independent Auditors' Report

To the Members of Legal & General Group Plc

We have audited the Group financial statements of Legal & General Group Plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Legal & General Group Plc for the year ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the Group financial financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes the Governance section that is cross-referred from the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Group Overview, the Chairman's Statement, the Directors' Report and Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
17 March 2008

Notes:

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

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

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Revenue			
Gross written premiums	4	**4,793**	4,286
Outward reinsurance premiums		**(517)**	(518)
Net change in provision for unearned premiums		**7**	7
Net premiums earned		**4,283**	3,775
Fees from fund management and investment contracts		**640**	535
Investment return	6	**13,225**	16,572
Operational income		**54**	84
Total revenue	4	**18,202**	20,966
Expenses			
Claims and change in insurance liabilities		**4,467**	1,938
Reinsurance recoveries		**(345)**	1,123
Net claims and change in insurance liabilities	7	**4,122**	3,061
Change in provisions for investment contract liabilities		**11,999**	13,878
Acquisition costs		**848**	987
Finance costs		**214**	153
Other expenses		**662**	674
Transfers (from)/to unallocated divisible surplus[1]		**(438)**	284
Total expenses	4	**17,407**	19,037
Profit before income tax	10	**795**	1,929
Income tax attributable to policyholder returns	12	**88**	89
Profit from continuing operations before income tax attributable to equity holders		**883**	2,018
Total income tax expense	12	**(77)**	(298)
Income tax attributable to policyholder returns	12	**(88)**	(89)
Income tax attributable to equity holders	12	**(165)**	(387)
Profit from ordinary activities after income tax		**718**	1,631
Attributable to:			
Minority interests	29	**(6)**	67
Equity holders of the Company		**724**	1,564
Dividend distributions to equity holders of the Company during the year	13	**369**	349
Dividend distributions to equity holders of the Company proposed after the year end	13	**247**	248
		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	14	**11.24**	24.12
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	14	**11.18**	23.95

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

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 £m	2006 £m
Assets			
Investment in associates	46	**14**	16
Plant and equipment	16	**79**	43
Investment property	17	**5,969**	6,852
Financial investments	18	**261,718**	201,430
Reinsurers' share of contract liabilities	20	**1,530**	1,481
Purchased interest in long term businesses	21	**19**	23
Deferred acquisition costs	22	**1,696**	1,456
Income tax recoverable	23	**4**	12
Other assets	24	**1,519**	1,622
Cash and cash equivalents	25	**8,737**	4,930
Total assets	4	**281,285**	217,865
Equity			
Share capital	26	**157**	163
Share premium account	26	**927**	923
Employee scheme shares	26	**(42)**	(45)
Capital redemption and other reserves	27	**59**	49
Retained earnings	28	**4,345**	4,335
Capital and reserves attributable to equity holders of the Company		**5,446**	5,425
Minority interests	29	**178**	414
Total equity	4/30	**5,624**	5,839
Liabilities			
Subordinated borrowings	36	**1,461**	818
Participating insurance contracts	31	**11,663**	12,660
Participating investment contracts	32	**7,462**	7,501
Unallocated divisible surplus	33	**1,721**	2,178
Value of in-force non-participating contracts	34	**(276)**	(391)
Participating contract liabilities		**20,570**	21,948
Non-participating insurance contracts	31	**22,873**	21,602
Non-participating investment contracts	32	**224,906**	162,016
Non-participating contract liabilities		**247,779**	183,618
Senior borrowings	36	**1,327**	1,607
Provisions	38	**595**	568
Deferred income liabilities	39	**493**	422
Deferred tax liabilities	40	**296**	472
Income tax liabilities	23	**113**	106
Other liabilities	41	**2,115**	1,663
Net asset value attributable to unit holders		**912**	804
Total liabilities	4	**275,661**	212,026
Total equity and liabilities		**281,285**	217,865

The notes on pages 67 to 127 form an integral part of these financial statements.

The financial statements on pages 63 to 127 and the supplementary financial statements on pages 128 to 146 were approved by the directors on 17 March 2008 and were signed on their behalf by:

Rob Margetts

Sir Rob Margetts
Chairman

Tim Breedon
Group Chief Executive

Andrew Palmer

Andrew Palmer
Group Director (Finance)

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Notes	**2007 £m**	2006 £m
Fair value losses on cash flow hedges	27	**–**	(3)
Exchange differences on translation of overseas operations		**4**	(35)
Actuarial (losses)/gains on defined benefit pension schemes	38	**(40)**	3
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	33	**16**	(1)
Net change in financial investments designated as available-for-sale	27	**1**	7
Expense recognised directly in equity, net of tax		**(19)**	(29)
Profit from ordinary activities after income tax		**718**	1,631
Total recognised income and expense		**699**	1,602
Attributable to:			
Minority interests	29	**(6)**	67
Equity holders of the Company		**705**	1,535

Group Financial Statements

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Profit from ordinary activities after income tax		**718**	1,631
Adjustments for non cash movements in net profit for the period			
Realised and unrealised gains on financial investments and investment properties		**(4,862)**	(9,505)
Investment income		**(7,797)**	(6,630)
Interest expense		**214**	153
Income tax payable		**77**	298
Other adjustments		**46**	46
Net (increase)/decrease in operational assets			
Investments designated as held for trading or fair value through profit or loss		**(8,322)**	(9,599)
Investments designated as available-for-sale		**(98)**	(251)
Other assets		**(230)**	557
Net increase/(decrease) in operational liabilities			
Insurance contracts		**152**	(1,893)
Transfer (from)/to unallocated divisible surplus		**(455)**	285
Investment contracts		**17,686**	19,527
Value of in-force non-participating contracts		**115**	(12)
Other liabilities		**(73)**	596
Cash used in operations		**(2,829)**	(4,797)
Interest paid		**(214)**	(146)
Interest received		**4,202**	3,478
Income tax paid		**(244)**	(315)
Dividends received		**3,312**	3,095
Net cash flows from operating activities		**4,227**	1,315
Cash flows from investing activities			
Net acquisition of plant and equipment		**(58)**	(24)
Net proceeds from disposal of private equity investments		**–**	10
Non-financial investments purchased		**–**	(3)
Net cash flows from investing activities		**(58)**	(17)
Cash flows from financing activities			
Dividend distributions to equity holders of the Company during the year		**(369)**	(349)
Proceeds from issue of share capital		**4**	15
Purchase of employee scheme shares		**(5)**	(11)
Repurchase of shares under share buyback programme	2	**(320)**	–
Proceeds from borrowings		**1,948**	1,062
Repayment of borrowings		**(1,637)**	(1,051)
Net cash flows from financing activities		**(379)**	(334)
Net increase in cash and cash equivalents		**3,790**	964
Exchange gains/(losses) on cash and cash equivalents		**17**	(35)
Cash and cash equivalents at 1 January		**4,930**	4,001
Cash and cash equivalents at 31 December	25	**8,737**	4,930

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

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Basis of preparation
The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 1985 applicable to companies reporting under IFRS. The Group's financial statements also comply with IFRS as issued by the IASB.

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

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

The Group has adopted IFRS 7, 'Financial instruments: Disclosures', amendments to IFRS 4 'Insurance Contracts' and Amendment to International Accounting Standard (IAS) 1, 'Presentation of Financial Statements – Capital Disclosures'. These standards are applied retrospectively. IFRS 7 supersedes the disclosure requirements of IAS 32, 'Financial Instruments: Presentation'. The adoption of these standards represents a change in accounting policy and the comparative figures have been restated accordingly. There is no impact on current or prior year profit resulting from the adoption of these standards, as their provisions relate to disclosure.

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

The significant estimates and assumptions used are disclosed in the relevant notes to these financial statements, including Note 35 on Long term insurance valuation assumptions.

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

The principal accounting policies adopted in preparing these financial statements are set out below.

Consolidation principles
Subsidiary undertakings
The consolidated financial statements incorporate the assets, liabilities, equity, revenues, expenses and cash flows of the Company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full. Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control.

Associates and joint ventures
Associates are entities over which the Group has significant influence but which it does not control. Consistent with IAS 28, 'Investments in Associates', it is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee. Joint ventures are entities where the Group and other parties undertake an activity which is subject to joint control.

The Group has interests in associates and joint ventures which form part of an investment portfolio held through private equity partnerships, mutual funds, unit trusts and similar entities. In accordance with the choices permitted by IAS 28 and IAS 31, 'Interests in Joint Ventures', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the income statement.

Associates which do not form part of an investment portfolio are initially recognised in the balance sheet at cost. The carrying amount of the associate is increased or decreased to reflect the Group's share of the profit or loss after the date of the acquisition.

Investment vehicles
Investment vehicles such as Open Ended Investment Companies, where a Group company exerts control over financial and operating policy, are consolidated. The interests of parties other than the Group in such vehicles are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the consolidated balance sheet.

Product classification
The Group's products 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 classified as investment contracts. Hybrid contract types, containing both insurance and investment features, have been treated as investment contracts when accounting for premiums, claims and other revenue.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:
- the amount or timing of which is contractually at the discretion of the Group; and
- which are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK and most Guarantie Long Terme contracts in France are classified as participating.

Long term insurance contracts
Premium income
Premiums are recognised as revenue when the liabilities arising from them are created.

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.

1. ACCOUNTING POLICIES continued

Claims payable include the direct costs of settlement.

Acquisition costs
Acquisition costs 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 the with-profits part of the UK Long Term Funds (LTFs) which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

Insurance contract liabilities
Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance Contracts'.

In the UK, insurance contract liabilities are determined following an annual investigation of the LTFs in accordance with regulatory requirements.

For non-participating insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

For participating contracts the liabilities to policyholders are determined on a realistic basis in accordance with Financial Reporting Standard (FRS) 27, 'Life Assurance'. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with Legal & General Assurance Society Limited's (Society's) Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (VIF) on this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

The long term insurance contract liabilities for business transacted by overseas subsidiaries are determined on the basis of recognised actuarial methods which reflect local supervisory principles or, in the case of the USA, on the basis of US GAAP.

Long term business liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to regular reassessment.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

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

Investment contracts
Premium income
For investment contracts, amounts collected as premiums are not included in the income statement but are reported as contributions to investment contract liabilities in the balance sheet.

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 the services will be provided.

Fees charged for investment management services for institutional and retail fund management are also recognised on this basis.

Claims
Claims are not included in the income statement 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.

Acquisition costs
For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement 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.

Trail commission
The Group operates distribution agreements with intermediaries where further commission costs are payable in each period which 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 is 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 remeasured to fair value because this financial liability is part of a portfolio of unit linked assets and liabilities whose performance is evaluated on a fair value basis. Any increase in the liability is recognised as an additional deferred cost. Any change in lapse assumptions or revisions to the underlying assumptions for future cash flows will be reflected in the fair value movement for a period. If the future commission liability decreases, a corresponding adjustment is made to the amortisation of the asset.

Investment contract liabilities
Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4 (see above for insurance contract liabilities). In the UK, participating investment contract liabilities are determined in accordance with FRS 27, including a value for guarantees, in the same way as insurance contracts.

Non-participating investment contracts consist of unit linked contracts. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset values of the Group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

General insurance business

Results for the General insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting.

Premium income

Premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Acquisition costs

A proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, in respect of reinsurance outwards, as deferred income.

Technical liabilities

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

Claims and related reinsurance recoveries 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 expenses, of claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

Liability adequacy tests

The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the income statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

Reinsurance

The Group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing. 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 reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the consolidated balance sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

Intangible assets

Goodwill

Goodwill on the acquisition of subsidiaries prior to 1998 has been charged directly to reserves. On disposal, goodwill held in reserves is transferred directly to retained earnings. From 1998 the Group's policy is to recognise goodwill on the balance sheet as an intangible asset, measured at cost less any accumulated impairment losses.

Purchased interest in long term businesses

A portfolio of in-force contracts acquired either directly or through the acquisition of a subsidiary undertaking is capitalised at an actuarially determined fair value. The value of business acquired represents the present value of future profits embedded in acquired insurance contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Investments

Investment property

Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the income statement within investment return. Investment property in the UK is 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.

Financial investments

The Group classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), available-for-sale (AFS) or loans and receivables. Initial recognition of financial investments is on the trade date.

The Group's policy is to measure investments at FVTPL except in the US where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the Group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the Group's investment strategy. Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as AFS under IAS 39, 'Financial Instruments: Recognition and Measurement'. Assets backing participating and non-participating policyholder liabilities outside the US 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. The Group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Français des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The policies used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the income statement. Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the income statement.

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

1. ACCOUNTING POLICIES continued

Plant and equipment

The initial cost of an item of plant or equipment is capitalised where it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The cost is then depreciated on a straight line basis over the item's estimated useful working life. No residual values are imputed to any item of plant and equipment.

Impairment policy

The Group reviews the carrying value of its assets (other than those held at FVTPL) 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 income statement. 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.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with original maturities of three months or less.

Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group uses hedge accounting, provided the prescribed criteria in IAS 39 are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The Group's principal uses of hedge accounting are to:

(i) recognise in shareholders' equity the changes in the fair value of derivatives designated as hedges of a net investment in a foreign operation. Any cumulative gains and/or losses are recognised in the income statement on disposal of the foreign operation;

(ii) defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction is recognised or is no longer expected to occur; and

(iii) hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the income statement, within other expenses, in the current period.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the income statement.

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 return.

Borrowings, including convertible bond

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 net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

For a convertible bond which includes a cash settlement option in lieu of the issue of shares on conversion, the conversion option is separated and recognised as a derivative liability. It is revalued to fair value at each reporting period with fair value gains and losses taken through the income statement. The remainder of the proceeds less attributable expenses is allocated to the value of the debt portion of the convertible bond. This amount is recorded as a liability on an amortised cost basis using the effective interest rate until extinguished on conversion or on maturity of the bond.

Income taxes

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except where it relates to an item which is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the period and any adjustment to the tax payable in respect of previous periods.

The total income tax expense for the period includes income tax paid by Society in respect of UK life policyholder returns, which is not related to profits earned by equity holders for the period. The income tax charge in the income statement has therefore been apportioned between the element attributable to policyholder returns and the element attributable to equity holders' profits (equity holder tax).

Deferred income tax

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and law which have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future (or if it will, then it will not generate any incremental tax liability for the Group).

Deferred tax is provided at the incremental rate on the undeclared surplus in Society's LTF represented by the Shareholder Retained Capital (SRC). In 2006, no deferred tax was provided, on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus existed and there was no expectation that such a declaration would occur.

Leases
Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made as lessees under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Employee benefits
Pension obligations
The Group operates a number of defined benefit and defined contribution pension schemes in the UK and overseas. The assets of all UK defined benefit schemes are held in separate trustee administered funds which are subject to regular actuarial valuation every three years, updated by formal reviews at reporting dates.

The liability recognised in the balance sheet in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by the Group. The defined benefit obligation is actuarially calculated each year using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

Where the unallocated divisible surplus or equity holders' funds are affected as a result of actuarial gains and losses on the defined benefit pension scheme, the charge or credit is not recognised in the income statement but through the statement of recognised income and expense (SORIE).

The Group pays contractual contributions in respect of defined contribution schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Share-based payments
The Group operates a number of share-based payment schemes. The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the Group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the Group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

Share capital and employee scheme shares
Equity instruments
An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of shares, or is a derivative which will be settled only by the Group exchanging a fixed amount of cash or other financial assets, for a fixed number of its own equity instruments.

Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. An incremental share issue cost is one which would not have arisen if shares had not been issued.

Legal & General shares
Where any Group entity purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the balance sheet.

Where shares are cancelled under the share buyback programme, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to shareholders. As required by Companies Act 1985, the equivalent of the nominal value of shares cancelled is transferred to a capital redemption reserve.

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

Fiduciary activities
Assets and income arising from fiduciary activities, together with associated commitments to return such assets to customers, are not included in these financial statements. Where the Group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Foreign currency translation
Foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate. Foreign exchange gains and losses are recognised in the income statement, except when recognised in equity as qualifying cash flow or net investment hedges.

Overseas subsidiaries
The assets and liabilities of all of the Group's foreign operations are translated into sterling, the Group's presentational currency, at the closing rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

Notes to the Financial Statements continued

1. ACCOUNTING POLICIES continued

Investment return

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at FVTPL and realised gains and losses from all financial assets.

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 which are not classified as FVTPL is recognised using the effective interest method.

Operational income and expenses

Operational income comprises fee income from estate agency operations, agency fee income relating to distribution services and any margin paid on written business acquired in a period. Operational income is accounted for when due.

Other expenses comprise primarily the expenses incurred in estate agency operations, institutional fund management and retail investment business, together with unallocated corporate expenses. Other costs are accounted for as they arise.

Earnings per share

Earnings per share

Earnings per share is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme shares. For this purpose, net income is defined as the profit after tax derived from continuing operations, or as the profit after tax derived from both continuing and discontinued operations.

Diluted earnings per share

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme shares, is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

Segment reporting

The Group's segments are based on the dominant source and nature of the Group's risks and returns and the manner in which the Group's internal organisational and management structure operates and reflects its system of internal financial reporting to the Group Board and Group Chief Executive. Transactions between the business segments are on normal commercial terms and conditions.

The primary segmental information is presented for business segments as this reflects the dominant source and nature of the Group's risks and returns. Secondary information is presented on geographic segments.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not early adopted, as follows:

- Amendments to IFRS 2, 'Share-based payment: Vesting conditions and cancellations' (effective from 1 January 2008). The amendments clarify what vesting conditions are, and specify the accounting treatment for cancellations of granted equity instruments. The anticipated impact is expected to be immaterial.
- Revised to IAS 1, 'Presentation of financial statements' (effective from 1 January 2009). The revision is aimed at improving users' ability to analyse and compare the information given in financial statements. The impact of this standard will be reviewed in 2008.
- IFRS 8, 'Operating Segments' (effective from 1 January 2009). IFRS 8 introduces a new conceptual requirement that reportable segments should be formed on the same basis as is used internally by senior management for evaluating operating segment performance. The impact of this standard will be reviewed in 2008.
- Revised IAS 23, 'Borrowing costs' (effective from 1 January 2009). The revision requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset with the removal of the option to immediately expense those costs. The Group considers that this amendment will have an immaterial impact on the financial statements.
- Revised IFRS 3, 'Business combinations' (effective from 1 July 2009). The standard continues to apply the acquisition method to business combinations, with some significant changes e.g. all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or may include goodwill related to the minority interest. All transaction costs will be expensed. The requirements of this standard will be considered for any future business acquisitions.
- Revised IAS 27, 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). This standard requires the effect of all transactions with non-controlling interests to be recorded in equity if there is no change in control. It also specifies the accounting when control is lost – any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group does not consider that this amendment will result in any significant impact on the financial statements.
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions' clarifies the appropriate accounting treatment for share-based payments in single entity financial statements. The interpretation is therefore not applicable to the Group financial statements.
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008), has been issued to address the accounting by operators for public-to-private service concession arrangements. The interpretation applies only to public-to-private sector concessions and therefore has no impact on the Group financial statements.
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008), clarifies the accounting for where sales of goods or services are made together with a customer loyalty incentive. The interpretation is not relevant to the Group financial statements.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). The interpretation gives guidance on how to assess the limit in IAS 19, 'Employee Benefits', on the amount of the surplus that can be recognised as an asset. It also explains how this limit, also referred to as the 'asset ceiling test' may be influenced by a minimum funding requirement. As the defined benefit schemes are in deficit the change therefore has no impact on the financial statements.

2. CAPITAL REVIEW

a) As at 31 December 2007

Share buyback programme

In July 2007, the Group announced a £1bn return of capital to shareholders through an on-market share buyback programme. At 31 December 2007, 241,207,267 ordinary shares had been acquired under the buyback programme for cancellation for total consideration of £320m. The buyback programme has continued and as at 17 March 2008, a total of 439,715,831 ordinary shares have been acquired for a total consideration of £571m.

Conversion of Legal & General Pensions Limited (LGPL) to an Insurance Special Purpose Vehicle (ISPV)

On 1 November 2007, LGPL was converted to an ISPV and repaid subordinated debt of £400m to Society.

There has been no impact on the IFRS net assets or profit before tax as a result of the ISPV conversion.

Society's long term fund restructure

In December 2007, the Group implemented a new capital structure for Society.

A key component was the removal of the transfer formula which has limited the annual amount of distributions from Society's long term fund since 1996. As part of the restructure, it was also announced that the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). Society's Board of Directors has undertaken to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment will gradually reduce to zero over a period not exceeding ten years.

The removal of the formula and the merger of the 1996 Sub-fund with the SRC have removed significant dividing lines between the pools of shareholder capital within Society. From 2007, all the assets supporting the UK non profit life and pensions businesses have been aggregated for reporting purposes and designated 'Society Shareholder Capital'. This comprises the SRC (including the merged 1996 Sub-fund) and all Society's shareholder capital held outside the long term fund (LTF) and in LGPL.

For 2007, £1.7bn has been transferred from the SRC into the shareholder capital held outside Society's LTF. There was no incremental tax in respect of this transfer. Deferred tax is provided at the incremental rate on the undeclared surplus in Society's LTF represented by the SRC. For 2007, the incremental rate in respect of the undeclared surplus of £2,047m was zero. At 31 December 2006, no deferred tax was provided, on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually existed and there was no expectation that such a declaration would occur.

The merger of the 1996 Sub-fund into the SRC has increased IFRS profit before tax by £321m reflecting the transfer from unallocated divisible surplus to shareholders' equity.

b) As at 31 December 2006

The impacts from restructuring and capital changes reported last year are set out below.

Corporate restructure

On 31 December 2006, the non-linked non profit pensions and annuity business of Society was ceded to a new, wholly owned, reinsurance company, LGPL.

LGPL was capitalised using £1.3bn of Society shareholder capital, £400m of this was represented by subordinated debt (£200m upper tier II, £200m lower tier II) and £900m by equity. The reinsurance was effected on arm's length terms resulting in an initial regulatory loss in LGPL. Further funds of £571m were injected from Society's LTF into LGPL's LTF by means of a contingent loan to cover this loss.

Prior to the capitalisation of LGPL, the intra-group subordinated debt capital of £602m attributed to SRC was repaid to Group Plc and an equivalent amount was lent to Society shareholder capital on a subordinated basis (£301m upper tier II, £301m lower tier II).

The corporate restructuring had no impact on the IFRS profit before tax for the year. The movement in liabilities and assets between Society and LGPL was eliminated in the Group consolidation in accordance with the Group accounting policies. However, there was a £171m deferred tax benefit for 2006, which increased the IFRS profit after tax (see Note 12). This was the result of an initial tax loss in LGPL.

The corporate restructuring reduced Society's regulatory surplus capital by £0.5bn (2006 total surplus: £4.9bn) and the Insurance Groups Directive (IGD) regulatory surplus by £0.5bn (2006 total surplus: £2.1bn), primarily due to the requirement to hold solvency margins in both Society and LGPL for the reinsured business. These amounts were extracted from draft regulatory returns.

Implementation of changes to FSA reporting and capital rules (Policy Statement 06/14)

In 2006, the FSA introduced a more realistic reserving framework for certain non profit business. As a result, the Group changed its insurance assumptions as detailed in Note 35. This led to a reduction in the non-participating insurance contract liabilities and regulatory reserves required for term assurance business of £641m and an elimination of the deferred acquisition cost asset relating to term assurance business amounting to £145m (see Note 22(ii)), resulting in an increase to IFRS profit after tax of £496m.

The change to the reserving framework also resulted in a consequent small reduction in the long term insurance capital requirement. The associated financial reinsurance previously in place to finance these reserves was terminated and no credit was taken for implicit items in the regulatory balance sheet, of which approximately £240m related to term assurance. The net impact on Society's regulatory capital surplus of the changes to reserving was an increase of approximately £125m.

In addition, the FSA removed the requirement for Society to calculate a resilience capital requirement and changed the calculation of the With-Profits Insurance Capital Component which resulted in a decrease in Society's capital resources requirement of £432m.

Review of annuity investment policy

During 2006, Society undertook a review of its asset liability matching policy for annuity business. Property assets backing annuity liabilities were replaced with corporate bonds and Society entered into inflation swaps to mitigate negative inflation risk (see Note 19). As a result, a closer match between assets and liabilities was achieved. Additionally, the margin within the reserves to cover an interest rate mismatch was reviewed and reduced. These actions reduced the regulatory reserves for Society, and increased the IFRS profit after tax, by £422m.

Notes to the Financial Statements continued

3. SUPPLEMENTARY OPERATING PROFIT INFORMATION

This supplementary operating profit information provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business. IFRS supplementary operating profit is one of the Group's key performance indicators and previously included the formula transfer from Society's long term fund.

Following the restructure of Society's LTF (see Note 2), operating profit for UK life and pensions business now represents the net capital invested/released from the non profit business, a smoothed investment return on all Society shareholders' assets, including those within the LTF, and the with-profits transfer. There has been no change in the definition of the with-profits transfer and operating profit from the overseas subsidiaries remain unchanged. The change in the definition of UK life and pensions operating profit had the effect of increasing 2006 reported operating profit by £968m. Profit before tax and shareholders' equity is unaffected by this change.

Investment return on non profit business is calculated on a smoothed basis using EEV assumptions applied to the average balance of Society shareholder capital invested assets (including interest bearing intra-group balances) calculated on a quarterly basis.

Operating profit also includes a longer term investment return on the shareholders' funds in our General insurance, Investment management and Netherlands' operations.

Previously, for UK life and pensions business, operating profit represented:

- the distribution of profit relating to non profit and shareholder net worth, grossed up for tax. The distribution comprised:
  - 7% of the embedded value of the SRC and 1996 Sub-fund (shareholder net worth (SNW)) adjusted to remove the impact from the contingent loan between SRC and LGPL, and the SNW of LGPL; and
  - 5% of the embedded value of the non profit business adjusted to remove the impact from the contingent loan between SRC and LGPL;
- the subordinated debt interest on the intra-group subordinated debt included within the SRC, until it was repaid in December 2006;
- the shareholders' share of the with-profits surplus recognised in the year, grossed up for tax.

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	**2007** **£m**	2006 Restated £m
From continuing operations			
Life and pensions	(ii)	**643**	1,621
Investment management	(iii)	**155**	133
General insurance	(iv)	**(67)**	9
Other operational income	(v)	**(73)**	(43)
Operating profit		**658**	1,720
Variation from longer term investment return		**(90)**	231
Property (expense)/income attributable to minority interests		**(6)**	67
Release of 1996 Sub-fund		**321**	–
Profit from continuing operations before tax attributable to equity holders		**883**	2,018
Tax attributable to equity holders		**(165)**	(387)
Profit from ordinary activities after tax		**718**	1,631

3. SUPPLEMENTARY OPERATING PROFIT INFORMATION continued

(ii) Life and pensions operating profit

	2007 £m	2006 Restated £m
Net capital released from non profit business	**161**	1,255
Investment return	**317**	213
Other expenses	**(27)**	(17)
Non profit business	**451**	1,451
With-profits business	**106**	95
UK	**557**	1,546
USA	**59**	58
Netherlands	**11**	7
France	**16**	10
	643	1,621

Further details relating to the impact of the 2007 and 2006 significant events can be found in Note 2. The 2006 profits were enhanced by £496m arising from the adoption of PS06/14.

(iii) Investment management operating profit

	2007 £m	2006 £m
Managed pension funds	**103**	96
Private equity	**–**	4
Property	**6**	6
Retail investments	**8**	11
Other income[1]	**38**	16
	155	133

1. In 2007, Other income includes £23m of profits arising from the provision of investment management services at market referenced rates charged to the Group's UK life and pensions businesses.

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

	Operating profit/ (loss) 2007 £m	Under-writing result 2007 £m	Combined operating ratio 2007 %	Operating profit/ (loss) 2006 £m	Under-writing result 2006 £m	Combined operating ratio 2006 %
From continuing operations						
Household[1]	**(86)**	**(101)**	**145**	(9)	(21)	111
Other business[2]	**19**	**15**	**74**	18	13	89
	(67)	**(86)**	**131**	9	(8)	105

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

The combined operating ratio is:

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

Notes to the Financial Statements continued

3. SUPPLEMENTARY OPERATING PROFIT INFORMATION continued

(v) Other operational income

	2007 £m	2006 Restated £m
Shareholders' other income		
Investment return on ordinary shareholders' equity[1]	**51**	65
Interest expense[2]	**(119)**	(106)
	(68)	(41)
Other operations[3]	**1**	–
Unallocated corporate and development expenses	**(6)**	(2)
	(73)	(43)

1. Investment return on shareholders' equity excludes investment return on Society shareholder capital, which is included in UK life and pensions.
2. Interest expense relates to average borrowings, excluding non-recourse financing (see Note 36).
3. Principally the regulated mortgage network and Cofunds.

(vi) Earnings per share

	Notes	Profit/ (loss) before tax 2007 £m	Tax (charge)/ credit 2007 £m	Profit/ (loss) after tax 2007 £m	Number of shares[1] 2007 m	Earnings per share 2007 p
Operating profit from continuing operations	(i)	**658**	**(196)**	**462**	**6,444**	**7.17**
Variation from longer term investment return	(i)	**(90)**	**31**	**(59)**		**(0.91)**
Release of 1996 Sub-fund		**321**	**–**	**321**		**4.98**
Profit attributable to equity holders/EPS[2]		**889**	**(165)**	**724**	**6,444**	**11.24**

	Notes	Profit before tax 2006 Restated £m	Tax charge 2006 Restated £m	Profit after tax 2006 Restated £m	Number of shares[1] 2006 m	Earnings per share 2006 Restated p
Operating profit from continuing operations	(i)	1,720	(329)	1,391	6,483	21.45
Variation from longer term investment return	(i)	231	(58)	173		2.67
Profit attributable to equity holders/EPS[2]		1,951	(387)	1,564	6,483	24.12

The number of shares in issue at 31 December 2007 was 6,296,321,160 (2006: 6,532,261,961).

1. Weighted average number of shares.
2. Earnings per share.

4. SEGMENTAL ANALYSIS

The Group is organised into three main business segments:
– Long term business
– Investment management
– General insurance

Other operations comprise estate agencies, regulated mortgage network, corporate expenses and assets held outside the three main business segments, none of which constitutes a separately reportable segment.

As a result of Society's long term fund restructure detailed in Note 2, the Society shareholder capital held outside of the LTF has been reclassified in 2007 as attributable to long term business. The comparatives have been restated accordingly.

(i) Income statement analysed by business segments (primary disclosures)

For the year ended 31 December 2007	Long term business £m	Investment management £m	General insurance £m	Other operations £m	Elimination of inter segment amounts £m	Total £m
Total revenue from continuing operations	**6,540**	**11,379**	**308**	**233**	**(258)**	**18,202**
Total expenses from continuing operations	**5,793**	**11,169**	**384**	**319**	**(258)**	**17,407**
Profit from continuing operations after income tax	**719**	**109**	**(55)**	**(55)**	**–**	**718**
Inter segment revenue	**(40)**	**(79)**	**–**	**(139)**	**258**	**–**

For the year ended 31 December 2006	Long term business Restated £m	Investment management £m	General insurance £m	Other operations Restated £m	Elimination of inter segment amounts Restated £m	Total £m
Total revenue from continuing operations	8,540	12,013	315	349	(251)	20,966
Total expenses from continuing operations	6,818	11,849	314	307	(251)	19,037
Profit from continuing operations after income tax	1,483	93	1	54	–	1,631
Inter segment revenue	(30)	(40)	(2)	(179)	251	–

(ii) Balance sheet analysed by business segments (primary disclosures)

As at 31 December 2007	Long term business £m	Investment management £m	General insurance £m	Other operations £m	Elimination of inter segment amounts £m	Total £m
Total assets	**75,279**	**204,313**	**473**	**3,266**	**(2,046)**	**281,285**
Total liabilities	**70,449**	**203,550**	**359**	**3,349**	**(2,046)**	**275,661**
Total equity	**4,830**	**763**	**114**	**(83)**	**–**	**5,624**

As at 31 December 2006	Long term business Restated £m	Investment management £m	General insurance £m	Other operations Restated £m	Elimination of inter segment amounts Restated £m	Total £m
Total assets	72,208	144,725	534	2,645	(2,247)	217,865
Total liabilities	67,133	144,000	365	2,775	(2,247)	212,026
Total equity	5,075	725	169	(130)	–	5,839

Notes to the Financial Statements continued

4. SEGMENTAL ANALYSIS continued

(iii) Revenue and assets by geographic segments (secondary disclosures)

31 December 2007	UK £m	USA £m	Netherlands £m	France £m	Elimination of inter segment amounts £m	Total £m
Total revenue from continuing operations	**17,204**	**338**	**290**	**373**	**(3)**	**18,202**
Total assets	**274,975**	**2,588**	**1,663**	**2,110**	**(51)**	**281,285**

31 December 2006	UK £m	USA £m	Netherlands £m	France £m	Elimination of inter segment amounts £m	Total £m
Total revenue from continuing operations	20,020	329	300	319	(2)	20,966
Total assets	212,185	2,478	1,415	1,807	(20)	217,865

(iv) Gross written premiums

	2007 £m	2006 £m
From continuing operations		
UK life and pensions participating business	**382**	376
UK life and pensions non-participating business	**3,152**	2,691
Total UK life and pensions	**3,534**	3,067
USA	**345**	347
Netherlands	**259**	266
France	**348**	283
Total life and pensions	**4,486**	3,963
General insurance		
Household	**255**	240
Other business	**52**	83
Total General insurance	**307**	323
Total gross written premiums	**4,793**	4,286

Life and pensions gross written premiums by destination are not materially different from gross premiums written by origin. The General insurance premiums arise wholly in the UK.

5. NEW BUSINESS (GROSS OF REINSURANCE)

New business is presented below for all long term business written by the Group including both insurance and investment contracts.

New annual premiums arise where the terms and conditions of a policy anticipate more than one premium being paid over its lifetime; new single premiums comprise all premiums which are not categorised as new annual premiums.

	Annual 2007 £m	Single 2007 £m	Annual 2006 Restated £m	Single 2006 Restated £m
UK risk and savings				
Protection	**223**	**–**	231	–
Annuities[1]	**–**	**2,045**	–	1,818
Total UK risk	**223**	**2,045**	231	1,818
Unit linked bonds	**–**	**2,512**	–	2,612
Pensions, stakeholder and other non profit	**141**	**1,122**	126	817
With-profits savings	**130**	**983**	117	744
Total UK savings	**271**	**4,617**	243	4,173
Total UK risk and savings	**494**	**6,662**	474	5,991
International				
USA	**45**	**–**	42	–
Netherlands	**11**	**157**	12	170
France	**17**	**248**	12	195
	567	**7,067**	540	6,356
Investment management				
Core retail investments[2]				
ISAs – UK	**14**	**437**	15	380
Unit trusts				
– UK	**7**	**962**	2	683
– France	**–**	**24**	–	25
Institutional fund management				
UK managed pension funds[3]				
– Pooled funds		**49,460**		17,878
– Segregated funds		**2,603**		608
		52,063		18,486
Limited partnerships		**171**		99
Other funds[2]	**2**	**2,195**	3	7,445
	23	**55,852**	20	27,118
Total new business	**590**	**62,919**	560	33,474

	Annual 2007 £m	Single 2007 £m	Annual 2006 £m	Single 2006 £m
Comprising:				
Insurance contracts				
Life and pensions				
– Participating	**6**	**710**	7	608
– Non-participating	**295**	**1,681**	296	1,493
Investment contracts				
Life and pensions				
– Participating	**5**	**248**	6	286
– Non-participating	**261**	**4,428**	231	3,969
Investment management	**23**	**55,852**	20	27,118
Total new business	**590**	**62,919**	560	33,474

1. For 2007 reporting, with-profits annuity business has been recategorised from 'with-profits' to 'annuities' and 2006 comparatives restated. This business amounted to £47m of single premiums (2006: £83m).
2. UK core retail investments excludes institutional investments which are disclosed with segregated property, property partnerships, private equity partnerships and institutional clients funds as part of Other funds within Institutional fund management. Other funds comprise new business from Legal & General Investment Management (2007: £388m; 2006: £2,065m) and from Legal & General Retail Investments (2007: £1,809m; 2006: £5,383m).
3. Excludes £19.4bn (2006: £4.4bn) which is held on a temporary basis, generally as part of portfolio reconstructions.

The UK pooled managed funds of £49.5bn (2006: £17.9bn) reported above are classified as fund management contracts. The increase in the fair value of the investment contract liabilities is shown in the income statement.

There are two classes of business where there is a material difference between gross and net of reinsurance new business; term assurance, which is 51.5% reinsured (2006: 51.9%), and permanent health insurance, which is 26.3% reinsured (2006: 24.5%).

Notes to the Financial Statements continued

6. INVESTMENT RETURN

	2007 £m	2006 £m
Financial investment return	**13,109**	15,610
Property investment return	**116**	962
Investment return	**13,225**	16,572

Included within financial investment return is interest income on AFS investments of £71m (2006: £74m) and £396m (2006: £216m) on loans and receivables. Net gains (excluding interest and dividend income) of £4,914m (2006: £9,010m) arose on financial investments designated as FVTPL and £178m (2006: £(120)m) arose on derivative contracts classified as HFT. Financial investment return includes dividends, interest received and fair value gains and losses, excluding fair value movements attributable to AFS investments.

Property investment return includes £346m (2006: £345m) of rental income.

7 NET CLAIMS AND CHANGE IN INSURANCE LIABILITIES

From continuing operations	Long term insurance 2007 £m	General insurance 2007 £m	Total 2007 £m	Long term insurance 2006 £m	General insurance 2006 £m	Total 2006 £m
Claims paid						
– gross	**3,922**	**255**	**4,177**	3,603	206	3,809
– reinsurance recoveries	**(269)**	**(3)**	**(272)**	(254)	(4)	(258)
	3,653	**252**	**3,905**	3,349	202	3,551
Change in insurance liabilities						
– gross	**255**	**35**	**290**	(1,866)	(5)	(1,871)
– reinsurance recoveries	**(66)**	**(7)**	**(73)**	1,381	–	1,381
Net claims and change in insurance liabilities	**3,842**	**280**	**4,122**	2,864	197	3,061

In 2007, the change in long term insurance liabilities includes £214m relating to strengthening of assumptions for annuitant mortality on existing business partly offset by favourable investment variances of £134m.

In 2006, the change in insurance liabilities includes the financial effect of PS06/14 which is described in Notes 2 and 35.

8 AUDITORS' REMUNERATION

	2007 £m	2006 £m
Remuneration receivable by the Company's auditor for the audit of the consolidated and Company financial statements	**1.1**	1.0
Remuneration receivable by the Company's auditor and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
Audit of the Company's subsidiaries, pursuant to legislation	**1.4**	1.4
	2.5	2.4
Other services supplied pursuant to legislation	**0.5**	0.5
Tax services	**0.6**	0.8
Services relating to corporate finance transactions entered into or proposed to be entered into	**–**	0.1
Other services not covered above[1]	**1.4**	1.3
Total remuneration	**5.0**	5.1

1. For 2007, Other services include £0.7m (2006: £0.6m) in respect of accounting and regulatory advice, project management services and assurance procedures in relation to the capital review.

In addition to the above, fees payable to the Company's auditor and its associates for audit services supplied to the Company's associated pension schemes amounted to £0.1m (2006: £0.1m).

9. EMPLOYEE INFORMATION

	2007	2006
Average number of staff employed during the year:		
UK	**9,296**	9,051
Europe	**363**	332
USA	**408**	359
Worldwide employees	**10,067**	9,742

	Notes	2007 £m	2006 £m
Salaries		**330**	303
Social security costs		**43**	38
Share-based incentive awards		**18**	15
Defined benefit pension costs	38	**39**	41
Defined contribution pension costs	38	**21**	17
Total		**451**	414

10. PROFIT BEFORE INCOME TAX

	Notes	2007 £m	2006 £m
The following items have been included in arriving at profit before income tax:			
– Depreciation on plant and equipment	16	**20**	15
– Amortisation of purchased interest in long term businesses	21	**3**	7
– Operating lease rentals		**25**	19
– Reinsurance commissions		**(14)**	(15)
– Direct operating expenses arising from investment properties which generate rental income		**16**	25

During the year, the Group entered into prospective reinsurance arrangements which resulted in a profit of £145m (2006: £192m). This profit has been reflected in the consolidated income statement for the year.

11. FOREIGN EXCHANGE AND EXCHANGE RATES

Profit for the year includes foreign exchange gains and losses on financial instruments. The profit for the year also includes foreign exchange losses of £268m (2006: gains of £243m) arising on conversion of monetary assets and liabilities to functional currencies.

Principal rates of exchange used for translation are:

	01.01.07-31.12.07 Average	2007 Year end	01.01.06-31.12.06 Average	2006 Year end
United States Dollar	**2.00**	**1.99**	1.84	1.96
Euro	**1.46**	**1.36**	1.47	1.48

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12. INCOME TAX EXPENSE

	2007 £m	2006 £m
Current tax		
– Current tax for the year	**261**	280
– Adjustments in respect of prior years	**2**	21
Total current tax	**263**	301
Deferred tax		
– Origination and reversal of temporary differences	**(186)**	(3)
Total income tax expense	**77**	298
Represented by:		
Income tax attributable to policyholder returns	**(88)**	(89)
Income tax attributable to equity holders	**165**	387
Total income tax expense	**77**	298

The Group uses estimates to apportion the income tax expense of Society between the elements attributable to policyholder returns and equity holders' profits. The net equity holders' profit from UK long term business has borne tax at the effective equity holder tax rate. For participating business and certain non profit business this is sufficiently close to the standard rate of UK corporation tax for that rate to be used in the financial statements. For the remaining non profit business, the effective equity holder tax rate is used. For equity holders' funds within Society's LTF, the equity holder income tax is the income tax attributed to the return on those funds. The balance of income taxes associated with UK long term business profits is then classified as income tax attributable to policyholders returns.

There is no definitive method of calculating the effective equity holder tax rate. A number of alternative methods are consistently used, in order to assess the validity of using the standard rate of UK corporation tax.

For international long term business the equity holder income tax is the total income tax in respect of profits earned from that business.

For 2007, the Group has refined the method of estimating the apportionment of the income tax expense. If the 2007 method had been applied to the 2006 consolidated income statement, the profit from continuing operations before income tax attributable to equity holders would have reduced to £1,805m, the income tax attributable to policyholder returns would have increased to £124m and the income tax attributable to equity holders reduced to £174m. The total income tax expense, and profit from ordinary activities after income tax, would have been unchanged.

If the 2006 method had been applied to 2007, the profit before income tax, profit from continuing operations before income tax attributable to equity holders, total income tax expense and income tax attributable to equity holders, would all have been increased by £138m. The profit from ordinary activities after income tax would have been unchanged.

The tax assessed for the year is lower (2006: lower) than the standard corporation tax rate applicable to companies operating in the UK of 30% (2006: 30%). The differences are explained below:

	Notes	2007 £m	2006 £m
Income tax calculated at standard UK corporation tax rate		**239**	579
Effects of:			
Income tax relating to policyholder returns		**(62)**	(62)
Disallowable expenditure		**5**	3
Non taxable income including UK dividends		**(12)**	(11)
Adjustments in respect of prior years		**1**	10
Differences between taxable and accounting investment gains/losses		**(15)**	(13)
Overseas tax		**(1)**	4
No tax in respect of property (expense)/income attributable to minority interests		**2**	(20)
Higher/(lower) tax on SRC investment return		**22**	(15)
Difference between tax relief and accounting expense for share releases and option exercises		**3**	(6)
Difference between tax and accounting losses	2	**–**	(171)
No tax in respect of merger of 1996 Sub-fund with SRC		**(96)**	–
Reduction in UK corporate tax rate		**(9)**	–
Total income tax expense		**77**	298

The rate of tax for 2006 reflected the impact of the net capital released from non profit business into profit of £1,380m on which no current or deferred tax arose. The effect of this is within the reconciling item 'Income tax relating to policyholder returns'.

12. INCOME TAX EXPENSE continued

	2007 £m	2006 £m
Deferred tax recognised directly in equity		
Relating to net gains or losses recognised directly in equity	**10**	4
Exchange losses	**–**	(21)
Deferred tax recognised directly in equity	**10**	(17)

Deferred tax is provided at the incremental rate on the undeclared surplus in Society's LTF represented by the Shareholder Retained Capital (SRC). For 2007, the incremental rate in respect of the undeclared surplus of £2,047m was zero. At 31 December 2006, no deferred tax was provided, on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually existed and there was no expectation that such a declaration would occur. The maximum amount of incremental tax which would have crystallised on such a declaration of surplus at 31 December 2006 was estimated to be £717m.

13. DIVIDENDS AND OTHER DISTRIBUTIONS

	Per share 2007 p	Total 2007 £m	Per share 2006 p	Total 2006 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**3.81**	**248**	3.63	236
– Current year interim dividend	**1.87**	**121**	1.74	113
	5.68	**369**	5.37	349
Ordinary share dividend proposed[1]	**4.10**	**247**	3.81	248

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

14. EARNINGS PER SHARE

Earnings per share have been calculated using the weighted average number of ordinary shares in issue and the profits for the financial year. Reconciliations of the earnings and weighted average numbers of shares used in the calculations are set out below:

Based on profit attributable to equity holders

	Profit 2007 £m	Number of shares[1] 2007 m	Earnings per share 2007 p	Profit 2006 £m	Number of shares[1] 2006 m	Earnings per share 2006 p
Profit attributable to equity holders	**724**	**6,444**	**11.24**	1,564	6,483	24.12
Net shares under options allocable for no further consideration	**–**	**34**	**(0.06)**	–	46	(0.17)
Diluted profit attributable to equity holders	**724**	**6,478**	**11.18**	1,564	6,529	23.95

1. Weighted average number of shares.

The number of shares in issue at 31 December 2007 was 6,296,321,160 (2006: 6,532,261,961).

The share buyback programme has continued during 2008 (see Note 37).

15. SHARE-BASED PAYMENTS

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	SAYE	PSP
Award date	**10 Apr 07**	**24 Aug 07**	**25 Apr 07**
Weighted average share price	**163p**	**138p**	**157p**
Weighted average exercise price	**119p**	**110p**	**n/a**
Expected volatility	**22 – 33%**	**22 – 32%**	**n/a**
Expected life	**3 – 7 years**	**3 – 7 years**	**3 years**
Risk free investment rate	**5.2 – 5.4%**	**5.2 – 5.4%**	**n/a**
Dividend yield	**3.7%**	**3.6%**	**n/a**

Expected volatility is a measure of the tendency of a security price to fluctuate in a random, unpredictable manner. Expected volatility is determined by calculating the historical volatility of the Group's share price over the previous ten years. The expected life has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

15. SHARE-BASED PAYMENTS continued

The Group provides the following equity settled share-based long term incentive plans for directors and eligible employees:

Savings related share option scheme (SAYE)

The SAYE allows employees to enter into a regular savings contract over either three, five or seven years, coupled with a corresponding option over shares of the Group. The grant price is equal to 80% of the quoted market price of the Group shares on the invitation date. Options are normally forfeited if the employee leaves the Group before the options vest.

	Options 2007	Weighted average exercise price 2007 p	Options 2006	Weighted average exercise price 2006 p
Outstanding at 1 January	**34,935,949**	**77**	46,596,785	63
Granted during the year	**7,672,510**	**114**	13,066,802	109
Forfeited during the year	**(1,098,923)**	**90**	(749,812)	81
Exercised during the year	**(3,305,251)**	**80**	(19,515,404)	57
Expired during the year	**(2,063,948)**	**110**	(4,462,422)	107
Outstanding at 31 December	**36,140,337**	**82**	34,935,949	77
Exercisable at 31 December	**201,854**	**82**	186,023	90

The fair values of the SAYE options granted during the year have been estimated using the Black-Scholes model. The assumptions used in the model are shown above. The weighted average fair value of each SAYE option granted during the year was 45p (2006: 35p). The Group recognised total expenses of £2m (2006: £2m) related to the SAYE scheme. The intrinsic value of vested SAYE options was £nil (2006: £nil) at the year end. Intrinsic value of a share option is calculated as the current share price less the option price. The options outstanding at 31 December 2007 had a weighted average remaining contractual life of two years.

Company share option scheme (CSOP)/Executive share option scheme (ESOS)

The CSOP, approved by HMRC, and unapproved ESOS were designed to provide a long term incentive to directors and managers of the Group. The number of options granted is based on the manager's level, salary and performance. The options have a ten year life but do not normally vest in the first three years. In order to exercise the options, the Legal & General Total Shareholder Return (TSR) must exceed the median TSR of the FTSE 100 for a period of at least three years commencing on the date of the grant. Options are normally forfeited if the employee leaves the Group before the options vest.

	Options 2007	Weighted average exercise price 2007 p	Options 2006	Weighted average exercise price 2006 p
Outstanding at 1 January	**41,352,016**	**136**	54,394,602	131
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(696,798)**	**149**	(3,941,409)	133
Exercised during the year	**(1,961,215)**	**90**	(5,324,625)	79
Expired during the year	**(328,914)**	**166**	(3,776,552)	153
Outstanding at 31 December	**38,365,089**	**138**	41,352,016	136
Exercisable at 31 December	**38,365,089**	**138**	39,667,016	138

The fair values of the options granted under the CSOP/ESOS are estimated using a binomial model, reflecting the historic exercise patterns. The assumptions used in the model are disclosed on page 83. No options were granted in 2007 or 2006 under these schemes.

The Group recognised total expenses of £nil (2006: £nil) related to the CSOP and ESOS. The intrinsic value of vested share options at the year end was £4m (2006: £8m). The options outstanding at 31 December 2007 had a weighted average remaining contractual life of four years.

Share bonus plan (SBP)

SBP awards granted before 2005 gave the recipient the right to receive a fixed number of shares three years after the grant date. SBP grants, from 2005, award restricted shares which vest with employees three years after the grant date. From 2005, SBP grant recipients are entitled to both vote and receive dividends. In both cases the rights associated with SBP grants are normally forfeited on leaving the Group.

The fair value of the shares awarded has been calculated as the market value on the grant date. For pre-2005 awards, this has been adjusted by the estimated present value of future dividends to which the holder is not entitled.

During the year, 6,670,313 shares (2006: 5,391,862 shares) were awarded under the SBP. The weighted average fair value of the shares issued was 155p (2006: 140p). The Group recognised a total expense of £7m (2006: £5m) relating to the SBP.

15. SHARE-BASED PAYMENTS continued

Performance share plan (PSP)
Conditional shares can be granted to top managers under the PSP, based upon individual and Company performance. Under the PSP, the number of performance shares transferred to the individual at the end of the three year vesting period is dependant on Legal & General's TSR compared with that of the other FTSE 100 companies at the date of the award, measured over the vesting period. The minimum number of performance shares is transferred if the TSR is at median. The number increases proportionately to a maximum of four times the performance shares at or above twentieth position.

The fair value of the granted performance shares has been calculated using a probabilistic model which incorporates the market-based performance conditions within the scheme.

During the year, 1,773,775 performance shares (2006: 2,311,828) were awarded. The weighted average fair value of each award issued was 306p (2006: 279p). The Group recognised a total expense of £5m (2006: £5m) relating to the PSP during the year.

Employee share plan (ESP)
Under the ESP, approved by HMRC, permanent UK employees may elect to purchase Group shares from the market at the prevailing market price on a monthly basis. The Group supplements the number of shares purchased by matching the first £20 of the employees' contributions. From time to time, the Group may make a grant of free shares. Both the free and matching shares must be held in Trust for three years before they may vest to the employee. After vesting, the shares remain within the Trust until they are transferred to the employee or the employee leaves the Group. The Trust is consolidated into the results of the Group with the unvested shares disclosed as employee scheme shares.

The fair value of the granted shares is equal to the market value at the grant date.

During the year, 4,127,529 shares (2006: 4,086,631 shares) were granted under the ESP. The weighted average fair value of the shares issued was 148p (2006: 136p). The Group recognised a total expense of £4m (2006: £3m) relating to the ESP during the year.

Total recognised expense
The total recognised expense relating to share-based payments in 2007 was £18m (2006: £15m) before tax, all of which related to equity settled share schemes.

Total options
Options over 74,505,426 shares are outstanding under CSOP, ESOS and SAYE at 31 December 2007 as shown below:

Option price pence per share	Number of shares	Option period ending in	Option price pence per share	Number of shares	Option period ending in
50.01 – 60.00	**15,765,269**	**2008 – 2010**	**110.01 – 120.00**	**5,487,541**	**2008 – 2014**
60.01 – 70.00	**–**	**–**	**120.01 – 130.00**	**87,727**	**2008 – 2009**
70.01 – 80.00	**8,054,225**	**2008 – 2013**	**130.01 – 140.00**	**–**	**–**
80.01 – 90.00	**1,880,637**	**2008 – 2012**	**140.01 – 150.00**	**17,743,902**	**2011 – 2012**
90.01 – 100.00	**2,805,426**	**2008 – 2014**	**150.01 – 160.00**	**7,378,602**	**2010**
100.01 – 110.00	**10,467,837**	**2009 – 2014**	**160.01 – 170.00**	**4,834,260**	**2009**

16. PLANT AND EQUIPMENT

	2007 £m	2006 £m
Cost		
As at 1 January	**104**	101
Additions	**60**	28
Disposals	**(17)**	(25)
As at 31 December	**147**	104
Depreciation		
As at 1 January	**61**	69
Provided during the year	**20**	15
Disposals	**(13)**	(23)
As at 31 December	**68**	61
Net book value at 31 December	**79**	43

17. INVESTMENT PROPERTY

	Linked 2007 £m	**Other 2007 £m**	**Total 2007 £m**	Linked 2006 Restated[1] £m	Other 2006 Restated[1] £m	Total 2006 £m
Fair value at 1 January	**3,128**	**3,724**	**6,852**	2,121	3,653	5,774
Additions	**312**	**8**	**320**	1,129	826	1,955
Improvements	**14**	**88**	**102**	16	118	134
Disposals	**(108)**	**(554)**	**(662)**	(307)	(939)	(1,246)
Fair value (loss)/gain	**(438)**	**(194)**	**(632)**	169	66	235
Exchange revaluation	**–**	**1**	**1**	–	–	–
Other	**(12)**	**–**	**(12)**	–	–	–
Fair value at 31 December	**2,896**	**3,073**	**5,969**	3,128	3,724	6,852

1. 2006 figures have been restated to reflect a change in categorisation between linked and other.

Notes to the Financial Statements continued

18. FINANCIAL INVESTMENTS

	Notes	Linked 2007 £m	Other 2007 £m	Total 2007 £m	Linked 2006 £m	Other 2006 £m	Total 2006 £m
Financial investments at fair value designated as:							
Fair value through profit or loss		**222,727**	**35,507**	**258,234**	162,451	36,838	199,289
Available-for-sale		**2**	**1,440**	**1,442**	–	1,255	1,255
Held for trading		**560**	**134**	**694**	37	39	76
Financial investments at fair value	(i)	**223,289**	**37,081**	**260,370**	162,488	38,132	200,620
Loans and receivables	(ii)	**1,204**	**144**	**1,348**	567	243	810
Total financial investments		**224,493**	**37,225**	**261,718**	163,055	38,375	201,430
Expected to be settled within 12 months				**41,988**			24,373
Expected to be settled after 12 months				**219,730**			177,057

Investment risks on linked assets are borne by the policyholders. The remaining risks are outlined in the risk management note (see Note 49).

Financial investments include £164m (2006: £75m) of debt securities pledged as collateral against derivative liabilities. The assets used as collateral are AAA rated bonds (2006: AAA rated Supranational Bonds) having a residual maturity of over 21 years (2006: 15 years). The Group is entitled to receive all of the cash flows from the 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. The Group 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.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance and investment contract liabilities have been classified as expected to be settled after 12 months.

(i) Financial investments at fair value

	Notes	Linked 2007 £m	Other 2007 £m	Total 2007 £m	Linked 2006 £m	Other 2006 £m	Total 2006 £m
Equity securities		**143,916**	**10,310**	**154,226**	103,937	12,842	116,779
Debt securities		**77,934**	**26,153**	**104,087**	57,848	24,837	82,685
Accrued interest		**879**	**484**	**1,363**	666	413	1,079
Derivative assets	19	**560**	**134**	**694**	37	40	77
Total investments at fair value		**223,289**	**37,081**	**260,370**	162,488	38,132	200,620

Private equity investments are included within equity securities. £47m (2006: £60m) has been recognised in the income statement in respect of the fair value losses on these investments.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. £(7)m (2006: £198m) has been recognised in the income statement in respect of the movement in fair value of these investments.

Included within linked equity securities are £335m (2006: £308m) of debt instruments which incorporate an embedded derivative linked to the value of the Group's share price.

(ii) Loans and receivables

	Linked 2007 £m	Other 2007 £m	Total 2007 £m	Linked 2006 £m	Other 2006 £m	Total 2006 £m
Deposits with credit institutions	**1,204**	**73**	**1,277**	567	178	745
Policy loans	**–**	**70**	**70**	–	63	63
Other loans	**–**	**1**	**1**	–	2	2
Total loans and receivables	**1,204**	**144**	**1,348**	567	243	810

There are no material differences between the carrying values reflected above and the fair value of these loans.

19. DERIVATIVE ASSETS AND LIABILITIES

	Contract/ notional amount 2007 £m	Fair values Assets 2007 £m	Fair values Liabilities[1] 2007 £m
Non-linked derivatives:			
Interest rate contracts – fair value hedges	**1,065**	**18**	**28**
Interest rate contracts – held for trading	**5,273**	**51**	**204**
Forward foreign exchange contracts – net investment hedges	**595**	**1**	**2**
Forward foreign exchange contracts – held for trading	**441**	**43**	**39**
Equity/index derivatives – held for trading	**162**	**4**	**–**
Currency swaps – held for trading	**10**	**–**	**–**
Credit derivatives – held for trading	**1,824**	**16**	**34**
Other derivatives – held for trading	**5**	**1**	**–**
Total non-linked derivatives		**134**	**307**
Linked derivatives:			
Inflation rate contracts – held for trading	**6,364**	**175**	**13**
Interest rate contracts – held for trading	**11,530**	**334**	**187**
Forward foreign exchange contracts – held for trading	**–**	**1**	**216**
Credit derivatives – held for trading	**1,463**	**15**	**16**
Inflation swap contracts – held for trading	**3,946**	**19**	**5**
Equity/index derivatives – held for trading	**907**	**15**	**4**
Other derivatives – held for trading	**5**	**1**	**–**
Total linked derivatives		**560**	**441**
Total derivative assets and liabilities		**694**	**748**

	Contract/ notional amount 2006 £m	Fair values Assets 2006 £m	Fair values Liabilities[1] 2006 £m
Non-linked derivatives:			
Interest rate contracts – fair value hedges	411	–	17
Interest rate contracts – held for trading	2,029	30	112
Forward foreign exchange contracts – net investment hedges	446	1	2
Forward foreign exchange contracts – held for trading	405	6	1
Equity/index derivatives – held for trading	142	2	–
Other derivatives – held for trading	47	1	–
Total non-linked derivatives		40	132
Linked derivatives:			
Inflation swap contracts – held for trading	2,574	2	8
Interest rate contracts – held for trading	530	9	25
Forward foreign exchange contracts – held for trading	–	23	8
Equity/index derivatives – held for trading	355	3	4
Total linked derivatives		37	45
Total derivative assets and liabilities		77	177

1. Derivative liabilities are reported in the balance sheet within Other creditors.

19. DERIVATIVE ASSETS AND LIABILITIES continued

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

The contractual undiscounted cash flows in relation to non-linked derivatives have the following maturity profile. Linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

		Maturity profile of undiscounted cash flows					
As at 31 December 2007	**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							
Derivative assets	**134**	**610**	**428**	**1,002**	**434**	**2,210**	**4,684**
Derivative liabilities	**(307)**	**2,461**	**322**	**314**	**156**	**1,939**	**5,192**
Total	**(173)**	**3,071**	**750**	**1,316**	**590**	**4,149**	**9,876**
Cash outflows							
Derivative assets	**134**	**(630)**	**(629)**	**(1,074)**	**(552)**	**(562)**	**(3,447)**
Derivative liabilities	**(307)**	**(2,510)**	**(450)**	**(1,031)**	**(154)**	**(597)**	**(4,742)**
Total	**(173)**	**(3,140)**	**(1,079)**	**(2,105)**	**(706)**	**(1,159)**	**(8,189)**
Net cash flows		**(69)**	**(329)**	**(789)**	**(116)**	**2,990**	**1,687**

		Maturity profile of undiscounted cash flows					
As at 31 December 2006	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							
Derivative assets	40	78	137	535	1	1,333	2,084
Derivative liabilities	(132)	525	44	29	153	1,561	2,312
Total	(92)	603	181	564	154	2,894	4,396
Cash outflows							
Derivative assets	40	(59)	(154)	(1,214)	(1)	–	(1,428)
Derivative liabilities	(132)	(551)	(308)	(298)	(300)	–	(1,457)
Total	(92)	(610)	(462)	(1,512)	(301)	–	(2,885)
Net cash flows		(7)	(281)	(948)	(147)	2,894	1,511

Cash inflows and outflows are presented on a net basis where the Company is required to settle net or has a legally enforceable right of offset and the intention to settle on a net basis.

Forward foreign exchange contracts – Net investment hedges

The Group hedges part of the foreign exchange translation exposure on its net investment in its overseas subsidiaries, using forward foreign exchange contracts. It recognises the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on revaluation of the foreign subsidiaries.

Interest rate swap contracts – Fair value hedges

The Group uses interest rate swap contracts to hedge fixed rate loans in particular to hedge the movement in the fair value of a loan due to interest rates.

Fair value gains and losses arising from fair value hedging relationships are as follows:

- Fair value gains/(losses) on hedging instruments were £9m (2006: £(21)m).
- Fair value losses/(gains) on the hedged item attributable to the hedged risk were £(10)m (2006: £21m).

Derivative contracts – held for trading

The Group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the Group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading and gains and losses on these contracts are recognised immediately in the income statement.

20. REINSURERS' SHARE OF CONTRACT LIABILITIES

	Notes	Linked 2007 £m	Other 2007 £m	Total 2007 £m	Linked 2006 £m	Other 2006 £m	Total 2006 £m
Reinsurers' share of:							
Insurance contract liabilities	31	**5**	**1,317**	**1,322**	5	1,249	1,254
Investment contract liabilities	32	**116**	**92**	**208**	139	88	227
Reinsurers' share of contract liabilities		**121**	**1,409**	**1,530**	144	1,337	1,481

21. PURCHASED INTEREST IN LONG TERM BUSINESSES

	2007 £m	2006 £m
As at 1 January	**23**	25
Amortisation charged to income	**(3)**	(7)
Net exchange difference	**–**	(2)
Other	**(1)**	7
As at 31 December	**19**	23
Accumulated amortisation at 31 December	**154**	154
To be amortised within 12 months	**3**	4
To be amortised after 12 months	**16**	19

The net book value of purchased interest in long term businesses represents the remaining unamortised portion of the fair values of purchased long term in-force businesses, which is amortised over their economic lives.

22. DEFERRED ACQUISITION COSTS

(i) Analysis of deferred acquisition costs

	Notes	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Insurance contract deferred acquisition costs	(ii)	**734**	**(66)**	695	(69)
Investment contract deferred acquisition costs	(iii)	**962**	**–**	761	–
Deferred acquisition costs		**1,696**	**(66)**	1,456	(69)

(ii) Insurance contract deferred acquisition costs

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**695**	**(69)**	897	(78)
Acquisition costs deferred	**146**	**(1)**	231	(1)
Amortisation charged to income	**(132)**	**6**	(251)	5
(Decrease)/increase due to currency translation	**(6)**	**1**	(79)	9
Other[1]	**31**	**(3)**	(103)	(4)
As at 31 December	**734**	**(66)**	695	(69)
To be amortised within 12 months	**99**	**(3)**	133	(8)
To be amortised after 12 months	**635**	**(63)**	562	(61)

1. In 2006, included in Other is a £145m reduction which results from the adoption of the provisions of PS06/14 which has resulted in the acceleration of the recognition of margins previously used to support the deferral of these costs. The related deferred acquisition costs have therefore been charged to the income statement during the period. The implementation of PS06/14 is described in Note 2.

22. DEFERRED ACQUISITION COSTS continued

(iii) Investment contract deferred acquisition costs

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	761	–	478	–
Acquisition costs deferred	271	–	324	–
Amortisation charged to income	(59)	–	(41)	–
Decrease due to currency translation	3	–	–	–
Other	(14)	–	–	–
As at 31 December	962	–	761	–
To be amortised within 12 months	57	–	52	–
To be amortised after 12 months	905	–	709	–

23. INCOME TAX

	2007 £m	2006 £m
Due within 12 months	–	5
Due after 12 months	4	7
Income tax recoverable	4	12

	2007 £m	2006 £m
Due within 12 months	427	245
Due after 12 months	(314)	(139)
Income tax liabilities	113	106

24. OTHER ASSETS

	Linked 2007 £m	Other 2007 £m	Total 2007 £m	Linked 2006 £m	Other 2006 £m	Total 2006 £m
Reinsurance debtors	–	34	34	–	83	83
Accrued interest and rent	74	71	145	63	72	135
Prepayments and accrued income	257	84	341	179	79	258
Other debtors	442	557	999	297	849	1,146
Other assets	773	746	1,519	539	1,083	1,622
Due within 12 months			1,515			1,617
Due after 12 months			4			5

25. CASH AND CASH EQUIVALENTS

	Linked 2007 £m	Other 2007 £m	Total 2007 £m	Linked 2006 £m	Other 2006 £m	Total 2006 £m
Cash at bank and in hand	267	204	471	106	110	216
Cash equivalents	5,565	2,701	8,266	2,741	1,973	4,714
Cash and cash equivalents	5,832	2,905	8,737	2,847	2,083	4,930

Cash and cash equivalents of £7,446m (2006: £4,214m) held within UK LTFs are not available to settle liabilities outside the LTFs.

26. SHARE CAPITAL, SHARE PREMIUM AND EMPLOYEE SCHEME SHARES

(i) Share capital and share premium

Authorised share capital	2007 Number of shares	2007 £m	2006 £m
As at 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	230

Issued share capital, fully paid	Notes	Number of shares	Share capital £m	Share premium £m
As at 1 January 2007		**6,532,261,961**	**163**	**923**
Shares cancelled under share buyback programme[1]		**(241,207,267)**	**(6)**	**–**
Options exercised under share option schemes				
– Executive share option scheme	15	**1,961,215**	**–**	**2**
– Savings related share option scheme	15	**3,305,251**	**–**	**2**
As at 31 December 2007		**6,296,321,160**	**157**	**927**

Issued share capital, fully paid	Notes	Number of shares	Share capital £m	Share premium £m
As at 1 January 2006		6,507,421,932	163	908
Options exercised under share option schemes				
– Executive share option scheme	15	5,324,625	–	4
– Savings related share option scheme	15	19,515,404	–	11
As at 31 December 2006		6,532,261,961	163	923

1. During the year, 241,207,267 shares were repurchased and cancelled under the share buyback programme representing 3.7% of opening issued share capital, at a cost of £320m including expenses. At 17 March 2008, a further 198,508,564 ordinary shares had been purchased for cancellation at a total cost of £251m including expenses (see Note 37).

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

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

(ii) Employee scheme shares

The Group uses the Employee Share Ownership Trust (ESOT), Employee Share Trust (EST) and the Legal & General Group Employee Share Plan (ESP) to purchase and hold shares of the Group for delivery to employees under various employee share schemes. Shares owned by these vehicles are included at cost in the consolidated balance sheet and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they vest to employees. Share-based liabilities to employees may also be settled via purchases directly from the market or by the issue of new shares.

The ESOT has waived its voting rights and its rights to some of the dividends payable on the shares it holds. Employees are entitled to dividends on the shares held on their behalf within the EST and the ESP.

	Number of shares	2007 £m	2006 £m
As at 1 January	**41,061,744**	**45**	36
Shares purchased	**3,379,300**	**5**	11
Shares vested	**(6,264,185)**	**(8)**	(2)
As at 31 December	**38,176,859**	**42**	45

27. CAPITAL REDEMPTION AND OTHER RESERVES

	Capital redemption reserve £m	Currency translation reserve £m	Share-based payments reserve £m	Hedging reserve £m	AFS £m	Total £m
As at 1 January 2007	**–**	**7**	**32**	**(1)**	**11**	**49**
Gains on AFS assets recognised directly in equity	**–**	**–**	**–**	**–**	**1**	**1**
Shares vested	**–**	**–**	**(11)**	**–**	**–**	**(11)**
Currency translation differences	**–**	**(3)**	**–**	**–**	**1**	**(2)**
Cancellation of shares under the share buyback programme	**6**	**–**	**–**	**–**	**–**	**6**
Net gains/(losses) not recognised in income statement	**6**	**(3)**	**(11)**	**–**	**2**	**(6)**
Employee share schemes:						
– Value of employee services	**–**	**–**	**16**	**–**	**–**	**16**
As at 31 December 2007	**6**	**4**	**37**	**(1)**	**13**	**59**

	Capital redemption reserve £m	Currency translation reserve £m	Share-based payments reserve £m	Hedging reserve £m	AFS £m	Total £m
As at 1 January 2006	–	(2)	30	2	4	34
Gains on AFS assets recognised directly in equity	–	–	–	–	7	7
Fair value losses on cash flow hedges	–	–	–	(3)	–	(3)
Shares vested	–	–	(12)	–	–	(12)
Currency translation differences	–	9	–	–	–	9
Net gains/(losses) not recognised in income statement	–	9	(12)	(3)	7	1
Employee share schemes:						
– Value of employee services	–	–	14	–	–	14
As at 31 December 2006	–	7	32	(1)	11	49

28. RETAINED EARNINGS

	Notes	2007 £m	2006 £m
As at 1 January		**4,335**	3,188
Profit for the year		**724**	1,564
Dividend distributions to equity holders of the Company during the year	13	**(369)**	(349)
Actuarial (losses)/gains on defined benefit pension schemes		**(40)**	3
Actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus		**16**	(1)
Transfer (to)/from share-based payments reserve		**(7)**	2
Cancellation of shares under the share buyback programme		**(320)**	–
Fair value loss after tax on reclassification of subordinated borrowings as debt		**–**	(28)
Exchange gains/(losses)		**6**	(44)
As at 31 December		**4,345**	4,335

29. MINORITY INTERESTS

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

	2007 £m	2006 £m
As at 1 January	**414**	285
Share of net (loss)/profit in subsidiaries	**(6)**	67
Movement in third party interests[1]	**(230)**	62
As at 31 December	**178**	414

1. Movement in third party interest includes the disposal of Arlington Business Parks Unit Trust of £331m arising from dilution of the Group's ownership below 50%.

30. TOTAL EQUITY

	2007 £m	2006 £m
As at 1 January	**5,839**	4,936
Total recognised income and expense	**699**	1,602
Issue of share capital	**4**	15
Share buyback	**(320)**	–
Net movements in employee scheme shares	**1**	(5)
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Movements in minority interests including disposals	**(230)**	62
Reclassification of subordinated borrowings from equity to debt	**–**	(394)
Fair value loss after tax on reclassification of subordinated borrowings as debt	**–**	(28)
As at 31 December	**5,624**	5,839

31. INSURANCE CONTRACT LIABILITIES

(i) Analysis of insurance contract liabilities

	Notes	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Life and pensions participating insurance contracts	(iii)	**11,663**	**(1)**	12,660	(1)
Life and pensions non-participating insurance contracts	(iv)	**22,568**	**(1,302)**	21,321	(1,237)
General insurance contracts	(v)	**305**	**(19)**	281	(16)
Insurance contract liabilities		**34,536**	**(1,322)**	34,262	(1,254)

(ii) Expected insurance contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2007	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Life and pensions participating insurance contracts	**7,420**	**5,475**	**1,008**	**317**	**14,220**	**11,663**
Life and pensions non-participating insurance contracts	**5,403**	**10,800**	**9,672**	**12,266**	**38,141**	**15,294**
General insurance contracts[1]	**158**	**–**	**–**	**–**	**158**	**158**
Insurance contract liabilities	**12,981**	**16,275**	**10,680**	**12,583**	**52,519**	**27,115**

1. Excludes unearned premium reserve of £133m (2006: £144m) for which there are no cash flows.

	Date of undiscounted cash flow					
As at 31 December 2006	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Life and pensions participating insurance contracts	7,124	7,086	1,403	470	16,083	12,659
Life and pensions non-participating insurance contracts	4,797	9,754	8,946	11,782	35,279	14,132
General insurance contracts	129	–	–	–	129	129
Insurance contract liabilities	12,050	16,840	10,349	12,252	51,491	26,920

Insurance contract undiscounted net cash flows are based on the expected date of settlement. Unit linked contracts have been excluded from the table due to the exact matching of cash flows to those of the linked backing assets.

31. INSURANCE CONTRACT LIABILITIES continued

(iii) Movement in participating insurance contract liabilities

	Notes	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January		**12,660**	**(1)**	13,180	(1)
New liabilities in the year		**219**	**–**	240	–
Liabilities discharged in the year		**(1,684)**	**–**	(1,671)	–
Unwinding of discount rates		**520**	**–**	432	–
Effect of change in non-economic assumptions	35	**(102)**	**–**	29	–
Effect of change in economic assumptions	35	**50**	**–**	487	–
Other		**–**	**–**	(37)	–
As at 31 December		**11,663**	**(1)**	12,660	(1)
Expected to be settled within 12 months (net of reinsurance)		**1,799**		1,431	
Expected to be settled after 12 months (net of reinsurance)		**9,863**		11,228	

(iv) Movement in non-participating insurance contract liabilities

	Notes	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January		**21,321**	**(1,237)**	22,860	(2,649)
New liabilities in the year		**2,463**	**(286)**	1,995	(287)
Liabilities discharged in the year		**(1,108)**	**78**	(1,630)	75
Unwinding of discount rates		**876**	**(126)**	958	(134)
Effect of change in non-economic assumptions	35	**1**	**179**	90	(33)
Effect of change in economic assumptions	35	**(902)**	**–**	(417)	9
Foreign exchange adjustments		**109**	**2**	(176)	26
Other		**(192)**	**88**	(2,359)	1,756
As at 31 December		**22,568**	**(1,302)**	21,321	(1,237)
Expected to be settled within 12 months (net of reinsurance)		**1,475**		1,492	
Expected to be settled after 12 months (net of reinsurance)		**19,791**		18,592	

Included within Effect of economic assumption changes in 2006 is the impact of Society's review of its annuity investment policy as described in Note 2.

In 2007, the Effect of change in non-economic assumptions includes approximately £214m relating to the strengthening of assumptions for annuitant longevity on existing business, which was largely offset by weakening of mortality and expense assumptions on term business (on a gross of reinsurance basis).

In 2006, Other includes £2,248m gross (£1,756m reinsurance) relating to the impact of applying PS06/14.

(v) Analysis of General insurance contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Outstanding claims	**132**	**(12)**	101	(4)
Claims incurred but not reported	**40**	**–**	36	(1)
Unearned premiums	**133**	**(7)**	144	(11)
General insurance contract liabilities	**305**	**(19)**	281	(16)

(vi) Movement in General insurance claim liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**137**	**(5)**	142	(5)
Claims arising	**323**	**(6)**	247	(3)
Claims paid	**(255)**	**(2)**	(206)	2
Adjustments to prior year liabilities	**(33)**	**1**	(46)	1
As at 31 December	**172**	**(12)**	137	(5)
Expected to be settled within 12 months (net of reinsurance)	**122**		85	
Expected to be settled after 12 months (net of reinsurance)	**38**		47	

Total gross claims of £86m (net £76m) arose as a result of the floods in 2007. At the year end £38m of these claims had been paid.

31. INSURANCE CONTRACT LIABILITIES continued

(vii) Unearned premiums

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**144**	**(11)**	150	(9)
Earned in the period	**(144)**	**11**	(150)	(11)
Gross written premiums in respect of future periods	**133**	**(7)**	144	9
As at 31 December	**133**	**(7)**	144	(11)
Expected to be earned within 12 months (net of reinsurance)	**125**		131	
Expected to be earned after 12 months (net of reinsurance)	**1**		2	

(viii) Claims development – General insurance

Changes may occur in the amount of the Group's obligations at the end of a contract period. The top section of each table below illustrates how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

Gross of reinsurance

Accident year	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**147**	**171**	**209**	**205**	**294**	
– One year later	**145**	**166**	**195**	**192**	**–**	
– Two years later	**141**	**160**	**191**	**–**	**–**	
– Three years later	**142**	**160**	**–**	**–**	**–**	
– Four years later	**144**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**144**	**160**	**191**	**192**	**294**	**981**
Cumulative payments	**(139)**	**(154)**	**(179)**	**(171)**	**(175)**	**(818)**
Outstanding claims provision	**5**	**6**	**12**	**21**	**119**	**163**
Prior period outstanding claims						**3**
Claims handling provision						**6**
Total claims liabilities recognised in the balance sheet						**172**

Net of reinsurance

Accident year	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**142**	**162**	**205**	**200**	**280**	
– One year later	**140**	**161**	**193**	**188**	**–**	
– Two years later	**137**	**157**	**189**	**–**	**–**	
– Three years later	**139**	**158**	**–**	**–**	**–**	
– Four years later	**141**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**141**	**158**	**189**	**188**	**280**	**956**
Cumulative payments	**(136)**	**(152)**	**(178)**	**(168)**	**(173)**	**(807)**
Outstanding claims provision	**5**	**6**	**11**	**20**	**107**	**149**
Prior period outstanding claims						**5**
Claims handling provision						**6**
Total claims liabilities recognised in the balance sheet						**160**

Notes to the Financial Statements continued

32. INVESTMENT CONTRACT LIABILITIES

(i) Analysis of investment contract liabilities

	Notes	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
Participating investment contracts		**7,462**	**(74)**	7,501	(88)
Non-participating investment contracts		**224,906**	**(134)**	162,016	(139)
Investment contract liabilities	(ii)	**232,368**	**(208)**	169,517	(227)
Expected to be settled within 12 months (net of reinsurance)		**38,592**		21,365	
Expected to be settled after 12 months (net of reinsurance)		**193,568**		147,925	

(ii) Movement in investment contract liabilities

	Gross 2007 £m	Reinsurance 2007 £m	Gross 2006 £m	Reinsurance 2006 £m
As at 1 January	**169,517**	**(227)**	143,280	(115)
Reserves in respect of new business	**75,969**	**(412)**	28,423	(93)
Amounts paid on surrenders and maturities during the year	**(24,706)**	**262**	(15,633)	3
Investment return and related benefits	**11,854**	**169**	13,804	(22)
Management charges	**(399)**	**–**	(339)	–
Foreign exchange adjustments	**133**	**–**	(18)	–
As at 31 December	**232,368**	**(208)**	169,517	(227)

Fair value movements of £11,789m (2006: £13,393m) are included within the income statement arising from movements in investment contract liabilities designated as FVTPL.

(iii) Expected investment contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2007	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Participating investment contracts	**(3,111)**	**(4,415)**	**(2,382)**	**(1,224)**	**(11,132)**	**(7,511)**

	Date of undiscounted cash flow					
As at 31 December 2006	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	(2,664)	(4,418)	(2,668)	(899)	(10,649)	(7,274)

Investment contract undiscounted net cash flows are based on the expected date of settlement. Unit linked contracts have been excluded from the table due to the exact matching of cash flows to those of the linked backing assets.

A maturity analysis based on the earliest contractual repayment date would present investment contract liabilities as due on the earliest period of the table because policyholders can exercise cancellation options at their discretion.

33. UNALLOCATED DIVISIBLE SURPLUS

	2007 £m	2006 £m
As at 1 January	**2,178**	1,894
Transferred (to)/from the income statement[1]	**(438)**	284
Actuarial (losses)/gains on defined benefit pension schemes transferred from the SORIE	**(16)**	1
Foreign exchange adjustments	**(3)**	(1)
As at 31 December	**1,721**	2,178

1. Includes the £321m release of the 1996 Sub-fund in 2007.

It is intended that the with-profits part of the LTF will be managed on the basis that it will remain open to new business and therefore there is no expectation of any distribution from the inherited estate.

34. VALUE OF IN-FORCE NON-PARTICIPATING CONTRACTS

(i) Movement in value of in-force non-participating contracts

	2007 £m	2006 £m
As at 1 January	**391**	379
Unwinding of the discount rates	**21**	18
Investment return	**(44)**	(1)
Other	**(92)**	(5)
As at 31 December	**276**	391
Expected to be settled within 12 months	**30**	47
Expected to be settled after 12 months	**246**	344

(ii) Expected net cash flows

	Date of undiscounted cash flow					
As at 31 December 2007	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Value of in-force non-participating contracts	**(153)**	**(189)**	**(94)**	**(53)**	**(489)**	**(276)**

	Date of undiscounted cash flow					
As at 31 December 2006	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Value of in-force non-participating contracts	(198)	(280)	(132)	(60)	(670)	(391)

Value of in-force non-participating undiscounted net cash flows are based on the expected date of realisation.

35. LONG TERM INSURANCE VALUATION ASSUMPTIONS

The Group's insurance assumptions, described below, relate exclusively to the UK insurance business. The non-UK businesses do not constitute a material component of the Group's operations and consideration of geographically determined assumptions is therefore not included.

Non-participating business
For its non-participating business the Group 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 statutory peak 1, although the actual assumptions may sometimes differ from those used for regulatory reporting purposes. These assumptions incorporate margins to reduce the possibility of actual experience being less favourable than assumed.

During the year, the Group has extended its implementation of PS06/14 (which introduced a more realistic reserving framework) to linked business. The persistency assumption now allows for the expected pattern of persistency adjusted to incorporate a margin for adverse deviation (a prudent persistency basis).

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. This yield is the gross redemption yield on fixed interest securities and the running yield on variable interest securities. For corporate debt, yields are adjusted to reflect the risk of default associated with these investments. The adjustment is based on historic published information by credit rating agencies. 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 the Group's experience differs from that of the industry and suggest appropriate adjustments which need to be made to the valuation assumptions.

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

The Group 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.

Expenses
The Group 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. Adjustments may be made for known future changes in the administration processes, in line with the Group's business plan. 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, the Group 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 the Group'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 ten basis points.

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 non-participating contracts
The Group makes a deduction from the liabilities 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 participating business. Non-economic assumptions represent best estimates of expected future experience on this business.

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 the 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.

The table on page 99 sets out the current valuation assumptions used to establish the long term liabilities for Society, LGPL and Legal & General Assurance (Pensions Management) Limited.

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

35. LONG TERM INSURANCE VALUATION ASSUMPTIONS continued

	2007	2006
Rate of interest/discount rates		
Non-participating business		
Life assurances	**3.00% pa and 7.60% pa[1]**	3.00% pa and 7.60% pa[1]
Pension assurances	**3.00 – 3.75% pa and 7.60% pa[1]**	3.00 – 4.00% pa and 7.60% pa[1]
Annuities in deferment	**4.17 – 5.51% pa**	4.11 – 4.80% pa
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**0.59 – 1.56% pa**	0.89 – 1.65% pa
Vested annuities	**4.97 – 5.51% pa**	4.72 – 4.80% pa
Vested annuities (RPI-linked; net rate after allowance for inflation)	**1.00 – 1.56% pa**	1.20 – 1.65% pa
Participating business		
Risk free rate (10 years)	**4.72% pa**	4.84% 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)	**26.9%**	21.5%
Property volatility	**15.0%**	15.0%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:		
Smokers	**104 – 127% TMS00/TFS00 Sel 5[2]**	125 – 145% TMS00/TFS00 Sel 5[2]
Non-smokers	**104 – 111% TMN00/TFN00 Sel 5[2]**	105 – 110% TMN00/TFN00 Sel 5[2]
Smoker status unknown	**124% TM00/TF00 Sel 5[2]**	145% TM00/TF00 Sel 5[2]
Non-linked individual term assurances with critical illness	**62 –96% CIBT93M/F Ult Comb[2]**	63 –108% 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	**73 – 81% AM92/AF92**	75 – 85% AM92/AF92
Vested annuities[3]		
Bulk purchase annuities	**94 – 98% PCMA00/PCFA00**	97 – 102% PCMA00/PCFA00
Other annuities	**61 – 89% PCMA00/PCFA00**	50 – 92% PCMA00/PCFA00

1. For product groups where liabilities are positive, the lower interest rate of 3.00 – 3.75% is used (2006: 3.00 – 4.00%). However, for product groups where liabilities are negative, the higher rate of 7.60% is used.
2. For term assurance, mortality rates are assumed to increase at a rate of 0.5% pa. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 1% pa for males and 1.75% pa for females. There is also an allowance for AIDS of 33% in line with the Institute of Actuaries AIDS Working Party Bulletin No. 5 projection R6A.
3. For vested annuities, mortality rates are assumed to reduce according to CMIB Working Paper 1 projection MC with a minimum of 2.0% pa up to age 90 tapering to 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.

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.

Notes to the Financial Statements continued

35. LONG TERM INSURANCE VALUATION ASSUMPTIONS continued

Persistency – non-participating business

With the introduction of PS06/14 at 31 December 2006, it is permissible to value all long term business assuming a prudent lapse basis. A prudent lapse basis was adopted for term assurance business at the end of 2006 and for unitised business at the end of 2007. For these contracts, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions.

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 below.

	2007 Average lapse rate for the policy years			
Product	**1 – 5 %**	**6 – 10 %**	**11 – 15 %**	**16 – 20 %**
Level term	**12.9**	**9.1**	**3.5**	**3.3**
Decreasing term	**12.9**	**9.5**	**6.4**	**6.1**
Accelerated critical illness cover	**17.9**	**10.4**	**5.8**	**5.5**
Pensions term	**12.3**	**9.2**	**6.9**	**3.8**
Individual pension regular premium (unitised with-profits)	**1.0**	**1.0**	**1.0**	**1.0**
Individual pension regular premium (unit linked)	**1.0**	**1.0**	**1.0**	**1.0**
Group pension regular premium (unitised with-profits)	**1.0**	**1.0**	**1.0**	**1.0**
Group pension regular premium (unit linked)	**1.2**	**1.2**	**1.2**	**1.2**
Individual pension single premium (unitised with-profits)	**2.9**	**2.9**	**2.9**	**2.9**
Individual pension single premium (unit linked)	**3.3**	**2.8**	**2.8**	**2.8**
Group pension single premium (unitised with-profits)	**14.4**	**14.4**	**14.4**	**14.4**
Group pension single premium (unit linked)	**9.9**	**9.0**	**9.0**	**9.0**

	2006 Average lapse rate for the policy years			
Product	1 – 5 %	6 – 10 %	11 – 15 %	16 – 20 %
Level term	12.2	9.7	3.2	3.2
Decreasing term	12.2	10.1	6.0	5.9
Accelerated critical illness cover	16.7	11.2	5.7	5.6
Pensions term	10.5	9.1	5.4	5.2

Overseas business

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

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.

36. BORROWINGS

(i) Analysis by nature

	Carrying amount 2007 £m	Coupon rate 2007 %	Fair value 2007 £m	Carrying amount 2006 £m	Coupon rate 2006 %	Fair value 2006 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities	**620**	**6.39**	**591**	–	–	–
5.875% Sterling undated subordinated notes	**427**	**5.88**	**387**	429	5.88	411
4.0% Euro subordinated notes 2025	**414**	**4.00**	**409**	389	4.00	397
Total subordinated borrowings	**1,461**		**1,387**	818		808
Senior borrowings						
Sterling medium term notes 2031-2041	**608**	**5.87**	**626**	608	5.87	682
Euro commercial paper 2007	**118**	**4.66**	**118**	370	4.66	370
Bank loans 2007	**13**	**5.84**	**13**	3	5.28	3
Non recourse financing						
– US Dollar Triple X securitisation 2025	**266**	**6.27**	**266**	270	5.37	270
– US Dollar Triple X securitisation 2037	**223**	**5.61**	**223**	226	5.72	226
– Sterling property partnership loans 2011	**99**	**7.09**	**99**	130	5.91	130
Total senior borrowings	**1,327**		**1,345**	1,607		1,681
Total borrowings	**2,788**		**2,732**	2,425		2,489
Total borrowings (excluding non recourse financing)	**2,200**		**2,144**	1,799		1,863

£119m of interest expense was incurred during the period (2006: £106m) on borrowings excluding non recourse financing.

Subordinated borrowings

6.385% Sterling perpetual capital securities

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

5.875% Sterling undated subordinated notes

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

4.0% Euro subordinated notes 2025

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

Non recourse financing

US Dollar Triple X securitisation 2025

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

US Dollar Triple X securitisation 2037

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

Sterling property partnership loans 2011

The property partnership loans are secured on specific properties.

Notes to the Financial Statements continued

36. BORROWINGS continued

(ii) Analysis by maturity

As at 31 December 2007	Carrying amount £m	Maturity profile of undiscounted cash flows: Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities	**620**	**–**	**–**	**–**	**–**	**(600)**	**(600)**
5.875% Sterling undated subordinated notes	**427**	**–**	**–**	**–**	**–**	**(400)**	**(400)**
4.0% Euro subordinated notes 2025	**414**	**–**	**–**	**–**	**(441)**	**–**	**(441)**
Senior borrowings							
Sterling medium term notes 2031-2041	**608**	**–**	**–**	**–**	**(350)**	**(250)**	**(600)**
Euro commercial paper 2007	**118**	**(118)**	**–**	**–**	**–**	**–**	**(118)**
Bank loans 2007	**13**	**(13)**	**–**	**–**	**–**	**–**	**(13)**
Non recourse financing							
– US Dollar Triple X securitisation 2025	**266**	**–**	**–**	**–**	**(272)**	**–**	**(272)**
– US Dollar Triple X securitisation 2037	**223**	**–**	**–**	**–**	**–**	**(226)**	**(226)**
– Sterling property partnership loans 2011	**99**	**–**	**(98)**	**–**	**–**	**–**	**(98)**
Total borrowings	**2,788**	**(131)**	**(98)**	**–**	**(1,063)**	**(1,476)**	**(2,768)**
Contractual undiscounted interest payments		**(151)**	**(598)**	**(1,444)**	**(1,181)**	**(82)**	**(3,456)**
Total contractual undiscounted cash flows		**(282)**	**(696)**	**(1,444)**	**(2,244)**	**(1,558)**	**(6,224)**

As at 31 December 2006	Carrying amount £m	Maturity profile of undiscounted cash flows: Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
5.875% Sterling undated subordinated notes	429	–	–	–	–	(400)	(400)
4.0% Euro subordinated notes 2025	389	–	–	–	(404)	–	(404)
Senior borrowings							
Sterling medium term notes 2031-2041	608	–	–	–	(350)	(250)	(600)
Euro commercial paper 2006	370	(373)	–	–	–	–	(373)
Bank loans 2006	3	(3)	–	–	–	–	(3)
Non recourse financing							
– US Dollar Triple X securitisation 2025	270	–	–	–	(276)	–	(276)
– US Dollar Triple X securitisation 2037	226	–	–	–	–	(230)	(230)
– Sterling property partnership loans 2011	130	–	(129)	–	–	–	(129)
Total borrowings	2,425	(376)	(129)	–	(1,030)	(880)	(2,415)
Contractual undiscounted interest payments		(110)	(441)	(1,029)	(842)	(112)	(2,534)
Total contractual undiscounted cash flows		(486)	(570)	(1,029)	(1,872)	(992)	(4,949)

As at 31 December 2007, the Group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2012.

The maturity profile above is calculated on the basis that a facility to refinance a maturing loan is not recognised unless the facility and loan are related. If refinancing under the Group's syndicated facility was recognised, then all amounts shown as repayable within one year would be reclassified as repayable between one and five years.

The effective interest rate is the rate which discounts exactly future cash payments over the life of the borrowing and will include all transaction costs and premia or discounts on issue. For the 5.875% Sterling undated subordinated notes, the effective rate includes the impact of reclassification of the notes from equity to debt on 13 March 2006 at fair value.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

36. BORROWINGS continued

Convertible bond
The convertible bond matured in 2006 and was redeemed at par without being converted into ordinary shares.

The debt component, net of expenses, of the convertible bond recognised in the balance sheet is calculated as follows:

	2007 £m	2006 £m
As at 1 January	**–**	509
Interest expense	**–**	30
Coupons paid	**–**	(14)
Repayment of debt	**–**	(525)
As at 31 December	**–**	–

37. EVENTS AFTER THE BALANCE SHEET DATE

On 7 February 2007, the Group entered into an agreement with the Nationwide Building Society to purchase Nationwide Life Limited and Nationwide Unit Trust Managers Limited. On 1 February 2008, the acquisition was completed for total consideration of approximately £293m. A separate arrangement also provides access to Nationwide's distribution network, through which it is anticipated that a wide range of the Group's investment, pensions and life insurance products will be sold.

Since 31 December 2007, additional purchases of shares have been made under the Company's buyback programme. At 17 March 2008, a further 198,508,564 ordinary shares (representing 3.2% of Legal & General Group Plc's issued share capital at 31 December 2007) had been purchased for cancellation at a total cost of £251m including expenses, at an average cost of 125.7p per share. Cumulatively, a total of 439,715,831 shares have been repurchased at a total cost of £571m.

38. PROVISIONS

Retirement benefit obligations

Defined contribution plans
The Group operates the following defined contribution pension schemes in the UK and overseas:

- Legal & General Group Personal Pension Plan (UK).
- Legal & General Staff Stakeholder Pension Scheme (UK).
- Legal & General America Inc. Savings Plan (US).
- Régime de Retraite Professionnel (France).
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); replacing the early retirement scheme previously part of the defined benefit plan.

Contributions of £21m (2006: £17m) were charged as expenses during the year in respect of these plans.

Defined benefit plans
The Group operates the following defined benefit pension schemes in the UK and overseas:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2006.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2006.
- Legal & General America Inc. Cash Balance Plan; last full actuarial valuation as at 31 December 2006.
- Legal & General Nederland Stichting Pensioenfonds; last full actuarial valuation as at 31 December 2007.
- Régime de Retraite à Prestations Définies de Legal & General (France); last full actuarial valuation as at 31 December 2007.

The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The Group has no liability for retirement benefits other than for pensions, except for a small scheme in France (Indemnités de Fin de Carrière), which provides lump sum benefits on retirement. The Fund and Scheme account for virtually all of the UK and over 98% of worldwide assets of the Group's defined benefit schemes.

Notes to the Financial Statements continued

38. PROVISIONS continued

Retirement benefit obligations (continued)

The principal actuarial assumptions for the UK defined benefit schemes were:

	2007 Fund and Scheme %	2006 Fund and Scheme %
Rate used to discount liabilities	**5.70**	5.10
Expected return on plan assets	**6.67**	6.72
Rate of increase in salaries	**4.40**	3.60
Rate of increase in pensions in payment	**3.40**	3.25
Rate of increase in deferred pensions	**4.40**	4.00
Rate of general inflation (RPI)	**3.40**	3.20
Rate of wage inflation	**4.40**	4.00

Post retirement mortality

– 2007	**100% (Fund) / 85% (Scheme) of PCMA/PCFA 00 with improvement at 100% MC males, 75% MC females, minimum improvement 1.5% pa males and 1.0% pa females**
– 2006	100% PCMA/PCFA 00 with improvement at 100% MC males, 70% MC females, minimum improvement 0.6% pa

	2007 Fund and Scheme £m	**2007 Overseas £m**	2006 Fund and Scheme £m	2006 Overseas £m
Change in present value of defined benefit obligations				
As at 1 January	**(1,327)**	**(19)**	(1,284)	(20)
Current service cost	**(17)**	**–**	(18)	(1)
Interest expense	**(67)**	**–**	(60)	(1)
Plan participants' contributions	**(3)**	**–**	(3)	–
Actuarial (loss)/gain (recognised in SORIE)	**(1)**	**–**	(5)	1
Benefits paid	**50**	**1**	43	1
Exchange differences	**–**	**(1)**	–	1
As at 31 December	**(1,365)**	**(19)**	(1,327)	(19)
Change in fair value of plan assets				
As at 1 January	**761**	**17**	706	16
Expected return on plan assets	**51**	**–**	46	1
Actuarial (loss)/gain (recognised in SORIE)	**(32)**	**–**	10	–
Employer contributions	**38**	**1**	39	2
Plan participants' contributions	**3**	**–**	3	–
Benefits paid	**(50)**	**(1)**	(43)	(1)
Exchange differences	**–**	**1**	–	(1)
As at 31 December	**771**	**18**	761	17
Gross pension obligations included in provisions	**(594)**	**(1)**	(566)	(2)
Annuity obligations insured by Society	**413**	**–**	392	–
Gross defined benefit pension deficit	**(181)**	**(1)**	(174)	(2)
Deferred tax on defined benefit pension deficit	**51**	**–**	52	1
Net defined benefit pension deficit	**(130)**	**(1)**	(122)	(1)

The total amount of actuarial gains/(losses) net of tax recognised in the SORIE for the year was £(40)m; cumulative £(135)m (2006: £3m; cumulative £(95)m). Actuarial gains/(losses) net of tax relating to with-profits policyholders of £(16)m (2006: £1m) have been allocated to the unallocated divisible surplus.

38. PROVISIONS CONTINUED

Retirement benefit obligations (continued)

The historic funding and experience adjustments are as follows:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligations	**(1,384)**	(1,346)	(1,304)	(1,106)	(951)
Fair value of plan assets	**789**	778	722	603	540
Gross pension obligations	**(595)**	(568)	(582)	(503)	(411)
Experience adjustments on plan liabilities	**(19)**	(13)	(9)	(9)	(9)
Experience adjustments on plan assets	**(32)**	10	76	36	59

The fair value of the plan assets and expected return at the end of the year is made up as follows:

As at 31 December 2007	**UK £m**	**Expected return %**	**Overseas £m**	**Expected return %**
Equities	**396**	**7.5**	**5**	**8.5**
Bonds	**330**	**5.7**	**10**	**4.8**
Properties	**45**	**6.5**	**–**	**–**
Other investments	**–**	**–**	**3**	**3.7**
	771		**18**	

As at 31 December 2006	UK £m	Expected return %	Overseas £m	Expected return %
Equities	460	7.6	5	8.8
Bonds	244	5.1	10	4.5
Properties	57	6.6	–	–
Other investments	–	–	2	3.5
	761		17	

The expected rate of return for bonds is based on the current yield on a medium to long term AA bond index. The expected rates of return on equities and properties are based on margins over bond yields reflecting risk premiums. The return on plan assets in 2007 was £19m (2006: £57m). Employer contributions decreased to £39m (2006: £41m). Employer contributions of £38m are expected to be paid to the plan during 2008.

The following amounts have been charged/(credited) to the income statement:

	2007 £m	2006 £m
Current service costs	**17**	19
Interest expense	**67**	61
Expected return on plan assets	**(51)**	(47)
Total included in other expenses	**33**	33

39. DEFERRED INCOME LIABILITIES

	2007 £m	2006 £m
Due within 12 months	**84**	64
Due after 12 months	**409**	358
Deferred income liabilities	**493**	422

40. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the year is as follows:

	As at 31 December 2006 £m	**Charged/ (credited) to the income statement £m**	**Charged/ (credited) to equity £m**	**As at 31 December 2007 £m**
Unrealised gains and losses on investments and debt liabilities	**703**	**(247)**	**2**	**458**
Excess of depreciation over capital allowances	**(33)**	**1**	**–**	**(32)**
Temporary differences between the accounts and tax deduction for expenses	**(46)**	**38**	**1**	**(7)**
Temporary differences between the accounts and tax deduction for actuarial reserves	**136**	**27**	**–**	**163**
Tax losses carried forward	**(232)**	**–**	**–**	**(232)**
Temporary differences in relation to the pension fund deficit	**(53)**	**(5)**	**7**	**(51)**
Other temporary differences	**(3)**	**–**	**–**	**(3)**
Deferred tax liabilities	**472**	**(186)**	**10**	**296**

Included in the amounts charged/(credited) to income and equity above is £9m relating to the change in UK corporation tax rate from 30% to 28% in April 2008.

	As at 31 December 2005 £m	Charged/ (credited) to the income statement £m	Charged/ (credited) to equity £m	As at 31 December 2006 £m
Unrealised gains and losses on investments and debt liabilities	570	131	2	703
Excess of depreciation over capital allowances	(30)	(3)	–	(33)
Temporary differences between the accounts and tax deduction for expenses	7	(34)	(19)	(46)
Temporary differences between the accounts and tax deduction for actuarial reserves	49	94	(7)	136
Tax losses carried forward	(37)	(200)	5	(232)
Temporary differences in relation to the pension fund deficit	(64)	9	2	(53)
Other temporary differences	(3)	–	–	(3)
Deferred tax liabilities	492	(3)	(17)	472

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, as the Group is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings to the UK in the foreseeable future if the remittance would trigger any incremental UK tax liability. The maximum estimated temporary differences unprovided for are set out below, grouped by country. The calculation of the maximum temporary difference takes no account of any foreign tax suffered on the earnings in the jurisdiction of the foreign entity which might be available by way of double tax relief to reduce any UK tax liability arising on remittance.

	2007 £m	2006 £m
USA	**369**	346
France	**63**	48
	432	394

40. DEFERRED TAX LIABILITIES continued

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

The Group has unrelieved trading losses carried forward of £15m (2006: £12m) in its overseas operations. No deferred tax asset has been recognised in respect of these losses as at 31 December 2007 (or 31 December 2006), as it is probable that there will be no suitable profits emerging in future periods against which to relieve them. Relief for these losses will only be obtained if there are suitable profits arising in future periods. The potential deferred tax asset unrecognised as at 31 December 2007 is £4m (2006: £3m).

The Group has unrelieved post-cessation trading losses carried forward of £18m (2006: £17m). No deferred tax asset has been recognised in respect of these losses as at 31 December 2007 (or 31 December 2006), as it is probable that there will be no suitable profits emerging in future periods against which to relieve them. Relief for these losses will only be obtained if there are suitable post-cessation trading profits arising in future periods. The potential deferred tax asset unrecognised as at 31 December 2007 is £5m (2006: £5m).

The Group has surplus non-trading loan relationship deficits and management expenses carried forward of £17m (2006: £17m). No deferred tax asset has been recognised in respect of these deficits and expenses as at 31 December 2007 (or 31 December 2006), as it is probable that there will be no suitable profits emerging in future periods against which to relieve them. Relief for these deficits and expenses will only be obtained if there are suitable profits arising in future periods. The potential deferred tax asset unrecognised as at 31 December 2007 is £5m (2006: £5m).

The Group has net realised and unrealised capital losses carried forward as at 31 December 2007 of £2m (2006: £2m). No deferred tax asset has been recognised in respect of these losses as at 31 December 2006 as it is probable that there will be no suitable profits emerging in future periods against which to relieve them. Relief for these losses will only be obtained if there are suitable profits arising in future periods. The potential deferred tax asset unrecognised as at 31 December 2007 is £1m (2006: £1m).

41. OTHER LIABILITIES

	Notes	**2007 £m**	2006 £m
Accruals		**333**	256
Derivative liabilities	19	**748**	177
Reinsurers' share of deferred acquisition costs		**66**	69
Other		**968**	1,161
Other liabilities		**2,115**	1,663
Settled within 12 months		**1,825**	1,405
Settled after 12 months		**290**	258

Accruals include £147m (2006: £112m) of future commission payments which have contingent settlement provisions. This liability has been determined using the net present value of the future commission which will be payable on fund values. This valuation technique uses assumptions which are consistent with the Group's effective rate of interest, investment return assumptions and persistency assumptions used in other valuations, but it is not determined by reference to published price quotations.

The undiscounted value which is expected to be paid at maturity in respect of such commission is £212m.

Other liabilities settled after 12 months are expected to be settled within five years.

Notes to the Financial Statements continued

42. RELATED PARTY TRANSACTIONS

There were no material transactions between directors or key managers and the Legal & General group of companies. All transactions between the Group, its directors and key managers are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment benefit plans are outlined in Note 38.

At 31 December 2007 and 31 December 2006 there were no loans outstanding to officers of the Company.

Key management personnel compensation

The aggregate compensation for key management personnel, including executive and non-executive directors, is as follows:

	2007 £m	2006 £m
Salaries	**20**	17
Social security costs	**3**	3
Post-employment benefits	**5**	7
Share-based incentive awards	**6**	6
Key management personnel compensation	**34**	33
Number of key management personnel	**86**	73

The UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £52m (2006: £57m) during the year, priced on an arm's length basis.

The Group's investment portfolio includes investments in private equity, property and financial investments which are held via collective investment vehicles. Net investments into associate investment vehicles totalled £1,394m during the year (2006: £1,542m). The Group has outstanding loans to these associates of £5m (2006: £6m) and received investment management fees of £41m during the year (2006: £31m). Distributions from these investment vehicles to the Group totalled £178m (2006: £109m).

43. CONTINGENT LIABILITIES, GUARANTEES AND INDEMNITIES

Liabilities arising under contracts with policyholders are based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the estimates 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, by ombudsman rulings, by industry compensation schemes and by 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.

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

In 1975, 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 been discussing with Her Majesty's Revenue & Customs the application of certain tax legislation specific to life assurance companies for the years 1999 to 2006. It has not been possible to reach agreement and a reference will be made in 2008 to the Special Commissioners. The maximum exposure is estimated to be £230m. No amount is included in respect of this issue in the income tax provision at 31 December 2007, as the Group's view, supported by leading tax counsel, is that no amount will be payable.

Group companies have given indemnities and guarantees, including interest rate guarantees, as a normal part of their operating activities or in relation to capital market transactions.

44. COMMITMENTS

(i) Capital commitments

	2007 £m	2006 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December – Long term business	**158**	49

(ii) Operating lease commitments

	2007 £m	2006 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**25**	23
– Later than 1 year and not later than 5 years	**122**	93
– Later than 5 years	**363**	232
	510	348
Future aggregate minimum sublease payments expected to be received under operating subleases	**8**	9
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	**2**	2
– Later than 1 year and not later than 5 years	**6**	4
– Later than 5 years	**1**	3
	9	9

The Group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

45. SUBSIDIARIES

(i) Operating subsidiaries

The principal operating subsidiaries consolidated in these financial statements are listed below. The Company holds, directly or indirectly, all of the ordinary share capital and voting rights of these companies.

Company name	Nature of business	Country of incorporation
Legal & General Finance PLC[1]	Treasury operations	England and Wales
Legal & General Resources Limited[1]	Provision of services	England and Wales
Legal & General Assurance Society Limited	Long term and general insurance	England and Wales
Legal & General Insurance Limited	General insurance	England and Wales
Legal & General Investment Management Limited	Institutional fund management	England and Wales
Legal & General Assurance (Pensions Management) Limited	Long term business	England and Wales
Legal & General Pensions Limited	Reinsurance	England and Wales
Legal & General Partnership Services Limited	Provision of services	England and Wales
Legal & General (Portfolio Management Services) Limited	Institutional fund management	England and Wales
Legal & General Property Limited	Property management	England and Wales
Legal & General (Unit Trust Managers) Limited	Unit trust management	England and Wales
LGV Capital Limited	Private equity	England and Wales
Legal & General (France) SA	Long term business	France
Legal & General Bank (France) SA	Financial services	France
Legal & General International (Ireland) Limited	Long term business	Ireland
Legal & General Nederland Levensverzekering Maatschappij NV	Long term business	Netherlands
Banner Life Insurance Company Inc	Long term business	USA
William Penn Life Insurance Company of New York Inc	Long term business	USA
First British American Reinsurance Company	Reinsurance	USA
First British American Reinsurance Company II	Reinsurance	USA
First British Bermudan Reinsurance Company	Reinsurance	Bermuda

1. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All subsidiaries have a 31 December year end reporting date.

The complete list of subsidiary undertakings can be obtained from the registered office at One Coleman Street, London, EC2R 5AA.

Notes to the Financial Statements continued

45. SUBSIDIARIES continued

(ii) Investment vehicles

The following mutual funds and partnerships have been consolidated as a result of the Group's ability to exert control over the financial and operating activities of the investment vehicle so as to obtain economic benefits.

Vehicle name	Vehicle type	Territory	Year end reporting date	% equity held by the Group
Chineham Shopping Centre Limited Partnership	Property unit trust	Jersey	31/12/07	100.0
Ealing Shopping Centre Limited Partnership	Property unit trust	Jersey	31/12/07	100.0
Gresham Street Limited Partnership	Property unit trust	Jersey	31/12/07	100.0
Legal & General City Offices Limited Partnership	Property unit trust	Jersey	31/12/07	100.0
Northampton Shopping Centre Limited Partnership	Property unit trust	Jersey	31/12/07	100.0
Legal & General Spectrum (Jersey) Unit Trust	Property unit trust	Jersey	31/12/07	100.0
Legal & General Pacific Growth Trust	Equity unit trust	UK	25/03/07	93.1
Legal & General Far Eastern Trust	Equity unit trust	UK	10/09/07	88.5
Legal & General European Trust	Equity unit trust	UK	28/07/07	85.1
Legal & General Equity Trust	Equity unit trust	UK	15/08/07	82.2
ARC Property Fund Unit Trust	Property unit trust	Jersey	31/12/07	80.0
Legal & General North American Trust	Equity unit trust	UK	16/01/07	80.4
Legal & General Japanese Trust	Equity unit trust	UK	17/10/07	76.0
Legal & General UK Smaller Companies Trust	Equity unit trust	UK	18/06/07	75.1
Legal & General High Income Trust	Fixed interest unit trust	UK	05/09/07	67.3
Legal & General Global Growth Trust	Equity unit trust	UK	15/01/07	65.8
Legal & General Growth Trust	Equity unit trust	UK	15/05/07	61.0
Legal & General West End Offices Limited Partnership	Property unit trust	Jersey	31/12/07	50.0
The Leisure Fund Limited Partnership[1]	Property partnership	England and Wales	31/12/07	41.9
Lagoon Finance Limited[2]	Limited liability company	Ireland	20/12/07	–
Trees S.A.[2]	Limited liability company	Luxembourg	20/12/07	–

1. The Leisure Fund Limited Partnership is consolidated on the basis that the Group has the power to govern the financial and operating policies and has the rights to receive benefits by virtue of the limited partnership agreement.
2. Lagoon Finance Limited and Trees S.A. are consolidated on the basis that the Group has the power to govern the financial and operating policies and has the rights to receive 100% of the economic benefits.

46. ASSOCIATES AND JOINT VENTURES

The Group has the following significant holdings which have been included as financial investments or investments in associates. The gross assets of these companies are in part funded by borrowings which are non recourse to the Group.

Company name	Country of incorporation	Accounting treatment	Year end reporting date	% of equity shares held by group
Bracknell Property Unit Trust[1]	Jersey	FVTPL	31/03/07	50.5
Performance Shopping Centre Limited Partnership	England and Wales	FVTPL	31/12/07	50.0
Meteor Industrial Partnership	England and Wales	FVTPL	31/12/07	49.9
Legal & General Ethical Trust	England and Wales	FVTPL	12/12/07	48.0
LGV 3 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/07	46.6
LGV 1 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/07	46.3
LGV 5 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/07	45.0
Arlington Business Parks Unit Trust	Jersey	FVTPL	31/12/07	44.9
UK Logistics Fund Unit Trust	Jersey	FVTPL	31/12/07	43.2
Legal & General Pacific Index Trust	England and Wales	FVTPL	25/09/07	41.0
Legal & General UK Property Trust	England and Wales	FVTPL	31/12/07	38.8
Legal & General European Index Trust Plc	England and Wales	FVTPL	31/07/07	38.0
Legal & General US Index Trust	England and Wales	FVTPL	05/12/07	38.0
English Cities Fund	England and Wales	FVTPL	31/12/07	37.5
LGV 2 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/07	37.1
LGV 4 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/07	36.7
Legal & General Japanese Index Trust	England and Wales	FVTPL	24/10/07	36.0
Mithras Investment Trust Plc	England and Wales	FVTPL	31/12/07	34.7
Legal & General Active Opportunities Trust	England and Wales	FVTPL	14/10/07	29.0
The IPIF Feeder Unit Trust	Jersey	FVTPL	31/12/07	27.4
Cofunds (Holdings) Limited	England and Wales	Equity method	31/12/07	25.4
Warrington Retail Unit Trust	Jersey	FVTPL	31/12/07	25.0
Dunedin Capital Group Limited	Scotland	FVTPL	28/02/07	22.6

1. The Bracknell Property Unit Trust is not consolidated as the Group does not have the power to control the entity.

46. ASSOCIATES AND JOINT VENTURES continued

Summarised financial information for associates which are classified as FVTPL is shown below.

2007	Private equity £m	Property partnerships £m	Unit trusts £m	Total £m
Aggregate revenues	**198**	**188**	**504**	**890**
Aggregate profit	**191**	**83**	**54**	**328**
Gross assets	**296**	**4,164**	**3,686**	**8,146**
Gross liabilities	**9**	**1,703**	**40**	**1,752**

2006	Private equity £m	Property partnerships £m	Unit trusts £m	Total £m
Aggregate revenues	174	139	257	570
Aggregate profit	171	51	94	316
Gross assets	386	2,358	4,891	7,635
Gross liabilities	7	554	54	615

47. GOODWILL RESULTING FROM ACQUISITIONS

The cumulative goodwill charged to reserves prior to 1998, arising from acquisition of subsidiaries which are still part of the Group, amounted to £70m (2006: £70m).

48. MANAGEMENT OF CAPITAL RESOURCES

Capital fund structure

The Group's total capital resources of £8.6bn (2006: £8.4bn) on an IFRS basis comprise equity holders capital, £5.5bn (2006: £5.4bn), subordinated debt, £1.4bn (2006: £0.8bn), and unallocated divisible surplus, £1.7bn (2006: £2.2bn).

The Group writes a range of long term insurance and investment business in the LTF of its main operating insurance subsidiary, Legal & General Assurance Society Limited (Society). This fund is segregated from the Group'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 the Society LTF. This capital provides support for new and existing non profit business within our UK life and pensions business.

On 31 December 2006, the non-linked non profit pensions and annuity business of Society was ceded to a new, wholly owned reinsurance company, Legal & General Pensions Limited (LGPL). The reinsurance was effected on arm's length terms. On 1 November 2007, LGPL converted to an Insurance Special Purpose Vehicle (ISPV). Whilst an ISPV is not required to segregate policyholder assets within an LTF, LGPL continues to manage policyholder and shareholder assets separately.

Since 1996, transfers from the Society LTF to shareholders have been limited by a formula agreed with the FSA. This transfer reflected the shareholders' share of the with-profits surplus and a smooth investment return on the embedded value of the shareholder net worth and the non profit business of our UK life and pensions business. As part of the restructuring of the Society LTF, the Group announced that the transfer formula would be removed.

Managed pension fund business is written through Legal & General Assurance (Pensions Management) Limited (PMC), which is a life company writing predominantly non-participating group pension business effected by trustees of occupational schemes in the UK (or their equivalent overseas). The assets are held in a LTF and are separate from other assets within the Group.

In addition, General insurance business is written in the UK by Legal & General Insurance Limited, and long term insurance business is written by subsidiaries in America, the Netherlands and in France.

Capital management policies and objectives

The Group aims to manage its capital resources to maintain financial strength, policyholder security and relative external financial strength ratings advantage. The Group 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 Group measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Group operates and those which the directors consider most appropriate for managing the business. The measures used by the Group include:

- *Accounting bases*
  The directors believe that the supplementary accounts prepared using EEV principles provide an accurate and meaningful reflection of the Group's long term operations and the value of the business to shareholders. Accordingly, the Group's net asset value and total capital employed are analysed and measured on this basis.
  In addition, management have regard to the primary financial statements prepared under IFRS in order to manage capital and cash flow usage and to determine dividend paying capacity.

- *Regulatory bases*
  The financial strength of the Group's insurance subsidiaries is measured under local regulatory requirements (see page 112). One of these regulatory measures, Individual Capital Assessment (ICA), measures capital using risk based techniques, and provides a measure of economic capital.

48. MANAGEMENT OF CAPITAL RESOURCES continued

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the Group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by long term insurance subsidiaries in excess of their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due. As at 31 March 2007, FSA changes to regulatory capital requirements meant that tier 3 capital was no longer admissible for capital adequacy calculations. At the time of the rule changes, Legal & General Unit Trust Managers Ltd (UTM) held £10m of tier 3 capital and, as a result, was in breach of its capital adequacy requirements. This breach was immediately alerted to the FSA and was corrected by way of a capital restructure within UTM verified in September 2007.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the Group operates are detailed below:

UK regulatory basis

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 the Company which is reviewed by the FSA (pillar 2, otherwise known as ICA).

The public pillar 1 capital calculation is the total of two amounts. The first amount is based on the most onerous of a number of stress tests which are applied to both assets and insurance liabilities. The second amount 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.

Regulatory capital for the general insurance business is also calculated using FSA pillar 1 and pillar 2 requirements. The pillar 1 calculation applies fixed percentages to premiums and claims. Pillar 2 creates a higher capital requirement and is therefore applied.

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with the factors determined as higher for those items with greater underlying risk and lower for less risky items.

French and Dutch regulatory bases

The minimum required capital is defined by the French Ministry of Finance's 'Code des Assurances' and the 'De Nederlandsche Bank N.V.' (Dutch Supervisory Body) respectively. The basis of the calculation is a percentage of the liabilities plus a percentage of the sum assured at risk and, for some contracts, the premium. The percentages depend on the guarantees given and the amount of reinsurance cover.

Group regulatory basis

In addition to the regulatory capital calculations for the individual firms, the Group is required to comply with the requirements of the IGD. This is a very prudent measure of capital resources, as it excludes any amount of surplus capital within a LTF.

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 admissable limits and specific valuation differences. The Group's regulatory capital position statement in Table 1 sets out the different sources of capital held within the Group. The Group's total available capital resources, based on the unaudited[1] FSA returns, are £6.5bn (2006: £6.9bn) of which £3.9bn (2006: £5.8bn) is held by the life businesses. The use of capital held by the UK and overseas life businesses is generally constrained by local regulatory requirements, and may not be available to provide funding for other businesses.

The total available capital resources of the Group's with-profits business of £1.0bn (2006: £1.1bn) 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 2007, the realistic value of the UK participating liabilities was £18.5bn (2006: £19.8bn) under the FSA realistic capital regime. The excess of realistic assets over realistic liabilities was £1.0bn (2006: £1.1bn).

1. The FSA returns are audited and filed subsequent to the publication of the Group's capital position.

48. MANAGEMENT OF CAPITAL RESOURCES continued

Table 1 – Regulatory capital position statement

As at 31 December 2007	UK with-profits 2007 £m	UK non profit and SRC 2007 £m	LGPL 2007 £m	Overseas and PMC 2007 £m	Total life 2007 £m	Shareholders' equity and other activities 2007 £m	Total 2007 £m
Shareholders' equity outside the LTF	–	–	512	1,104	1,616	1,648	3,264
Shareholders' equity held in the LTF	–	2,182	–	–	2,182	–	2,182
Capital and reserves attributable to equity holders of the Company	–	2,182	512	1,104	3,798	1,648	5,446
Adjustments onto regulatory basis[1]:							
Unallocated divisible surplus[2]	1,757	–	–	(36)	1,721	–	1,721
Other[3]	(710)	(349)	(5)	(506)	(1,570)	(255)	(1,825)
Other qualifying capital:							
Subordinated borrowings[4]	–	–	–	–	–	1,429	1,429
Internal loans[5]	–	(703)	703	–	–	–	–
Proposed dividend	–	–	–	–	–	(247)	(247)
Total available capital resources	1,047	1,130	1,210	562	3,949	2,575	6,524
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	533	–	–	–	533	–	533
– Other policyholder obligations	16,782	32	–	–	16,814	–	16,814
Overseas participating liabilities	–	–	–	1,778	1,778	–	1,778
Unallocated divisible surplus[2]	1,757	–	–	(36)	1,721	–	1,721
Value of in-force non-participating contracts	(276)	–	–	–	(276)	–	(276)
Participating contract liabilities	18,796	32	–	1,742	20,570	–	20,570
Unit linked non-participating life assurance liabilities	677	5,014	–	1,183	6,874	–	6,874
Non-linked non-participating life assurance liabilities	2,097	12,019	–	1,578	15,694	–	15,694
Unit linked non-participating investment contract liabilities	8,208	14,107	–	202,591	224,906	–	224,906
General insurance liabilities	–	–	–	–	–	305	305
Non-participating contract liabilities	10,982	31,140	–	205,352	247,474	305	247,779

1. Figures extracted from draft unaudited regulatory returns.
2. The negative overseas unallocated divisible surplus arises as a result of differences between regulatory and IFRS reporting.
3. Shareholders' share in realistic liabilities of £616m and changes to the values of assets and liabilities on a regulated basis of £1,209m are included within Other.
4. In 2007, the Group issued £600m of perpetual capital securities which are treated as innovative tier I capital for regulatory purposes.
5. Internal loans wholly comprises the contingent loan (£703m) from Society's LTF to LGPL, which is reflected in the value of LGPL for regulatory purposes.

Notes to the Financial Statements continued

48. MANAGEMENT OF CAPITAL RESOURCES continued

Table 1 – Regulatory capital position statement (continued)

As at 31 December 2006	UK with-profits 2006 £m	UK non profit, SRC and 1996 Sub-fund 2006 £m	LGPL 2006 £m	Overseas and PMC 2006 £m	Total life 2006 £m	Shareholders' equity and other activities 2006 £m	Total 2006 £m
Shareholders' equity outside the LTF	–	–	550	906	1,456	706	2,162
Shareholders' equity in the LTF	–	3,263	–	–	3,263	–	3,263
Capital and reserves attributable to equity holders of the Company	–	3,263	550	906	4,719	706	5,425
Adjustments onto regulatory basis[2]:							
Unallocated divisible surplus	1,862	302	–	14	2,178	–	2,178
Other	(734)	(242)	(70)	(428)	(1,474)	(29)	(1,503)
Other qualifying capital:							
Subordinated borrowings[3]	–	–	–	–	–	797	797
Internal loans[4]	–	(571)	971	12	412	(412)	–
Total available capital resources	1,128	2,752	1,451	504	5,835	1,062	6,897
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	520	–	–	–	520	–	520
– Other policyholder obligations	18,117	37	–	–	18,154	–	18,154
Overseas participating liabilities	–	–	–	1,487	1,487	–	1,487
Unallocated divisible surplus	1,862	302	–	14	2,178	–	2,178
Value of in-force non-participating contracts	(391)	–	–	–	(391)	–	(391)
Participating contract liabilities	20,108	339	–	1,501	21,948	–	21,948
Unit linked non-participating life assurance liabilities	678	4,307	–	971	5,956	–	5,956
Non-linked non-participating life assurance liabilities	1,996	11,847	–	1,522	15,365	–	15,365
Unit linked non-participating investment contract liabilities	7,468	11,069	–	143,479	162,016	–	162,016
General insurance liabilities	–	–	–	–	–	281	281
Non-participating contract liabilities	10,142	27,223	–	145,972	183,337	281	183,618

1. Figures extracted from draft unaudited regulatory returns.
2. Shareholders' share in realistic liabilities of £749m and changes to the values of assets and liabilities on a regulated basis of £754m are included within Other.
3. Group has issued €600m of subordinated lower tier II borrowings and £400m of subordinated upper tier II borrowings both of which are treated as capital on a regulatory basis.
4. In 2006, LGPL issued £200m of subordinated upper tier II borrowings and £200m of subordinated lower tier II borrowings to Society. In addition, £571m has been injected from Society's LTF into LGPL's LTF by means of a contingent loan to cover the initial regulatory loss in LGPL. These loans qualify as capital for regulatory purposes in LGPL. Legal & General Overseas Holdings Limited has subscribed for a total of €18m of perpetual subordinated loan stock issued by Legal & General Holdings (France) SA.

48. MANAGEMENT OF CAPITAL RESOURCES continued

Available regulatory capital resource risks

The Group's available capital resources are sensitive to changes in market conditions, both to changes in the value of the assets and to the impact which 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:

- 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.
- 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.
- 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.
- mortality risk in relation to the UK and US term assurance businesses, which would crystallise if mortality of the lives insured was higher than that assumed, possibly because of an epidemic.

A range of management actions are available to mitigate any adverse impact from changing market conditions and experience, changes to with-profit bonus rates, changes to discretionary surrender terms and the potential for charging for guarantees. To the extent that management actions are expected only to offset partially adverse experience, then liabilities would be increased to anticipate the future impact of the adverse experience and total capital resources would be reduced.

Movements in life business regulatory capital resources

The movement in the life business regulatory capital resources is shown in Table 2.

Table 2 – Movements in life business capital resources

	UK with-profits 2007 £m	UK non profit, SRC and 1996 Sub-fund 2007 £m	LGPL 2007 £m	Overseas and PMC 2007 £m	Total life 2007 £m
As at 1 January	**1,128**	**2,752**	**1,451**	**504**	**5,835**
Effect of investment variations	**(22)**	**199**	**171**	**(18)**	**330**
Effect of changes in non-economic assumptions	**62**	**69**	**(296)**	**9**	**(156)**
Changes in management policy	**(59)**	**–**	**–**	**–**	**(59)**
Changes in regulatory requirements	**30**	**28**	**9**	**–**	**67**
New business	**(32)**	**(242)**	**(100)**	**(140)**	**(514)**
Cash distributions	**–**	**(1,700)**	**–**	**(55)**	**(1,755)**
Other factors	**(60)**	**24**	**(25)**	**262**	**201**
As at 31 December	**1,047**	**1,130**	**1,210**	**562**	**3,949**

	UK with-profits 2006 £m	UK non profit, SRC and 1996 Sub-fund 2006 £m	LGPL 2006 £m	Overseas and PMC 2006 £m	Total life 2006 £m
As at 1 January	842	3,173	–	592	4,607
Effect of investment variations	127	862	–	(42)	947
Effect of changes in non-economic assumptions	72	(75)	–	–	(3)
Changes in management policy	(4)	(1,297)	–	–	(1,301)
Changes in regulatory requirements	2	363	–	3	368
New business	16	(236)	–	(89)	(309)
Cash distributions	–	(272)	–	(68)	(340)
Other factors	73	234	1,451	108	1,866
As at 31 December	1,128	2,752	1,451	504	5,835

49. RISK MANAGEMENT AND CONTROL

The pages which follow describe the Group's approach to risk management. The first section deals with the overall approach, applicable to all risks. It is followed by a detailed review of risks within the Group's key businesses.

Risk management objectives
The Group has defined its appetite for risk in relation to its balanced scorecard for capital management. Its primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes.

Risk management approach
A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.
Insurance risk: the risk arising from higher claims being experienced than anticipated.
Market risk: the risk arising from fluctuations in interest rates, exchange rates, share prices and other relevant market prices.
Credit risk: the risk of loss if another party fails to perform its financial obligations to the Group.
Liquidity risk: the risk that the Group, though solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.
Operational risk: the risk arising from inadequate or failed internal processes, people and systems, or from external events.

Risk framework
Overall responsibility for the management of the Group's exposure to risk is vested in the Group 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.

Oversight of the risk management framework is performed on behalf of the Group Board by its sub-committee, the Group Risk and Compliance Committee (GRCC). The GRCC is supported in this role by the following sub-committees:
Group Capital Committee: The Committee assesses the capital requirements (including the risk based capital requirements) of the Group; monitors the sources of capital available to meet these requirements; oversees the allocation of capital to firms; and monitors at a Group level a number of performance and capital measures.
Counterparty Credit Committee: The Committee has oversight of counterparty credit risk across the Group, sets the limits for the Group's exposure to any single counterparty failure and manages exposures within these limits.
Group Investment and Market Risk Committee: The Committee determines the Group's overall framework for the management of market and liquidity risks and maintains oversight of exposures to ensure that they remain within acceptable tolerances.
Group Insurance Risk Committee: The Committee determines the Group's overall framework for the management of insurance risk and maintains oversight of exposures to ensure that they remain within acceptable tolerances.

For both the Group Investment and Market Risk Committee and the Group Insurance Risk Committee, detailed monitoring of actual risk positions to tolerances is performed by business operating units, reporting to the committees and supported, where relevant, by risk review functions.
Group Operational Risk Assessment Committee: The Committee maintains oversight of the overall framework for the management of operational risk and determines the policy for the management of specific aspects of the Group's operational risk, particularly those issues which are common across the Group.

In addition, Risk and Compliance Committees (RCCs) are in place for each of the Group's main operational businesses. These committees are predominantly responsible for reviewing the management of operational risks and compliance with regulation.

Methods used to monitor and assess risk exposures
A continuous Groupwide process is in place formally identifying, evaluating and managing significant risks to the achievement of the Group's objectives. A standard approach is used to assess the risks. Senior management and the risk review functions review the output of the assessments. A Groupwide risk assessment process is used to determine the key risks within the Group reported to the GRCC.

Group and business operating unit risk review functions provide oversight of the risk management processes within the Group. A central risk function is responsible for setting the risk management framework and standards. Risk review functions in each of the business operating units manage the framework in line with these standards. Their responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of the impact of these changes on risks to the business and the monitoring of the mitigating actions. The risk review functions also ensure that the operational business management and RCCs are provided with relevant risk reports and that there is appropriate information to assess risk issues.

Management of risks
The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. The key control techniques for the major categories of risk exposure are summarised in the following sections.

Insurance risk
Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of new business written and the concentration of risk in particular policies or groups of policies subject to the same risks. A detailed review of the Group's inherent residual risks associated with insurance products is included in pages 122 to 127. Insurance risk is managed using the following techniques:

Policies and delegated authorities for underwriting, pricing and reinsurance
Pricing is based on assumptions, such as mortality and persistency, which have regard to past experience and to trends. Insurance exposures are limited through reinsurance. Overall, the Group seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Reinsurance is used to reduce potential loss to the Group from individual large risks and catastrophic events. It may also be used to manage capital or to provide access to specialist underwriting expertise. The Group makes extensive use of reinsurance for its UK individual protection business, placing a proportion of all risks meeting prescribed criteria. The Group has also entered into external reinsurance arrangements, the primary effect of which is to reduce the capital requirements associated with this business.

The principal General insurance reinsurances are excess of loss catastrophe treaties, under which the cost of claims from a weather event, in excess of an agreed retention level, is recovered from insurers.

Regulatory capital for the General insurance business is also calculated using FSA pillar 1 and pillar 2 requirements. The pillar 1 calculation applies fixed percentages to premiums and claims. Pillar 2 creates a higher capital requirement and is therefore applied.

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with the factors determined as higher for those items with greater underlying risk and lower for less risky items.

French and Dutch regulatory bases

The minimum required capital is defined by the French Ministry of Finance's 'Code des Assurances' and the 'De Nederlandsche Bank N.V.' (Dutch Supervisory Body) respectively. The basis of the calculation is a percentage of the liabilities plus a percentage of the sum assured at risk and, for some contracts, the premium. The percentages depend on the guarantees given and the amount of reinsurance cover.

Group regulatory basis

In addition to the regulatory capital calculations for the individual firms, the Group is required to comply with the requirements of the Insurance Group's Directive (IGD). This is a very prudent measure of capital resources, as it excludes any amount of surplus capital within a LTF.

Reserving policy

All subsidiaries writing insurance business have a documented reserving policy setting out the basis on which liabilities are to be determined using statistical analysis and actuarial experience. Policies for each subsidiary are in line with locally established actuarial techniques, relevant regulation and legislation. Further details of the assumption setting process are included in Note 35.

Market risk

The Group is exposed to market risk as a consequence of fluctuations in values or returns on assets and liabilities, which are 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 the Group is exposed to these risks are:

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

The Group manages market risk using the following methods:

Asset liability matching

The Group manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has in each business.

For business such as immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. Interest rate risk cannot be completely eliminated, due to the nature of the liabilities and early redemption options contained in the assets.

For businesses where a range of asset types, including equity and property, are held to meet liabilities, the Group uses stochastic models to assess the impact of a range of future return scenarios on investment values and associated liabilities. This allows the Group to devise an investment and with-profits policyholder bonus strategy which optimises returns to its policyholders over time, whilst limiting the capital requirements associated with these businesses. The Group uses this method extensively in connection with its UK with-profits business.

Derivatives

The Group uses derivatives to reduce market risk. The most widely used derivatives are exchange-traded equity futures and swaps. The Group may use futures to facilitate efficient asset allocation. In addition, derivatives are used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is the Group's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets and that swaps are collateralised to reduce counterparty exposure.

Interest rate risk

Interest rate risk is the risk that the Group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

The Group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the Group's obligations to policyholders.

To mitigate the risk that guarantees and commitments are not met, the Group purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support. Additionally, fluctuations in interest rates will vary the repayments on variable rate debt issued by the Group (Note 36).

Asset liability matching significantly reduces the Group's exposure to interest rate risk. Sensitivity to interest rate changes is included on page 126.

Notes to the Financial Statements continued

49. RISK MANAGEMENT AND CONTROL continued

Currency risk

The Group manages its currency risk exposure in the following way:

- In respect of long term business assets and liabilities denominated in non-sterling currencies, the Group protects its exposure to exchange rate fluctuations by backing obligations with investments in the same currency.
- Balance sheet foreign exchange currency translation exposure in respect of the Group's international subsidiaries is actively managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged through the use of derivatives.

Table 3 – Currency risk

Table 3 summarises the Group's exposure to foreign currency exchange risk, in sterling. Non-linked assets and liabilities are reported in their underlying currency.

As at 31 December 2007	Sterling 2007 £m	Euro 2007 £m	US Dollar 2007 £m	Japanese Yen 2007 £m	Other 2007 £m	Linked 2007 £m	Carrying value 2007 £m
Assets							
Investment in associates	**14**	**–**	**–**	**–**	**–**	**–**	**14**
Plant and equipment	**74**	**3**	**2**	**–**	**–**	**–**	**79**
Investments	**34,896**	**3,947**	**2,810**	**617**	**933**	**233,221**	**276,424**
Purchased interests in long term business	**5**	**–**	**14**	**–**	**–**	**–**	**19**
Other operational assets	**2,737**	**202**	**889**	**3**	**8**	**910**	**4,749**
Total assets	**37,726**	**4,152**	**3,715**	**620**	**941**	**234,131**	**281,285**
Liabilities							
Subordinated borrowings	**1,058**	**403**	**–**	**–**	**–**	**–**	**1,461**
Participating contract liabilities	**18,828**	**1,501**	**–**	**–**	**–**	**241**	**20,570**
Non-participating contract liabilities	**14,451**	**357**	**1,189**	**–**	**1**	**231,781**	**247,779**
Senior borrowings	**707**	**118**	**489**	**2**	**–**	**11**	**1,327**
Provisions	**594**	**1**	**–**	**–**	**–**	**–**	**595**
Deferred liabilities	**591**	**24**	**172**	**–**	**–**	**2**	**789**
Creditors	**596**	**205**	**576**	**1**	**–**	**850**	**2,228**
Net asset value attributable to unit holders	**–**	**–**	**–**	**–**	**–**	**912**	**912**
Total liabilities	**36,825**	**2,609**	**2,426**	**3**	**1**	**233,797**	**275,661**

As at 31 December 2006	Sterling Restated 2006 £m	Euro Restated 2006 £m	US Dollar Restated 2006 £m	Japanese Yen Restated 2006 £m	Other Restated 2006 £m	Linked Restated 2006 £m	Carrying value 2006 £m
Assets							
Investment in associates	16	–	–	–	–	–	16
Plant and equipment	40	2	1	–	–	–	43
Investments	37,044	3,266	2,339	643	890	169,030	213,212
Purchased interests in long term business	7	–	16	–	–	–	23
Other operational assets	3,001	198	846	–	1	525	4,571
Total assets	40,108	3,466	3,202	643	891	169,555	217,865
Liabilities							
Subordinated borrowings	429	389	–	–	–	–	818
Participating contract liabilities	20,448	1,273	–	–	–	227	21,948
Non-participating contract liabilities	14,121	375	1,149	–	1	167,972	183,618
Senior borrowings	990	121	496	–	–	–	1,607
Provisions	566	2	–	–	–	–	568
Deferred liabilities	715	21	158	–	–	–	894
Creditors	610	166	466	–	1	526	1,769
Net asset value attributable to unit holders	–	–	–	–	–	804	804
Total liabilities	37,879	2,347	2,269	–	2	169,529	212,026

2006 has been restated to reflect reallocations between sterling, Euro and linked.

49. RISK MANAGEMENT AND CONTROL continued

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.

The Group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. Table 4 indicates the Group's exposure to different equity markets around the world. Linked equity investments are excluded from the table as the risk is retained by the policyholder.

Table 4 – Exposure to worldwide equity markets

	2007 £m	2006 £m
UK	**6,285**	8,557
North America	**524**	441
Europe	**1,224**	1,027
Japan	**604**	619
Asia Pacific	**733**	695
Other	**25**	35
Listed equities	**9,395**	11,374
Unlisted UK equities	**180**	201
Holdings in unit trusts	**735**	1,267
Total equities	**10,310**	12,842

The Group holds non-linked property investments totalling £3,073m (2006: £3,724m), of which £3,066m (2006: £3,718m) are located in the UK.

49. RISK MANAGEMENT AND CONTROL continued

Credit risk

Credit risk is the risk that the Group is exposed to loss if another party fails to perform its financial obligations to the Group.
Significant areas where the Group is exposed to credit risk are:

- The Group 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.
- The Group 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 the Group operates a credit rating policy when arranging cover. When selecting new reinsurance partners the Group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. Exposure limits for new and existing reinsurers are determined based on credit ratings and projected exposure.

Aggregate counterparty exposures are regularly monitored both at an individual subsidiary level and on a Groupwide basis.

The credit profile of the Group's assets exposed to credit risk is shown in Table 5. 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. Linked assets have not been included as shareholders are not directly exposed to risk.

The carrying amount of non-linked assets included in the balance sheet represents the maximum credit exposure.

Table 5 – Exposure to credit risk

As at 31 December 2007	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated £m	Total £m
Government securities		3,520	22	41	–	–	–	3,583
Other fixed rate securities		6,459	3,312	7,051	2,438	88	1,280	20,628
Variable rate securities		860	151	236	–	–	695	1,942
Total debt securities	18(i)	10,839	3,485	7,328	2,438	88	1,975	26,153
Accrued interest	18(i)	150	76	159	61	3	35	484
Loans and receivables	18(ii)	–	70	2	–	–	72	144
Derivative assets	19	–	116	18	–	–	–	134
Cash and cash equivalents[1]	25	184	441	1,799	–	–	481	2,905
Financial assets		11,173	4,188	9,306	2,499	91	2,563	29,820
Reinsurers' share of contract liabilities	20	6	1,018	102	–	62	221	1,409
Other assets	24	1	63	30	12	–	640	746
		11,180	5,269	9,438	2,511	153	3,424	31,975

As at 31 December 2006	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated £m	Total £m
Government securities		4,831	66	79	–	–	95	5,071
Other fixed rate securities		5,294	2,580	6,696	2,166	133	1,493	18,362
Variable rate securities		962	151	242	–	–	49	1,404
Total debt securities	18(i)	11,087	2,797	7,017	2,166	133	1,637	24,837
Accrued interest	18(i)	140	58	134	52	1	28	413
Loans and receivables	18(ii)	17	66	87	–	–	73	243
Derivative assets	19	14	24	2	–	–	–	40
Cash and cash equivalents[1]	25	195	217	1,461	–	–	210	2,083
Financial assets		11,453	3,162	8,701	2,218	134	1,948	27,616
Reinsurers' share of contract liabilities	20	7	930	105	–	34	261	1,337
Other assets	24	–	120	11	12	–	940	1,083
		11,460	4,212	8,817	2,230	168	3,149	30,036

1. Unrated cash and cash equivalants include £460m (2006: £210m) holdings in commercial paper which are short term instruments which carry a short term rating of A1+/A1 from Standard & Poor's.

At the year end, the Group held £105m (2006: £200m) of collateral in respect of non-linked derivative assets.

49. RISK MANAGEMENT AND CONTROL continued

Table 6 provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Linked assets have not been included as they are not directly exposed to credit risk.

Table 6 – Ageing of financial assets that are past due but not impaired

			Financial assets that are past due but not impaired					
As at 31 December 2007	Notes	**Neither past due nor impaired £m**	**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**
Government securities		**3,583**	**–**	**–**	**–**	**–**	**–**	**3,583**
Other fixed rate securities		**20,629**	**–**	**–**	**–**	**–**	**1**	**20,629**
Variable rate securities		**1,941**	**–**	**–**	**–**	**–**	**–**	**1,941**
Total debt securities	18(i)	**26,153**	**–**	**–**	**–**	**–**	**1**	**26,153**
Accrued interest	18(i)	**484**	**–**	**–**	**–**	**–**	**–**	**484**
Loans and receivables	18(ii)	**144**	**–**	**–**	**–**	**–**	**–**	**144**
Derivative assets	19	**134**	**–**	**–**	**–**	**–**	**–**	**134**
Cash equivalents	25	**2,672**	**22**	**7**	**–**	**–**	**3**	**2,701**
Financial assets		**29,587**	**22**	**7**	**–**	**–**	**4**	**29,616**
Reinsurers' share of contract liabilities	20	**1,409**	**–**	**–**	**–**	**–**	**–**	**1,409**
Other assets	24	**606**	**115**	**9**	**11**	**5**	**11**	**746**
		31,602	**137**	**16**	**11**	**5**	**15**	**31,771**

			Financial assets that are past due but not impaired					
As at 31 December 2006	Notes	Neither past due nor impaired £m	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
Government securities		5,070	1	–	–	–	–	5,071
Other fixed rate securities		18,362	–	–	–	–	–	18,362
Variable rate securities		1,404	–	–	–	–	–	1,404
Total debt securities	18(i)	24,836	1	–	–	–	–	24,837
Accrued interest	18(i)	413	–	–	–	–	–	413
Loans and receivables	18(ii)	243	–	–	–	–	–	243
Derivative assets	19	40	–	–	–	–	–	40
Cash equivalents	25	1,973	–	–	–	–	–	1,973
Financial assets		27,505	1	–	–	–	–	27,506
Reinsurers' share of contract liabilities	20	1,337	–	–	–	–	–	1,337
Other assets	24	694	369	6	5	9	11	1,083
		29,536	370	6	5	9	11	29,926

The fair value of collateral held against loans that are past due or impaired at 31 December 2007 was £nil (2006: £1m).

49. RISK MANAGEMENT AND CONTROL continued

Liquidity risk

Liquidity risk is the risk that the Group, 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's treasury function is responsible for managing the Group's banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends. The Group seeks to manage 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. In practice, most of the Group's invested assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contain discretionary surrender values or surrender charges, reduces the liquidity risk. The Group has in place a £1bn, five year syndicated borrowing facility which provides flexibility in the management of the Group's liquidity.

Operational risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems, or from external events. There are a number of headings under which operational risk and its management across the Group can be considered. Identified control issues are escalated to business unit RCCs.

Internal process failure

The Group is exposed to the risk of loss from failure of the internal processes with which it transacts its business. Each subsidiary is responsible for ensuring the adequacy of the controls over its processes and regular reviews are undertaken of their appropriateness and effectiveness. All business managers are required to confirm regularly the adequacy of controls from these reviews to business unit RCCs, the GRCC and the Group Audit Committee. Significant control issues which business areas identify are escalated to business unit RCCs, which oversee their resolution.

People

The Group is potentially exposed to the risk of loss from inappropriate actions by its staff. The risk is actively managed by business management and human resource (HR) functions. Recruitment is managed centrally by HR functions, and all new recruits undergo a formal induction programme. All employees have job descriptions setting out their accountabilities and reporting lines, and are appraised annually in accordance with agreed performance management frameworks. Employees in regulated subsidiaries are provided with appropriate training to enable them to meet the relevant regulatory requirements. Risks relating to health and safety and other legislation are managed through the provision of relevant training to all staff.

Outsourcing

The Group is potentially exposed to the actions or failure of suppliers contracted to provide services on an outsourced basis. The required minimum standards of control for outsourced arrangements are set out in the Group's outsourcing and key supplier policy. Compliance with this policy is monitored by business management and adherence is reported through the regular controls confirmation process undertaken across the Group.

Legal

Legal risk is the risk of loss from unclear or deficient product documentation; inadequate documentation in support of material contracts such as reassurance treaties; the incorrect interpretation of changes in legislation; employment related disputes and claims; and commercial disputes with suppliers. The risks are actively managed through the Group Legal Risk framework, which defines minimum standards of control to be applied to minimise the risk of loss.

Compliance

Compliance risk within the Group relates to the risk of non-adherence to legislative requirements, regulations and internal policies and procedures. Responsibility for ensuring adherence to relevant legal and regulatory requirements is vested in individual business managers. They are supported, where appropriate, by business standards functions which assess and confirm that business processes conform to these requirements. A Group compliance function has oversight of the Group's compliance with regulatory requirements and standards, providing policy advice and guidance and oversight of compliance arrangements and responsibilities.

Event

Event risk relates to the potential for loss arising from external significant events such as terrorism, financial crisis, major changes in fiscal systems or disaster. Typically, such events have a low likelihood of occurrence, a material impact and can be difficult to prevent. The Group's risk mitigation focuses on minimising the business disruption and potential financial loss which may ensue from such an event. This includes maintaining a framework for the management of major incidents, the maintenance and regular testing of detailed business, technical and location recovery plans and the provision of insurance cover for the loss of buildings, contents and information technology (IT) systems and for the increased cost of working in the event of business disruption.

Fraud

The Group is exposed to the risk of internal fraud, claim related fraud, and external action by third parties. The risk of internal fraud is managed through a number of processes including the screening of staff at recruitment, segregation of duties and whistle-blowing policies. The activities of internal audit also act to counter the risk. Claims-related fraud is managed by ensuring business processes are designed to validate fully claims and ensure that only bona fide claims are settled. Anti-fraud techniques are regularly updated to mitigate risks and emerging threats.

Technology

The Group places a high degree of reliance on IT in its business activities. The failure of IT systems could potentially expose the Group to significant business disruption and loss. To mitigate this risk, standards and methodologies for developing, testing and operating IT systems are maintained. There is a centralised management for development activity and production systems to ensure consistency and adherence to standards. Disaster recovery facilities enable IT operations to be conducted at remote locations in the event of the loss of computer facilities at a principal office site. All records are remotely backed up and computer suites are equipped with alternative power sources.

Concentration of risk

As part of the ongoing risk assessment processes the Group considers the concentration of risk. The Group seeks to manage concentrations by setting limits around the maximum exposure to loss that it can tolerate from a series of related events. Limits set include maximum exposures to single lives, geographic locations, financial instruments and reinsurance balances.

UK life and pensions

UK life and pensions products are structured as either participating or non-participating. The level of shareholders' interest in the value of policies and their share of the related profit or loss varies depending upon the contract structure.

49. RISK MANAGEMENT AND CONTROL continued

Non-participating contracts

Non-participating business is written mainly in the non profit part of the Society LTF. Profits accrue solely to shareholders. In addition, there is some non-participating business in the with-profits part of the Society LTF where the profits are shared, between participating policyholders and shareholders.

Protection business (individual and group)

The Group offers protection products which provide mortality or morbidity benefits and may include health, disability, critical illness and accident benefits. These additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

Life savings business

A range of contracts are offered in a variety of different forms to meet customers' long term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. Where the return is guaranteed, the Group may be exposed to interest rate risk with respect to the backing assets.

Pensions (individual and corporate)

These are long term savings contracts through which policyholders accumulate pension benefits. Some older contracts contain a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, which exposes the Group to interest rate and longevity risk. These guarantees become more costly during periods when interest rates are low or when annuitant mortality improves faster than expected. The ultimate cost will also depend on the take-up rate of any option and the final form of annuity selected by the policyholder.

Other options provided by these contracts include an open market option on maturity, early retirement and late retirement. The Group would generally have discretion over the terms on which these options are offered.

Annuities

Deferred and immediate annuity contracts are offered. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. Bulk annuities are also offered, where the Group manages the assets and accepts the liabilities of a company pension scheme or a life fund.

Non-participating deferred annuities written by the Group do not contain guaranteed cash options.

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. The primary risks to the Group from annuity products are therefore mortality improvements and investment performance.

There is a block of immediate and deferred annuities within the UK non profit business with benefits linked to changes in the RPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI falls. The total of such annuities in payment at 31 December 2007 was £162m (2006: £136m). Thus, 1% negative inflation, which was reversed in the following year would result in a guarantee cost of approximately £2m (2006: £1m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation bonds.

Key risk factors

(a) Insurance risk

(i) Mortality risk

For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. For annuity contracts, the Group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. The Group regularly reviews its mortality experience and industry projections of longevity and adjusts the valuation and pricing assumptions accordingly.

The Group is exposed to mortality risk on protection and annuity business. For protection products, the Group has entered into reinsurance arrangements to mitigate this risk and provide financing. Annuity contracts are not generally reinsured externally.

(ii) Persistency

In the early years of a policy, lapses and surrenders are likely to result in a loss to the Group, as the acquisition costs associated with the contract would not have been recovered from product margins. Some contracts include surrender penalties to mitigate this risk.

In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the Group has some discretion in determining the amount of the payment. As a result, the effect on profit at later duration is expected to be broadly neutral.

Following the adoption of PS06/14 in 2006 the persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Previously, the liabilities were established so that they were sufficient to cover the more onerous of the two scenarios, in which the policies either remain in force until maturity, or discontinue at the valuation date.

There is no persistency risk exposure for annuities in payment. These contracts do not provide a lapse or surrender option.

(iii) Morbidity rates

The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence and duration would increase costs over the level currently assumed in the calculation of liabilities.

(iv) Expense variances

Higher expenses and/or expense inflation will tend to increase the amount of the reserves required. The Group is exposed to the risk that its liabilities are not sufficient to cover future expenses.

(v) Geographic concentrations of risk

Insurance risk may be concentrated in geographic regions, altering the risk profile of the Group. The most significant exposure of this type arises for the group protection business, where a single event could result in a large number of related claims. To reduce the overall exposure, current contracts include an 'event limit' which caps the total liability. Additionally, excess of loss reinsurance arrangements further mitigate the exposure.

49. RISK MANAGEMENT AND CONTROL continued

(vi) Epidemics
The spread of an epidemic could cause large aggregate claims across the Group's portfolio. Quota share reinsurance contracts are used to manage this risk.

(vii) Accumulation of risks
There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the Group. In particular, there is little significant overlap between the long term and short term insurance business written by the Group. However, there are potentially material correlations of insurance risk with other types of risk exposure. These correlations are difficult to estimate though they would tend to be more acute as the underlying risk scenarios became more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk with mortality and morbidity exposures.

(b) Market risk
Investment of the assets backing the Group liabilities reflects the nature of the liabilities being supported. For non-participating business, the objective is to maximise profits, while ensuring stability, by closely matching the cash flows of assets and liabilties. To achieve this matching, the strategy is to invest in fixed income securities of appropriate maturity dates.

Interest rate risk is reduced by managing the duration and maturity structure of each investment portfolio in relation to the estimated duration of the liabilities it supports. A number of derivatives are held to enable the closer matching of assets and liabilities and to mitigate further exposure to interest rate movements, in particular, to limit the exposure to any options and guarantees in contracts.

In addition, the exposure to these risks is allowed for in the actuarial valuation of liabilities under these contracts.

Participating contracts
Participating contracts are supported by the with-profits part of the Society LTF. They offer policyholders the possibility of the payment of benefits in addition to those guaranteed by the contract. The amount and timing of the additional benefits (usually called bonuses) are contractually at the discretion of the Group.

Policyholders and shareholders share in the risks and returns of the with-profits part of the Society LTF. The return to shareholders on virtually all participating products 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.

Discretionary increases to benefits on participating contracts are allowed in one or both of regular and final bonus form. These bonuses are determined in accordance with the principles outlined in the Group's PPFM for the management of the with-profits part of the Society LTF. The principles include:

- The with-profits part of the Society LTF will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities without the need for additional capital.
- With-profits policies have no expectation of any distribution from the with-profits part of the Society LTF's inherited estate. The inherited estate is the excess of assets held within the Society LTF over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits.
- Bonus rates will be smoothed so that some of the short term fluctuations in the value of the investments of the with-profits part of the Society LTF and the business results achieved in the with-profits part of the UK LTF are not immediately reflected in payments under with-profits policies.

Some older participating contracts include a guaranteed minimum rate of roll up of the policyholder's fund up to the date of retirement or maturity.

The nature of the participating contracts written in the with-profits part of the Society LTF is that more emphasis can be placed on investing to maximise future investment returns. This results in a broader range of investments being held within the fund.

With-profits bonds
These contracts provide an investment return to the policyholder which is determined by the attribution of regular and final bonuses over the duration of the contract. In addition, the contracts provide a death benefit, typically of 101% of the value of the units allocated to the policyholder.

Pension contracts
The Group has sold pension contracts containing guaranteed annuity options which expose the Group to both interest rate and longevity risk. The market consistent value of these guarantees carried in the balance sheet is £59m (2006: £75m).

Deferred annuity contracts
The Group has written some deferred annuity contracts which guaranteed minimum pensions. These options expose the Group to interest rate risk as the cost would be expected to increase with interest rates. The market consistent value of these guarantees carried in the balance sheet is £111m (2006: £114m).

Key risk factors
The insurance and market risk exposures for participating business are largely the same as those discussed for non-participating contracts. The main differences in the operation of these contracts are discussed below.

(a) Insurance risk
(i) Persistency
At early durations, the nature of the persistency risks on with-profits business is largely the same as for non-participating business and is influenced mainly by the ability to recover acquisition costs from product margins. At later durations, there is less scope for withdrawal to result in a loss for the Group as these contracts typically provide explicit allowances for market conditions. Allowance for future withdrawals is made in the assessment of participating contract liabilities. The Group is generally exposed to the risk that future withdrawals are lower than assumed, resulting in higher future guarantee costs.

(b) Market risk
The financial risk exposure for participating contracts is different from that for non-participating business. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts.

These risks are managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios and by the use of derivatives. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and

49. RISK MANAGEMENT AND CONTROL continued

surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities and are managed so as to provide a partial hedge to movements in fixed interest yields.

The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options.

The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the Group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.

The distribution of surplus to shareholders depends upon the bonuses declared for the period. Typically, bonus rates are set having regard to investment returns, although the Group has some discretion setting rates and would normally smooth bonuses over time. The volatility of investment returns could have both a favourable and unfavourable impact on the fund's capital position and its ability to pay bonuses. If future investment conditions were less favourable than anticipated, the lower bonus levels resulting would also reduce future distributions to shareholders.

However, business which is written in the with-profits part of the Society LTF is managed to be self-supporting. The unallocated divisible surplus in the fund would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide capital support to the with-profits part of the Society LTF, would these risks affect equity.

The Group's approach to setting bonus rates is designed to treat customers fairly. The approach is set out in the Society's PPFM for the with-profits part of the Society LTF. In addition, bonus declarations are also affected by FSA regulations relating to Treating Customers Fairly (TCF), which limit the discretion available when setting bonus rates. The Group's approach to setting bonuses and meeting the FSA's TCF regulations may increase the Group's exposure to market risk should the ability to cut bonuses, during periods when investment returns are poor, be reduced.

Linked contracts

For linked contracts, there is a direct link between the investments and the obligations. Linked business is written in both the Society LTF and in the LTF of PMC. The financial risk on these contracts is borne by the policyholders. The Group is, therefore, not exposed to any market risk, currency risk or credit risk for these contracts. The Group's primary exposure to financial risk from these contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. The Group is also exposed to the risk of an expense overrun should the market depress the level of charges which could be imposed, although for some contracts the Group has discretion over the level of management charges levied.

International life and pensions

Legal & General America (LGA)

The principal products written by LGA are individual term assurance, universal life insurance and smaller blocks of deferred and immediate annuities.

The individual term assurances provide death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums increasing annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age related guaranteed premium.

Reinsurance is used to reduce the insurance risk on this portfolio and manage liquidity risks, through the reinsurance commission received under quota share arrangements. Reinsurance and securitisation are used to provide regulatory solvency relief (including relief from regulation Triple X). These practices lead to the establishment of reinsurance assets on the Group's balance sheet.

The universal life insurance and deferred annuities provide a savings element. In addition to the savings component, the universal life contract provides substantial death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGA has exposure to loss in the event that interest rates decrease and it is unable to earn enough on the underlying assets to cover the guaranteed rate. LGA is also exposed to loss should interest rates increase, as the underlying market value of assets will generally fall without a change in the surrender value. The reserves for universal life and deferred annuities totalled $758m and $248m respectively at 31 December 2007 (2006: $766m and $272m respectively). The guaranteed interest rates associated with those reserves ranged from 0.0% to 6.0%, with the majority of the policies having a 4.0% guaranteed rate (the same rates applied in 2006).

The deferred annuity contracts also contain a provision that, at maturity, a policyholder may move the account value into an immediate annuity, at rates which are either those currently in effect, or rates guaranteed in the contract. The other annuity contracts have similar risks to those in the UK.

Legal & General Netherlands (LGN)

LGN principally writes non-participating individual unit linked savings, protection and annuity business. The unit linked savings business generally includes an element of exposure to mortality risk. The individual term assurances provide death benefits over the medium to long term. Reinsurance is used to reduce the share of insurance risk.

The annuity contracts have similar risks to those in the UK; however, the majority of annuity business has a term of three years or less.

Legal & General France (LGF)

LGF writes a range of long term insurance and investment business through its subsidiaries. The principal products written are life assurance and pensions savings, group protection, annuities and open ended investment vehicles.

The group protection business consists of group term assurance, renewable on an annual basis, sickness and disability, and medical expenses assurance. The group sickness and disability and medical expenses policies integrate with social security benefits providing a level of top-up to those benefits. Reinsurance is used to manage exposure to large individual and group claims.

The annuity contracts have similar risks to those in the UK.

Notes to the Financial Statements continued

49. RISK MANAGEMENT AND CONTROL continued

Sensitivity analysis

Table 7 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. These sensitivities correspond to those contained within the Supplementary Financial Statements on page 144 of the Annual Report and Accounts.

Table 7 – Effect on embedded value

As at 31 December 2007	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Life and pensions						
– UK	7,293	355	(311)	182	(201)	170
– International	1,101	86	(74)	19	(23)	5
Total life and pensions	8,394	441	(385)	201	(224)	175

As at 31 December 2007	As published £m	10% lower equity/ property values £m	10% lower maint-enance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Life and pensions						
– UK	7,293	(277)	71	78	(119)	39
– International	1,101	(8)	12	43	n/a	65
Total life and pensions	8,394	(285)	83	121	(119)	104

As at 31 December 2006	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher equity/ property yields £m	10% lower equity/ property values £m
Life and pensions						
– UK	6,256	431	(376)	138	275	(290)
– International	913	61	(54)	(8)	5	(6)
Total life and pensions	7,169	492	(430)	130	280	(296)

As at 31 December 2006	As published £m	10% lower maint-enance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Life and pensions					
– UK	6,256	59	71	(104)	33
– International	913	10	34	n/a	67
Total life and pensions	7,169	69	105	(104)	100

Opposite sensitivities are broadly symmetrical.

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 on the Group's long term insurance contracts.

EV information is calculated for the Group's life and pensions business and for UK managed pension funds (covered business). All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

The EV 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 EV basis and the remainder of the Group's assets on the IFRS basis adopted in the primary financial statements. (Sensitivities have been presented for covered business only. In this context the non covered business is considered not to be material.)

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 by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used in the US, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions. The main assumptions are provided on page 145 in the Supplementary Financial Statements.

The Group's management of currency risk reduces shareholders' exposure to exchange rate fluctuations. The Group's exposure to a 10% exchange movement in the Dollar and Euro on an IFRS basis, net of hedging activities, is detailed in Table 8 on page 127.

49. RISK MANAGEMENT AND CONTROL continued

Table 8 – Currency sensitivity analysis

Currency sensitivity test	**Impact on pre-tax profit 2007 £m**	**Impact on equity 2007 £m**	Impact on pre-tax profit 2006 £m	Impact on equity 2006 £m
10% Euro appreciation	**45**	**24**	3	8
10% Dollar appreciation	**39**	**(2)**	14	(13)

UK General insurance

- Household contracts. These provide cover in respect of policyholders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. LGI uses reinsurance to manage the exposure to an accumulation of claims arising from any one incident, usually severe weather. The catastrophe cover reinsures LGI for losses between £30m and £230m (2006: £30m and £250m) for a single weather event.
- Motor insurance. These contracts provide cover in respect of customers' private cars and their liability to third parties in respect of damage to property and injury. Exposure is normally limited to the replacement value of the vehicle, and a policy limit in respect of third party property damage. Exposure to third party bodily injury is unlimited in accordance with statutory requirements. The motor book is in run-off, the final policy having expired in August 2007, but it is expected to be several years until the final claim is settled.
- Accident, sickness and unemployment (ASU). These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy.
- Healthcare. These contracts are primarily private medical insurance, which compensate customers for the costs of eligible medical consultations, diagnostic tests, in-patient, day care and outpatient treatment up to the limits specified in the policy. They are mainly exposed to the underlying incidence of morbidity, medical claims inflation and advances in medical treatments. Following the withdrawal from the healthcare business in February 2007, the healthcare book is in run-off, with the final policies due to expire in mid 2008.
- Domestic mortgage indemnity (DMI). These contracts (primarily in run-off) protect a mortgage lender should an insured property be repossessed and subsequently sold at a loss. Since 1993, the contract has included a maximum period of cover of 10 years, and a cap on the maximum claim. For business accepted prior to 1993, cover is unlimited and lasts until the insured property is remortgaged or redeemed.

Key risk factors

Weather events

Significant weather events such as windstorms, and coastal and river floods can lead to significant claims.

The insurance of properties which are concentrated in high risk areas, or an above average market share in a particular region, can give rise to a concentration of insurance risk. This risk is managed by ensuring that the risk acceptance policy, terms and premiums both reflect the expected claim cost associated with the location and avoid adverse selection. Additionally, exposure and competitor activity is monitored by location to ensure that there is a geographic spread of business. Catastrophe reinsurance cover reduces the Group's exposure to concentrations of risk. The catastrophe reinsurance is designed to protect against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.

Subsidence

The incidence of subsidence can have a significant impact on the level of claims on household policies. The Group's underwriting and reinsurance strategy mitigates the exposure to concentrations of risk arising from geographic location or adverse selection.

Unlimited motor claims

A single motor policy can result in major multiple liability claims in extreme scenarios. To mitigate this risk, accident excess of loss reinsurance is in place for claims in excess of £1m (2006: £1m).

Sensitivity analysis

Table 9 shows material sensitivities for the General insurance business on pre-tax profit and equity, net of reinsurance.

Table 9 – General insurance sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2007 £m	**Impact on equity net of reinsurance 2007 £m**	Impact on pre-tax profit net of reinsurance 2006 £m	Impact on equity net of reinsurance 2006 £m
Sensitivity test				
Single storm event with 1 in 200 year probability	**(42)**	**(29)**	(30)	(21)
Subsidence event – worst claim ratio in last 30 years	**(36)**	**(25)**	(37)	(26)
Repeat of 1990 recession on ASU/DMI/household accounts	**(54)**	**(38)**	(52)	(36)
5% decrease in overall claims ratio	**13**	**9**	15	11
5% surplus over claims liabilities	**7**	**5**	7	5

For any single event with claims in excess of £30m but less than £230m, the ultimate cost to the Group would be £30m. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the catastrophe cover by approximately £95m.

Supplementary Financial Statements – European Embedded Value Basis
Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
From continuing operations			
Life and pensions	16/17	**856**	1,030
Investment management	22	**196**	181
General insurance		**(67)**	9
Other operational income	23	**(73)**	13
Operating profit		**912**	1,233
Variation from longer term investment return	20	**116**	460
Effect of economic assumption changes	16	**57**	2
Property (expense)/income attributable to minority interests		**(6)**	67
Corporate restructure	14	**161**	(216)
Profit from continuing operations before tax attributable to equity holders		**1,240**	1,546
Tax charge on profit from ordinary activities	24	**(327)**	(422)
Effect of UK Budget tax changes	24	**93**	–
Tax impact of corporate restructure	14/24	**206**	322
Profit from ordinary activities after tax		**1,212**	1,446
Loss/(profit) attributable to minority interests		**6**	(67)
Profit attributable to equity holders of the Company		**1,218**	1,379

		p	p
Earnings per share	25		
Based on operating profit from continuing operations after tax attributable to equity holders		**9.81**	13.45
Based on profit attributable to equity holders of the Company		**18.90**	21.27
Diluted earnings per share	25		
Based on operating profit from continuing operations after tax attributable to equity holders		**9.76**	13.36
Based on profit attributable to equity holders of the Company		**18.80**	21.12

Supplementary Financial Statements – European Embedded Value Basis
Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 £m	2006 £m
Assets			
Investments		**276,438**	213,228
Long term in-force business asset		**3,041**	2,529
Other assets		**4,828**	4,614
		284,307	220,371
Equity and liabilities			
Shareholders' equity	27/28	**8,468**	7,931
Minority interests		**178**	414
Total equity		**8,646**	8,345
Subordinated borrowings		**1,461**	818
Unallocated divisible surplus		**1,721**	2,178
Participating contract liabilities		**18,849**	19,770
Non-participating contract liabilities		**247,779**	183,618
Senior borrowings		**1,327**	1,607
Other liabilities and provisions		**4,524**	4,035
		284,307	220,371

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	2007 £m	2006 £m
Fair value losses on cash flow hedges	**–**	(3)
Exchange differences on translation of overseas operations	**18**	(41)
Actuarial (losses)/gains on defined benefit pension schemes	**(23)**	3
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**16**	(1)
Income/(expense) recognised directly in equity, net of tax	**11**	(42)
Profit from ordinary activities after tax	**1,212**	1,446
Total recognised income and expense	**1,223**	1,404
Attributable to:		
Minority interests	**(6)**	67
Equity holders of the Company	**1,229**	1,337

Notes to the Supplementary Financial Statements

1. BASIS OF PREPARATION

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

These supplementary financial statements have been audited by PricewaterhouseCoopers LLP and prepared in conjunction with our consulting actuaries – Tillinghast Towers-Perrin and, in the US, Milliman USA.

2. COVERED BUSINESS

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Continental Europe and the US and within our UK managed pension funds company.

From 2007, all shareholder assets held within Legal & General Assurance Society Limited (Society) and Legal & General Pensions Limited (LGPL) have been allocated to covered business.

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

There is no distinction made between insurance and investment contracts in our life and pensions businesses as there is under IFRS.

3. DESCRIPTION OF METHODOLOGY

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

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

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

i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and
ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

4. EMBEDDED VALUE

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

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

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

5. SERVICE COMPANIES

All services relating to the UK life and pensions business are charged on a cost recovery basis, with the exception of investment management services provided to LGPL, which have been charged at market referenced rates since 1 January 2007, and to Society, which have been charged at market referenced rates from 1 July 2007. Profits arising on the provision of these services are valued on a 'look through' basis.

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

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

6. NEW BUSINESS

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

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

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

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

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

7. PROJECTION ASSUMPTIONS

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

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

8. TAX

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known or expected future changes. This includes tax which would arise if surplus assets within the covered business were eventually to be distributed. The future benefit of certain current UK tax rules on the apportionment of income has not been reflected. It is expected that these rules will be amended as part of the current consultation on life assurance taxation, such that the benefit is not expected to be realised.

9. ALLOWANCE FOR RISK

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

i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;
ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and
iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

10. REQUIRED CAPITAL AND FREE SURPLUS

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

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

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

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

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

For our UK managed pension funds business, management's capital policy has been used to set the level of required capital. The balance of net assets within the UK managed funds business is treated as free surplus.

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

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

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

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

11. FINANCIAL OPTIONS AND GUARANTEES

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

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

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

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

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

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

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

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

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

12. RISK DISCOUNT RATE

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

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

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters should be forward looking, although informed by historic information. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 28%.

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital, the inherent strength of the Group's regulatory reserves and the explicit deduction for the cost of options and guarantees, is appropriate to reflect the risks within the covered business. For these results the risk margin has been maintained at 3.0%.

A similar approach will be adopted when risk margins are reassessed in future periods.

Key assumptions are summarised below:

Risk free rate	Derived from gross redemption yields on relevant gilt portfolio
Equity risk premium	3.0% (UK only)
Property risk premium	2.0% (UK only)
Risk margin	3.0%

13. ANALYSIS OF PROFIT

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

i. new business;
ii. the management of in-force business;
iii. development costs; and
iv. return on shareholder net worth.

Further profit contributions arise from actual investment returns differing from the assumed long term investment returns (investment return variances), and from the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period from new business written in that period, after allowing for the actual cost of acquiring the business and of establishing the required technical provisions and reserves and after making allowance for the cost of capital. New business contributions are calculated using closing assumptions.

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

i. expected return - the discount earned from the value of business in-force at the start of the year;
ii. experience variances - the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and
iii. operating assumption changes - the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the year.

Development costs are associated with investment in building a new enterprise or exceptional development activity over a defined period.

The contribution from shareholder net worth comprises the increase in embedded value based on assumptions at the start of the year in respect of :

i. encumbered assets within the covered business – principally the unwind of the discount rate; and
ii. other assets – the expected investment return.

Further profit contributions arise from actual investment returns differing from the assumed long term investment returns (investment return variances) and from the effect of economic assumption changes.

Investment return variances represent the effect of actual investment performance and changes to investment policy on shareholder net worth and in-force business from that assumed at the beginning of the period.

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

14. CAPITAL REVIEW

a) As at 31 December 2007

Conversion of Legal & General Pensions Limited (LGPL) to an Insurance Special Purpose Vehicle (ISPV)
On 1 November 2007, LGPL was converted to an ISPV and repaid subordinated debt of £400m to Legal & General Assurance Society Limited (Society).

Society's long term fund restructure
In December 2007, the Group implemented a new capital structure for Society.

A key component was the removal of the transfer formula which has limited the annual amounts of distribution from Society's long term fund since 1996. As part of the restructure, it was also announced that the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). Society's Board of Directors has undertaken to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment will gradually reduce to zero over a period not exceeding ten years.

The removal of the formula and the merger of the 1996 Sub-fund with the SRC have removed significant dividing lines between the pools of shareholder capital within Society. From 2007, all the shareholder assets supporting the UK non profit life and pensions businesses have been aggregated for reporting purposes and designated 'Society Shareholder Capital'. This comprises the SRC (including the merged 1996 Sub-fund), and all Society's shareholder capital held outside the long term fund and in LGPL.

For 2007, £1.7bn (2006: £272m) has been transferred from the SRC into the shareholder capital held outside Society's long term fund.

Financial impacts of ISPV conversion and Society's long term fund restructure
The effects of the changes on the EEV financial statements are shown in the table below:

	ISPV conversion[1] £m	Long term fund restructure[2,3] £m	Tax impact of restructure[4] £m	Total £m
Profit from continuing operations before tax	156	5	-	161
Embedded value	112	4	206	322

1. The conversion of LGPL to an ISPV resulted in an increase in embedded value of £112m and an increase in profit before tax of £156m. This reflects the removal of the requirement to hold a solvency margin in the ISPV and the consequent reduction in the modelled cost of solvency capital.
2. In Society, the SRC and 1996 Sub-fund have either been required to cover the EU solvency margin or regarded as encumbered due to the restrictions over distribution. Following the restructure, these assets are no longer encumbered and are valued at market value less the anticipated tax charge. The Group has previously modelled EEV operating profit assuming the SRC is released into surplus over a period of 20 years. It is assumed that the remainder of the SRC is distributed over two years with the exception of the contingent loan balance with LGPL which is assumed to be distributed as it is repaid.
3. To take account of the more flexible nature of the capital in Society, the assets modelled to cover the required capital now reflect the average investment mix of the total Society Shareholder Capital which, as a result, includes a higher proportion of fixed interest investments.
4. The transfer from the SRC into the Society Shareholder Capital at the end of 2007 did not give rise to any incremental tax. The tax impact on future distributions of SRC assets has been modelled using marginal tax rates of between 10% and 12%.

The combined impact for the four factors above on both contribution from new business after cost of capital and operating profit was an increase of £12m.

Following the restructure, the shareholder net worth (SNW) of the UK life and pensions business has been redefined to include the shareholder capital held outside the long term fund. The longer term investment return earned on these assets of £52m (2006: £104m) is included in UK contribution from SNW for 2007. In the segmental analysis of shareholders' equity, the shareholder capital held outside the long term fund of £2,109m (2006: £1,307m) has been reallocated to UK life and pensions covered business at the balance sheet date. Prior year comparatives have not been restated to reflect this reclassification.

14. CAPITAL REVIEW continued

b) As at 31 December 2006

The impacts from restructuring and capital changes reported last year are set out below.

Corporate restructuring

On 31 December 2006, the non-linked non profit pensions and annuity business of Society was ceded to a new, wholly owned, reinsurance company, LGPL. The required capital and free surplus of LGPL is included in the covered business.

LGPL was capitalised using £1.3bn of Society shareholder capital, £400m of this was represented by subordinated debt (£200m upper tier II, £200m lower tier II) and £900m by equity. The reinsurance was effected on arm's length terms resulting in an initial regulatory loss in LGPL. Further funds of £571m were injected from Society's long term fund into LGPL's long term fund by means of a contingent loan to cover this loss.

Prior to the capitalisation of LGPL, the intra-group subordinated debt capital of £602m attributed to SRC was repaid to Group Plc and an equivalent amount was lent to Society shareholder capital on a subordinated basis (£301m upper tier II, £301m lower tier II).

Overall, the corporate restructuring increased the embedded value by £171m. This arose from tax benefits totalling £322m, which included a reversal of the adverse impact of the 2005 UK tax changes. This was offset by an additional cost of solvency capital of £119m in LGPL and other impacts of £32m which together total £151m. The EEV impact of the net tax benefits is reported within the tax section of the income statement. The impact of the higher cost of solvency capital and other impacts is reported below operating profit and grossed up for tax at 30%. The tax gross up of £65m is included in the tax charge. The additional cost of solvency capital in respect of new business transferred to LGPL reduced the contribution from new business by £19m.

Implementation of changes to FSA reporting and capital rules (Policy Statement 06/14)

In 2006, the FSA introduced a more realistic reserving framework for certain non profit business. As a result, there was a reduction in the regulatory reserves required for term assurance business of £641m. The associated financial reinsurance previously in place to finance these reserves was terminated.

The impact of these changes was to increase the EEV operating assumption changes by £64m, and contribution from new business by £33m, due to the resulting lower capital requirements.

Review of annuity investment policy

During 2006, Society undertook a review of its asset liability matching policy for annuity business. Property assets backing annuity liabilities were replaced with corporate bonds and Society entered into inflation swaps to mitigate negative inflation risk. As a result, a closer match between assets and liabilities was achieved. Additionally, the margin within the reserves to cover an interest rate mismatch was reviewed and reduced.

EEV operating profit increased by £18m due to the reduction in the capital requirement. However, the EEV variation from longer term investment return reduced by £27m due to the change in asset mix.

15. PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)

For the year ended 31 December 2007	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor	Single premiums £m	PVNBP £m	New business margin %
UK	**494**	**2,230**	**4.5**	**6,662**	**8,892**	**3.6**
International	**73**	**510**	**7.0**	**405**	**915**	**4.1**
	567	**2,740**		**7,067**	**9,807**	**3.7**

For the year ended 31 December 2006	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor	Single premiums £m	PVNBP £m	New business margin %
UK	474	2,115	4.5	5,991	8,106	4.7
International	66	459	7.0	365	824	4.6
	540	2,574		6,356	8,930	4.7

16. PROFIT FROM CONTINUING OPERATIONS AFTER TAX FROM COVERED BUSINESS

For the year ended 31 December 2007	Notes	UK £m	International £m	Life and pensions total £m	Investment management[1] £m	Total £m
Contribution from new business after cost of capital		**321**	**38**	**359**	**109**	**468**
Contribution from in-force business:						
– expected return[2]		**262**	**80**	**342**	**30**	**372**
– experience variances	18	**98**	**3**	**101**	**21**	**122**
– operating assumption changes	19	**(239)**	**2**	**(237)**	**9**	**(228)**
Development costs		**(41)**	**–**	**(41)**	**(2)**	**(43)**
Contribution from shareholder net worth[3]		**319**	**13**	**332**	**8**	**340**
Operating profit		**720**	**136**	**856**	**175**	**1,031**
Variation from longer term investment return[4]		**128**	**(8)**	**120**	**4**	**124**
Effect of economic assumption changes		**70**	**(18)**	**52**	**5**	**57**
Corporate restructure[5]		**161**	**–**	**161**	**–**	**161**
Profit from continuing operations before tax		**1,079**	**110**	**1,189**	**184**	**1,373**
Tax		**(287)**	**(32)**	**(319)**	**(52)**	**(371)**
Effect of UK Budget tax changes	24	**86**	**–**	**86**	**7**	**93**
Tax impact of corporate restructure[5]	24	**206**	**–**	**206**	**–**	**206**
Profit from continuing operations after tax		**1,084**	**78**	**1,162**	**139**	**1,301**

For the year ended 31 December 2006	Notes	UK £m	International £m	Life and pensions total £m	Investment management[1] £m	Total £m
Contribution from new business after cost of capital		380	38	418	61	479
Contribution from in-force business:						
– expected return		323	70	393	24	417
– experience variances	18	41	19	60	34	94
– operating assumption changes	19	5	17	22	26	48
Development costs		(21)	–	(21)	(1)	(22)
Contribution from shareholder net worth		146	12	158	7	165
Operating profit		874	156	1,030	151	1,181
Variation from longer term investment return[4]		387	(21)	366	13	379
Effect of economic assumption changes		(5)	7	2	–	2
Corporate restructure[5]		(216)	–	(216)	–	(216)
Profit from continuing operations before tax		1,040	142	1,182	164	1,346
Tax		(337)	(45)	(382)	(49)	(431)
Tax impact of corporate restructure[5]	24	322	–	322	–	322
Profit from continuing operations after tax		1,025	97	1,122	115	1,237

1. For covered business, Investment management comprises managed pension funds and is included in the total Investment management result of £196m (2006: £181m). See Note 22.
2. The UK expected return on in-force is based on the unwind of the discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF was £2,428m in 2007. This is adjusted for the effects of opening model changes (£52m) to give an adjusted opening base VIF of £2,480m. This is then multiplied by the opening risk discount rate 7.6% and the result grossed up at the notional attributed tax rate of 28% to give a return of £262m.
3. The UK contribution from shareholder net worth (SNW) of £319m is based on a mechanical calculation from opening balance sheet values. It reflects a different treatment for that part of the SNW which is discounted for the time value of money and that which is held at face value.

   The first element (£277m) is based on the unwind of the discount rate on the opening, adjusted base SNW.

   a. The base SNW was £2,608m in 2007.

   b. This is adjusted for the effects of opening model changes (£18m) to give an adjusted opening base SNW of £2,626m.

   c. The adjusted opening base SNW is multiplied by the opening risk discount rate of 7.6% and the result grossed up at the notional attributed tax rate of 28% to give a return of £277m.

   The second element (£99m) is the pre-tax smoothed investment return on other SNW assets held at face value. This is offset by pre-tax corporate expenses charged to shareholders' funds of £13m.

   In 2007, the contribution from SNW was also adjusted for one-off modelling changes and second order tax effects of negative £44m (£32m net of the notional attributed tax rate of 28%).
4. UK life and pensions variation from longer term investment return comprises £246m (2006: £185m) relating to the value of in-force business and negative £118m (2006: £202m) relating to SNW.
5. Further details relating to the Capital review can be found in Note 14.

17. LIFE AND PENSIONS OPERATING PROFIT

	2007 £m	2006 £m
UK	**720**	874
USA	**75**	89
Netherlands	**32**	45
France	**29**	22
	856	1,030

18. ANALYSIS OF EXPERIENCE VARIANCES

For the year ended 31 December 2007	UK £m	International £m	Life and pensions total £m	Investment management £m	Total £m
Persistency	**(25)**	**(1)**	**(26)**	**5**	**(21)**
Mortality/morbidity	**36**	**16**	**52**	**–**	**52**
Expenses	**(19)**	**1**	**(18)**	**(8)**	**(26)**
Other	**106**	**(13)**	**93**	**24**	**117**
	98	**3**	**101**	**21**	**122**

2007 UK other experience variances of £106m principally comprise the impact of introducing market referenced fees for the investment management services provided to Society's with-profits business by Legal & General Investment Management (£83m), which are recognised on a look through basis.

2007 Investment management other experience variances of £24m relates primarily to the effect of higher than assumed 'other income' and average fees.

For the year ended 31 December 2006	UK £m	International £m	Life and pensions total £m	Investment management £m	Total £m
Persistency	(15)	2	(13)	12	(1)
Mortality/morbidity	10	(9)	1	–	1
Expenses	2	–	2	–	2
Other	44	26	70	22	92
	41	19	60	34	94

2006 UK other experience variances of £44m principally comprise the impact of the release of prudent margins as more data is loaded onto the BPA administration system (£33m) and opening adjustments (£34m) primarily to reflect a revision of assessments of prior and future tax. These opening adjustments had a broadly neutral effect on the embedded value, with the positive variance here being offset by a negative variance in the contribution from shareholder net worth. This is partially offset by differences between actual and modelled tax and an increase in deferred tax provisions (-£21m).

2006 International other experience variances relate primarily to the impact of Triple X financing.

2006 Investment management other experience variances of £22m relates primarily to the effect of higher than assumed average fee rates.

19. ANALYSIS OF OPERATING ASSUMPTION CHANGES

For the year ended 31 December 2007	UK £m	International £m	Life and pensions total £m	Investment management £m	Total £m
Persistency	**(41)**	**(4)**	**(45)**	**–**	**(45)**
Mortality/morbidity	**(191)**	**21**	**(170)**	**–**	**(170)**
Expenses	**(32)**	**(4)**	**(36)**	**(12)**	**(48)**
Other	**25**	**(11)**	**14**	**21**	**35**
	(239)	**2**	**(237)**	**9**	**(228)**

2007 UK mortality/morbidity operating assumption changes of -£191m relate primarily to the strengthening of assumptions for annuitant mortality (-£269m) offset by a change in assumptions for the proportion of annuitants married (£42m) and improved mortality on individual protection and other products (£36m).

2007 Investment management other operating assumption changes of £21m primarily arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period.

For the year ended 31 December 2006	UK £m	International £m	Life and pensions total £m	Investment management £m	Total £m
Persistency	(12)	21	9	–	9
Mortality/morbidity	(5)	(7)	(12)	–	(12)
Expenses	(80)	4	(76)	(1)	(77)
Other	102	(1)	101	27	128
	5	17	22	26	48

2006 UK expenses of -£80m relate to an assumed increase in future expenses in relation to the management of existing protection policies (-£33m) and an anticipated rise in investment management costs (-£40m). The latter relates to the move to new City premises in 2007 and the development of our structured solutions and US based fixed income teams.

2006 UK other operating assumption changes of £102m primarily relate to the impact of PS 06/14 on realistic protection reserving after the recapture of financial reinsurance (£64m) and changes to annuity investment policy (£19m), together with a reassessment of future reserve releases as data is loaded onto the BPA administration system (£23m).

2006 Investment management other operating assumption changes of £27m arise from the continuation of the ten year lapse assumption for all contracts through the extension of the modelling period (£15m) coupled with higher fee and income assumptions (£12m).

20. VARIATION FROM LONGER TERM INVESTMENT RETURN

	2007 £m	2006 £m
Total covered business[1]	**124**	379
Investment management[2]	**–**	(1)
General insurance	**(9)**	(7)
Other operational income	**1**	89
	116	460

1. 2007 includes the variation from longer term investment return on total Society Shareholder Capital. Further details relating to the Capital review can be found in Note 14.
2. Non-covered Investment management business.

21. TIME VALUE OF OPTIONS AND GUARANTEES

	2007 £m	2006 £m
Life and pensions		
UK non profit	**4**	4
UK with-profits	**1**	2
International	**13**	12
	18	18

Notes to the Supplementary Financial Statements continued

22. INVESTMENT MANAGEMENT INCOME STATEMENT

	2007 £m	2006 £m
From continuing operations[1]		
Managed pension funds	**175**	151
Private equity	**–**	4
Property	**6**	6
Retail investments	**8**	11
Other income[2]	**7**	9
Operating profit from investment management	**196**	181
Variation from longer term investment return	**4**	13
Effect of economic assumption changes	**5**	–
Profit on ordinary activities before tax	**205**	194
Tax[3]	**(53)**	(58)
Profit on ordinary activities after tax	**152**	136

Investment management comprises the managed pensions fund business on an EEV basis and other investment management business on an IFRS basis.

1. Operating profit in 2007 excludes £23m of profits arising from the provision of investment management services at market referenced rates to the covered business which are reported on a look through basis and as a consequence are included in the UK life and pensions covered business on an EEV basis.
2. Other income excludes the element relating to managed pension funds on the IFRS basis.
3. 2007 includes the effect of UK budget tax changes of £7m.

23. OTHER OPERATIONAL INCOME

	2007 £m	2006 £m
Shareholders' other income		
Investment return on shareholders' equity[1]	**51**	134
Interest expense	**(119)**	(106)
	(68)	28
Other operations[2]	**1**	(2)
Unallocated corporate and development expenses	**(6)**	(13)
	(73)	13

1. Investment return on shareholders' equity excludes investment return on Society Shareholders Capital, which is included in UK life and pensions.
2. Principally the regulated mortgage network and Cofunds.

24. TAX

Analysis of tax

	Profit/(loss) before tax 2007 £m	Tax (charge)/ credit 2007 £m	Profit/(loss) before tax 2006 £m	Tax (charge)/ credit 2006 £m
From continuing operations				
UK life and pensions	**720**	**(232)**	874	(262)
International life and pensions	**136**	**(40)**	156	(51)
	856	**(272)**	1,030	(313)
Investment management	**196**	**(57)**	181	(54)
General insurance	**(67)**	**19**	9	(2)
Other operational income	**(73)**	**30**	13	8
Operating profit	**912**	**(280)**	1,233	(361)
Variation from longer term investment return	**116**	**12**	460	(128)
Effect of economic assumption changes	**57**	**(14)**	2	2
Property (expense)/income attributable to minority interests	**(6)**	**–**	67	–
Corporate restructure[1]	**161**	**(45)**	(216)	65
Profit from continuing operations before tax/Tax	**1,240**	**(327)**	1,546	(422)

1. Further details relating to the Capital review can be found in Note 14.

For the purposes of grossing up the movement in the UK embedded value to report pre-tax profits, the notional attributed tax rate was 28% (2006: 30%).

24. TAX continued

Effect of UK Budget tax changes

The Finance Act 2007 contained two measures which increased the UK embedded value by £93m. The reduction in the UK corporation tax rate from 30% to 28% with effect from 1 April 2008 increased the post-tax profits from the UK life and pensions and managed pension funds businesses reported on an EEV basis over the projection period. The effect was to increase the UK embedded value by £101m. This was offset by a reduction of £8m from the requirement to tax the loan interest payable by LGPL to the SRC at the full UK corporation tax rate.

Tax impact of Corporate restructure

There was no incremental tax for 2007 on the transfer of the SRC, whereas marginal tax rates of between 10% and 12% had been assumed for 2006. The favourable impact on EEV was £206m. For 2006, the favourable impact of £322m arose primarily from the reversal of the effect of the UK tax changes reported in 2005.

25. EARNINGS PER SHARE

(a) Earnings per share

	Profit before tax 2007 £m	Tax (charge)/credit 2007 £m	Profit after tax 2007 £m	Per share 2007 p	Profit/(loss) before tax 2006 £m	Tax (charge)/credit 2006 £m	Profit/(loss) after tax 2006 £m	Per share 2006 p
Operating profit from continuing operations	**912**	**(280)**	**632**	**9.81**	1,233	(361)	872	13.45
Variation from longer term investment return	**116**	**12**	**128**	**1.99**	460	(128)	332	5.12
Effect of economic assumption changes	**57**	**(14)**	**43**	**0.67**	2	2	4	0.06
Corporate restructure	**161**	**(45)**	**116**	**1.80**	(216)	65	(151)	(2.33)
Effect of UK Budget tax changes	**–**	**93**	**93**	**1.44**	–	–	–	–
Tax impact of corporate restructure	**–**	**206**	**206**	**3.19**	–	322	322	4.97
Earnings per share based on profit attributable to equity holders	**1,246**	**(28)**	**1,218**	**18.90**	1,479	(100)	1,379	21.27

(b) Diluted earnings per share

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

	Profit after tax 2007 £m	Number of shares[1] 2007 m	Per share 2007 p	Profit after tax 2006 £m	Number of shares[1] 2006 m	Per share 2006 p
Operating profit from continuing operations after tax	**632**	**6,444**	**9.81**	872	6,483	13.45
Net shares under options allocable for no further consideration	**–**	**34**	**(0.05)**	–	46	(0.09)
Diluted earnings per share	**632**	**6,478**	**9.76**	872	6,529	13.36

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

	Profit after tax 2007 £m	Number of shares[1] 2007 m	Per share 2007 p	Profit after tax 2006 £m	Number of shares[1] 2006 m	Per share 2006 p
Profit attributable to equity holders of the Company	**1,218**	**6,444**	**18.90**	1,379	6,483	21.27
Net shares under options allocable for no further consideration	**–**	**34**	**(0.10)**	–	46	(0.15)
Diluted earnings per share	**1,218**	**6,478**	**18.80**	1,379	6,529	21.12

The number of shares in issue at 31 December 2007 was 6,296,321,160 (2006: 6,532,261,961).

1. Weighted average number of shares.

Notes to the Supplementary Financial Statements continued

26. EMBEDDED VALUE RECONCILIATION

As at 31 December 2007	Notes	UK value of in-force £m	UK shareholder net worth[1] £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[2] £m	Total £m
As at 1 January								
Value of in-force business (VIF)		2,428	–	2,428	652	3,080	281	3,361
Shareholder net worth (SNW)		–	3,828	3,828	261	4,089	194	4,283
		2,428	3,828	6,256	913	7,169	475	7,644
Exchange rate movements		–	–	–	28	28	–	28
		2,428	3,828	6,256	941	7,197	475	7,672
Profit for the period:								
– New business contribution		510	(279)	231				
– Expected return on VIF		189	–	189				
– Expected return – transfer to SNW		(331)	331	–				
– Movement in contingent loan[3]		(108)	108	–				
– Experience variances		64	7	71				
– Operating assumption changes		(23)	(179)	(202)				
– Development costs		–	(34)	(34)				
– Expected return on SNW		–	233	233				
– Investment variances		195	(57)	138				
– Economic assumption changes		(97)	147	50				
– Effect of UK Budget tax changes		48	38	86				
– Corporate restructure[4]		45	71	116				
– Tax impact of corporate restructure		–	206	206				
Profit for the period[5]		492	592	1,084	78	1,162	139	1,301
Capital movements[6]		–	(590)	(590)	84	(506)	–	(506)
Other capital movements		–	1,307	1,307	–	1,307	–	1,307
Distributions:								
– With-profits transfer		(74)	74	–				
– Dividend to Group		–	(728)	(728)				
Distributions		(74)	(654)	(728)	(2)	(730)	(52)	(782)
Other reserve movements including pension deficit		–	(20)	(20)	–	(20)	–	(20)
Transfer to non-covered business[7]		–	(16)	(16)	–	(16)	–	(16)
Embedded value	27/28	2,846	4,447	7,293	1,101	8,394	562	8,956
Represented by:								
– Non profit		2,056		2,056				
– With-profits		790		790				
Value of in-force business		2,846	–	2,846	782	3,628	340	3,968
Shareholder net worth		–	4,447	4,447	319	4,766	222	4,988

1. In previous periods, UK SNW represented the amounts in the Society long term fund and LGPL shareholder capital which were regarded as either required capital or free surplus held within the covered business. As a consequence of the Capital review, from 2007, all shareholder capital in Society and LGPL is included as SNW within the covered business. This notional transfer of the previously excluded Society Shareholder Capital (SSC) into UK SNW is included as Other capital movements in 2007.
2. Investment management covered business comprises managed pension funds and is included in the total Investment management shareholders' equity of £689m (2006: £592m).
3. On an EEV basis, the contingent loan (between Society and LGPL) is modelled as an asset of SNW. As profits from the in-force business of LGPL are earned, cash is realised and transferred to SNW and the contingent loan asset is reduced accordingly. The movement includes both repayment of capital relating to in-force business and drawdown of loan relating to new business written in the period.
4. Further details relating to the impact of the Capital review can be found in Note 14.
5. Included in the profit for the period is an inter-fund transfer from non profit (included in VIF) to SSC (included in SNW) of £60m.
6. Capital movements comprise £57m ($114m) of capital injected into the USA and £39m injected into Legal & General International (Ireland) from Group, together with £27m (€40m) injected into France from Society.
7. The transfer to non-covered business represents the IFRS profits arising in the period from the provision of investment management services by Legal & General Investment Management to the UK life and pensions covered business, which have been included in the operating profit of the covered business on a look through basis.

26. EMBEDDED VALUE RECONCILIATION continued

As at 31 December 2006	Notes	UK value of in-force £m	UK shareholder net worth[1] £m	UK life and pensions £m	International life and pensions £m	Life and pensions total £m	Investment management[2] £m	Total £m
As at 1 January								
Value of in-force business (VIF)		3,142	–	3,142	570	3,712	238	3,950
Shareholder net worth (SNW)		–	1,762	1,762	298	2,060	184	2,244
		3,142	1,762	4,904	868	5,772	422	6,194
Exchange rate movements		–	–	–	(78)	(78)	–	(78)
		3,142	1,762	4,904	790	5,694	422	6,116
Profit for the period:								
– New business contribution		485	(219)	266				
– Expected return on VIF		226	–	226				
– Expected return – transfer to SNW		(293)	293	–				
– Experience variances		(160)	161	1				
– Operating assumption changes		(284)	286	2				
– Development costs		–	(14)	(14)				
– Expected return on SNW		–	112	112				
– Investment variances		(56)	320	264				
– Economic assumption changes		(5)	2	(3)				
– Corporate restructure		(561)	410	(151)				
– Tax impact of corporate restructure		–	322	322				
Profit for the period[3]		(648)	1,673	1,025	97	1,122	115	1,237
Capital movements[4]		–	698	698	31	729	–	729
Distributions relating to:								
– Non profit			(110)	(110)				
– With-profits		(66)		(66)				
– Shareholder net worth			(162)	(162)				
– Subordinated debt			(24)	(24)				
Distributions		(66)	(296)	(362)	(5)	(367)	(62)	(429)
Other reserve movements including pension deficit		–	(9)	(9)	–	(9)	–	(9)
Embedded value	27/28	2,428	3,828	6,256	913	7,169	475	7,644
Represented by:								
– Non profit		1,643		1,643				
– With-profits		785		785				
Value of in-force business		2,428	–	2,428	652	3,080	281	3,361
Shareholder net worth		–	3,828	3,828	261	4,089	194	4,283

1. UK SNW represented the amounts in the Society long term fund and LGPL shareholder capital which are regarded as either required capital or free surplus held within the covered business.
2. Investment management covered business comprises managed pension funds and is included in the total investment management shareholders' equity of £592m.
3. Included in the profit for the period is an inter-fund transfer from non profit (included in VIF) to SRC (included in SNW) of £1,222m.
4. Capital movements comprise £300m equity capital, £600m capital contribution and £400m of intra-group subordinated debt attributed to LGPL, less the repayment of £602m of intra-group subordinated debt previously attributed to the SRC.

Notes to the Supplementary Financial Statements continued

27. ANALYSIS OF SHAREHOLDERS' EQUITY

As at 31 December 2007	UK[1] £m	International £m	Life and pensions total £m	Investment management[2] £m	Other operations[3] £m	Total £m
Analysed as:						
IFRS basis shareholders' equity	**4,832**	**880**	**5,712**	**222**	**(488)**	**5,446**
Additional retained profit on an EEV basis	**2,461**	**221**	**2,682**	**340**	**–**	**3,022**
Shareholders' equity on an EEV basis	**7,293**	**1,101**	**8,394**	**562**	**(488)**	**8,468**
Comprising:						
Shareholder net worth						
– Free surplus	**3,249**	**140**	**3,389**	**198**		
– Required capital to cover solvency margin	**1,198**	**179**	**1,377**	**24**		
Value of in-force						
– Value of in-force business	**2,944**	**840**	**3,784**	**347**		
– Cost of capital	**(98)**	**(58)**	**(156)**	**(7)**		

As at 31 December 2006	UK £m	International £m	Life and pensions total £m	Investment management[2] £m	Other operations[3] £m	Total £m
Analysed as:						
IFRS basis shareholders' equity	4,213	731	4,944	194	287	5,425
Additional retained profit on an EEV basis	2,043	182	2,225	281	–	2,506
Shareholders' equity on an EEV basis	6,256	913	7,169	475	287	7,931
Comprising:						
Shareholder net worth						
– Free surplus	652	110	762	176		
– Required capital to cover solvency margin	1,362	151	1,513	18		
– Other required capital	1,814	–	1,814	–		
Value of in-force						
– Value of in-force business	2,572	703	3,275	286		
– Cost of capital	(144)	(51)	(195)	(5)		

Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.

1. 2007 includes total Society Shareholder Capital. Further details relating to the impact of the 2007 Capital review can be found in Note 14.
2. Investment management comprises managed pension funds and is included in the total Investment management shareholders' equity of £689m (2006: £592m).
3. Other Investment management businesses included on an IFRS basis of £127m (2006: £117m) are included in Other operations.

28. SEGMENTAL ANALYSIS OF SHAREHOLDERS' EQUITY

	Covered business EEV basis 2007 £m	Other business IFRS basis 2007 £m	Total 2007 £m	Covered business EEV basis 2006 £m	Other business IFRS basis 2006 £m	Total 2006 £m
UK life and pensions[1]	**7,293**	**–**	**7,293**	6,256	1,307	7,563
Embedded value of international life and pensions business						
– USA[2]	**645**	**–**	**645**	552	–	552
– Netherlands	**270**	**–**	**270**	228	–	228
– France[2]	**186**	**–**	**186**	133	–	133
	8,394	**–**	**8,394**	7,169	1,307	8,476
Investment management	**562**	**127**	**689**	475	117	592
	8,956	**127**	**9,083**	7,644	1,424	9,068
General insurance	**–**	**114**	**114**	–	169	169
Corporate funds[3]	**–**	**(729)**	**(729)**	–	(1,306)	(1,306)
	8,956	**(488)**	**8,468**	7,644	287	7,931

Further analysis of the covered business is included in Note 26.

	2007 £m	2006 £m
Movement		
As at 1 January	**7,931**	6,970
Total recognised income and expense	**1,229**	1,337
Issue of share capital	**4**	15
Share buyback	**(320)**	–
Net movements in employee scheme shares	**1**	(5)
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Other reserve movements including pension deficit	**(8)**	(9)
Fair value loss after tax on reclassification of subordinated borrowings as debt	**–**	(28)
As at 31 December	**8,468**	7,931

1. Further details relating to the impact of the 2007 Capital review can be found in Note 14.
2. Includes capital of £57m ($114m) injected into the USA and £27m (€40m) injected into France.
3. Corporate funds include investments, subordinated borrowings and senior borrowings. The increase in Corporate funds primarily reflects the repayment of the subordinated debt from Society shareholder capital of £602m during the year.

29. RECONCILIATION OF SHAREHOLDER NET WORTH (SNW)

	UK life and pensions 2007 £m	Total 2007 £m	UK life and pensions 2006 £m	Total 2006 £m
SNW of long term operations (IFRS basis)	**4,832**	**5,934**	3,263	5,138
Other assets (IFRS basis)	**–**	**(488)**	950	287
Shareholders' equity on the IFRS basis	**4,832**	**5,446**	4,213	5,425
Purchased interests in long term business	**(5)**	**(19)**	(7)	(25)
1996 Sub-fund[1]	**–**	**–**	313	313
Deferred acquisition costs/deferred income liabilities	**(139)**	**(751)**	(115)	(677)
Deferred tax[2]	**(363)**	**(172)**	(693)	(520)
Other[3]	**122**	**(4)**	117	54
Shareholder net worth on the EEV basis[3]	**4,447**	**4,500**	3,828	4,570

1. Further details relating to the impact of the 2007 Capital review can be found in Note 14.
2. Deferred tax represents all tax which is expected to be paid under current legislation.
3. Other relates primarily to the different treatment of sterling reserves, other long term reserves and the non profit result of LGPL under EEV compared with IFRS.

Notes to the Supplementary Financial Statements continued

30. SENSITIVITIES

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

Effect on embedded value at 31 December 2007

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Life and pensions						
– UK	7,293	355	(311)	182	(201)	170
– International	1,101	86	(74)	19	(23)	5
Total life and pensions	8,394	441	(385)	201	(224)	175
Investment management	562	14	(14)	(5)	5	10
Total covered business	8,956	455	(399)	196	(219)	185

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Life and pensions						
– UK	7,293	(277)	71	78	(119)	39
– International	1,101	(8)	12	43	n/a	65
Total life and pensions	8,394	(285)	83	121	(119)	104
Investment management	562	(23)	22	17	n/a	–
Total covered business	8,956	(308)	105	138	(119)	104

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Life and pensions						
– UK	321	72	(62)	10	(19)	30
– International	38	18	(16)	(1)	2	1
Total life and pensions	359	90	(78)	9	(17)	31
Investment management	109	5	(5)	(2)	2	3
Total covered business	468	95	(83)	7	(15)	34

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Life and pensions						
– UK	321	(6)	16	28	(15)	9
– International	38	–	2	7	n/a	12
Total life and pensions	359	(6)	18	35	(15)	21
Investment management	109	–	–	5	n/a	n/a
Total covered business	468	(6)	18	40	(15)	21

Opposite sensitivities are broadly symmetrical.

31. ASSUMPTIONS

UK assumptions

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

For annuities, separate returns are calculated for business sold before and after December 2006. This reflects a change in investment policy applicable to the 2007 business, which has the aim of increasing the expected return whilst not increasing the level of asset risk compared with the historic policy. This has been achieved through improved investment efficiency and increased diversification through use of additional asset classes. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. During the second half of 2007, aspects of this revised strategy were also applied to the assets backing the inforce annuity business.

Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.50% p.a. greater than 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 outstanding term of the securities. The allowances for default risk are set separately for the asset portfolios supporting fixed and index-linked securities, and average 0.11% p.a. and 0.10% p.a. respectively across the portfolios as a whole (0.15% p.a. and 0.10% p.a. at 31.12.2006).

Economic assumptions

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

UK life and pensions

i. Assets are valued at market value.
ii. Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business. The proportion of profits derived from with-profits business allocated to shareholders has been assumed to be 10% throughout.
iii. The value of in-force business reflects the cost, including administration expenses, of providing for benefit enhancement or compensation in relation to certain products.
iv. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are reviewed annually.

An allowance is made for future improvements in annuitant mortality based on experience and externally published data. As at 31 December 2007, male annuitant mortality is assumed to improve in accordance with CMI Working Paper 1, projection MC, with a minimum annual improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 75% of projection MC, with a minimum annual improvement of 1.0% for future experience and 1.5% for statutory reserving. In each case, the minimum annual improvement is assumed to reduce linearly after age 89 to zero at age 120.

On the revised basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 25.1 years (31.12.06: 23.8 years). The expectation of life on the regulatory reserving basis is 26.2 years (31.12.06: 25.1 years).

As at 31 December 2006, male annuitant mortality was assumed to improve in accordance with CMI Working Paper 1, projection MC for future experience with a minimum annual improvement of 0.6%, and the average of projections MC and LC for statutory reserving with a minimum annual improvement of 0.8%. Female annuitant mortality was assumed to improve in accordance with the MC projection from CMI Working Paper 1 for statutory reserving and at 70% of this rate for future experience, with the same underpinning minima as for males.

v. Development costs relate to strategic systems and the establishment of Legal & General International (Ireland) Limited.

UK managed pension funds

vi. All contracts are assumed to lapse over a 10 year period. Fees are projected on a basis which reflects current charges or, if less, anticipated charges. New business consists of monies received from new clients and incremental receipts from existing clients, and excludes the roll-up of the investment returns. Development costs relate to strategic systems.

International

vii. Key assumptions:

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

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

Tax

ix. EEV results are computed on an after tax basis and are grossed up by the notional attributed tax for presentation in the income statement. The tax rate used for grossing up is the corporate tax rate in the territory concerned which for the UK was 28% (2006: 30%). For the UK, investment return on Society Shareholder Capital held outside the long term fund is calculated on a pre-tax basis.

Independent Auditors' Report

To the Directors of Legal & General Group Plc on the Supplementary Financial Statements

We have audited the supplementary financial statements of Legal & General Group Plc for the year ended 31 December 2007 that comprise the Consolidated Income Statement – European Embedded Value basis, the Consolidated Balance Sheet – European Embedded Value basis, the Consolidated Statement of Recognised Income and Expense – European Embedded Value basis and the relevant notes ('the supplementary financial statements'). The supplementary financial statements have been prepared in accordance with the European Embedded Value ('EEV') basis set out in Notes 1 to 13 and which should be read in conjunction with the Group's financial statements.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the supplementary financial statements on the EEV basis in accordance with the EEV basis set out in Notes 1 to 13. Our responsibilities, as independent auditors in relation to the supplementary financial statements are as set out in our letter of engagement dated 30 November 2007, to report to you our opinion as to whether the supplementary financial statements have been properly prepared, in all material respects, in accordance with the EEV basis. We also report to you if we have not received all the information and explanations we require for our audit of the supplementary financial statements. This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our letter of engagement dated 30 November 2007, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary financial statements. This evidence included an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary financial statements, and of whether the accounting policies are appropriate to the Legal & General Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the supplementary financial statements.

Opinion

In our opinion, the supplementary financial statements for the year ended 31 December 2007 have been properly prepared in all material respects in accordance with the EEV basis set out in Notes 1 to 13.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
17 March 2008

(a) The supplementary financial statements are published on the website of Legal & General Group Plc, www.legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the audit work does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the supplementary financial statements since they were initially presented on the website.

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

Independent Auditors' Report

To the Members of Legal & General Group plc

We have audited the parent company financial statements of Legal & General Group Plc for the year ended 31 December 2007 which comprise the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Total Equity and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Legal & General Group Plc for the year ended 31 December 2007.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in Governance that is cross-referred from the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Group Overview, the Chairman's statement, the Directors' Report and Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
17 March 2008

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

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

Company Balance Sheet

As at 31 December 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	8	**6,115**	6,690
Current assets			
Amounts owed by Group undertakings		**1,341**	161
Tax		**35**	26
Derivative assets	9	**74**	22
Other debtors		**13**	–
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		**(6)**	(2)
Other creditors and accruals	10	**(48)**	(21)
Net current assets		**1,409**	186
Total assets less current liabilities		**7,524**	6,876
Creditors: amounts falling due after more than one year			
Dated subordinated borrowings	11	**(1,461)**	(818)
Amounts owed to Group undertakings		**(621)**	(638)
Shareholders' net assets		**5,442**	5,420
Representing capital and reserves			
Share capital	12	**157**	163
Share premium account	12	**927**	923
Capital redemption and other reserves	13	**39**	26
Revaluation reserve	13	**2,774**	3,431
Profit and loss account	13	**1,545**	877
Total equity		**5,442**	5,420

The notes on pages 150 to 156 form an integral part of these financial statements.

The financial statements on pages 148 to 156 were approved by the directors on 17 March 2008 and were signed on their behalf by:

Rob Margetts

Sir Rob Margetts
Chairman

Tim Breedon
Group Chief Executive

Andrew Palmer

Andrew Palmer
Group Director (Finance)

Company Statement of Total Recognised Gains and Losses

For the year ended 31 December 2007

	2007 £m	2006 £m
Profit for the financial year	**1,365**	414
(Loss)/gain on revaluation of investments in subsidiary undertakings	**(657)**	1,114
Total recognised gains and losses relating to the year	**708**	1,528

Company Reconciliation of Movements in Total Equity

For the year ended 31 December 2007

	2007 £m	2006 £m
As at 1 January	**5,420**	4,646
Total recognised gains and losses	**708**	1,528
Net movements in employee scheme shares	**7**	3
Dividend distributions to equity holders of the Company during the year	**(369)**	(349)
Issue of share capital	**4**	15
Cancellation of shares under the share buyback programme	**(320)**	–
Net change in hedging reserve	**–**	(3)
Transfer (to)/from share-based payments reserve	**(8)**	2
Reclassification of subordinated borrowings from equity to debt	**–**	(394)
Fair value loss after tax on reclassification of subordinated borrowings as debt	**–**	(28)
As at 31 December	**5,442**	5,420

Notes to the Company Financial Statements

1. ACCOUNTING POLICIES

Basis of preparation
The Company's financial statements have been prepared under the historical cost convention, modified by the revaluation of certain assets, as required by the Companies Act 1985 and in accordance with applicable UK accounting standards.

The Company's financial statements have been prepared in compliance with Section 226 of, and Schedule 4 to, the Companies Act 1985 adopting the exemption of omitting the profit and loss account conferred by Section 230 of that Act.

Investment income
Investment income includes dividends and interest. Dividends receivable from Group companies are recognised in the period in which the dividends are declared and approved at the general meeting or paid. Interest income is recognised using the effective interest method.

Distributions
Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the Company. Final dividends are accrued when approved by the Company's shareholders at the general meeting and interim dividends are accrued when paid.

Interest expense
Interest expense reflects the underlying cost of borrowing, based on the effective interest method, and includes payments and receipts made under derivative instruments which are amortised over the interest period to which they relate.

Investment in subsidiary undertakings
Shares in subsidiary undertakings are stated at the Company's share of their net assets. Unrealised gains or losses arising on investments in subsidiary undertakings are taken to the revaluation reserve.

Loans and receivables
Loans and receivables are held at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses derivatives, such as foreign exchange forward contracts and interest rate swap contracts, to hedge these exposures. The Company uses hedge accounting, provided the prescribed criteria are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The Company's principal use of hedge accounting is to hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the profit and loss account in the current period.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the profit and loss account.

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 net proceeds and the redemption value is recognised in the profit and loss account over the borrowing period using the effective interest method.

Deferred tax
Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred income tax asset is realised or the deferred income tax liabilty is settled, based on tax rates and law which have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liablities are not discounted.

Foreign currencies
Foreign currency transactions are translated into sterling, the Company's functional and presentational currency, using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses are recognised in the profit and loss account.

Pension costs
The Company participates in multi-employer defined benefit schemes, within the meaning of FRS 17, 'Retirement Benefits', which, as its share of the underlying assets and liabilities cannot be identified, have been treated for reporting purposes as defined contribution schemes. In addition to these schemes the Company also contributes to defined contribution schemes. The Company charges the costs of its pension schemes against profit as incurred. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision or prepayment in the balance sheet.

The assets of the defined benefit schemes are held in separate trustee administered funds, which have been subject to regular valuation every three years and updated by formal reviews at reporting dates by qualified actuaries who were employees of the Group.

1. ACCOUNTING POLICIES continued

Share-based payments

The Company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions.

At each balance sheet date, the Company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the Company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

Share buyback

Where shares are cancelled under the share buyback programme, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to shareholders. As required by the Companies Act 1985, the equivalent of the nominal value of shares cancelled is transferred to a capital redemption reserve.

2. RISK MANAGEMENT

Management of risk

The Company, in course of its business activities, is exposed to market, credit and liquidity risk. Overall responsibility for the management of these risks is vested in the 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.

Risk assessment processes

A continuous process is in place formally identifying, evaluating and managing the significant risks to the achievement of the Company's objectives. A standard approach is used to assess risks.

Senior management and the risk review functions (see below) review the output of the assessments.

Risk review functions

Risk review functions provide oversight of the risk management processes within the Company. Responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of these changes on risks to business and the monitoring of the mitigating actions. They also ensure that risk committees are provided with meaningful risk reports and that there is appropriate information to assess risk issues.

Details of the categories of risk to the Company and high level management processes are set out below. Defined policies for the management of its key risks are in place, the operation of which are supported by risk review functions and are independently confirmed by Group internal audit.

Market risk

Market risk is the risk arising from fluctuations in interest and exchange rates and market valuations.

Credit risk

Credit risk is the risk that the Company is exposed to loss if another party fails to perform its financial obligations to the Company.

Credit risk is managed through the setting and regular review of detailed counterparty credit and concentration limits. Compliance with these limits for investment and treasury transactions is monitored daily. The Counterparty Credit Committee oversees these processes. Counterparties used for the provision of hedging derivatives have a minimum credit rating of A from Standard & Poor's. The Company's maximum exposure to credit risk on its financial assets at the balance sheet date is equal to the value of the derivative assets.

Liquidity risk

Liquidity risk is the risk that the Company, 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 costs.

A degree of liquidity risk is implicit in the Company. Liquidity risk arises as a consequence of the uncertainty surrounding the value and timing of cash flows. The Company's treasury function manages liquidity to ensure that it maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows.

Notes to the Company Financial Statements continued

3. DIVIDENDS AND OTHER DISTRIBUTIONS

	Per share 2007 p	Total 2007 £m	Per share 2006 p	Total 2006 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**3.81**	**248**	3.63	236
– Current year interim dividend	**1.87**	**121**	1.74	113
	5.68	**369**	5.37	349
Ordinary share dividend proposed[1]	**4.10**	**247**	3.81	248

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

4. DIRECTORS' EMOLUMENTS AND OTHER EMPLOYEE INFORMATION

Full disclosures of the Group Plc directors' emoluments are contained within those parts of the Directors' Report on Remuneration which are described as having been audited. At 31 December 2007, there were no loans outstanding with directors of the Company (2006: £nil). The Company has no other employees.

5. PENSIONS

The Company operates the following pension schemes in the UK. There were no contributions prepaid or outstanding at either 31 December 2007 or 31 December 2006 in respect of these schemes and the Company has no liability for retirement benefits.

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund is a defined benefit scheme which was closed to new members from January 1995; last full actuarial valuation as at 31 December 2006.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme is a defined benefit scheme which, with a few exceptions (principally transfers from the Fund), was closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2006.
- Legal & General Group Personal Pension Plan (UK) – a defined contribution scheme.
- Legal & General Staff Stakeholder Pension Scheme (UK) – a defined contribution scheme.

As the Fund and the Scheme are effectively closed to new members, under the projected unit method of valuation, the current service costs will increase as the age profile of active members rises.

In the UK, the Fund and the Scheme are multi-employer defined benefit schemes, which, as the Company's share of the underlying assets and liabilities cannot be identified, have been treated for reporting purposes as defined contribution schemes. There was a deficit in respect of these schemes for the year ended 31 December 2007 of £181m (2006: £174m) and the contributions in respect of them for the year were £38m (2006: £39m). Further information is given in Note 38 of the consolidated IFRS financial statements of the Group.

6. SHARE-BASED PAYMENTS

Legal & General Group Plc grants share-based payments to employees within the Legal & General 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 is 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 Company in relation to share based payments was £nil (2006: £nil).

7. AUDITORS' REMUNERATION

Remuneration receivable by the Company's auditor for the audit of the Company's financial statements is not presented. The Group consolidated IFRS financial statements disclose the aggregate remuneration receivable by the Company's auditor for the audit of the annual accounts of the Group, which include the Company's financial statements.

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because the Group's consolidated financial statements are required to disclose such fees on a consolidated basis.

8. INVESTMENTS

	Shares in Group companies 2007 £m	Loans to Group companies 2007 £m	Total 2007 £m	Shares in Group companies 2006 £m	Loans to Group companies 2006 £m	Total 2006 £m
At valuation, 1 January	**5,408**	**1,282**	**6,690**	4,290	1,304	5,594
Additions	**2,035**	**–**	**2,035**	4	624	628
Disposal	**(1,340)**	**–**	**(1,340)**	–	–	–
Repayment	**–**	**(618)**	**(618)**	–	(606)	(606)
Revaluation	**(657)**	**5**	**(652)**	1,114	(40)	1,074
At valuation, 31 December	**5,446**	**669**	**6,115**	5,408	1,282	6,690
At cost, 31 December	**2,706**	**746**	**3,452**	2,011	1,364	3,375

9. DERIVATIVE ASSETS AND LIABILITIES

	Contract/ notional amount 2007 £m	Fair values	
		Assets 2007 £m	Liabilities[1] 2007 £m
Interest rate contracts – held for trading	**600**	**12**	**1**
Interest rate contracts – fair value hedges	**441**	**18**	**28**
Forward foreign exchange contracts – net investment hedges	**597**	**1**	**2**
Forward foreign exchange contracts – held for trading	**441**	**43**	**–**
Derivative assets and liabilities		**74**	**31**

	Contract/ notional amount 2006 £m	Fair values	
		Assets 2006 £m	Liabilities[1] 2006 £m
Interest rate contracts – held for trading	400	17	–
Interest rate contracts – fair value hedges	405	–	17
Forward foreign exchange contracts – net investment hedges	446	–	2
Forward foreign exchange contracts – held for trading	405	5	–
Derivative assets and liabilities		22	19

1. Derivative liabilities are reported in the balance sheet within other creditors and accruals.

The descriptions of each type of derivative are given in Notes 19 and 49 of the consolidated Group IFRS financial statements.

10. OTHER CREDITORS AND ACCRUALS

	Notes	2007 £m	2006 £m
Derivative liabilities	9	**31**	19
Accruals		**7**	–
Other creditors		**10**	2
Other creditors and accruals		**48**	21

Other creditors and accruals are expected to be settled within five years.

Notes to the Company Financial Statements continued

11. BORROWINGS

Analysis by nature

	Carrying amount 2007 £m	Coupon rate 2007 %	Fair value 2007 £m	Carrying amount 2006 £m	Coupon rate 2006 %	Fair value 2006 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities	**620**	**6.39**	**591**	–	–	–
5.875% Sterling undated subordinated notes	**427**	**5.88**	**387**	429	5.88	411
4.0% Euro subordinated notes 2025	**414**	**4.00**	**409**	389	4.00	397
Total borrowings	**1,461**		**1,387**	818		808

£74m of interest expense was incurred during the year (2006: £65m).

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

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

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

Convertible bond
The convertible bond matured in 2006 and was redeemed at par without being converted into ordinary shares.

The debt component, net of expenses, of the convertible bond recognised in the balance sheet is calculated as follows:

	2007 £m	2006 £m
As at 1 January	**–**	509
Interest expense	**–**	30
Coupons paid	**–**	(14)
Repayment of debt	**–**	(525)
As at 31 December	**–**	–

12. SHARE CAPITAL AND SHARE PREMIUM

Authorised share capital	2007 Number of shares	2007 £m	2006 £m
As at 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	230

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

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2006	6,507,421,932	163	908
Options exercised under share option schemes			
– Executive share option scheme	5,324,625	–	4
– Savings related share option scheme	19,515,404	–	11
As at 31 December 2006	6,532,261,961	163	923

1. During the year, 241,207,267 shares were repurchased and cancelled under the share buyback programme representing 3.7% of issued share capital, at a cost of £320m including expenses. At 17 March 2008, a further 198,508,564 ordinary shares had been purchased for cancellation at a total cost of £251m including expenses (see Note 37 of the consolidated Group IFRS financial statements).

Options over the ordinary share capital of the Company are disclosed in Note 15 of the consolidated Group IFRS financial statements.

Notes to the Company Financial Statements continued

13. MOVEMENT IN RESERVES

	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Subordinated borrowings £m	Revaluation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2007	**–**	**(1)**	**27**	**–**	**3,431**	**877**	**4,334**
Retained profit after tax and dividends	**–**	**–**	**–**	**–**	**–**	**996**	**996**
Decrease in the net assets of subsidiaries	**–**	**–**	**–**	**–**	**(657)**	**–**	**(657)**
Value of employee services	**–**	**–**	**18**	**–**	**–**	**–**	**18**
Shares vested and transfer from share-based payments reserve	**–**	**–**	**(11)**	**–**	**–**	**(8)**	**(19)**
Cancellation of shares under the share buyback programme	**6**	**–**	**–**	**–**	**–**	**(320)**	**(314)**
As at 31 December 2007	**6**	**(1)**	**34**	**–**	**2,774**	**1,545**	**4,358**

	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Subordinated borrowings £m	Revaluation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2006	–	2	24	394	2,317	838	3,575
Retained profit after tax and dividends	–	–	–	–	–	65	65
Increase in the net assets of subsidiaries	–	–	–	–	1,114	–	1,114
Value of employee services	–	–	15	–	–	–	15
Net change in hedging reserve	–	(3)	–	–	–	–	(3)
Shares vested and transfer from share-based payments reserve	–	–	(12)	–	–	2	(10)
Reclassification of subordinated borrowings from equity to debt	–	–	–	(394)	–	–	(394)
Fair value loss after tax on reclassification of subordinated borrowings as debt	–	–	–	–	–	(28)	(28)
As at 31 December 2006	–	(1)	27	–	3,431	877	4,334

14. SUBSIDIARY UNDERTAKINGS

Full disclosure of the Company's investments in subsidiary undertakings are contained within Note 45 in the consolidated Group IFRS financial statements.

15. EVENTS AFTER THE BALANCE SHEET DATE

Since 31 December 2007, additional purchases of shares have been made under the Company's buyback programme. At 17 March 2008, a further 198,508,564 ordinary shares (representing 3.2% of Legal & General Group Plc's issued share capital at 31 December 2007) had been purchased for cancellation at a total cost of £251m including expenses, at an average cost of 125.7p per share.

Abbreviations

AFS	Available-for-sale
APE	Annual Premium Equivalent
ASU	Accident, sickness and unemployment
BPA	Bulk Purchase Annuity
CAL	Company Action Level
CFO	Chief Financial Officer
CMIB	Continuous Mortality Investigation
CSOP	Company Share Option Plan
DMI	Domestic mortgage indemnity
DPF	Discretionary participating features
DWP	Department of Work and Pensions
EC	European Commission
EEV	European Embedded Value
EPS	Earnings per share
ESOS	Executive Share Option Scheme
ESOT	Employee Share Ownership Trust
ESP	Employee Share Plan
EST	Employee Share Trust
EV	Embedded Value
FOG	Financial options and guarantees
FRS	Financial Reporting Standard
FSA	Financial Services Authority
FTSE	Financial Times Stock Exchange index
FVTPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
GRCC	Group Risk and Compliance Committee
Group	Legal & General Group Plc
HFT	Held for trading
HMRC	Her Majesty's Revenue & Customs
HR	Human resource function
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICA	Individual Capital Assessment
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IGD	Insurance Groups Directive
ILU	Institute of London Underwriters
ISA	Individual Savings Account
ISPV	Insurance Special Purpose Vehicle
IT	Information technology
LC	Long cohort
LGA	Legal & General America
LGF	Legal & General France
LGI	Legal & General Insurance Limited
LGN	Legal & General Netherlands
LGPL	Legal & General Pensions Limited
LTF	Long Term Fund
MC	Medium cohort
PMC	Legal & General Assurance (Pensions Management) Limited
PPFM	Principles and Practices of Financial Management
PSP	Performance Share Plan
PVNBP	Present value of new business premiums
RBC	Risk Based Capital
RCC	Risk and Compliance Committee
RDR	Risk discount rate
RPI	Retail Price Index
SAYE	Savings related share option scheme
SBP	Share Bonus Plan
SNW	Shareholder net worth
Society	Legal & General Assurance Society Limited
SORIE	Statement of Recognised Income and Expense
SRC	Shareholder Retained Capital
TCF	Treating Customers Fairly
TSR	Total Shareholder Return
Victory	NRG Victory Reinsurance Company Ltd
VIF	Value of in-force business
WACC	Weighted average cost of capital
WPICC	With-Profits Insurance Capital Component

Shareholder Information

Shareholders at 31 December 2007

Categories of ordinary shareholders and ranges of shareholdings at 31 December 2007 were:

	Shareholders		Share	
	Number	%	Number	%
Category of shareholder				
Individuals	**34,514**	**72.84**	**340,121,449**	**5.40**
Banks	**10**	**0.02**	**24,908,432**	**0.39**
Nominee companies	**11,775**	**24.85**	**5,788,529,742**	**91.91**
Insurance companies and pension funds	**24**	**0.05**	**661,570**	**0.01**
Limited companies	**712**	**1.51**	**76,722,634**	**1.22**
Other corporate bodies	**346**	**0.73**	**67,372,776**	**1.07**
	47,381	**100.00**	**6,298,316,603**[1]	**100.00**
Range of holdings				
1 – 20,000	**41,926**	**88.49**	**194,175,981**	**3.08**
20,001 – 100,000	**4,013**	**8.47**	**156,486,321**	**2.48**
100,001 – 500,000	**754**	**1.59**	**165,763,183**	**2.63**
500,001 and over	**688**	**1.45**	**5,781,891,118**	**91.81**
	47,381	**100.00**	**6,298,316,603**[1]	**100.00**

1. The number of shares on the register at 31 December 2007 includes shares purchased as part of the share buyback programme which were in the course of cancellation.

DIVIDEND INFORMATION

Dividend per share

This year, the directors are recommending the payment of a final dividend of 4.10p per share. If you add this to your interim dividend of 1.87p per share, the total dividend recommended for 2007 will be 5.97p per share(2006: 5.55p per share), an increase of 7.6%.

The key dates for your dividends payable in 2008 are:

FINAL DIVIDEND 2007

Ex-dividend date	16 April 2008
Record date	18 April 2008
Payable	19 May 2008

INTERIM DIVIDEND 2008

Ex-dividend date	3 September 2008
Record date	5 September 2008
Payable	1 October 2008

DIVIDEND PAYMENTS

Legal & General is keen to encourage all its shareholders to have their dividends paid directly into a Bank or Building Society Account.

If you would like more details or a dividend mandate form, please contact our Registrars, Equiniti. Details of how to contact Equiniti can be found on the opposite page.

INVESTOR RELATIONS

For more information on investor relations (IR) visit the IR section of our website at:
www.legalandgeneralgroup.com/investors/investors.cfm.

DIVIDEND REINVESTMENT PLAN

The Legal & General Dividend Reinvestment Plan (DRIP) enables shareholders to use their cash dividends to purchase Legal & General Group Plc shares.

If you would like more details, please contact our Registrars. Alternatively, the DRIP booklet and mandate form, can be found in the Investors Section of Legal & General's website at: www.legalandgeneralgroup.com (the Website).

COMMUNICATIONS

Internet

Information about the Company including details of the current share price is available in the Investors Section on the Website.

Annual General Meeting

The 2008 Annual General Meeting (AGM) will be held on Wednesday, 14 May 2008 at 11.30am at The Institution of Engineering and Technology, Savoy Place, London WC2R 0BL.

The AGM provides the Company with the opportunity to meet its shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors.

Financial Reports

Legal & General publishes an Annual Report and Accounts and, for investors not needing the full details of an Annual Report, Summary Financial Statements. These are available on the Website.

The Annual Report & Accounts and Summary Financial Statements are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on www.shareview.com

Copies of previous financial reports are available on the Website. Printed copies can be obtained from Investor Relations.

REGISTRARS

Legal & General's Registrars are: Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Equiniti is the new name for the business that manages Legal & General's Share Register, this follows the sale of Lloyds TSB Registrars in October 2007.

www.Shareview.co.uk

Shareholder Helpline: 0871 384 2118*.

All shareholder enquiries should be addressed to Equiniti.

The registrars also provide the following services:

Electronic Share Service

This Electronic Share Service allows you to hold shares in Legal & General without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Equiniti Corporate Nominees Limited.

To join, or obtain further information, contact the Registrars. They will send you a booklet, outlining the terms and conditions under which your shares will be held, together with the appropriate share transfer form. The booklet and the share transfer form are also available in the Investors Section of the Website.

Shareview

Shareview allows you to view your Legal & General shareholding on the internet. Registering is easy, simply log on to www.shareview.co.uk and follow the instructions. You will need your shareholder reference number, shown on your latest dividend counterfoil. If you have any queries, please call the Shareholder Helpline.

Consolidation of Share Certificates

Shareholders with more than one share certificate may arrange to have them consolidated into one certificate by contacting the Registrars.

Individual Savings Account (ISA)

Equiniti Financial Services Limited provide a Single Company ISA for Legal & General Group Plc shares. If you would like more information, please call the Shareholder Helpline.

Share Dealing Service

Shareholders may buy or sell shares using the internet or telephone through a number of nominated providers. Details can be found on the Website.

GENERAL INFORMATION

Capital Gains Tax: For the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each of the shares was 7.996p, after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close Company Provisions: The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988.

Registered Office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 1417162. Legal & General moved to its new Registered Office on 1 October 2007.

Shareholder Offer Line: For details of shareholder offers on Legal & General products call 0500 65 5555.

FINANCIAL REPORTING CALENDAR

Publication of Preliminary Results for 2007	18 March 2008
Ex-dividend date	16 April 2008
Last day for DRIP elections	2 May 2008
Annual General Meeting	14 May 2008
Payment of Final Dividend for 2007 (to members registered on 18 April 2008)	19 May 2008
Publication of Interim Results for 2008 and Declaration of Interim Dividend	5 August 2008
Ex-dividend date	3 September 2008
Last day for DRIP elections	17 September 2008
Payment of Interim Dividend for 2008 (to members registered on 5 September 2008)	1 October 2008

* Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

Notes

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www.legalandgeneralgroup.com

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