Annual Report and Accounts

2008

Legal & General

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

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* These sections make up the Directors' Report.
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.

For further information visit:
www.legalandgeneralgroup.com

Our Group

Highlights

IGD Capital Surplus[1]

£1.8bn

(2007: £4.1bn)

Solvency Cover

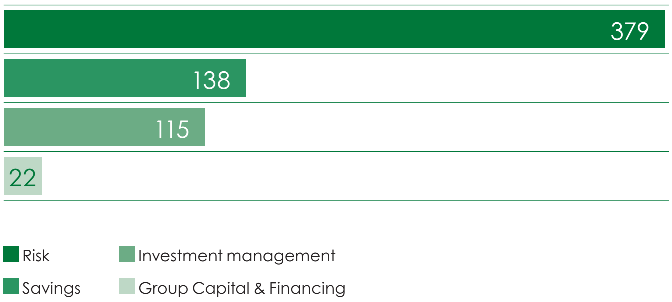
+169%

(2007:198%)

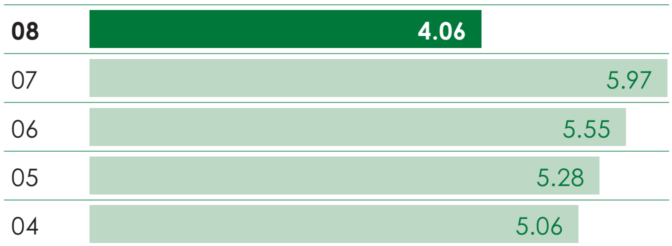
Financial Strength Rating[4]

AA

Operational Cash Generation (£)



Dividend Per Share (p)



IFRS Operating Result Before Tax[2]

£(189)m

IFRS[3] basis
(2007: £658m)

EEV Operating Result Before Tax

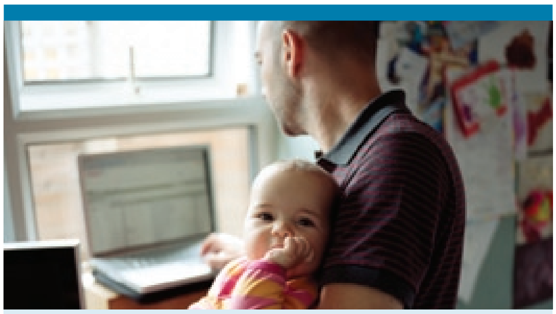
£870m

EEV[5] basis
(2007: £848m)

[1] EU Insurance Groups Directive. Figures after payment of proposed dividend, based on draft unaudited regulatory returns.
[2] Operating profit before tax from continuing operations.
[3] International Financial Reporting Standards.
[4] Standard & Poor's Financial Strength rating for Legal & General Assurance Society. As at 24 March 2009.
[5] European Embedded Value.

What We Do: Our Businesses

We are a leading provider of risk, savings and investment management products in the UK, with over 6.6 million customers and almost 10,000 employees worldwide. While the Group's primary focus today is on the UK, we continue to expand internationally.



Risk Businesses

Safeguards customers against financial risks. **See page 24**

£488m

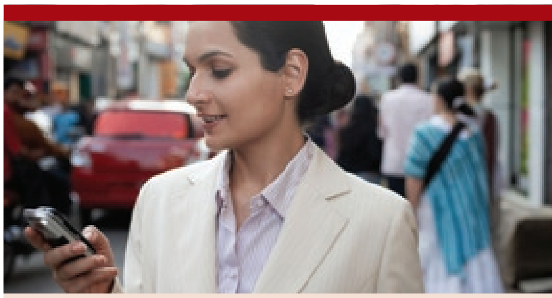
Protection and annuities APE*
(2007: £428m)

£281m

Annuities APE (individual and corporate)
(2007: £205m)

Products

Individual Protection	**Corporate Annuities**
Group Risk	**Individual Annuities**
Mortgage Club	**General Insurance**



International

Selective overseas presence for Risk, Savings and Investment management. **See page 36**

*Annual Premium Equivalent

Savings

Financial planning, savings and investments. **See page 28**

£879m

Savings APE
(2007: £893m)

£1,879m

Retail investment single premiums
(2007: £1,399m)

Products

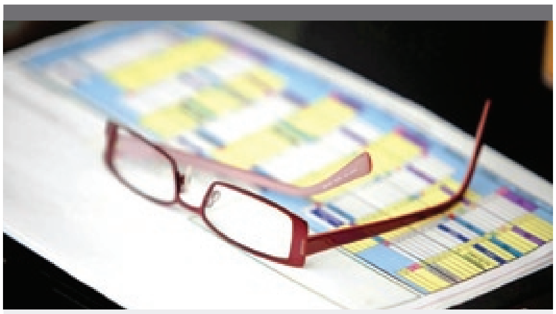
Unit Trusts

Individual Savings Accounts (ISAs)

Investment Bonds

Pensions

With-profits



Investment management

Investing on behalf of institutional and retail customers. **See page 32**

£33.1bn

New institutional funds
(2007: £54.4bn)

£264bn

Total Funds Under Management (FUM)
(2007: £297bn)

Products

Index Funds

Active Funds

Property

Risk Management Solutions

£119m

International APE
(2007: £116m APE)

£59m

IFRS operating profit – international operations
(2007: £86m)

Operating Countries

Established
– The Netherlands
– United States
– France
– Egypt

New Partnerships
– India
– United Arab Emirates

For further information visit:
www.legalandgeneralgroup.com

Chairman's Statement

"It is your Board's view that the long term success of your Company is best served by focussing on sustaining the strength of its capital base and improving cash flows through these turbulent times."

The credit crisis and its consequences in terms of confidence in financial markets and economic activity has taken us all into waters uncharted in our lifetimes. It has had a heavy impact on our share price and on your returns. Shareholders' exposure to actual impairments and defaults has been contained but, as asset values have fallen, the Company's capital base, whilst remaining strong, has declined. After thorough analysis and much consideration, your Board is pursuing a more cautious strategy which reflects the heightened risk and uncertainty being experienced in global financial markets.

Our operating businesses remain sound and are generating healthy cashflows. It is your Board's view that the integrity and long term success of your Company is best served by focussing on sustaining the strength of its capital base and improving cash flows through these turbulent times. We will therefore continue to reduce risk, whilst accelerating our programme to reduce capital strain and improving cash generation across the business.

Shareholder Return, Share Buyback and Dividend

Total Shareholder Return (TSR) for 2008 was negative 38% (2007: negative 14%). This reflects a fall of 31% in the FTSE All-Share Index and a decline of 40% for the life insurance sector during the year.

We have pursued a progressive dividend policy for many years, and we believe this has served our long term shareholders well. In arriving at its dividend recommendation, the Board must take account of market conditions, future growth expectations and the need to retain a strong capital base. This year, in line with changed market circumstances we are recommending a reduced final dividend of 2.05p per share. With the interim dividend of 2.01p, this will bring total dividends for 2008 to 4.06p, a reduction of 32%.

During the year we suspended the £1bn share buyback having completed £843m of share purchases under the programme. The consequent reduction in the number of shares outstanding has significantly cut the ongoing cost of dividend.

To see interviews with
Sir Rob Margetts please visit
www.legalandgeneralgroup.com

4.06p
Full year dividend
(2007: 5.97p)

£(189)m
IFRS operating loss
(2007: profit of £658m)

£870m
EEV operating profit
(2007: £848m)

Financial Highlights
Worldwide new business sales for 2008 were £1,486m on an Annual Premium Equivalent (APE) basis (2007: £1,437m). International Financial Reporting Standards (IFRS) operating loss was £(189)m (2007: profit of £658m) and IFRS loss from ordinary activities after income tax was £(1,130)m (2007: profit £718m). The Company remains strongly capitalised with a regulatory capital surplus of £1.8bn on the Insurance Groups Directive (IGD) basis, and a AA Financial Strength Rating.

Shareholder Communications and AGM
After two transitional years, I am pleased to report that the majority of our shareholders are now receiving Annual and Interim Reports online. Of those of you who chose to continue to receive printed copies, most now favour the shorter Summary Financial Statements. These changes have been positive in environmental and cost terms, and the shift online has enabled us to make more information available to shareholders, in increasingly user-friendly formats.

This year's Annual General Meeting (AGM) will be held on Wednesday 27 May at the Institution of Engineering and Technology, Savoy Place, London WC2R 0BL.

Board Changes
There were no Board changes during 2008. In January 2009, Kate Avery stood down from the Board. I would like to thank her for her contribution to Legal & General since 1996, and to the Board since 2001. Mark Gregory joined the Board as Executive Director (Savings) in January 2009, and I look forward to working with him in his new capacity.

Our Staff
I remain convinced that Legal & General's people and culture are significant assets which differentiate the Company from its competitors. While the increasingly difficult recent market conditions have placed correspondingly greater burdens on our management and staff, they have risen to the challenges of a much more uncertain business environment and the increasing need to align our resource base and infrastructure more closely with changing business volumes. At the same time, we welcomed new employees to Legal & General following our acquisitions of Suffolk Life, Nationwide Life and Nationwide Unit Trust Managers. Throughout the year we worked to improve employees' understanding and knowledge of the business and to raise levels of skill and engagement through improved training and communication. Our partnership with Unite, the trade union, remains strong and collaborative and as ever we appreciate their support.

Outlook
In 2007's Annual Report, I indicated that we expected to see more difficult market conditions. The dislocation in credit markets in 2008 will, we anticipate, be followed by continuing recession in the UK in 2009 and perhaps beyond. Business conditions are becoming more difficult as a result of falling house prices, rising unemployment and declining corporate profitability.

Legal & General, however, has a robust and diversified business model and a long history of operational success. While it is undoubtedly appropriate for us to adopt a more cautious stance during this period of financial turbulence and uncertainty, we believe the Company is well positioned to trade through the economic downturn and emerge in a strong financial and competitive position.

Rob Margetts

Sir Rob Margetts
Chairman

Group Chief Executive's Review

"Since we first issued a cautionary note with our 2007 Interim Results, it has become increasingly clear to Legal & General that the UK economy was heading for slowdown and subsequent recession. Our regular outlook statements have suggested increased volatility, a slowing housing market, declining confidence and a general deterioration in the economic and market environment."

Between the collapse of Northern Rock in October 2007 and the delayed but nevertheless dramatic government intervention in the banking sector a year later, our priority was to ensure that Legal & General was appropriately equipped with the right strategy and the operational skills to trade robustly through even a severe downturn.

Today, I believe we have gone further. In markets like these, fundamentally strong and healthy companies can gain competitive advantages and lay the foundations for future value growth.

The Right Strategy

Our five strategic imperatives are the keys to realising our goal of becoming the UK's leading Risk, Savings and Investment management business. We aspire to more than leadership in each of the three sectors: we aim to share resources and skills across the Group, encouraging efficient cross-fertilisation which realises the value of the many synergies between our businesses. Core to our value proposition is the idea that Legal & General collectively is worth more than the sum of its parts.

Strategy in Action

Strategy does not exist in a vacuum and during the year we made good progress embedding our strategic thinking into our day-to-day business activity. The evidence for this is woven throughout this 2008 Annual Report.

We have acted to build an increasingly diversified business, for example, reducing historic reliance on housing transactions as the catalysts for protection product sales, finding new ways to access customers and adding complementary products to our existing range in Savings and Investment management.

To see interviews with Tim Breedon please visit **www.legalandgeneralgroup.com**

Our Broader Role

We are acutely aware of the trust placed in us by customers and shareholders and of the important part we play, as an investor and employer, in the broader UK economy. We speak up and take part in public and private debate when it is in our stakeholders' interests for us to do so.

As a long term business we seek to:

- understand the risks we take
- avoid the distorting effects of short term incentives; and
- conduct business in a sustainable fashion.

No business can be immune from market changes, nor can any business make itself recession proof. But we can, and do, position our business to align ourselves as closely as possible with the long term interests of shareholders, customers and employees alike. Our CSR Report contains further detail and can be found at www.legalandgeneralgroup.com/csr.

We have extended our range of high quality products and broad distribution, introducing market innovations – such as postcode annuities, dramatically extending our range in the Self Invested Personal Pensions (SIPP) market through the acquisition of Suffolk Life, and ensuring our new partnership with Nationwide Building Society has successfully added to sales.

We have worked closely with industry bodies and our regulator to improve customer experience and have led the industry in proposing new, fairer approaches to non-disclosure in the life assurance and critical illness areas.

Financial strength was a major focus in 2008. As financial market conditions became increasingly unsettled during the year, we took a number of steps to de-risk our balance sheet. Although credit default losses remained broadly in line with our assumptions in 2008, we have more than doubled the reserves we hold against future credit defaults in our bond portfolio. Our capital, cashflow and liquidity positions remain robust.

We have continued to pursue our aim of building an increasingly high performance organisation. We continued to invest in systems improvements and while tougher markets make greater demands on our employees, we have sought to create, through better training, better communications and increased accountability, the right environment in which they can continually improve performance.

Financial Results

Our headline financial results for 2008 are, frankly, disappointing. There is, however, good evidence of the underlying ability of our Risk and Investment management businesses to generate strong, positive cashflows which will support future dividends and growth. We intend to take the necessary steps to enable the Savings businesses to become similarly cash-generative going forward. Our balance sheet, as measured by total IGD capital resources of £4.4bn, including a regulatory IGD surplus of £1.8bn, remains strong.

Outlook

The outlook for the economy and for markets remains difficult. In common with others, we expect to see negative growth in the UK for the remainder of 2009, with continued uncertainty across most investment markets and asset classes. However, we believe Legal & General is well-diversified, able to take advantage of opportunities as they arise even in these more difficult conditions and has robust capital and cash positions. As such we are well-positioned to trade through the recession, building on our strong positions in Risk and Investment management, and subsequently to take advantage of a return to a more cautious, savings-oriented approach by customers as the economy recovers.

Tim Breedon
Group Chief Executive

Market Overview

After a decade of rapid growth in financial markets, 2008 proved a year of reckoning. Problems in wholesale banking markets led to dramatic credit tightening, liquidity shortage and severe asset price volatility. Concerns over bank capital and solvency in turn undermined confidence in the global and UK financial systems.

Industry and Markets

In the wake of this crisis of credit and confidence, we are in economic recession in the UK, with lower business profitability, falling house prices, rising unemployment and deteriorating public finances.

Legal & General and the broader insurance sector suffered substantial share price falls during 2008 as confidence in financial services, and particularly in banks, declined, and there is now a renewed focus on the solvency and capital strength for all financial institutions. In this context it is worth emphasising the significant differences between banks and UK life insurance companies:

- Insurers are providers, not consumers, of liquidity
- Generally, insurers are not highly leveraged, and are not generally proprietary traders
- Insurance regulations require a strong capital base with sufficient reserves to meet redemptions. Policies are generally of relatively long duration, with penalties for early redemption.

This combination of a conservative business model and strong prudential supervision reflects Legal & General's own preferred approach to the stewardship of our customers' assets.

Regulatory and Political Environment

Legal & General engaged with the Financial Services Authority (FSA) and government policy-makers on a variety of issues during 2008.

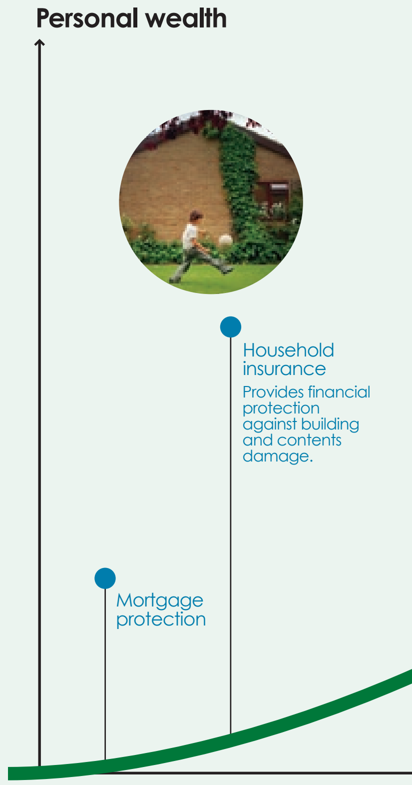
We supported government intervention in the banking sector and the provision of increased liquidity, but as a major bank shareholder we have raised concerns about compensation in cases of nationalisation, pre-emption rights and dividend policy. While we also support the Financial Services Compensation Scheme (FSCS), we have made clear our reservations about allocating insurers' capital to compensate depositors in failed banks through the proposed 'general retail pool'.

Despite industry submissions, the 2008 Budget did not mitigate the negative effects on investment bonds of the government's changes to the Capital Gains Tax regime. Accordingly, we made further representations, including a Legal & General Pre Budget Report submission, stressing the need for greater stability in the taxation of long term savings.

We continued to work closely with the Department of Work and Pensions (DWP) during the passage of the Pensions Bill, and were encouraged by successful moves to ensure equal

Financial Life Cycle of Our Clients

Our product range is designed to reflect the risk, savings and investment needs of our customers at various key stages of their lives. We make a wide range of products available to protect families against the financial effects of bereavement, illness and other unfortunate events and to protect the fabric and contents of the home. We provide a range of products which enable people to save for the medium and long term, either individually or through employer schemes, and to build funds which provide a secure income in retirement. These include both With-profit and non profit products.



treatment for Personal Accounts and existing workplace pension schemes under European law.

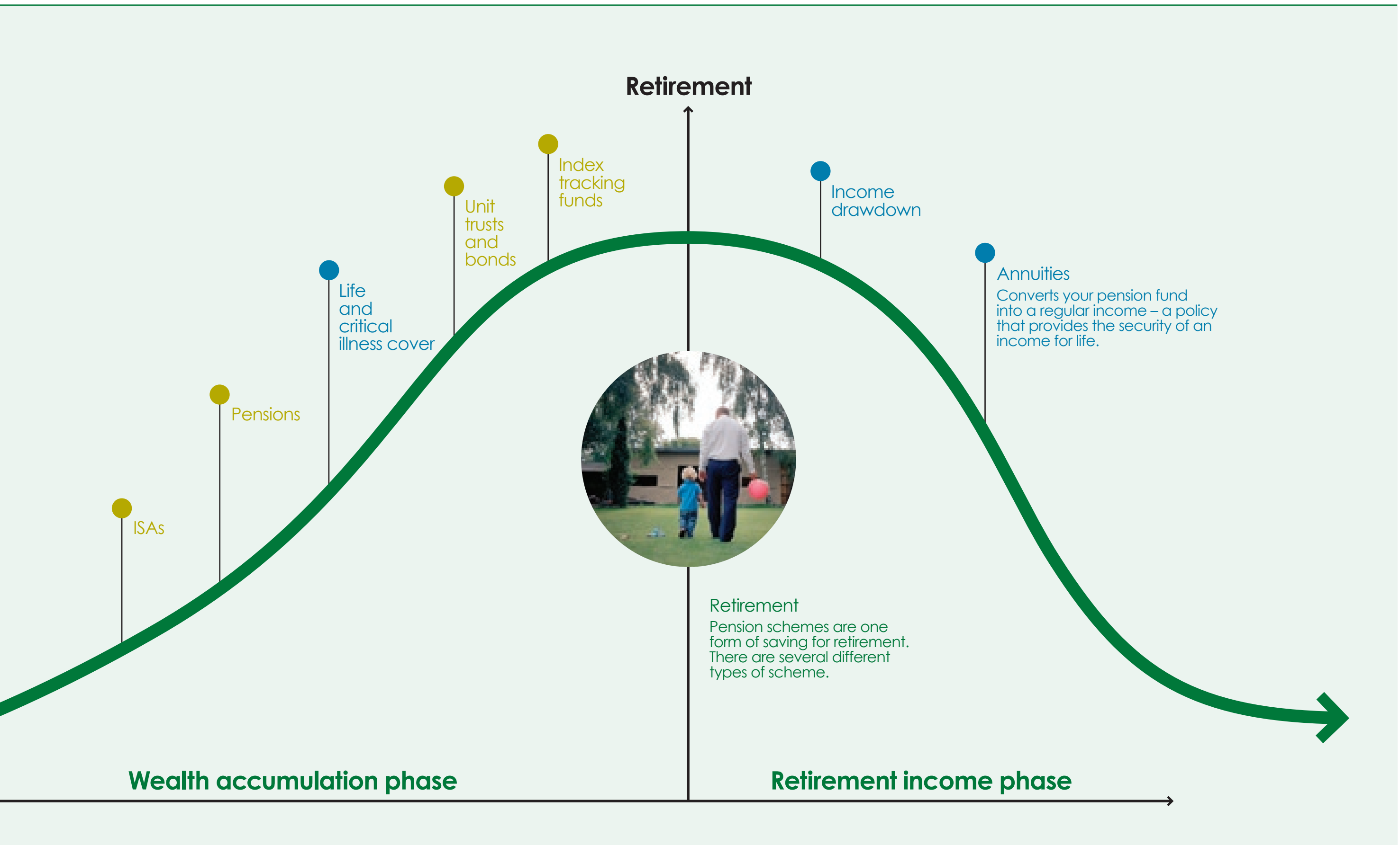
During the year, we responded to the FSA's Retail Distribution Review (RDR). This will in time have an impact on how our products are sold to consumers. Our RDR response was one of 37 formal responses issued by Legal & General to Consultation Papers during the year.

At a European level, we remain concerned about aspects of the proposed Solvency II Directive and in particular the risk that a prescriptive capital regime for insurers will reduce income for future annuitants. We have shared these concerns directly with government and the FSA, as well as making our case through industry bodies including the Association of British Insurers (ABI) and the European Insurance CFO Forum.

We believe that much work is still required to create a regulatory framework for retail financial services which appropriately balances the rights and obligations of producers and consumers, reduces consumers' costs and encourages long term saving and investment. Legal & General has well developed policy positions on this and related topics, which we share regularly with politicians of all parties, government officials, think tanks and other participants in the policy process.

Outlook

The current financial crisis has created a need for closer and more effective co-operation between the financial services industry, government and the FSA. We believe this will be required in order to resolve detailed issues including those arising from public sector stakes in banks. Closer engagement will also be required to tackle the broader challenges effectively: these include ensuring that any new regulatory initiatives are proportionate and effective and that the UK financial services industry has appropriate input to policies which affect the sector. Legal & General will continue to engage with regulatory and government policy-making processes, both directly and through appropriate trade bodies.



Strategy of the Group

Five strategic imperatives to deliver sustainable benefits for our customers, shareholders and employees.

1 Superior financial management

Capital is a key ingredient for our business and effective capital management is an important objective. We have built a reputation as a low-cost manufacturer. As well as immediate margin enhancement, cost leadership provides the agility to react to changing circumstances quickly.

2 Diversified business

We manage our portfolio of businesses to deliver Group targets against our key metrics. We scan the market to identify new opportunities and investments to build profitable returns.

3 High quality products and broad distribution

Central to our business model is the maintenance of diversified distribution capability. The benefits of this strategy are that we are able to build scale in diversified markets and maintain growth as distribution patterns shift. Together with this, we will produce products which offer demonstrable value to customers, distributors and Legal & General, maintaining quality and ensuring a stable stream of new business.

4 Positive customer experience

We recognise our customers are at the heart of our business and consequently work hard to develop relationships with our key customer segments and distributors on mutually acceptable terms. We aim to deliver a positive financial experience for our existing customer base; treating our customers fairly and meeting, or beating, the performance assumptions made in terms of persistency, cost, claims and mortality.

5 High expectation culture

Our people are key to our continued long term success. We aim to maintain a strong management team and continually to grow the breadth and depth of our management capability. Our organisational culture already yields benefits in terms of engagement, behaviour, low turnover and cost, but we recognise the need to evolve in the current marketplace, injecting greater energy into the business to improve on our successes.

Our Key Performance Indicators

Five measures of financial performance of the Group as a whole, helping us to evaluate progress towards our strategic imperatives.

(23.6)%

08	(23.6)
07	13.3

Return on Equity (RoE)

(28)%

08	(28)
07	34

Total Shareholder Return (TSR)

£(189)m

08	(189)
07	658

IFRS Operating Profit

£870m

08	870
07	848

EEV Operating Profit

£1.8bn

08	1.8
07	4.1

Insurance Groups Directive (IGD) Surplus*

We use other indicators to record progress elsewhere, including those pertaining to customers, employees and Corporate and Social Responsibility.

The assessment of our non-financial performance against these strategic imperatives is provided in the relevant business review.

Return on Equity

Definition: RoE measures the return earned by shareholders on shareholder capital retained within the business. RoE is calculated as shareholders IFRS profit after tax divided by average IFRS shareholders' funds.

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

IFRS Operating Profit

Definition: The Group's primary financial statements (see Financial Statements) are prepared on an 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 Risk and Savings, 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.

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. IGD surplus is after payment of proposed dividend.

* Figures extracted from draft unaudited regulatory returns.

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.

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.

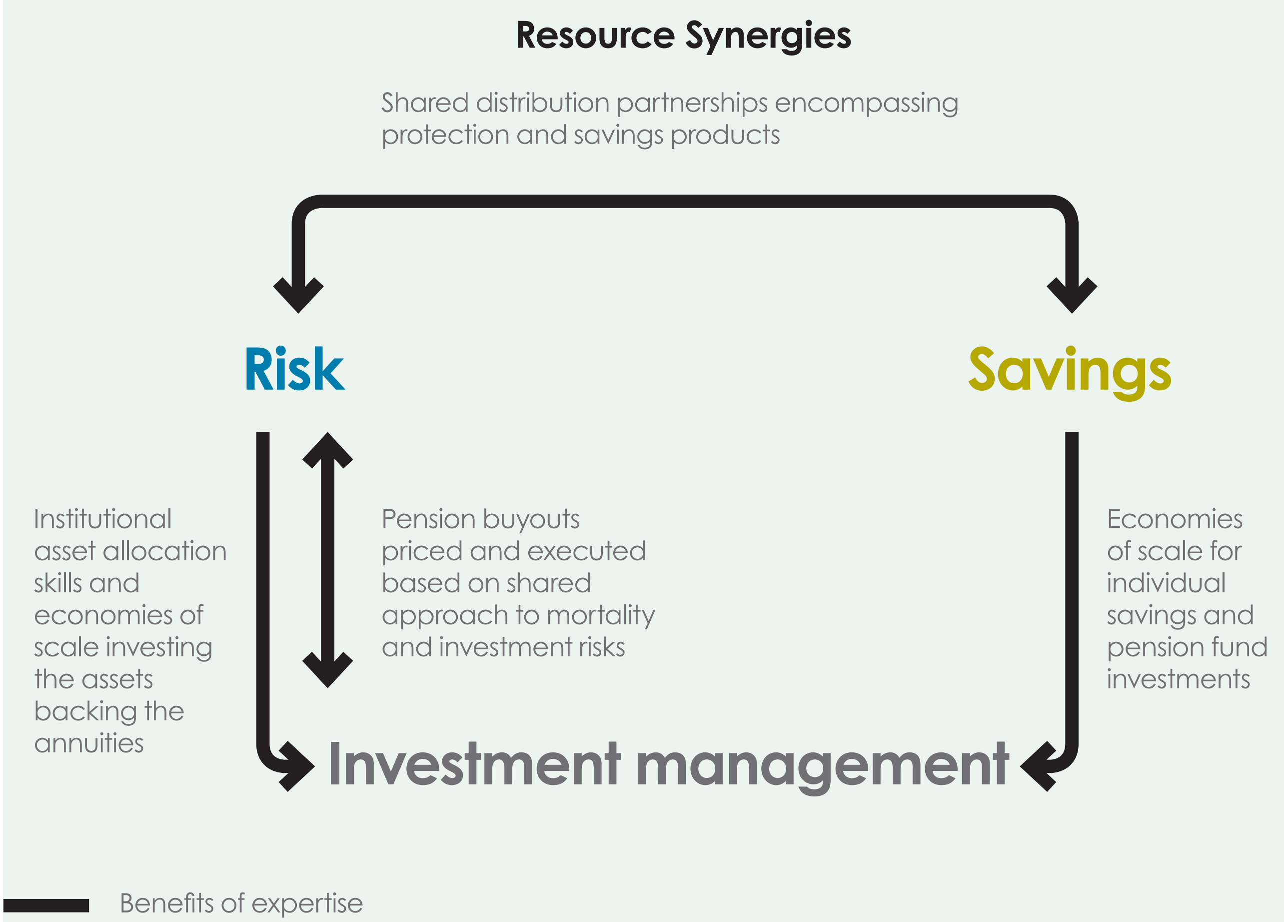
Purpose: In the Board's opinion, EEV operating profit provides shareholders with a good understanding of the value which is being created on the Group's long term insurance contracts.

Synergies Between Our Businesses

"Each of our businesses is expected to operate successfully in its own right. But by operating together and benefiting from one another's skills and resources, each can generate additional value beyond what is possible with just its own resources."

Tim Breedon Group Chief Executive

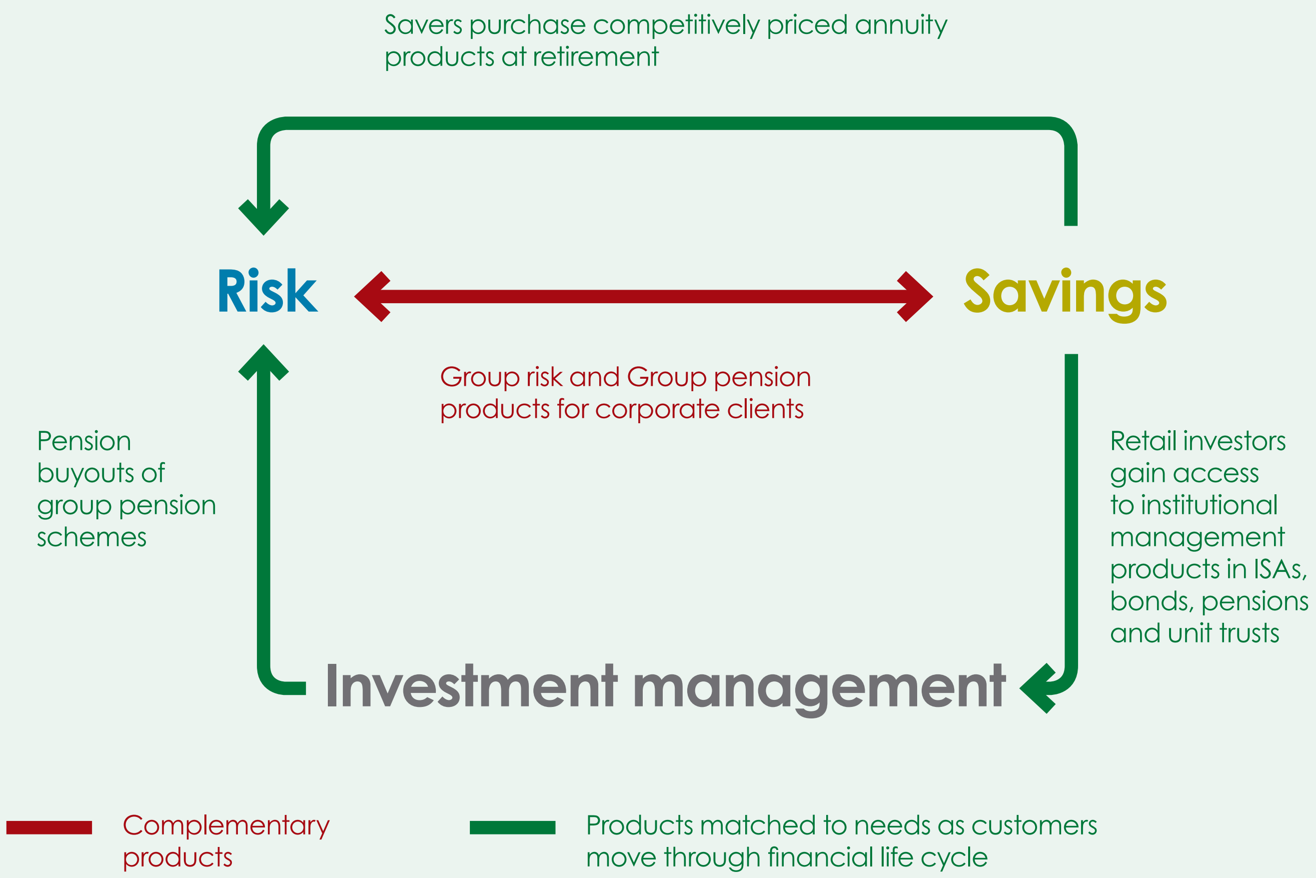
Examples of synergies are illustrated below.



We believe that we can add value for our customers, both individual and corporate, by sharing skills and capabilities across the three business divisions. For example the institutional asset management expertise of Legal & General Investment Management (LGIM) is made available to retail customers of our Savings division – enabling them to access a full range of asset allocation and fund management capabilities. And we combine the longevity expertise of our Risk business with those same Investment management skills to price and execute pension buyout transactions.

Our approach to maximising synergies also means having strong central resources which support each of the three business divisions. These include a strong balance sheet and the Legal & General brand.

Customer Synergies



Principal Risks and Uncertainties

A significant part of the Group's business involves the acceptance and management of risk.

Principal risks and uncertainties may be categorised as follows:

- Legislation and Regulation
- Financial Market and Economic Conditions
- Counterparty and Third Party Risks
- Confidence in the Financial Services Sector
- Reputation and Contagion Risks
- Mortality and Catastrophe Risks
- Other Insurance Assumption Uncertainties
- Future Development of Savings Market
- Resources.

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 50 to the Financial Statements. An overview of the Group's risk management structure is given as part of the review of Corporate Governance Statement on pages 50 to 57.

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, retention of existing business and the required reserves for future liabilities. Additionally, there is a continuing growing international dimension, with the pace and volume of regulatory and legislative change increasing.

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. Where appropriate the Group engages with regulatory and legislative authorities to assist in the evaluation of change on the sector and its stakeholders. Sudden, unanticipated changes in fiscal policy or legal and regulatory regimes without consultation or advanced notification to the sector, 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 existing business. Fundamental changes in regulation, such as the proposed requirements of the EU's Solvency II Directive or those that may arise from market events, may also impact the strategies of the Group.

Financial Market and Economic Conditions

The earnings and profitability of Legal & General's businesses are influenced by a broad range of factors including the performance and liquidity of investment markets, interest rate movements and inflation. The Group uses a range of risk management strategies including inflation, interest and credit default swaps to manage volatility from these factors. However, extreme market events, over which the Group has no direct influence, can impact the execution of these strategies exposing the Group to unanticipated loss. Examples of events include those causing widespread default amongst issuers of corporate debt or default amongst counterparties to swap agreements. As well as impacting the value of assets backing the obligations and capital of the Group, significant falls in equity markets, property values and other classes of investment asset can also impact earnings from Investment management; the flows of funds to and from the Group's Investment management businesses; and the cost of guarantees in certain long term products. The value of investments denominated in currencies other than sterling and holdings in overseas subsidiaries can also be impacted by fluctuations in exchange rates. General economic conditions also influence customer behaviour in terms of timing and frequency of purchase of financial services products and the lapse rates for products.

Counterparty and Third Party Risks

In addition to default risk associated with issuers of corporate debt and financial instruments, the Group is exposed to counterparty credit risk in respect of money market and reassurance transactions. The Group applies defined criteria in selecting counterparties with which it deals, sets exposure limits relative to the risks associated with each type of transaction and monitors both exposures and limits relative to the broader economic environment. However, potential remains in extreme conditions for a material impact on the Group's profitability should a significant banking or reassurance counterparty fail. A significant level of financial failure among the Group's product distributors may also impact the earnings of the Group. Risk also arises from reliance on external suppliers of certain administration and IT development services. The Group seeks to mitigate the potential for, and impact of, supplier failure through performing due diligence at the outset of new relationships, monitoring the ongoing performance of key contracts and where necessary maintaining contingency arrangements in the event that bespoke services cease to be available. Dependencies also exist on the provision of banking infrastructure, the availability of security dealing and custody services. Unforeseen events leading to the loss of any of these services may impact operational effectiveness.

Confidence in the 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. However, earnings and profitability are also influenced by the perception and confidence of the retail and wholesale investor in relation to the financial services sector as a whole, a number of these drivers 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 risks.

Reputation and Contagion Risks

As well as the factors outlined above, the Group's reputation can be affected by events impacting parties with which the Group has a relationship, internal process failures and the consequences of external events. The Group seeks to maintain a control environment to ensure that for those factors it can control, the potential for financial loss and reputational damage is minimised to a commercial level. However, extreme events that cannot be readily controlled may affect the reputational consequences of the earning streams of the Group. As well as impacting reputation, the failure of other financial services organisations can have a direct impact on the Group through its participation in the Financial Services Compensation Scheme. In the event of a significant level of market failure, the Group may be obliged to provide additional funding over a sustained period of time, reducing capital available to the Group. Similarly, pools such as the Pension Protection Fund can result in calls for funds on the Group through its defined benefit pension schemes.

Mortality and Catastrophe Risks

Legal & General 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 this business, taking account of all known risk factors. Significant unforeseen and rapid medical advances may result in the requirement to increase reserves for these lines of business. With regard to the Group's Protection business, while 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 also impact the capital available to the Group. Similarly, a series of extreme weather events may impact earnings to the Group from its General Insurance business.

Other Insurance Assumption Uncertainties

In addition to pricing for mortality and catastrophe risks, as part of the processes to determine its long term liabilities, the Group makes assumptions in respect of other factors including persistency, interest rate and credit defaults within its investment portfolio. Assumptions are subject to critical challenge, with potential variances from assumptions being stress tested as part of the Group's processes to assess adequacy of prudential capital. However, extreme shifts in financial markets and in the broader economic environment may require certain assumptions to be recalibrated, impacting the profitability of the Group.

Future Development of the Savings Market

A number of Legal & General's businesses are focused on the long term savings and retirement 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. A protracted period of low growth in asset values or low interest rate returns, may lead to a re-assessment by consumers of the way they plan for retirement and their requirements for long term saving products.

Resources

The Group actively focuses on recruiting and retaining high quality individuals. It 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.

Our performance

Group Results

"The Group brings together the activities of our three main operating businesses. It is the custodian of our shared central assets: our capital, risk management and brand."

Tim Breedon Group Chief Executive

Group Performance

IFRS[1] Basis

	2008	2007
Operating (loss)/profit before tax[2]	**£(189)m**	£658m
Ordinary shareholders' equity	**£3,588m**	£5,446m
Dividend cover[3]	**(0.5)**	1.3
Worldwide new business APE[4]	**£1,486m**	£1,437m
New institutional funds	**£33.1bn**	£54.4bn
Worldwide FUM[5]	**£280bn**	£312bn

EEV[6] Basis

	2008	2007
Operating profit before tax	**£870m**	£848m
Contribution from new business[7]	**£297m**	£359m
Ordinary shareholders' equity	**£6,521m**	£8,128m
Dividend cover[3]	**2.7**	1.6

[1] International Financial Reporting Standards.
[2] Supplementary operating profit before tax from continuing operations, includes additional £650m credit default reserves.
[3] Dividend cover is calculated as operating profit after tax divided by the current year interim dividend plus the proposed final dividend.
[4] 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.
[5] Funds Under Management.
[6] European Embedded Value.
[7] Excludes pensions managed funds.

Capital Management

Key Capital Measures (£bn)

	2008	2007
IGD* surplus capital	**1.8**	4.1
Society surplus capital	**1.6**	4.4
Economic capital	**Strong AA**	Very strong AA
Return on EV**	**7.8%**	7.6%

IGD* Surplus Capital (£bn)

As at 31 December 2008	IGD*
Available capital resources	**4.4**
Capital resources requirement	**2.6**
Surplus capital*	**1.8**

* EU Insurance Groups Directive (IGD) surplus based on draft unaudited regulatory returns, after payment of final dividend.
** 2007 re-stated.

AA

Standard & Poor's Financial Strength Rating for Legal & General Assurance Society Limited

4.06p

Full year dividend
(2007: 5.97p)

Governance at a Glance

Core Principles
Are as set out by the Combined Code on Corporate Governance 2006. 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.

Board Structure
The Board met nine (2007: nine) times during 2008 and consists of:
- Non-executive Chairman
- Six non-executive directors
- Four executive directors.

Committees
The Board has five standing committees:
- Audit – four meetings (2007: four)
- Corporate Social Responsibility – four meetings (2007: four)
- Group Risk and Compliance – four meetings (2007: six)
- Nominations – two meetings (2007: two)
- Remuneration – five meetings (2007: three).

Changes
There were no changes in Board or Committee structure, or responsibilities undertaken by the Board. Board member changes are set out from page 50.

For more information see pages 50 to 57.

Risk Management at a Glance

Risk Governance Structure
The Group's risk governance is based on 'three lines of defence':
- embedded management of risk within each of our operating businesses
- risk oversight by Group functions and formal Group level risk assessment committees
- independent assurance by Internal Audit, overseen by the Audit Committee.

Risk Appetite
Taking measured risk is at the heart of our business. The Group defines its appetite for risk with reference to maintaining target capital requirements and returns on capital employed.

Risk Measures
Economic and regulatory capital are important measures to the Group in assessing aggregate risk exposures and evaluating business decisions. This assessment is supported by extensive capital planning, which includes scenario evaluation and stress testing.

Market Conditions
The events over the last year have highlighted the importance of selecting and managing the risks to which the Group is exposed. Our risk framework supports informed decision making in the management of our business.

For more information see pages 50 to 57.

Our performance

Group Results

Legal & General Group Plc comprises Risk, Savings and Investment management businesses. The Group's principal operating subsidiaries are set out in the Financial Statements. The business is managed as five main segments: Risk, Savings, Investment management, International, and Group capital and financing.

Enhanced Performance Measurement

During 2008, Legal & General put in place new, enhanced Group business and performance metrics, to improve transparency and external reporting, assist shareholders' understanding of performance, and to improve the management information we use to run the business.

The suite of metrics we have developed has identified what we believe to be the most appropriate performance drivers and metrics for scale, growth, pricing, profitability and financing requirements. These have been established for each of the Group's principal businesses. These metrics are reflected in the subsequent sections of this report which provide commentary on the performance of our business divisions. They represent additional disclosure for shareholders.

Legal & General uses two reporting bases: International Financial Reporting Standards (IFRS) basis is used in the primary Financial Statements, and the European Embedded Value (EEV) basis is used in the Supplementary accounts.

Overview of Results

IFRS Operating loss before tax for 2008 was (£189m), compared with an IFRS Operating profit before tax of £658m for 2007. IFRS loss after tax was £(1,130)m (2007: profit of £718m). On the EEV basis, Operating profit was £870m (2007: £848m), and loss after tax was £(973)m (2007: profit of £1,153m). These results have been reduced in 2008 to reflect the increase in provisions for short term credit default assumptions within the non profit annuity business discussed under 'Significant Events' below.

Sales were strong in 2008, with total worldwide APE of £1,486m (2007: £1,437m), and PVNBP (Present Value of New Business Premiums) of £9,429m (2007: £9,807m).

Operational cash generation was positive, with the UK businesses generating £654m (2007: £580m) before reinvesting in new business and financing the dividend.

The capital position of Legal & General Group Plc and its subsidiaries remains appropriate for its size and risk profile, with total Insurance Group's Directive (IGD) capital resources of £4.4bn (2007: £8.3bn) and IGD surplus capital of £1.8bn (2007: £4.1bn) with a coverage ratio of 169%. All IGD figures are quoted after deduction of the recommended final dividend, the cost of which is £120m.

Shareholders' equity per share was 61.2p (2007: 86.5p) on the IFRS basis, and 111.2p (2007: 129.1p) on the EEV basis. The consolidated balance sheet and the consolidated income statement show the position of the Group as at, and for the year ended, 31 December 2008. An analysis of worldwide gross written premiums is shown in the Financial Statements.

Experience and Assumption Changes

Total Group-wide experience and operating assumption changes were negative £975m (2007: negative £22m) on an IFRS basis and negative £137m (2007: negative £162m) on the EEV basis.

The most significant assumption change relates to additional credit default reserving (discussed below). Following regular review of the weighted average cost of capital ('WACC') which underpins the risk discount rate used in our valuation, we have increased the risk margin in the risk discount rate by 1.5%, giving a total margin of 4.5% to reflect additional investment market risks. This reduces EEV shareholders' funds by £725m, or 12.4p per share, and reduces reported new business margins.

Significant Events

The following significant events are reflected in the 2008 results:

Credit Default Reserving

We have increased our reserves for credit default in our non profit annuity portfolio, by £650m (before tax). This brings total credit default reserves to £1.2bn. This additional level of reserving is equivalent to 130 basis points of reserving for each of the next four years, followed by a return to a more normal 30 basis point default assumption.

Fig 1. Summary of Financial Impacts Arising from Credit Default Reserving

	As reported	Credit default reserving impact
IFRS		
Operating (loss)	£(189)m	£(650)m
(Loss) after tax	£(1,130)m	£(468)m
EEV		
Operating (loss)	£870m	–
(Loss) after tax	£(973)m	£(232)m
Capital[1]		
IGD surplus capital	£1.8bn	£(0.5)bn
Society surplus capital	£1.6bn	£(0.5)bn

[1] Management estimates based on unaudited draft regulatory returns.

Investment Variances

Investment variances in 2008 were £(1,239)m. During the year, as part of our ongoing de-risking of the balance sheet, we reduced shareholder exposure to UK equities and re-deployed funds largely in cash investments. Market movements across a range of asset classes, including equity, fixed income and property were very pronounced in 2008. There have been further sales of shareholder equities in early 2009 taking sales to over £1.1bn since the beginning of 2008.

Financial Strength and Capital Metrics

In 2008, Legal & General experienced a year of severe shock events with adverse impacts across all asset classes: equity, credit and property. As a result of these impacts, Legal & General's key capital metrics were lower at the end of 2008. The following sections explain our capital position and summarise the de-risking activities we have taken since the year end.

Insurance company capital management in the UK is subject to extensive prudential regulation by the FSA. The IGD capital calculation and Legal & General Assurance Society Limited's (Society) regulatory surplus capital (Pillar 1 capital) are the principal, publicly available financial strength measures used by our regulator, the FSA.

IGD Capital Strength

At the end of 2008, Legal & General's IGD surplus capital was £1.8bn after paying the final dividend (2007: £4.1bn). The decrease over the year of £2.3bn reflects the adverse investment market conditions noted earlier, approximately £0.9bn of the reduction is attributable to investment market losses on our shareholder assets. The impact of the Group's share buyback in 2008 reduced the surplus by £0.5bn, the acquisition of the Nationwide companies and Suffolk Life reduced the surplus by £0.3bn and a further £0.2bn represents coverage of Society's solvency requirement from assets outside of the long term fund. Despite the fall in surplus capital, the stock of capital remains robust and sufficient to meet the Group's requirements.

Fig 2. Regulatory Surplus Capital

As at 31 December 2008	IGD[1] £bn	Society[1,2] £bn
Available capital resources	4.4	4.0
Capital resources requirement	2.6	2.4
Surplus capital	1.8	1.6

[1] Figures extracted from the unaudited draft regulatory returns.
[2] Long term business only.

Society Surplus Capital

On a Pillar 1 basis, Society's regulatory surplus capital was £1.6bn (2007: £4.4bn) representing capital resources of £4.0bn (2007: £8.4bn) less the capital resources requirement of £2.4bn (2007: £4.0bn). The reduction in capital resources was primarily caused by adverse investment markets throughout 2008. The largest impact was incurred in the With-profits part of the long term fund, where most asset classes were affected, although the capital resources outside of the long term fund, primarily invested in equities, were also significantly impacted. In addition to investment markets, the short term allowance for defaults on our corporate bond portfolio as described under significant events above, has reduced the surplus.

Group Results

Financial Reporting

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

The primary Financial Statements are prepared on an IFRS basis, as is required for all EU listed companies. We believe the IFRS basis provides insight into the Company's ability to generate distributable income to support dividends. IFRS reporting is also the more appropriate basis for reporting for several of our businesses which are primarily cash-based or where contracts are of relatively short duration.

We also provide supplementary financial statements prepared on the EEV basis, which we believe provides shareholders with a good understanding of the value generated by certain longer term, insurance-based businesses, particularly Individual protection.

Operating profit, which is a key metric used both in IFRS and EEV reporting, reports changes in profit and embedded value in a financial year but excludes fluctuations from assumed longer term investment returns.

During the year, Legal & General remained closely involved with the work of the International Accounting Standards Board (IASB) as it develops a new valuation model for insurance contracts. This is currently expected to be published in exposure draft form in 2009. We are also active members of the CFO Forum, a pan-European insurance industry grouping which is working to develop embedded value methodology and which published its principles for Market Consistent Embedded Value (MCEV) methodology in 2008. Legal & General is supportive of these principles, while recognising that further technical work is required before MCEV could be meaningfully adopted in succession to the current EEV basis.

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

Surplus Pillar 2 Capital

In addition to the Pillar 1 basis of reporting, the Group and its relevant subsidiaries are required by the FSA to calculate solvency requirements using stochastic techniques under the Individual Capital Assessment (ICA) rules. On review of these calculations, the FSA may apply additional amounts as Individual Capital Guidance (ICG). Together the ICA and ICG represent the Group's Pillar 2 Capital. In addition to these FSA requirements, the Group also calculates its own economic capital requirements using similar modelling tools. Economic capital requirements are also reflected in the models which rating agencies use to measure the risk exposure and capital requirements in assessing the financial strength of life insurance companies. The Group's capital is robust on both the Pillar 1 and Pillar 2 bases.

In preparation for the anticipated introduction in 2012 of the EU's Solvency II Directive, which is constructed around effective capital management, Legal & General has made significant progress in refining its capital metrics, and further developing and advancing its Enterprise Risk Management systems.

Balance Sheet Quality and De-risking

As well as reviewing the amount of surplus capital, the Group also regularly reviews asset quality within its balance sheet. This was of particular importance during 2008.

Legal & General shareholders have exposure to funds invested in a well-diversified mix of assets including equities, fixed-income instruments and commercial property. Investment decisions are taken within a rigorous governance framework (Governance and Risk Management are discussed from page 50 and Note 50 to the Accounts, respectively). During 2008, investment strategy was adjusted to reflect the severe deterioration of market conditions. We manage our With-profits business with the objective of operating within its own capital resources in further stress scenarios. There is a wide range of management actions available to us which gives us confidence that this objective remains achievable.

Asset Quality
Shareholders have exposure to just 10% of the Group's total assets under management, or £28bn. The portfolio of investments remains of high quality.

Equity Investments
Shareholders' exposure to UK and overseas equities was £1.4bn at 31 December 2008, and is largely limited to assets held within the shareholders' funds of Legal & General Assurance.

Bond Investments
The credit quality of our portfolio of bonds is good. Less than 1% of rated bonds are below investment grade. In 2008 we saw a modest increase in defaults on our UK non profit annuity portfolio, to an aggregate level of 0.3% – in line with our long term reserving assumption. This demonstrated significantly better experience than either UK or global corporate indices.

We have increased the diversification of our annuity portfolio in the last two years. Key to this was the separation of our decision making for liability cashflow matching and return generating strategies. This gives us flexibility to access a wider pool of globally diversified securities while ensuring cashflow matching through the use of derivatives. We have no material exposure to currency or overseas interest rate risks.

As a result of our decision to further diversify the portfolio, overall exposure to banks reduced to 22% at the end of 2008. We are now significantly underweight in banks in comparison to both global and local market index weightings.

Asset Backed Securities (ABS)
Within our bond portfolio, ABS investments at the end of 2008 stood at market value of £3.4bn. This figure excludes £1.0bn of CDOs that were previously categorised within ABS. Our portfolio of ABS securities remains defensive, investing in a range of high quality assets including £0.8bn of infrastructure bonds and whole-business securitisations. We have exposure to just £30m of sub-prime Residential Mortgage Backed Securities (RMBS).

Collateralised Debt Obligations (CDO)
We have separately identified our CDO investments, which have previously been classified within ABS. Of the total £1,004m of CDO investments, £844m relate to internally managed CDOs which are super-senior tranches of bespoke structures constructed and managed by Legal & General to provide enhanced yield with significant protection against default. The bespoke CDOs were previously classified under an internal rating basis. We believe it is appropriate to identify these internally managed assets separately, and they are now reported within the not rated category. The underlying credit exposures within our CDOs are investment grade. We estimate that, given normal levels of recoveries, it would take on average more than 40% of the underlying portfolio to default over a ten year period for any loss to accrue.

Credit Ratings
During 2008 and early 2009, Standard & Poor's and Moody's, the credit rating agencies, reviewed credit ratings across the sector due to the continuing deterioration in economic and market conditions.

Legal & General's credit ratings as at 24 March 2009 are:

Rating type	Standard & Poor's	Moody's
Financial Strength Rating*	AA[1]	Aa1[2]
Long Term	A+	A1
Short Term	A-1	P1
Subordinated	A-	A2

* For Legal & General Assurance Society. All other ratings for Legal & General Group Plc/Legal & General Finance PLC (guaranteed by Legal & General Group Plc).
[1] Negative Outlook.
[2] Review for possible downgrade.

Society remains one of the highest rated European life insurance funds with a Financial Strength Rating of AA from Standard & Poor's.

Allocation of Capital
In common with other regulated insurance companies, Legal & General's capital resources are held within key subsidiaries to meet the requirements of regulators in each business area and territory in which we operate.

Our performance

Group Results

Share Buyback

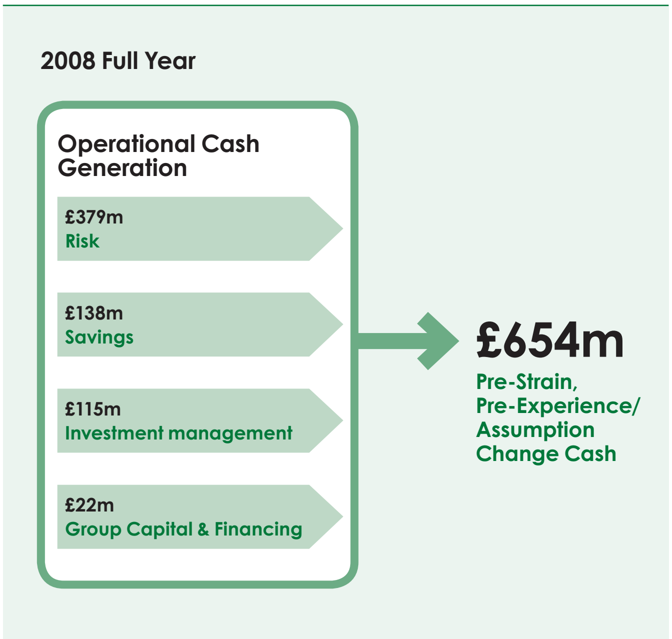
During the year, Legal & General substantially completed its £1bn share buyback announced in July 2007. As at the year end over 691 million shares had been repurchased and cancelled at a total cost including commission and stamp duty of £843m.

Operational Cash Generation

Our mature in-force business is strongly cash generative and in 2008 our UK businesses released £654m of operational cash, with major contributions from:

- Our non profit risk and savings businesses – expected release of £453m
- With-profits – cash profit transfer of £77m
- Investment management – net IFRS earnings of £115m
- Income on other shareholder assets are cash profits from Legal & General Insurance and Legal & General Retail Investments, Suffolk Life and Nationwide Life, together with cash dividends and coupons earned on Group capital and financing; all net of interest expense and unallocated corporate expenses of £9m.

Sources of Cashflow



The cashflow from our non profit and With-profits, Risk and Savings businesses is underpinned by the value of business in-force which was £4.6bn before allowing for cost of capital at 31 December 2008; 60% of this is expected to monetise over the next five years.

These operational cash resources are available each year to meet a number of requirements. Of the £654m of operational cash generated in 2008, £334m was invested in new business. Net operational cash resources were £320m in 2008. In any particular year, this balance is available either to pay a dividend or to replenish the Group's capital resources. In considering the final dividend for 2008, the Board has considered not only the cashflows of the Group, but also its capital position.

Investor Returns

The directors recommend the payment of a final dividend of 2.05p per share. With the interim dividend of 2.01p per share paid on 1 October 2008, this brings the total dividend recommended for 2008 to 4.06p per share (2007: 5.97p), a decrease of 32%. The final dividend will be paid on 1 June to members registered at the close of business on 17 April 2009. The cost of the dividend paid for the year is £239m.

Liquidity, Debt and Debt Facilities

Legal & General has a limited appetite for liquidity risk and maintains at Group level sufficient liquid assets and standby facilities to meet a prudent estimate of the Group's net cash outflows over a period of two years, as identified through annual planning processes.

The liquidity position across our operational business units is very strong. On average during 2008 we maintained a daily average cash balance in excess of £1bn of overnight cash deposits and significant holdings of liquid assets such as Gilts.

Our Group liquidity position is also strong. We have a circa £1bn undrawn committed syndicated credit facility which matures in December 2012. We also have access to liquid funds under our US$2bn Commercial Paper programme. The Group has no outstanding bonds that mature before 2015. There are no restrictive covenants and no credit rating or share price triggers in respect of our debt or liquidity position.

Tax

On the IFRS basis, the reported rate of tax credit attributable to equity holders was 24% (2007: tax charge 19%). The decrease is due to losses arising during the year giving rise to an asset for current and deferred tax purposes. The rate of tax credit is less than the full rate of tax for the year (28.5%) due to investment losses not being fully recognised for deferred tax purposes.

On the EEV basis, the reported rate of tax was a credit of 24% (2007: a tax charge of 26%). Movements in UK EEV were predominantly grossed up at 28% (2007: 28%), the UK corporation tax rate expected to be in force for the majority of the projection period.

Fig 3. Group Cash Flows

	2008 £m	2007 £m
Risk and Savings release	**453**	406
Investment management cash profits	**115**	100
Other net of expenses	**86**	74
Operational cash generation	**654**	580
Reinvesting in new business	**(334)**	(344)
Financing of dividend	**(239)**	(369)
Cost of financing	**(573)**	(713)
Cash surplus/(deficit)	**81**	(133)

"As a long term business, we run a strong balance sheet, with a healthy capital surplus and strengthened reserves to deal with more uncertain market conditions. Management action on de-risking, and our strong operational cashflow, mean we remain confident in our capital base."

Andrew Palmer
Group Director (Finance)

Risk Businesses

"Risk performed well in a tough environment. We continue to diversify and innovate to improve product and service for our customers."

John Pollock Group Executive Director (Risk)

Our Products

Individual Protection
Covers individuals or families against financial losses arising from defined events such as death, disability or critical illness.

Group Risk
Products which are designed for use by employers to offer as a benefit to their employees. They assume the risks and associated costs of an employee falling ill or dying while in employment.

Annuities
Bought by people converting a lump sum (often money saved in a pension scheme) into a lifelong income.

Bulk Purchase Annuities (BPAs) or Pension Buyouts
BPAs are offered to companies wishing to transfer all or part of the responsibility and risk from company pension schemes to an insurance company for a negotiated price.

General Insurance (GI)
Focusing on the household sector, we insure the fabric of properties and their contents.

Mortgage Club
Our network of mortgage advisers provides a link with mortgage lenders, sourcing mortgages for clients and facilitating sales of Protection and GI products.

Our Strengths

- Risk pricing and underwriting expertise.
- Extensive database enables accurate statistical modelling.
- Particular expertise in medical underwriting and mortality/morbidity.
- Technological investment facilitates interactive underwriting and rapid data loading.
- Economies of scale and administrative excellence.
- Leading rapid intervention based Group Risk product enables corporate clients to secure faster returns to work for sick employees.
- Synergies with LGIM facilitate pricing and execution of pension buyout and bulk annuity business.
- Wide ranging distribution through Independent Financial Advisers (IFAs), sole-tie business partners and bank and building society partnerships.
- Mortgage Club drives Protection and GI by providing access to customers at point of sale.

£488m

Risk; new business APE
(2007: £428m)

Our Performance

	2008			2007		
	APE £m	Contribution* £m	Margin %	APE £m	Contribution* £m	Margin %
Protection	**207**	**62**	**6.2**	223	108	9.3
Annuities						
– individual	**87**	**71**	**8.2**	93	64	6.9
– bulk	**194**	**138**	**7.1**	112	123	10.9
Sub total	**281**	**209**	**7.4**	205	187	9.1
Total	**488**	**271**	**7.1**	428	295	9.2

* From new business.

£(603)m

Risk; IFRS operating (loss)/profit
(2007: £104m)

Strategy in Action

Our five strategic imperatives* are applied across all business units. The following illustrates them in action in the Risk division.

Imperative	Activity
Financial Management	**Balance sheet strength gives pension trustees confidence to use us for buyouts.**
Diversified Business	**Diversification to reduce reliance on mortgage event for life sales.**
High Quality Product, Broad Distribution	**Statistical database enables annuity pricing to better reflect actual longevity patterns.**
A Positive Customer Experience	**Rapid intervention secures early returns to work for Group Risk claimants.**
High Expectation Culture	**Stringent underwriting quality reviews drive improved reinsurance terms.**

* As outlined on page 10.

Our performance

Risk Businesses

Our Risk business assumes customers' financial risks arising from defined events such as death, injury or household damage. This includes annuities, which mitigate the risk of the individual exhausting their savings in old age. Pricing and underwriting is based on rigorous statistical analysis of the probability of the defined event happening to the individual in question.

Risk products are distributed through four channels: Independent Financial Advisers, Bank and Building Society Partnerships, direct distribution and Legal & General's Mortgage Club, (LGPSL).

Strategy in Action

During 2008 we made significant progress in diversifying our product offering to rely less on traditional purchasing events, notably mortgage sales, as the catalyst for sales of Risk products.

While mortgage approvals in the UK fell by 39%[1], sales of Individual protection, historically often sold with mortgages, fell by only 13%. This suggests our strategic pursuit of diversification has helped mitigate the effects of housing market weakness. Our sales channels have stepped up the marketing of Individual protection on a stand-alone basis, with greater emphasis on alternative products, including 'key man' cover, and family life products such as Family Life Insurance Plan (FLIP). Legal & General is the UK's leading provider of Individual protection plans and we have built on this strong base by increasingly supplying products, including life assurance and critical illness cover, targeted at High Net Worth customers.

Further diversification was provided by a strong performance in Group risk, which had a very successful year, achieving good new business sales and strengthening its progressive product range by introducing the innovative Premier ONEderwriting service. This allows clients to be underwritten once only and replaces visits to the doctor with company medicals, tele-interviews, or examinations at home or work. Commitment to broader distribution and greater market penetration was evidenced by the adoption of a new 'key account' approach and increasing use of specialist and regional sales forces. Service levels in Group risk improved further in 2008, with the business winning the 'Best Service Provider' award from the industry's 'Cover' magazine.

The annuities business grew very strongly in 2008, underpinned by a variety of factors including our expertise in the new and fast growing pension buyout market. Success in pension buyouts requires a combination of investment capability, which in our case is provided by LGIM, and longevity expertise. Our extensive longevity data is supplemented by an increasing focus on the science of mortality, where we work in conjunction with University College London. Success in this market also requires the administrative capability to service a large customer base. Legal & General's business model has enabled us to deliver innovative products to de-risk companies' defined benefit pension schemes.

For the individual annuity customer, we rolled out 'postcode' annuities in 2008 following our earlier successful trial. This enables us to tailor our pricing more closely to the circumstances of the customer. We intend to extend this concept of increasingly granular and tailored pricing of Individual annuities further.

During 2008 we delivered an increasingly positive customer experience. Initiatives included more flexible treatment of claims where there is an undisclosed condition. We have worked with the Association of British Insurers (ABI) to develop industry guidance on assessing future Life and Critical Illness Cover claims. This has resulted in an improved understanding of customers' reasons for failing to fully disclose their medical history and a movement towards targeted medical reports. As a consequence, more claims are settled on either a full or partial basis. We have also worked closely with industry bodies to address speed of payments.

During 2008 we invested in the further development of our employees. Group risk is pioneering an industry-wide training programme to ensure underwriters are fully aware of relevant medical advances. In Individual protection we conduct increasingly in-depth analysis of underwriting quality which in turn improves our underwriters' knowledge

[1] Bank of England data for the 11 month period to the end of November 2008, compared to the same period of 2007.

and skill. Our focus on employees is balanced by continuing investment in processes to make the product more cost-effective and improve processing and response times.

We continued to make progress in our GI business during 2008. This business, which is now focused on household insurance products, is in transformation, and in 2008 we made significant management changes to continue to drive forward the change process.

Performance in 2008

Gross premiums for the Risk business were £3,978m (2007: £3,106m), an increase of 28%.

Protection premiums (Individual and Group protection) accounted for £1,090m of this total. Present Value of New Business Premiums (PVNBP) for protection (Individual and Group) was £1,005m (2007: £1,161m). New business APE for the protection business was £207m (2007: £223m).

Individual protection total premiums were £783m (2007: £725m), an increase of 8%. New business APE for Individual protection was £140m (2007: £160m).

Group protection total premiums were £307m (2007: £279m), and new business APE was £67m (2007: £63m), an increase of 10% and 6%, respectively. The improvement in sales, achieved in a highly competitive market, reflects an ongoing focus on quality service.

Given the long term nature of the business, Legal & General regards Embedded Value (EV) methodology as a useful supplementary means of measuring and managing protection business performance. On the EV basis, the protection business generated a new business margin of 6.2% and a cash payback after five years (2007: four years). The continued downward pressure on margins was the result of competitive market repricings, a reduction in the sum assured due to a decrease in mortgage levels and a higher cost of capital. Legal & General, however, succeeded in achieving efficiency improvements and reductions in administration expenses.

Annuity new business sales for 2008 were £281m on an APE basis (2007: £205m). Individual annuity sales were £87m APE, a decrease of 6%, while Bulk Purchase Annuities (BPAs), including pension buyouts, were £194m APE, an increase of 73%. The new business generated in annuities in 2008 equated to £2.8bn in new Assets Under Management (AUM), bringing total AUM for the Annuities book to £17bn (2007: £16bn).

2008 was a record year for BPAs, driven by explosive growth in the new market for pension buyouts in the first half of 2008. The main growth was in the first half of 2008, as business volumes for large transactions, which are always in any case sporadic, slowed during the latter part of the year, reflecting greater uncertainty over asset prices.

Margins for annuity business (Individual and BPA) for the year were 7.4% (2007: 9.1%). This margin decline reflected the shorter duration of new business in 2008 versus previous years, an increased cost of capital and the requirement to increase provisions for future credit defaults.

We regard the annuities business as a 'spread' business, where we earn an additional margin above that generated by the underlying assets backing the annuity book. In 2008, earned interest margin for the annuity book was 101 basis points (bps), compared with 75bps in 2007. This equates to an Internal Rate of Return of >15% (2007: >15%). We have increased our reserves for credit defaults by £650m.

The General Insurance business reported sales of £296m, down 4% against 2007. The GI operating loss for 2008 was £2m (2007 operating loss: £67m). The improvement reflects a year of fewer flood and other weather-related events, as well as increased efficiencies in the operation of the business.

Outlook

The size of the opportunities in the annuity markets is unquestioned. Our sales here are most likely to be limited by our risk appetite, rather than demand. Our appetite is dependent upon pricing, risk diversification and the availability of appropriate liquid asset markets. In the latter part of 2008 asset markets were very thin and volatile, limiting our appetite for larger schemes. There are some signs of liquidity returning, however we remain committed to pricing for all of these risks, even if it is at a cost to short term volume. Individual protection sales are expected to stabilise in 2009, and while housing market activity remains depressed, our broader product offering is supporting resilient application volumes. Group protection has a great opportunity to reinforce recent successes in 2009, as cost-effective employee benefits packages assume greater importance in uncertain times. We have leading products, excellent service standards, and a great reputation. We intend to exploit these fully.

Savings

"Our Savings business offers customers choice from an increasingly comprehensive product mix, covering a wide variety of asset allocation strategies across medium and long term investment horizons."

Mark Gregory Group Executive Director (Savings)

Our Products

Unit Trusts
A relatively simple form of collective investment, which enable customers to invest in a wide variety of different securities and indices.

Individual Savings Accounts
Enable customers to invest in cash or securities, up to a defined annual limit on a tax efficient basis.

Investment Bonds
Combine life assurance features and the facility for the customer to invest in a variety of investment funds.

Pensions
Pensions products enable individuals to save for retirement in a tax efficient way, either through a personal pension, or as part of an employer's scheme.

With-profits
With-profits pool customers' investments. Policies share the characteristic that investors receive bonuses as a result of direct participation in surplus profits.

Our Strengths

- Wide product range to suit different maturity and asset allocation preferences.
- Broad distribution, with direct and intermediated sales through IFAs and bank and building society partners.
- Legal & General Investment Management (LGIM) synergy gives access to expert fund management.
- Adaptable approach to technology evidenced by partnership with Cofunds platform.
- Financial strength and asset allocation skills within With-profits enables us to balance expectations and risk management for customers and shareholders.

£45.8bn

Assets under administration (excludes institutional business and Nationwide Life)
(2007: £47.6bn)

Our Performance

	2008			2007		
	APE £m	Contribution* £m	Margin %	APE £m	Contribution* £m	Margin %
– Unit linked bonds	**131**	**(13)**	**(1.0)**	251	21	0.8
– Non profit pensions	**328**	**(8)**	**(0.4)**	253	(14)	(0.8)
– With-profits savings	**191**	**15**	**1.2**	228	19	1.3
Sub total	**650**	**(6)**	**(0.1)**	732	26	0.5
– Retail investments	**229**	**–**	**–**	161	–	–
Total	**879**	**–**	**–**	893	–	–

* From new business.

£689m

With-profits bonuses paid
(2007: £665m)

Strategy in Action

Our five strategic imperatives* are applied across all business units. The following illustrates them in action in the Savings division.

Imperative	**Activity**
Financial Management	**'Capital-light' products which reduce upfront strain from writing new business.**
Diversified Business	**Broader mix in the product range, increased focus on corporate market.**
High Quality Product, Broad Distribution	**Added SIPP capability, new fund launches, Cofunds platform.**
A Positive Customer Experience	**Less reliance on upfront commission and increased focus on customer retention.**
High Expectation Culture	**Technology usage reducing in-force unit costs. Increased training investment to upskill employees.**

* As outlined on page 10.

Our performance

Savings

Our Savings Division includes Wealth Management and With-profits. The Savings division has £45.8bn of customer assets under administration, including £19.4bn of assets managed on behalf of With-profits policyholders. Savings products are distributed primarily through bank and building society partners, IFA's and direct sales.

Strategy in Action

During 2008 we grew and diversified our savings product portfolio. We acquired Suffolk Life, a leading provider of Self Invested Personal Pensions (SIPPs). This gives us a significant presence in this growing, profitable market. Our SIPP products have a relatively low capital requirement, so can be rapidly cash-generative for Legal & General. We continued to expand our pension product range by introducing a mid-market 'SIPP-Light' product.

Our core retail investments business grew substantially, partly due to the acquisition of Nationwide Unit Trust Managers (NUTM). We broadened our product range for savers and added a multi-manager proposition in March 2008 which further extended our fund range. The multi-manager format permits wide choice between asset classes, investment styles and asset managers.

During 2008 we made good progress in providing group pension and group SIPP products to corporate clients. The Share SIPP element of our Group SIPP benefited from a growing trend for larger employers to offer these products to their staff.

In 2007 we said that Capital Gains Tax changes would damage the Investment Bond market. New business sales for bonds fell by 48% with negative effects on unit costs and net margins. Product diversity can mitigate regulatory or fiscal change, and we continue to extend our bond product range. Our Dublin based international bond product enjoyed a successful first year.

With-profits bond sales grew significantly despite the economic environment. New products with guarantees were well received by more cautious investors and retention of existing policies improved. More endowment policies were sold to Traded Endowment Policy (TEP) providers instead of being surrendered, and the number of endowment policyholders retaining policies to maturity also increased.

We significantly broadened distribution during 2008. The Nationwide Building Society partnership boosted sales of savings products, and we continued to extend our online presence, strengthening our relationship with Cofunds. Cofunds is now established as part of our distribution engine, enabling us to compete successfully and cost-effectively in the platform-based, open-architecture market.

Many of our 2008 initiatives moved us towards a less capital intensive product mix. This means better value for customers and a faster payback for Legal & General. We are moving towards distribution which relies less on upfront commission payments, and more on trail commission or remuneration set directly by distributors with their customers. This provides customers with greater clarity and reduces our risk exposure to distributors.

During 2008, we made significant progress in reducing unit costs and improving efficiency for our in-force business by using technology more effectively. This helped reduce headcount while increasing the average investment in training and professional development per employee.

Performance in 2008

Legal & General's Savings business is essentially an asset-gathering and management business. Assets are held through product wrappers, such as pensions, investment bonds, unit trusts and ISAs which have different charging structures and tax treatments.

Assets under Administration (AUA) is a key measure of size and scale for our Savings business. As at the year-end, total AUA was £45.8bn (2007: £47.6bn), a decrease of 4%. During the year, the business added £400m in net new funds (inflows minus outflows), but falls in investment markets reduced AUA year-on-year.

New business sales were strong for most savings product lines. APE sales for Savings as a whole were £879m (2007: £893m).

Non profit pensions sales were strong, with APE of £328m (2007: £253m), an increase of 30% and we continued to see transfers of larger sums of pension savings as a result of the A-day pension reforms.

Sales of unit linked bonds, at £131m APE (2007: £251m) declined by 48% against the prior year. Changes in the Capital Gains Tax regime announced in 2007 and implemented in the 2008 Budget made bonds less tax efficient than unit trust investments in some regards and did lasting damage to this product.

Core retail sales of unit trusts and ISAs generated new business APE of £229m in 2008 (2007: £161m), a 42% increase against the prior year.

Sales of With-profits savings products were 16% lower at £191m (2007: £228m). However, With-profit bond sales increased from £10m to £28m during the year. Over five years to the end of 2008 the fund has delivered a 27% total return before tax. In 2008, assets backing the With-profits participating policies generated on average -18% return before tax and investment charges, compared with 4.5% in 2007. However, total With-profits policyholder bonus payments during the year increased by 4% to £689m (2007: £665m). As well as our usual year-end bonus announcement, an interim bonus announcement was made in response to the market turbulence in October 2008. This helped ensure continued fair distribution of funds to policyholders both leaving and remaining in the fund.

In 2008, With-profits savings APE of £191m accounted for 14% of UK new business APE (2007: 17%), with value added of £15m. The embedded value of the total With-profits business is £500m (£864m) net of tax before the shareholder transfer in the year of £77m.

Profit margins vary according to product. Margins in non profit pensions were -0.4% (2007: -0.8%), an improvement of 40bps. The change in pension margins during the year reflects the positive impact of the Suffolk Life acquisition and consequent increase in SIPP business written as well as enhanced efficiency across the business, offset in part by the negative effect of higher risk discount rates.

By contrast, margins for investment bonds were -1.0% (2007: 0.8%). This sharp deterioration in margin reflects higher unit costs following the Budget driven decline in sales of this product as well as a strengthening of our forward looking persistency assumptions.

Savings products can impose significant capital strain in their early years, and we increasingly aim to include a higher proportion of 'capital-light' products in the Savings business mix. During 2008, the average cash payback period for non profit bonds was 10 years (2007: 9 years) and was 12 years (2007: 13 years) for non profit pensions.

The growing proportion of SIPPs in our individual pensions business mix and the fact that 84% of corporate pensions new business is now fee-based, as opposed to commission-based, reduces capital strain.

Outlook

Individual savings markets will come under further pressure in 2009. Those disposable funds which are available for investment are on the whole more likely to be held in short term defensive products. For those who are looking to invest, flexibility in investment strategy – either by duration or asset allocation – is increasingly critical. Our portfolio bond and unit trust products, along with our rapidly expanding SIPP business, are ideally positioned to meet these demands whether for cash, corporate bond or high-alpha equity investments.

We see good opportunities in workplace pension and savings products as employers continue to focus on good-value components of remuneration and benefit packages.

Our performance

Investment management

"As one of the largest managers of assets in the UK, LGIM serves the interests of approximately 3,000 institutional clients, providing a wide range of products and a high quality of service."

Peter Chambers Chief Executive Officer, LGIM

Our Products

Index Funds
LGIM currently has some £176bn of index funds under management (2007: £214bn). Rather than making individual stock picks or particular weightings to certain sectors, index funds aim to replicate the return of an equity-tracking or fixed income index.

Active Funds
LGIM provides actively managed equity and fixed income funds which aim to produce a higher return than the market over the medium to longer term.

Risk Management Solutions
LGIM provides a range of derivative-based investment approaches, such as Liability Driven Investment (LDI) and equity risk management, aimed at helping pension funds meet payments to members when they fall due.

Property
LGIM is a significant investor in UK commercial property and is active as a landlord and in site developments on behalf of property fund investors.

Our Strengths

- LGIM's leading market position enables us to deliver the benefits of economies of scale and excellent execution for both retail and institutional clients.
- A wide range of index funds enables investors to gain exposure to equity, government and corporate fixed income markets across the globe.
- Rigorous market analysis and selection enables active fund managers to invest in the securities and sectors they believe offer superior investment opportunities.
- Technical skill and experience in the institutional pension fund market mean LGIM is well placed to execute complex strategies for clients.

£33.1bn

New institutional funds
(2007: £54.4bn*)

* Including one-off transfers of £20.3bn from clients of Hermes.

Our Performance

	2008	2007
Total Funds Under Management	**£264bn**	£297bn
Gross new funds*	**£33.1bn**	£54.4bn
Fee-to-fund ratio	**10.6bps**	10.9bps
Operating profit*	**£165m**	£143m

* LGIM and institutional investments in unit trusts.

£264bn

Funds Under Management (FUM)*
(2007: £297bn)

* Excludes institutional investments in unit trust funds.

Strategy in Action

Our five strategic imperatives* are applied across all business units. The following illustrates them in action in the Investment management division.

Imperative	Activity
Financial Management	**LGIM's scalable business model displays high profitability, strong cash flow and high return on capital.**
Diversified Business	**Expanding on UK's largest index tracking business to pursue opportunities in active fixed income and equities, risk management solutions and expansion of US operations.**
High Quality Product, Broad Distribution	**Wide range of investment products spanning the full risk spectrum. More than 75% of LGIM's FUM derived from outside of Legal & General Group, from more than 3,000 institutional clients.**
A Positive Customer Experience	**Scale and quality of execution are key to client value for money and adviser recommendations. Consistently rated highly by customer satisfaction surveys.**
High Expectation Culture	**LGIM has a low cost fund management model with a strong team based culture – positive legacies of a historic emphasis on index fund management.**

* As outlined on page 10.

Investment management

Legal & General Investment Management (LGIM) has £264bn in funds under management (2007: £297bn). LGIM is also one of the biggest investors in the UK stock market and is responsible for almost 5% of all London-listed equities on behalf of its customers.

LGIM is highly rated by its many institutional clients and their investment advisers for providing quality investment services. In the UK, LGIM is the market leader in the provision of index funds to institutions, and has diversified significantly in recent years to also provide actively managed products and risk management solutions.

Strategy in Action

During 2008, LGIM built further on the successful growth which it has enjoyed over the last two decades. Today, it is one of the UK's largest index tracking investors, attracting new and repeat business as a result of its efficient operating model and an ability to deliver a straightforward, well-priced, scalable product which has minimal capacity to disappoint.

While enjoying the largest share of the UK index tracking market, LGIM has recognised for several years that there is a benefit to diversifying its offering. Since the 1980s LGIM has pursued opportunities in the active fixed income and equity sectors. However, with the decision to widen the strategy in scalable products in 2006 it has grown its actively managed funds significantly. Active funds now account for 25% of total Funds Under Management (FUM).

Diversification has also extended internationally. In 2006, LGIM established a North American office in Chicago. As a major investor in fixed income securities, this improved the company's access to the US bond markets. The US presence was expanded in 2008, as selective new hires added to LGIM's expertise in North American markets.

A clear distinction is made between active and index investment approaches. The index business provides investors with a market return at low cost, while LGIM's active funds offer a robust, research driven investment approach for a competitive price.

A high proportion (2008: 81.1%) of LGIM's business is a result of existing customers choosing to invest further. Providing a positive customer experience is important to the business model, and the fee structures adopted by LGIM reflect this. Competitive fee structures are one aspect of LGIM's success in attracting and retaining business – however they are rarely the decisive factor in winning mandates. Good execution – for example, the ability to shadow any of a range of indices accurately while keeping trading costs to a minimum and efficiency in processing settlements – and a commitment to customer service are important factors in providing the positive customer experience which ensures good customer retention and repeat business.

LGIM brings important synergy benefits to the Group. The basis of much of Legal & General's Savings product suite is founded on the wide range of unitised investments made available by LGIM. This means individual investors have access to the same fund management expertise as the UK's largest institutions. Pension buyout transactions involve a particular combination of expertise in mortality risk pricing and investment management, and as such, this is an area where there is close collaboration between LGIM and the Group's annuity business.

LGIM has a strong performance culture, which benefits from a successful combination of high technical expertise and strong team collaboration. Together with LGIM's size and scale, this gives the company's investment managers a competitive advantage in regards to market access and trading technology platforms, in turn allowing them to offer clients innovative investment and risk management solutions.

£264bn

Funds Under Management
(2007: £297bn)

Performance in 2008
In 2008, LGIM attracted £30.9bn in new fund inflows (2007: £52.6bn). This is in line with our run-rate for new funds over the last 10 years, with over £1bn inflows per month. Numbers in 2007 were higher due to exceptional transfers of £20.3bn from clients of Hermes in 2007.

Client retention remained strong in 2008. Fund outflows were £20.8bn, including £1.9bn, or 12% withdrawn for the planned payment of pensions (an additional £1.7bn, or 11% of outflows related to annuity buyouts). Aggregate funds under management of £264bn were lower at the end of the year, reflecting market movements.

LGIM's fee to fund ratio was down year-on-year, and the cost:income ratio was 49% (2007: 46%). LGIM's profit on the IFRS basis was £172m (2007: £147m).

LGIM is strongly cash-generative. Its dividend, paid to Legal & General Group Plc in 2008, was £128m, an increase of 80% (2007: £71m).

Outlook
We anticipate continued demand from institutional investors for LGIM products in these uncertain times. Our institutional fund management business has an extremely strong balance sheet and does not rely on Group resources for its capitalisation or performance.

GOVERNANCE IN ACTION

Legal & General Investment Management takes its responsibilities as a shareholder very seriously. These include taking an active role in ensuring that investee companies adhere to good practice in corporate governance and deal with social, ethical and environmental issues appropriately. This is based on the belief that good governance contributes to the sustainability of investee companies, enabling them to deliver better returns to investors, with lower risk, over time.

LGIM's governance approach is solely focused on protecting shareholders' interests. Since many of our investments are held as part of an index-tracking mandate, individual stocks cannot be sold or assigned a reduced weighting. Instead, if we see a potential problem emerging in an investee company, our approach is to work with that company to ensure the best interests of its shareholders are maintained. To achieve this, we engage in dialogue with the company and if our differences are not reconciled, we will follow up with a vote which reinforces our position at the company's Annual General Meeting.

During the course of 2008, LGIM held 133 meetings with company chairmen and non-executive directors on a variety of governance issues. Our approach is steered by our adherence to the Combined Code of Corporate Governance and by the ABI's Principles for Social, Ethical and Environmental investment.

International

"Our current International businesses are located in the United States, France, the Netherlands and Egypt. We are in the process of establishing new joint ventures in India and the Gulf States."

Gareth Hoskin Group International Director

Our Performance

2008

	APE £m	New Business Margin £m	IFRS Operating Profit £m
US	51	6.3	39
Netherlands	29	3.1	6
France	39	0.5	14
Total	**119**	**3.6**	**59**

2007

	APE £m	New Business Margin £m	IFRS Operating Profit £m
US	45	7.3	59
Netherlands	27	2.5	11
France	44	2.4	16
Total	**116**	**4.1**	**86**

£119m

International APE
(2007: £116m)

Strategy in Action

Our five strategic imperatives* are applied across all business units. The following illustrates them in action in the International division.

Imperative	Activity
Financial Management	**Selective growth strategy carefully targets new capital investment, utilising the full weight of Legal & General's financial strength.**
Diversified Business	**Broadening our international portfolio into high-growth emerging markets provides diversification from our mature Savings and Risk businesses.**
High Quality Product, Broad Distribution	**Our international businesses are based on market leading product transparency and value for money.**
A Positive Customer Experience	**Selling suitable, quality products that are fit for purpose to meet our customers' needs.**
High Expectation Culture	**From High Net Worth markets in America, France and the Netherlands to our Indian and Gulf partnerships, all require the highest quality delivery and service.**

* As outlined on page 10.

What We Do

Our established subsidiaries in the United States, France and the Netherlands operate in Legal & General's core Risk and Savings markets. These successful businesses aim to lead in chosen sectors that are for the most part targeting high net worth individuals.

- In the US our strong Individual protection business is built on expertise in mortality risk pricing, underwriting and the ability to serve specialist distribution
- Legal & General France has built a successful Group risk business and a retail savings business, that pioneered transparent single-charge, savings products
- In the Netherlands, we have built a business which is successful in both individual savings and risk markets, and enjoys a strong reputation amongst broker distributors.

Strategy in Action

Our strategy is to balance mature existing domestic and international businesses with selective participation in the fast growing middle class wealth of the emerging savings markets.

To date our approach has focused on:

- Selection of preferred emerging regions, based on criteria including economic growth potential, political and regulatory stability, and developing long term savings markets with low existing penetration of insurance products
- Availability of suitable bancassurance partners with strong local distribution and brand, and the potential to provide scale
- Low cost of entry based upon a green field joint venture approach.

By building new business partnerships in key regions commensurate with our core skills and capabilities, we will extract the value of synergies with our core UK business and build medium term value. This will mean combining our skills and experience of low cost, value for money bancassurance models with the exclusive distribution of strong local bank partners. Our aim is to establish a sustainable alternative to the higher cost agency distribution model which is still prevalent in emerging markets.

Our Egyptian joint venture proves this model in a market of 55 million people by delivering both profit and returns to plan in what is now the biggest Egyptian insurer. With a high quality platform this business is ready to achieve scale.

In 2008, good progress was made in executing our International strategy. Two new joint ventures were initiated in important markets: India and the Gulf.

During 2008, agreements were signed with a leading regional banking group in the Gulf, Ahli United Bank (AUB), to partner us in forming a Gulf joint venture insurance company. This is now formed and licences for both Takaful and Conventional Insurance have been gained. Based in Bahrain, the business will initially provide modern Savings and Protection products to AUB's customers in Bahrain, Qatar, Oman and Kuwait, before eventually expanding to the wider Gulf region.

Also during 2008, we reached agreement to form an Indian insurance joint venture company with our Indian partners, Bank of Baroda and Andhra Bank, who between them have over 40 million customers and 4,000 branches nationally. Initial licence applications have been submitted and work has commenced to build the operation.

Performance in 2008

Total International new business sales of £119m APE were marginally up from the prior year (2007: £116m). Sales grew in the US in both sterling and US dollar terms. APE sales in the Netherlands were slightly lower in local currency terms at €36m (2007: €38m), but currency factors translated this to a slight increase to £29m (2007: £27m) on a sterling basis. In France, APE sales fell from €63m* in 2007 to €50m*, equivalent to a reduction from £42m in 2007 to £33m for 2008.

Margins in America (6.3% compared with 7.3% in 2007) reflected short term expense and mortality experience that was worse than expected offsetting improved contributions from new business. In France margins were 0.5% (compared with 2.4% in 2007), where new business margins fell as a result of the reduction in savings volumes. Margins, however, rose in the Netherlands (2.5% in 2007 to 3.1% in 2008).

Total International operating profit in sterling terms was £59m (2007: £86m) on the IFRS basis, and £100m (2007: £136m) on the EEV basis.

Outlook

The outlook for our mature international businesses remains difficult. However, we are optimistic about progress in building our two new joint venture operations in partnership with AUB and Bank of Baroda and Andhra Bank respectively. We will continue to seek similar new opportunities.

* Includes Retail Investment as per tables.

People and Operational Resources

"We aim to have the right resources to run our business well, and our people are our most important resource."

Sir Rob Margetts Chairman

Legal & General's business model requires us to have the right infrastructure to execute our strategy. By matching resources to business needs and strategy, we can deliver a positive customer experience by meeting the administrative and investment needs of our existing customers, attracting new business, and managing the various risks and processes involved in running a complex business to high standards.

The demands on our employees and systems are especially high during a period of market volatility and rapid economic change. During 2008 we put a number of initiatives in place to improve the management of our cost base, to introduce greater flexibility to our business infrastructure and to give employees the best opportunity to respond to a period of rapidly changing market pressures.

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.

Strategy in Action

The strategic imperative of creating a high-performing culture informs and drives all our work in this area. This entails creating the right environment in which our employees can work to maximum effect in pursuit of our corporate vision.

We actively encourage employee initiative through successful schemes such as 'Ideas in Action' which enables employees to contribute to the continuous improvement of the organisation. We also aim to work in a collaborative, collegiate fashion with our employees: we try to ensure that command chains are short and we aim increasingly to encourage empowerment and accountability through our performance management process and we have made increasing efforts to ensure, via better internal communication, that our employees are fully appraised of the Company's strategic goals and performance. Employee feedback is important to us as it defines the quality and strength of the relationship between an employee and their organisation. In the latest employee survey we received our highest level of feedback with a response rate of 77%. Alongside the increased focus on matching resources to business requirements, we began a series of initiatives in 2008 to increase and diversify the skills of our workforce including lunchtime training sessions for managers and access to a number of internal and external training programmes through our online development resource, the Learning Network.

At the same time, we made a number of changes which will help our infrastructure to adjust quickly to changing new business volumes as the UK undergoes a period of economic turbulence. These included outsourcing IT application development, where we now have a more flexible resource which can be drawn upon as necessary, rather than a fixed cost. Further rigour has been applied to the procurement area so as to best manage our supply chain, and we continue to address the issues of functional duplication within the business. We continue to move the business towards products which require less capital, and towards a distribution model which relies less on the payment of upfront sales commissions to our distribution partners.

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. 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 2008, the average number of days of payments outstanding for the Legal & General Group of companies was 38 (2007: 32).

9,777

Total employees worldwide
(2007: 10,067)

Achievements in 2008

There was an improved focus on cost control during 2008. This resulted in a reduction in ongoing overhead costs in our UK businesses of 8%. We made these changes without compromising necessary investments for the future, for example assigning some £88m to IT development during 2008.

Our employees remain our most important resource, and they have risen to the challenges presented by a more difficult economic environment and the need to continue delivering operational efficiency. Overall headcount fell 290 to 9,777 during the year. This reflected the outsourcing of IT application development, as well as a number of changes as a result of projects to eliminate overlap and duplication which were offset by the addition of new employees as a result of acquisitions during the year.

We reviewed our UK defined benefit pension schemes during the year, considering all options to ensure that the plans remain fundable in the long term and of benefit to both members and to Legal & General. Increases to pensionable salary have been capped, balancing the increasing plan risk against future funding of the plans.

We continued to benefit from our strong relationship with Unite, the trade union, with whom we continued to consult on a wide range of employment issues. The mutual trust and communication between the two organisations brings benefit to both the staff and the Group.

Outlook

In the light of further expected economic contraction during 2009, we will continue to work to align our business infrastructure to changing business demands. We intend to reduce costs where appropriate, for example, in support functions, but to retain sufficient flexibility to respond to and invest in new customer-facing opportunities as they arise. Our remuneration and bonus policy for 2009 reflects the harsher economic climate.

OUR PEOPLE IN ACTION

We strive to create an environment that attracts and retains the right people – those who are committed and able to deliver top performance for our customers and shareholders. Employee involvement in our CSR programme forms an important part of this engagement.

We recognise that many of our employees make a significant contribution to charities both through monetary donations and as volunteers in their own free time. Our 'Making a Difference' Awards were set up to recognise this considerable involvement. Full details of 2008's winners and information on the contribution they made can be found on our CSR site at www.legalandgeneralgroup.com/csr.

In 2008, over 500 volunteering days were undertaken by our employees' projects across our major locations, a contribution of over 3,500 hours to local charities. This gave employees the opportunity to become involved with a local charitable project and was often linked to team building objectives or the development of professional skills.

We also support our employees in their personal fundraising efforts by matching up to £750 a year per employee raised through sponsorship and through the tax-efficient Give As You Earn scheme where employees can make a donation from their pre-tax salary which is matched by the Company by up to £25 a month.

Our performance

Corporate Social Responsibility

"2008 was a year in which we succeeded in incorporating Corporate Social Responsibility even more closely into our mainstream business activity."

Tim Breedon Group Chief Executive

At Legal & General, we have for many years seen our commitment to a broad range of stakeholders as an important part of operating a sustainable and successful business. In 2008, we built further on our successful track record of delivering Corporate Social Responsibility (CSR) through a combination of new initiatives embedding CSR into our day-to-day business and improving alignment of our CSR work with our business.

In consequence, Legal & General has been able to utilise its business expertise and the very considerable goodwill of its employees to work towards goals which matter to our customers, to the communities in which we are a major employer and to our staff.

CSR: The Link with Our Businesses

During 2008, we further embedded our CSR work in our day-to-day business. We have selected initiatives which help us to meet our customer-facing and environmental objectives, and which support both our businesses and the wider community. This enables us to leverage our existing skills better in pursuit of broader social goals. More information on the progress we have made can be found in the table below.

Environment

Although Legal & General is not an extractive or manufacturing company and can have only limited direct impact on the environment, we are committed to reducing our environmental footprint. During 2008, Legal & General made significant progress in this area. By altering employee travel reimbursement policies to eliminate unnecessary car mileage, we reduced claims by almost 1.5 million miles in 2008. Work is in hand to improve the environmental footprint of the buildings we occupy, while we maintain our strict targets in respect of waste and recycling.

Segment	Key CSR Issues	Initiatives
Risk	Healthcare developments and environmental risks	We engaged with non-governmental agencies and projects such as the International Longevity Centre and the ABI's ClimateWise initiative.
	Crime	Our partnership with Help the Aged helps to improve security for older people.
Savings	Debt management	We have worked closely with A4e, an organisation involved in delivering generic financial advice on behalf of the government. This has involved our Financial Adviser Academy working with A4e to help deal with, and advise on, debt management issues.
Investment management	Socially responsible investment	LGIM has worked in partnership with Business in the Community as it develops the business case for CSR in the Investment management business. During 2008, LGIM held over 133 meetings with investee companies to discuss issues relating to quality of corporate governance, social, environmental or ethical issues. Legal & General Property and the Royal College of Estate Management developed a training programme in environmental property management, first for our in-house property fund managers, then for broader roll-out across the commercial property industry.
International	Adopting key global standards	We are signatories of the UN Declarations for Human Rights and against Corruption and Bribery.
Group	Our impact on the environment	Our employees reduced our direct CO_2 Emissions by driving almost 1.5 million fewer business miles in 2008 compared with 2007.
	Relationships with employees, suppliers and the communities in which we work	We facilitated over 500 volunteering days for our employees in 2008.

To view our full CSR Report please visit
www.legalandgeneral.com/csr

Customers, Suppliers and Employees – Applying New Standards

We participate in the ABI's Customer Impact programme and strongly support the FSA's Treating Customers Fairly initiative – engendering a positive customer experience is one of our five strategic imperatives. This is at the heart of the work done by our Business Ethics Working Group. As our business becomes more international, we have adopted new standards more appropriate to a global market, notably signing up to the UN Declarations on Human Rights and against Corruption & Bribery.

Our suppliers are an important part of the Legal & General value chain. We continue to engage with them so as to better understand our collective impact on the environment, to help them make improvements and to challenge them to deliver ever higher standards. Carbon master classes held in November provided expertise and set expectations for their disclosure of carbon footprints in 2009. We see this as an important area: we have asked our suppliers to make or do something on our behalf and we are keen to understand and mitigate the impact their work has upon the environment.

We have reported on the success of our partnership with Unite, our trade union, in prior years. This relationship continues to play a significant role in the way we run our business and we continue to involve them through membership of our CSR Committee.

Supporting Employee Initiatives

Legal & General supports employees' community and charitable initiatives. We facilitate and encourage tax-efficient payroll giving through the Give As You Earn (GAYE) scheme and this year increased matching levels from £20 to £25 per month. Fundraising and sponsorship efforts are also supported up to £750 per employee each year. Each of our major locations is able to allocate a part of the CSR budget to local initiatives which reflect employee preferences, while the Company's Charity Committee supports a limited number of selected causes at a national level.

Governance

Legal & General's CSR Committee is a committee of the Board of Directors and is chaired by Tim Breedon, Group Chief Executive. The CSR Committee is supported by the Environment Committee, Charity Committee, Health & Safety Committee and the Business Ethics Working Group. For further information see the table overleaf outlining our CSR Governance structure. In 2008 we introduced CSR criteria as part of the calculation of the Group Chief Executive's remuneration for 2009 and beyond.

External Recognition

We continue to value our membership of indices such as the Dow Jones Sustainability Index, FTSE4Good Index and the Business in the Community CR Index. These recognise our achievements and challenge us on our commitment to being a responsible company.

sam 2009 bronze class

FTSE4Good

Business in the Community COMPANIES THAT COUNT 2008 in association with THE SUNDAY TIMES

GOLD AWARD 2009 PAYROLL GIVING

Stakeholders

Shareholders, customers and employees increasingly evaluate companies using non-financial measures to complement the more traditional performance valuation metrics. During 2008, we were pleased that our CSR work was again recognised by inclusion in the FTSE4Good Index and the Dow Jones Sustainability Index. In the Business in the Community (BITC) CR Index our overall award increased from Bronze in the previous year to Silver, and we maintained our Platinum award for the Environment. We also maintained our Gold Mark from the Communities Aid Foundation for our GAYE scheme.

United Kingdom Donations

During 2008, charitable donations totalling £3.2m (2007: £2.4m) were made by the company and by staff through approved schemes. As in 2007, no political donations were made during the year.

Outlook

It is our view that events in financial markets during 2008 have underscored the importance of doing business in a sustainable, responsible way, and of taking a long-term view which reflects the interests of a wide range of interested stakeholders. We believe this is entirely compatible with, and indeed supportive of, the generation of shareholder value.

Our performance

Corporate Social Responsibility

CSR Guiding Principles

Our Customers
– Providing good value, fit for purpose products which meet or exceed customers' expectations
– Communicating in a clear, appropriate and accessible way
– Delivering a positive experience throughout a customer's relationship with us

Risk Management
– Managing appropriate market, social economic and environmental risks and opportunities in our business
– Integrating these risks into the core decision making process of our businesses
– Integrating appropriate standards of Environmental, Human Rights and Corruption and Bribery policy into overseas subsidiaries

Socially Responsible Investment
– Promoting responsible business practices in the companies in which we invest to create longer term value
– Promoting sustainable business practices in our Commercial Property Portfolio to create better shareholder returns

Our People
– Working in close partnership with our recognised trades union, Unite, on key decision making
– Providing a flexible, supportive, healthy and safe working environment
– Adopting policies and practices which encourage an appropriate work/life balance
– Applying open and fair processes for recruitment, promotions, outsourcing and downsizing
– Being clear about what the right ethical behaviour is to our employees
– Promoting our Values: customer focus, teamwork, open and fair, and results driven

Our Suppliers
– Acting at all times in compliance with our Sustainable Procurement Policy
– Supporting any suppliers of our goods and services who do not comply with our 'CSR standards for key suppliers' to secure improvements

Our Environment
– Reducing rather than offsetting the impact on the environment arising from our business activities

Our Communities
– Supporting the community as a whole, but especially grass roots issues where we can make a difference in those communities in which our main offices are based
– Investing in charitable causes and social enterprises which are closely aligned to our business activities to aid our understanding of future markets and opportunities
– Supporting and encouraging employee involvement in charitable giving and volunteering

Governed by	Public Policy/Progress
Customer Experience Steering Committee	http://snurl.com/landg_cer2008
Group Risk and Control Committee	Refer to pages 14 -15
Business Ethics Working Group	http://snurl.com/landg_bewg
Sustainable Property Board	http://snurl.com/lgim_ethical
Group Health and Safety Committee	http://snurl.com/landg_hands
Business Ethics Working Group	http://snurl.com/landg_bewg
Group Environment Committee	http://snurl.com/landg_spp
Group Environment Committee	http://snurl.com/landg_envmt
Group Charity Committee	http://snurl.com/landg_communt

Other Statutory and Regulatory Information

Directors

Details of the current directors of Legal & General Group Plc (the Company), together with biographical notes, are shown in the Board of Directors section on pages 48 and 49.

Mark Gregory was appointed a director of the Company on 28 January 2009. Kate Avery resigned as a director of the Company on 28 January 2009.

The director retiring by rotation at the 2009 Annual General Meeting (AGM) is Andrew Palmer who, being eligible, offers himself for re-election.

Mark Gregory has been appointed since the last AGM and, being eligible, offers himself for election.

The terms and conditions of appointment for the non-executive directors are available for inspection at the Company's registered office and at the forthcoming AGM.

As executive directors, Andrew Palmer and Mark Gregory have a service contract which is terminable by each of them or the Company on receipt of no less than six months' and twelve months' written notice, respectively. On termination Andrew Palmer and Mark Gregory would become entitled to six months' and up to twelve months' salary respectively, in addition to payment of pension contributions and car allowance.

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

The Combined Code and the Company's Articles of Association require that any non-executive director who has held office for more than nine years submits to annual re-election. Sir Rob Margetts was first elected a director in June 1996 and appointed Chairman in February 2000; accordingly, he submits to annual re-election. The Notice of the AGM explains the reason for the Board recommending his re-election.

Powers of Directors

The business of the Company is managed by the Board of directors which may exercise all the powers of the Company subject to the Company's Memorandum and Articles of Association, the provision of applicable statute and any directions given by the Company in a general meeting by special resolution. Specific provisions are contained in the Articles of Association, including borrowing powers, delegation, appointment and removal of directors.

Directors' Interests

The Directors' Report on Remuneration on pages 58 to 69 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, including changes in directors' share interests between 1 January 2009 and 24 March 2009 (being the last practicable date prior to publication of the Notice of the AGM).

Share Capital

As at 31 December 2008, the Company's issued share capital comprised a single class of shares referred to as ordinary shares each with a nominal value of 2.5p. Details of the ordinary share capital can be found in Note 27 to the Financial Statements.

On 26 July 2007, the Company announced a £1bn share buyback programme. As at 31 December 2008, a total of 449,891,914 ordinary shares (2007: 241,207,267), each with a nominal value of 2.5p, were repurchased for cancellation. This represented 7.68% of the issued share capital as at 31 December 2008 (2007: 3.83%). The aggregate consideration paid was £520m (£523m including expenses) (2007: £318m (£320m including expenses)) at an average price of £1.16 per share (2007: £1.32 per share). Since the year end, and up to 24 March 2009, (being the last practical date prior to the publication of the Notice of the AGM) no further ordinary shares were re-purchased for cancellation.

At the 2008 AGM, the Company was granted authority by shareholders to purchase up to 611,414,917 ordinary shares, representing 10% of the Company's issued share capital as at 17 March 2008. This authority will expire at the forthcoming AGM; accordingly, Resolution 11 seeking shareholders' approval to renew this authority is set out in the Notice of the AGM. Resolution 11 seeks to allow the Company to make a market purchase of up to 586,167,936 of its own ordinary shares representing 10% of the Company's issued share capital at 24 March 2009 (being the last practicable date prior to the publication of the Notice of the AGM). Resolution 9 will, if approved, authorise the directors to allot up to an aggregate nominal amount of £48,358,855, being 33% of the total issued capital as at 24 March 2009 (being the last practicable date prior to the publication of the Notice of the AGM).

Resolution 10, set out in the Notice of the AGM, will, if approved by the shareholders, authorise the directors to issue further shares up to the equivalent of 5% of the Company's issued share capital as at 24 March 2009 (being the last practicable date prior to the publication of the Notice of the AGM) for cash without offering the shares first to existing shareholders in proportion to their holdings. A more detailed explanatory note is set out in the Notice of the AGM. 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 issued share capital in any rolling three year period. The resolution will, if approved, 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 2008 are set out in Note 27 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.

Substantial Share Interests

As at 24 March 2009, the Company had received notifications from the following parties that they have a notifiable interest in the issued share capital of the Company:

	Number of ordinary shares of 2.5p each with direct voting rights	Number of ordinary shares of 2.5p each with indirect voting rights	Total interest in issued share capital
Axa S.A. and its group of companies	3.87%	2.74%	6.61%
Aviva and its subsidiaries	4.06%	–	4.06%
Schroders Plc	–	5.04%	5.04%
Swiss Reinsurance Company Ltd	3.73%	–	3.73%

In addition, the Company had received notification from Barclays that it had a notifiable interest amounting to 4.01% of the issued share capital of the Company.

Related Party Transactions

Details of related party transactions are set out in Note 42 to the Financial Statements.

Rights and Obligations Attaching to Shares

The rights and obligations relating to the Company's ordinary shares are set out in the Articles of Association; a copy can be obtained on request to the Company Secretary at the Company's registered office. Changes to the Company's Articles of Association must be approved by special resolution of the Company in a general meeting.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. On a show of hands at a general meeting of the Company every member present in person or every proxy present who has been duly appointed by a member shall have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the Company's Articles of Association. Under the Articles of Association, directors have the power to suspend voting rights and in certain circumstances the right to receive dividends in respect of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Notice of the AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at the general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting. The Company in a general meeting may by ordinary resolution from time to time declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board.

The Board can decline to register any transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless: (a) the instrument of transfer is duly stamped and is left at the Company's registered office or such other place as the Board may from time to time determine accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (b) the instrument of transfer is in respect of only one class of share; and (c) the number of joint holders does not exceed four.

Other Statutory and Regulatory Information

Subject to the provisions in the Companies Act, all or any of the rights attaching to an existing class of shares may be varied from time to time either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share schemes rank equally with all other ordinary shares in issue.

Barclays Private Bank & Trust (Isle of Man) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, holds 0.5% of the issued share capital of the Company as at 24 March 2009 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 24 March 2009 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 (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 which holds 0.48% of the issued share capital of the Company as at 24 March 2009. 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.

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

Change of Control

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. Executive directors become entitled to six months' salary, pension and car allowance on termination of a service contract; in the case of Mark Gregory, he is entitled to up to twelve months' salary and cost of contractual benefits. In addition, the rules of the Company's share plans contain provisions as a result of which options and awards to participants, including executive directors, may vest on a takeover or change of control of the Company or transfer of undertakings.

The Company has a committed circa £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. As at 24 March 2009, the Company 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.

Use of Financial Instruments

Information on the Group's risk management process and control of certain risks are set out on pages 50 to 57. Details of the financial instruments used for these purposes are set out in Note 50 of the Financial Statements.

Indemnities

The Company has agreed in writing to indemnify, to the extent permitted by law, 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, which remains in force, was in force throughout 2008. Copies of the documents are available for inspection at the registered office and will also be available at the AGM.

Qualifying pension scheme indemnities (as defined under s. 235 of the Companies Act 2006) were granted, to the extent permitted by law, to certain trustees of the Company's pension schemes.

Insurance

The Company maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Auditors

The Company's auditors have expressed their willingness to continue in office. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the directors to determine their remuneration will be proposed at the forthcoming 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 234ZA of the Companies Act 1985.

Directors' Responsibility Statement

Pursuant to the Disclosure and Transparency Rules, each of the directors, whose names and functions are listed on page 49, confirms that to the best of their knowledge:

1. the Group's financial statements which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities and financial position and profit or loss of the Group; and
2. the director's report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Going Concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 1 to 72. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Group Results on pages 16 to 23. In addition, Notes 48 to 50 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

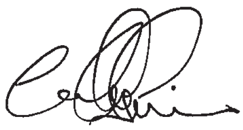
The global economic outlook for 2009 remains uncertain. However, the directors consider that the group has the plans and resources to manage its business risks successfully, as it has a diverse range of businesses and remains financially strong.

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Annual General Meeting

The Annual General Meeting will be held at 11.30am on Wednesday, 27 May 2009 at The Institution of Engineering and Technology, Savoy Place, London WC2R 0BL. Details of the AGM, together with the explanatory notes, are set out in the Notice. All the documents in connection with the AGM are available on the Company's website: www.legalandgeneralgroup.com

By order of the Board



G J Timms
Company Secretary

24 March 2009

Board of Directors

3 1

2 11

6 5

4 9

7 8

10

1. Sir Rob Margetts CBE, Chairman, Aged 62.
Rob was appointed as a non-executive director in June 1996 and Chairman in February 2000. He is also Chairman of Ensus Limited, Ordnance Survey and Energy Technologies Institute and a non-executive director of Anglo American plc, Falck Renewables Plc and Neochimiki SA and Trustee of the Council for Industry and Higher Education and the Brain Research Trust. Former roles include: Chairman of BOC Group Plc, Chairman of the Natural Environment Research Council and Vice Chairman of ICI Plc. **NC, RC**

2. Tim Breedon, Group Chief Executive, Aged 51.
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**

3. Andrew Palmer, Group Director (Finance), Aged 55.
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 of the ABI's Financial Reporting Committee. Former roles include: Group Director (Corporate Business) and Group Director (Services). **GRCC, GCC, CCC, GIRC, IMRC, ORAC**

4. Frances Heaton, Independent non-executive director, Aged 64. 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. She is Chairman of the Schroders Pension Scheme. 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**

5.Rudy Markham, Independent non-executive director, Aged 63. 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 AstraZeneca PLC, 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**

6. Dr Ronaldo Schmitz, Independent non-executive director, Aged 70. 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**

7. Mark Gregory, Group Executive Director (Savings), Aged 45. Mark was appointed to the Board in January 2009. He joined Legal & General in 1998. Since then he has held a variety of divisional finance director roles and has served as Group Financial Controller, Communications and Resources Director, Resources and International Director and UK Service Operations Director. Since 2006, he has been Managing Director, With-profits. Prior to joining Legal & General, he had worked in senior financial and business development roles at companies including Kingfisher Plc and ASDA. **GRCC, GIRC, GCC, IMRC.**

8. John Pollock, Group Executive Director (Protection & Annuities), Aged 50. 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**

9. Henry Staunton, Independent non-executive director, Aged 60. Henry was appointed to the Board in May 2004. Henry is also a non-executive director of Ladbrokes Plc, Merchants Trust 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**

10. James Strachan, Independent non-executive director, Aged 55. 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 Care UK Plc, Welsh Water Limited, Sarasin and Partners LLP and Social Finance Limited as well as being a visiting fellow at the London School of Economics. Former roles include: Chairman of the Audit Commission, Managing Director of Merrill Lynch and Chairman of RNID. **AC, NC, RC**

11. Sir David Walker, Vice Chairman and senior independent non-executive director, Aged 69.
David was appointed to the Board in March 2002. Former roles include: Chairman and Chief Executive of Morgan Stanley & Co 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 Plc. **NC, RC**

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

Corporate Governance

The Board of Legal & General Group Plc (the Company or Legal & General) 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 the Company complies with the principles and relevant provisions of the Code.

The Board

The Board is collectively responsible for determining the strategic direction of the Group and for ensuring that the Company meets its obligations to shareholders. During 2008, the Board met nine times and also held a strategy event at an off-site location. The number of Board and Committee meetings attended by each director during the year was as follows:

Fig. 4.

	Board	AC	NC	RC
Number of meetings during 2008	**9**	**4**	**2**	**5**
Sir Rob Margetts	9/9	–	2	5/5
Tim Breedon	9/9	4/4	–	5/5
Andrew Palmer	9/9	4/4	–	–
Kate Avery	9/9	–	–	–
John Pollock	9/9	–	–	–
Frances Heaton	9/9	4/4	2	–
Rudy Markham	7/9	4/4	2	5/5
Ronaldo Schmitz	7/9	–	2	4/5
Henry Staunton	9/9	4/4	2	–
James Strachan	7/9	3/4	2	5/5
Sir David Walker	9/9	–	2	5/5

Key
AC Audit Committee
NC Nominations Committee
RC Remuneration Committee

Non-attendance at Board and Committee meetings is rare and it is usually due to the occurrence of unexpected commitments or for newly appointed directors, when there is a clash with a previous commitment that cannot be re-arranged. The Board has a formal schedule of matters specifically reserved to it, including decisions on strategic issues, capital expenditure, dividend policy 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 the Group but also to help them build working relationships with senior managers.

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

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

At the 2008 AGM, shareholders passed a resolution to change the Articles of Association primarily to take into account the changes in English Company Law brought about by the Companies Act 2006 and to bring the Articles into line with best practice. As permitted under the Companies Act 2006, the new Articles include a provision for dealing with directors' conflicts of interests to avoid a breach of duty, giving the directors authority to approve such situations. The Board has approved a policy and procedure whereby conflicts of interests are disclosed and authorised as appropriate. The procedure was implemented in the last quarter of 2008. It is the Board's intention to review annually authorisations of conflicts.

Board Composition and Structure

As at 31 December 2008, the Board comprised 11 directors. Biographies of all directors currently holding office appear on page 49.

The Board consists of a part-time non-executive Chairman, four executive directors and six non-executive directors. Throughout 2008, 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.

Although Sir Rob Margetts first joined the Board in June 1996, the Board believes that his knowledge and experience are of great value to the Board and the Committees which he chairs.

The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office and at the AGM. Attendance records for all directors who have held office during the year appear in Fig. 4.

2008 Board Changes

There were no changes to the composition of the Board during 2008.

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 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 business operating units. The Group Chief Executive chairs the Executive Committee of which all executive directors are members. The International & Strategy Director, the Chief Executive Officer (Investments), the Strategy Director and the Company 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 Company 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 Company 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.

The Board is currently undertaking an evaluation for the current year which will be completed by April 2009. Following the previous evaluation the Board agreed an action plan. As part of the action plan, consideration was given to the balance and composition of the Board with a view to ensure an appropriate balance and a good mix of skills and experience that would facilitate the achievement of the Company's strategy. A separate evaluation is carried out to assess the effectiveness of the Audit Committee. This was concluded in May 2008 and feedback provided by the Chairman of the Audit Committee to the members of the Committee. 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. In the case of the Chairman, feedback was delivered by the senior independent director.

Corporate Governance

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 Company Secretary is a matter reserved for 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 Group's 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 2008 included market consistent and embedded value reporting (MCEV).

In addition, all directors are invited to participate in Legal & General's educational and business awareness seminars for senior management. 2008 sessions included: the economy and the economy outlook for 2008, Takaful insurance, capital and cash flow, MCEV and Annuities.

Shareholder Relations
The Board places considerable importance on maintaining good relationships with shareholders. There is regular dialogue with institutional shareholders through meetings held on a regular basis. The Chairman, senior management or the senior independent director are available to meet institutional shareholders when required. No shareholders asked to meet with Sir David Walker during the reporting period. During 2008, a number of events have been held by Investor Relations to broaden shareholders' understanding of the Group's activities and strategy; some of such presentations are available on the Company's website. Shareholders can receive updates throughout the year on the Company's website which provides share price information and historical results.

The Corporate Communications and Investor Relations teams have day-to-day responsibility for managing shareholder communications through analysts and institutional investor meetings and presentations. Corporate Communications and Investor Relations ensure that the view of investors are addressed.

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. To encourage shareholders' engagement, the Company provides both electronic as well as written proxy appointment facilities for all shareholders. In line with the Code, details of voting by shareholders, including votes withheld, are made available on the Company's website following the meeting. The AGM Notice is sent to shareholders at least 20 working days before the meeting and sets out a separate resolution on each substantive issue. The resolutions to be proposed at the 2009 AGM together with the explanatory notes are available on the Company's website.

The Company has taken advantage of the new electronic shareholder communications provisions in the Companies Act 2006; those shareholders who have elected to receive the Annual Report and Accounts electronically have been able to access such information on the day they were published.

Board Committees
The Board has a number of standing committees:

Audit Committee (AC)
The role and work of the AC is set out on page 70.

Corporate Social Responsibility Committee (CSR)
The role and work of the CSR Committee is set out on page 41.

Nominations Committee (NC)
The role and work of the Nominations Committee is set out on page 72.

Remuneration Committee (RC)
The role and work of the Remuneration Committee is set out on page 59.

Group Risk and Compliance Committee (GRCC)
The role and work of the Group Risk and Compliance Committee is set out on page 54 and 55.

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 AC, the GRCC and the main operating boards.

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. Senior managers are required to confirm compliance with these policies throughout the year. The results of this confirmation process are considered by the AC on behalf of the Group Board.

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

Review of Internal Control

The 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 Group 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 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 AC, on the adequacy and effectiveness of internal control systems and significant control issues
- the GRCC's review of the continuous process for formally identifying, evaluating and managing the significant risks to the achievement of the Group's objectives
- compliance reports and presentations from the Compliance Director on at least a quarterly basis
- presentations of the results of internal audits by the Group Chief Internal Auditor to the AC; and
- monitoring and reporting on the control environment by business units to the GRCC.

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 CSR Committee, which is chaired by the Group Chief Executive, are outlined on page 41.

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 by the AC to the Board. For 2008, the Board was able to conclude, with reasonable assurance, that appropriate internal control systems were 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 AC. The Group Chief Internal Auditor reports regularly to the Group Chief Executive and to the AC.

Corporate Governance

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 Compliance Director reports quarterly to the GRCC and regularly to the Group Board.

Management of Risk

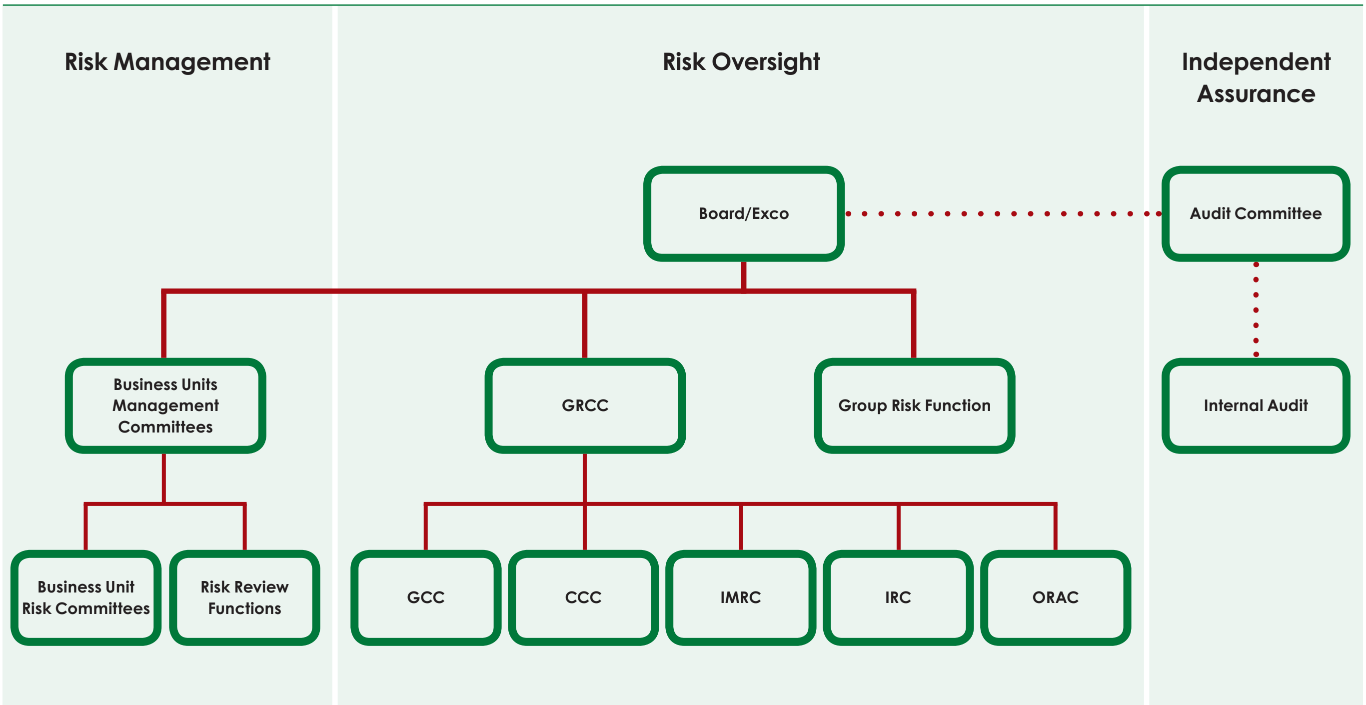
The Group, in the course of its business activities, is exposed to insurance, market, credit, liquidity, and operational risks. Overall responsibility for the management of these risks is vested in the Board. To support it in this role, a risk framework is in place comprising formal committees, risk review functions, risk management policies, and risk assessment processes. These are underpinned by defined risk principles describing the behaviours, practices and culture to support effective risk governance. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed.

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 50 to the Financial Statements. Analysis of specific risk factors underpinning Principal Risks and Uncertainties to the Group are set out on pages 14 to 15.

Committee Structure

Oversight of the risk management framework is performed on behalf of the Board by 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 AC and PricewaterhouseCoopers LLP, as external auditors, have a standing invitation to attend.

Fig. 5. Risk Governance Framework



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. It reports regularly to the Board and as well as providing its minutes to the AC, a formal report is made on its assessment of the operation of the Group's risk framework. The GRCC has sub-committees that provide oversight of specific aspects of the risks to which the Group may be exposed. Details of their roles are set out in Fig. 6. The GRCC monitors contagion risk across the Group.

Detailed monitoring of actual risk positions to tolerances is performed within business operating units. For financial risks, exposures are reported to the relevant sub-committee of the GRCC. To monitor the management of operational risk and compliance with regulation, a Risk and Compliance Committee (RCC) is in place for each of the main business operating units of the Group. 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.

Risk Review Functions

Group and the business operating units 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, policy 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 business operating units' risk committees are provided with meaningful risk reports and that there is appropriate information to assess risk issues.

Fig. 6.

Committee	Role
Group Capital Committee (GCC)	To assess the capital requirements (including the economic capital requirements) of the Group; monitor the sources of capital available to meet these requirements; and oversee the allocation of capital to operational business units.
Counterparty Credit Committee (CCC)	To set limits for the Group's exposure to any single counterparty exposure and oversee the management of exposures within these limits.
Group Investment & Market Risk Committee (IMRC)	To monitor developments in investment markets; consider asset allocation strategies; and ensure that exposures to market and liquidity risks remain within acceptable parameters.
Group Insurance Risk Committee (GIRC)	To determine the range of products that the Group may write; evaluate strategies for the management of insurance risks; and ensure that exposures to insurance risk remain within acceptable parameters.
Group Operational Risk Assessment Committee (ORAC)	To determine the Group's overall framework for the management of operational risks; setting policy for the management of specific aspects of the Group's operational risks; and ensuring consistency of approach to operational risk management across the Group.

Corporate Governance

Risk Policies

The Group has a common risk language for the classification and aggregation of the types of risk to which it might be exposed. The main categories of financial and non-financial risks are summarised in Fig. 7. below. For each category the Group has defined policies setting out the required risk management framework, minimum standards of control and the approach to determine economic capital for residual exposures. The policies are reviewed and approved by the relevant committees set out in Fig. 6. and ratified by the GRCC. Where appropriate, more detailed policies and procedures are in place defining the approach to the management of specific aspects of each risk category. The operation of the Group's risk policies is supported by Risk Review Functions with independent review by Group Internal Audit.

Fig. 7.

Insurance Risk	The risk arising from higher claims being experienced than was anticipated.
Market Risk	The risk arising from fluctuations in interest and exchange rates, share prices and other relevant market prices.
Credit Risk	The risk that the Group is exposed to loss if another party fails to perform its financial obligations to the Group.
Liquidity Risk	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.
Operational Risk	The risk arising from inadequate or failed internal processes, people and systems, or from external events.
Contagion Risk	The occurrence of a risk in one part of the Group may result in contagion risk elsewhere in the Group.

Further analysis of these risks to the Group, together with high-level management processes, are set out in Note 50 to the Financial Statements.

Risk Assessment Processes

The Group has a standardised assessment framework for the identification and assessment of the different types of risk it may be exposed to and how economic capital should be determined in relation to those exposures. This framework is applicable across all of the Group and establishes a basis of consistency not only for the approach to determining and embedding economic capital management but also for risk assessment, management and reporting processes at all levels of the Group.

Within the risk assessment framework, four distinct types of risk exposure are identified:

Strategic Risks – uncertainties that arise from the Group's strategy and the markets in which it operates;

Emerging Risks – matters of internal and external concern;

Inherent Risks – factors that the Group is exposed to as an intrinsic part of the operation of its business; and

Process Risks – Operational risks associated with the operation of systems and processes.

Each risk type may be mapped to the risk categories outlined in Fig. 7.

The risk assessment activity is a continuous process and is performed in the context of the identification and management of the significant risks to the achievement of the Group's objectives. Stress and scenario tests are used to support the assessment of risk. Senior management and the risk review functions review the output of the assessments, with regular reports provided to the GRCC. A Group-level risk assessment process determines the overall risks to the Group.

The overall risk framework and interactions are set out in Fig. 5.

Compliance with the Code

For the year ended 31 December 2008, the Board believes that the Company complied with the principles and provisions of the Code to the extent that they apply to the Company.

Change of Secretary

Following the resignation of C A Davies, G J Timms was appointed Company Secretary with effect from 1 September 2008.

Directors' Report on Remuneration

Dear Shareholder,

I am pleased to present the Remuneration Committee's report on directors' remuneration for 2008, the forthcoming financial year and, subject to ongoing review, subsequent years.

The Remuneration Committee has reviewed all of the Company's key remuneration policies in the light of the draft code of practice issued by the FSA and other publications and guidance from the ABI, NAPF and RiskMetrics. The review confirmed that current arrangements for the overall structure of remuneration for the executive directors remain largely appropriate and only limited changes are proposed.

The Committee endorses the principle of maintaining a coherent remuneration framework throughout the economic cycle and does not wish to make short term changes at the expense of longer term stability. However, given the unprecedented disturbance in financial markets and the deterioration in the general economic climate, the Committee has decided that no salary increases should be awarded to the executive directors and senior executives except to reflect promotions, and that no bonuses should be awarded to the executive directors.

Reflecting the fall in the share price, the Committee has decided to reduce the size of the 2009 Performance Share Plan awards for the executive directors from the normal policy level of 200% of salary to 150%. From 2009 onwards, the Committee will also have the discretion to withhold amounts deferred under the Share Bonus Plan in the event that the performance to which the bonus related subsequently proves to be misstated.

While the Committee believes that remuneration practices across the Group are in line with the FSA guidance, the Committee has extended its scope of reference to include a review of the remuneration of the 'oversight departments'; that is, employees in Human Resources, Finance, Compliance & Risk and a further, more detailed, review of all bonus plans operating below Board level has been commissioned.

The Company operates two all-employee share plans, a Savings-Related Share Options Scheme ('SAYE') and a Share Incentive Plan ('SIP'); both are approved by Her Majesty's Revenue and Customs (HMRC). These are due to expire and shareholder consent for renewal of the plans is being sought at the forthcoming AGM.

Finally, I wish to highlight two matters relating to pensions:

i) in order to manage effectively the future costs and risks of the defined benefit pension scheme, the main defined benefit pension arrangements have been adjusted. With effect from 1 January 2009, pensionable salary increases will be limited to a maximum of 2.5% each year. Actual salary increases are unaffected by this change and any salary increases resulting from the annual pay review will continue to be received in full. For relevant executive directors, the salary supplements in lieu of pension have been reduced to an amount which is broadly equivalent to the average employer's contribution for future accrual

ii) the table of pension entitlements on page 68 shows large increases in the transfer value of accrued final salary pensions. The increases do not, however, reflect any changes in the Group's pension policy or any discretionary enhancement in pension provision. However, the key actuarial assumptions (such as gilt yields and mortality) used to report the transfer values of those accruals have changed in line with legislation and regulatory practice, resulting in significant changes to the calculated transfer values.

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

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.

The Group Chief Executive attends the meetings by invitation. The Group HR Director, Elaine MacLean accompanied by the Group Head of Remuneration, Rosemary Lemon attend as the executives responsible for advising on remuneration policy. No person is present during any discussion relating to their own remuneration. Representatives of Hewitt New Bridge Street (HNBS), the Committee's independent adviser, are also invited to attend. HNBS 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.

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

Directors' Remuneration for Financial Year ended 31 December 2008

				Annual bonus[2]			Total
	Salary/fees £'000	Benefits[1] £'000	Cash in lieu of pension £'000	Cash £'000	Deferred £'000	**2008 £'000**	2007 £'000
Executive:							
Kate Avery[3]	385	20	0	0	0	**405**	588
Tim Breedon	770	20	216	0	0	**1,006**	1,574
Andrew Palmer	460	20	0	0	0	**480**	797
John Pollock	370	20	100	0	0	**490**	650
	1,985	80	316	0	0	**2,381**	3,609
Non-executive:							
Frances Heaton	65	1	–	–	–	**66**	60
Sir Rob Margetts	325	1	–	–	–	**326**	327
Rudy Markham	65	0	–	–	–	**65**	60
Ronaldo Schmitz	65	15	–	–	–	**80**	72
Henry Staunton	90	0.6	–	–	–	**90.6**	80
James Strachan	65	0.3	–	–	–	**65.3**	60
Sir David Walker	110	0	–	–	–	**110**	100
	785	17.9	–	–	–	**802.9**	759
Total	2770	97.9	316	0	0	**3,183.9**	4,368

During 2008 there were no payments in relation to compensation for loss of office. However, in January 2009, Kate Avery stood down from the Board. On cessation of employment she will be paid statutory and contractual entitlements only.

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, no bonuses were paid.
[3] Kate Avery's unvested Share Bonus Plan awards will lapse on her cessation of employment.

Directors' Report on Remuneration

engagement between the Company and HNBS are available on request.

During the year the Committee undertook a self evaluation of its performance in conjunction with HNBS, the Committee's independent adviser. The conclusion was that the Committee has operated effectively in determining and overseeing the implementation of remuneration policies and that all applicable regulatory requirements are being met.

Remuneration Policy

The Group's remuneration policy is broadly consistent for all employees and is designed to support recruitment, motivation and retention and reward high performance in the context of appropriate risk management. 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 works 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 on the following pages.

Remuneration Policy for Non-Executive Directors

Non-executive directors (NEDs) 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 after which such non-executive directors shall be subject to annual re-election. Appointments may be terminated by either party without notice. Fees for the non-executive directors are determined by the Board, based on a range of external information and advice set within the aggregate limits contained in the Articles of Association. During 2008, the fees of the non-executive directors, including the Chairman, were reviewed. As a result of this review, it was determined that there should be no increase to fees and therefore the following fees will continue to apply from 2009:

- 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.

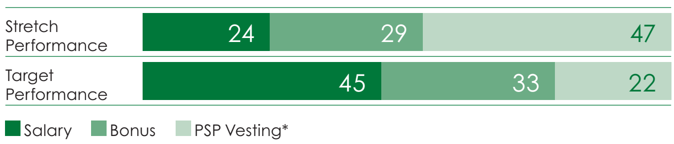
Non-executive directors use at least 50% of their fees, after UK tax, to buy Legal & General shares, to be retained by them for the remainder of their period in office. Fees paid to non-executive directors are non-pensionable. In addition to their fees, directors are entitled to be reimbursed for expenses properly and reasonably incurred in respect of their office and shown as benefits within the emoluments table. 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	May 2008	May 2011
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 having appropriate risk safeguards and these are 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 HNBS, Watson Wyatt and Monks Partnership, which is part of

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 level 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 • For 2009, no salary increases will be awarded to executive directors.
Annual Bonus	• Incentivise executives to achieve specific, predetermined 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 • From 2009, deferred element may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect • For 2008, no bonuses were awarded.
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 • For 2009, awards to executive directors have been set at 150% 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 20th 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.

Directors' Report on Remuneration

Element of remuneration package	Purpose	Policy	Summary of how it operates
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 • From 2009, pensionable salary for the defined benefit pension plan will be limited to a maximum increase of 2.5% each year • 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.

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 executives below Board level is broadly consistent with that followed at executive director level. There are 138 executives in the UK whose salaries exceed £100,000.

Salary range			Number of executives
£100,000	–	£124,999	78
£125,000	–	£149,999	31
£150,000	–	£174,999	14
£175,000	–	£199,999	8
£200,000	–	£224,999	5
£225,000	–	£249,999	1
£250,000+			1

Salary

The policy is generally to pay salaries around the mid-market level for the individual's 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.

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

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. No increases (other than for promotions) were awarded to executive directors and other members of the senior executive population in January 2009 as executives and the Committee felt it appropriate to set a clear example in the current economic conditions.

Accordingly, the base salaries for the executive directors for the financial year beginning on 1 January 2009 are as follows:

Name	Salary	% increase since 2008
Tim Breedon	£770,000	0%
Andrew Palmer	£460,000	0%
John Pollock	£370,000	0%

Kate Avery stood down from the Board in January 2009. She will remain employed on a period of garden leave until 31 August 2009. On termination she will receive a severance payment in line with her basic contractual and statutory entitlement. This payment will total £270,000. She will forfeit all awards outstanding under the Company's share plans as at the date of her termination.

On 28 January 2009 Mark Gregory joined the Board as Executive Director (Savings) with immediate effect. His starting salary was set at £310,000, a below median positioning relative to the market which is consistent with the Company's policy for new appointments. It is intended that, as he develops into the role, his salary will be progressed towards a market median positioning.

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. The maximum bonus payment for the executive directors remains at 125% of salary.

The proportion of bonus payable for on-target performance is 60% of the maximum for all the executive directors (ie 75% of salary).

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.

In setting bonus targets, the Committee seeks to link targets to areas of the business in which the executive has particular influence and responsibility, while 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 comprised 40% of the total bonus and were 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 was reviewed by the Committee based on its view of the executive's overall performance and regulatory compliance.

Although the executive directors met some of the targets making them eligible for a bonus, in the current environment, the Committee determined not to award a bonus in relation to 2008.

Kate Avery ceased to be an executive director on 28 January 2009. She was considered for a bonus in relation to 2008 and the Remuneration Committee determined that in line with other executive directors, no bonus would be paid.

Summary of Executive Directors' Bonus Targets for 2009

Name	Group KPIs	Other financial targets	Other strategic targets	Example targets
Tim Breedon	40%	30%	30%	Deliver returns to shareholders.
Mark Gregory	40%	30%	30%	Strengthen Savings business, improve customer experience and deliver business efficiency.
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%	Strengthen the Protection and Annuity business, improve customer experience and business efficiency.

Share Plans

Share Bonus Plan (SBP)

As stated above, 37.5% of any bonus earned is normally deferred into shares under the SBP, under which conditional shares are awarded and 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.

From 2009, should the performance which led to the payment of a bonus subsequently be found to be misstated, the Committee will now have discretion to withhold some or all of the SBP awards paid to executive directors relating to the relevant year's performance.

Directors' Report on Remuneration

Performance Share Plan (PSP)

Executive directors are entitled to participate in the Group's PSP. In March 2007 the Committee approved the introduction of a specific long term incentive plan for LGIM senior executives (none of whom are executive directors). The PSP remains 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 possible in 2009 remains at 200% of salary, and it is generally the Committee's policy to make awards of this level to executive directors annually. However, when making awards, it will also consider wider factors such as corporate performance in determining whether to grant at this normal policy level. In view of the exceptional current economic and financial situation, the Committee has decided to reduce the size of awards for 2009 to 150% of salary.

The number of shares that vest is dependent on Legal & General's relative TSR performance over a three-year period. 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 period.

Until 2007, the FTSE 100 was used to measure relative TSR performance. For the awards made in 2008 onwards, two distinct performance measures are used: half is 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 Committee considers that the measures and targets remain appropriate as it endorses consistency in remuneration policy, it provides a clear alignment of interests with shareholders and it ensures a degree of risk management as TSR (through share price) reflects both underlying financial performance and the market's assessment of the quality and sustainability of those earnings.

The Committee is conscious that the FSA has recently challenged the use of TSR as a performance measure and will consider this further. However, the initial view of the Committee is that TSR remains the clearest means of providing long term alignment between executives and shareholders, it has to date been preferred by the majority of our investors and it remains the Company's preferred measure for assessing companies in which it invests. Therefore, the Committee does not wish to abandon an established measure without further consideration and dialogue with the FSA.

The TSR performance conditions are independently reviewed by HNBS.

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.

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 ten years for executive schemes and all its plans operate within the 10% in ten years limit for all schemes. As at 31 December 2008, the Company had 4.41% share capital available under the 5% in ten years limit, and 8.91% share capital available under the 10% in ten years limit.

29,297,488 shares are currently held by the Employee Benefit Trust to hedge outstanding awards of 25,983,799 for the PSP and SBP. This means that the Trust holds 112% of outstanding awards.

Shareholdings and Benefits

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.

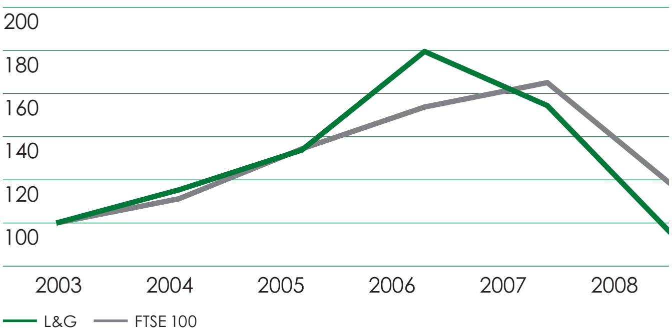
Given the fall in share price, several of the executive directors no longer comply with the guidelines as at the date of this report. They are not required to purchase shares through their own funds but will be required to retain vested shares under the Company's share incentive plans until their shareholding is met.

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 2008, of a £100 investment in Legal & General shares on 31 December 2003, compared with £100 invested in the FTSE 100 on the same date. The other points plotted are the values at intervening financial year-ends. The FTSE 100 Index was chosen as the Company is a member of this Index.

Total Shareholder Return



Source: Thompson Financial

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 have opted out of the Plan for future service accrual. 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.

From 1 January 2009 onwards, the increases in pensionable salary under the Defined Benefit pension plan will be capped at a maximum of 2.5% each year for active members (including relevant executive directors). For Tim Breedon and John Pollock, both of whom opted for enhanced protection and no longer accrue pension within the Defined Benefit Plan, their non-bonusable salary supplement will be reduced from 28% of salary for Tim Breedon and 27% of salary for John Pollock to 22% of the equivalent of the 'capped pensionable salary' had they remained members of the Defined Benefit Plan from 1 January 2009, reflecting a broadly equivalent benefit to the application of a 2.5% per annum pensionable salary increase cap. In addition, their basic salary at retirement will no longer be used to determine their ultimate pension entitlement.

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, both of which are approved by HMRC.

As the SAYE Scheme will expire on 20 April 2009, and the Employee Share Plan will expire on 11 October 2010, shareholder approval will be sought to renew both plans at the 2009 AGM.

Governance

Governance

Directors' Report on Remuneration

Directors' Shares Interests

The holdings of directors in office at the end of the year in the shares of the Company, including shares unvested awarded 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.

Name	31 December 2008	1 January 2008
Kate Avery	**1,090,298**	**922,769**
Tim Breedon	**1,924,195**	**1,686,347**
Andrew Palmer	**570,639**	**1,306,014**
John Pollock	**609,602**	**469,694**
Frances Heaton	**106,140**	**87,772**
Sir Rob Margetts	**620,627**	**519,921**
Rudy Markham	**49,993**	**16,091**
Ronaldo Schmitz	**117,617**	**95,133**
Henry Staunton	**137,600**	**112,154**
James Strachan	**92,087**	**73,719**
Sir David Walker	**333,730**	**277,493**

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

Name		Share options 1 Jan 2008	Options (exercised/ lapsed) granted	Share options 31 Dec 2008	Exercise price (p)	Earliest exercise date	Latest exercise date
Kate Avery	SAYE	**32,272**		**32,272**	55	1.5.10	31.10.10
	SAYE	**9,736**		**9,736**	98.6	1.5.11	31.10.11
	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	23.4.02	22.4.09
Andrew Palmer	SAYE	**29,863**	(29,863)	**0**	55	1.5.08	31.10.08
	SAYE	**18,585**		**18,585**	98.6	1.5.15	31.10.15
	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
John Pollock	SAYE	**29,863**	(29,863)	**0**	55	1.5.08	31.10.08
	SAYE	**17,038**		**17,038**	98.6	1.5.13	31.10.13
	CSOP	**545**		**545**	158.47	11.4.03	10.4.10

No options lapsed during 2008. As at 31 December 2008, there were 1,084,013 options outstanding for executive directors where the exercise price exceeded the highest market price during the year of 136.0p. The range of share price during 2008 was 57.1p to 136.0p.
The SAYE scheme is approved by HMRC and, in accordance with the relevant legislation, has no performance conditions.
All outstanding ESOS awards for the above have now met their performance conditions and are exercisable.

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.

Name		Options exercised	Exercise price (p)	Market price at date of exercise (p)	**Gain 2008 £'000**	Gain 2007 £'000
Andrew Palmer	SAYE	29,863	55	124.9	**21**	592
John Pollock	SAYE	29,863	55	124.9	**21**	–

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

Governance

Share Bonus Plan

Awards made since 2005 have been included within the Directors' Remuneration table in the year to which the bonus relates.

Performance Share Plan

Name	Awards granted[1]	Maximum award receivable for stretch performance	Awards vesting[2]	Awards lapsing	**Maximum outstanding awards as at 31 December 2008**
Kate Avery[3]	7 April 2005	478,936	(131,707)	(347,229)	**0**
	24 April 2006	426,800			**426,800**
	25 April 2007	449,580			**449,580**
	29 April 2008	605,344			**605,344**
Tim Breedon	7 April 2005	635,032	(174,633)	(460,399)	**0**
	24 April 2006	960,304			**960,304**
	25 April 2007	950,544			**950,544**
	29 April 2008	1,210,688			**1,210,688**
Andrew Palmer	7 April 2005	635,032	(174,633)	(460,399)	**0**
	24 April 2006	569,068			**569,068**
	25 April 2007	565,188			**565,188**
	29 April 2008	723,268			**723,268**
John Pollock	7 April 2005	372,504	(102,438)	(270,066)	**0**
	24 April 2006	348,551			**348,551**
	25 April 2007	411,044			**411,044**
	29 April 2008	581,760			**581,760**

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 2008 awards was 127.2p.
[2] The share price on the date of vesting for the 2005 award was 133.95p.
[3] Kate Avery's outstanding awards will lapse in full on the cessation of her employment. Her unvested awards under the Share Bonus Plan will also lapse on cessation of employment. Awards that reach maturity before 31 August 2009 will vest in accordance with the rules.

In 2009, in respect of performance in 2008, the Remuneration Committee decided that executive directors should be granted awards of performance shares to the following values: Tim Breedon £1,155,000, Mark Gregory £465,000, Andrew Palmer £690,000 and John Pollock £555,000.

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

Directors' Report on Remuneration

Other Share Purchases

The following executive directors' share purchases were made pursuant to their application in the Employee Share Plan:

2009 Name	2 January	2 February	2 March
Tim Breedon	191	248	394
Kate Avery*	191	–	–
Andrew Palmer	191	248	394
John Pollock	191	247	395
Mark Gregory†	–	248	394

* Ceased to be a director on 28 January 2009.
† Appointed 28 January 2009.

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

2009 Name	2 January	2 February	2 March
Sir Rob Margetts	10,372	13,280	21,159
Frances Heaton	2,058	2,636	4,200
Rudy Markham	2,058	2,636	4,200
Ronaldo Schmitz	2,058	2,636	4,200
Henry Staunton	2,858	3,659	5,830
James Strachan	2,058	2,636	4,200
Sir David Walker	4,623	5,919	9,431

Others

Pension Entitlements

Name	Age at 31 December 2008	Increase in accrued pension in 2008 £'000	Accumulated accrued pension at 31 December 2008 £'000	Transfer value of accrued benefits at 31 December 2008 £'000	Transfer value of accrued benefits at 31 December 2007 £'000	Increase/ (decrease) net of employee contributions in 2008 £'000
Kate Avery	48	9	40	673	390	252
Tim Breedon	50	10	265	5,291	3,714	1,466
Andrew Palmer	55	23	262	5,811	4,110	1,555
John Pollock	50	22	166	3,251	2,037	1,152

Change in transfer value (TV): the increase in accrued benefit, which is the actual benefit for affected executives, increased by between £9,000 and £23,000 for each individual which is consistent with the calculation of the entitlement as used in previous years. The above table also shows the increase in transfer value (being the current capital value now of the pension ultimately due) which shows a disproportionate increase. This level of increase did not arise as a result of extra accrual but as a result of the adoption, with effect from 1 October 2008, of a new actuarial basis for cash equivalent transfer values. This was as a result of new legislation and associated regulations. The new basis produces higher transfer values than the old basis, because of (a) using a lower discount rate, (b) the use of the latest mortality assumptions and (c) the yields on government bonds (which are an input into calculating transfer values) having fallen over the year.

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 'capped' pensionable salary at retirement. (From 1 January 2009 onwards, the increases in pensionable salary under the Defined Benefit Pension Plan are capped at a maximum of 2.5% each year for active members, including relevant executive directors)
- 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 pension entitlement at retirement remained linked to their salary; however, this linkage ceased at 31 December 2008
- Kate Avery: one-sixtieth of her annual 'capped' pensionable salary at retirement. From 1 January 2009 onwards, the increases in pensionable salary under the Defined Benefit Pension Plan will be capped at a maximum of 2.5% each year for active members, including relevant executive directors.

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 annualised salary. 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. Bonus sacrifice is at the discretion of the Company each year.

Directors' Loans

At 31 December 2008 and 31 December 2007 there were no loans outstanding made to directors.

Service Contracts

The notice entitlement of the executive directors with the exception of Mark Gregory 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.

Mark Gregory was appointed as Group Executive Director (Savings) on 28 January 2009. Following a review of policy and practice in notice entitlement, his notice entitlement is 12 months. However, he has no entitlement to any additional contractual payment on termination of employment. Any payment in lieu of notice will consist solely of base salary and the cost of providing benefits for the outstanding notice period and will be subject to deductions for income tax and national insurance as appropriate. These entitlements may be mitigated and/or spread over the period of notice.

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 and is also Chairman of their Audit Committee, is Chairman of the ABI Financial Regulation and Taxation Committee and Chairman of the ABI Financial Reporting Committee, Kate Avery was a non-executive director of Kelda Group Plc but resigned on 13 February 2008. She sat on the Life Insurance Committee of the ABI.

The Directors' Report on Remuneration was approved by the directors on 24 March 2009.

Sir David Walker
Chairman of the Remuneration Committee

Independent Verification Review

Hewitt New Bridge Street (HNBS) act as advisers to the Remuneration Committee. In addition, they were asked to verify that the 2008 remuneration practice for executive directors followed the Remuneration Policy put to the 2008 AGM. In conducting this work, HNBS reviewed the elements of executive director remuneration during 2008, as detailed in the policy statements of the Directors' Report on Remuneration 2007 (DRR 2007). They confirmed that they were satisfied that the remuneration practice during 2008 had been in line with the stated policy set out in the DRR 2007.

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 110 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 fulfilling 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 in so far as they relate to the financial reporting and risk management aspects of the Group's operations.

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:

Name	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, two members of the Audit Committee fulfil this requirement.

All Audit Committee members are required 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 2008
- the annual Internal Control Report for 2007 as present 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 2008 the Audit Committee Chairman attended all four of these meetings.

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.

Additionally, the Audit Committee consults with and obtains reports from the independent actuaries.

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 2008 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 held 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 directors; 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 leads the process 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 2008, the Committee met twice. Matters considered included, 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 (IFRSs) as adopted by the European Union, and the parent company Financial Statements 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 IFRSs, 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 IFRSs as adopted by the European Union and IFRSs 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 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 Financial Statements and the Directors' Remuneration Report comply with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. 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.

Contents of the 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 2008 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 2008 and on the information in the Directors' Report on Remuneration 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 statements give a true and fair view and whether the Group 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 that specific information presented in 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 directors' 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 Directors' Report. 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 2008 and of its loss 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 2008 and of its loss and cash flows for the year then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
24 March 2009

Notes:

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.

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Gross written premiums	1F,G,H/3(iv)	**5,895**	4,793
Outward reinsurance premiums	1J	**(569)**	(517)
Net change in provision for unearned premiums	1H	**1**	7
Net premium earned		**5,327**	4,283
Fees from fund management and investment contracts	1G	**740**	640
Investment return	1Y/5	**(37,749)**	13,225
Operational income	1Z	**38**	54
Total revenue	3(ii)	**(31,644)**	18,202
Expenses			
Claims and change in insurance liabilities		**3,287**	4,467
Reinsurance recoveries		**(587)**	(345)
Net claims and change in insurance liabilities	1F,H/6	**2,700**	4,122
Change in provisions for investment contract liabilities	1G	**(33,313)**	11,999
Acquisition costs	1F,G,H	**776**	848
Finance costs	1Q	**379**	214
Other expenses	1Z	**773**	662
Transfers from unallocated divisible surplus[1]	1F	**(806)**	(438)
Total expenses		**(29,491)**	17,407
(Loss)/profit before income tax	9	**(2,153)**	795
Income tax credit attributable to policyholder returns	11	**662**	88
(Loss)/profit from continuing operations before income tax attributable to equity holders of the Company		**(1,491)**	883
Total income tax credit/(expense)	1R/11	**1,023**	(77)
Income tax credit attributable to policyholder returns	11	**(662)**	(88)
Income tax credit/(expense) attributable to equity holders	11	**361**	(165)
(Loss)/profit from ordinary activities after income tax		**(1,130)**	718
Attributable to:			
Minority interests	31	**(63)**	(6)
Equity holders of the Company		**(1,067)**	724
Dividend distributions to equity holders of the Company during the year	1U/12	**367**	369
Dividend distributions to equity holders of the Company proposed after the year end	1U/12	**120**	247
		p	p
Earnings per share			
Based on (loss)/profit attributable to equity holders of the Company	1AA/13	**(17.88)**	11.24
Diluted earnings per share			
Based on (loss)/profit attributable to equity holders of the Company	1AA/13	**(17.88)**	11.18

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

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Investment in associates	1D/46	**14**	14
Plant and equipment	1M/16	**75**	79
Investment property	1L/17	**3,969**	5,969
Financial investments	1L/18	**234,514**	261,718
Reinsurers' share of contract liabilities	1J/20	**1,997**	1,530
Purchased interest in long term businesses and other intangible assets	1K/21	**227**	19
Deferred acquisition costs	1F,G,H/22	**2,112**	1,696
Deferred tax asset	1R/23	**988**	–
Income tax recoverable	1R/24	**8**	4
Other assets	25	**2,135**	1,519
Cash and cash equivalents	1O/26	**10,688**	8,737
Total assets	3(iii)	**256,727**	281,285
Equity			
Share capital	1U/27	**147**	157
Share premium account	27	**936**	927
Employee scheme shares	1U/27	**(46)**	(42)
Capital redemption and other reserves	28	**(42)**	59
Retained earnings	30	**2,593**	4,345
Shareholders' equity		**3,588**	5,446
Minority interests	31	**144**	178
Total equity	3(iii)/32	**3,732**	5,624
Liabilities			
Subordinated borrowings	1Q/38	**1,657**	1,461
Participating insurance contracts	1F/33	**9,384**	11,663
Participating investment contracts	1G/34	**6,992**	7,462
Unallocated divisible surplus	1F/35	**913**	1,721
Value of in-force non-participating contracts	1F/36	**(171)**	(276)
Participating contract liabilities		**17,118**	20,570
Non-participating insurance contracts	1F,H/33	**25,841**	22,873
Non-participating investment contracts	1G/34	**196,698**	224,906
Non-participating contract liabilities		**222,539**	247,779
Senior borrowings	1Q/38	**2,314**	1,327
Provisions	1T,W/39	**741**	742
Deferred tax liabilities	1R/23	**259**	296
Income tax liabilities	1R/24	**5**	113
Payables and other financial liabilities	40	**6,613**	1,609
Other liabilities	41	**997**	852
Net asset value attributable to unit holders		**752**	912
Total liabilities	3(iii)	**252,995**	275,661
Total equity and liabilities		**256,727**	281,285

The notes on pages 79 to 155 form an integral part of these financial statements.

The financial statements on pages 75 to 155 and the supplementary financial statements on pages 156 to 175 were approved by the directors on 24 March 2009 and were signed on their behalf by:

Sir Rob Margetts
Chairman

Tim Breedon
Group Chief Executive

Andrew Palmer
Group Director (Finance)

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Exchange differences on translation of overseas operations		**139**	4
Actuarial gains/(losses) on defined benefit pension schemes	39	**18**	(40)
Actuarial (gains)/losses on defined benefit pension schemes transferred to unallocated divisible surplus	35	**(8)**	16
Net change in financial investments designated as available-for-sale	28	**(56)**	1
Income/(expense) recognised directly in equity, net of tax		**93**	(19)
(Loss)/profit from ordinary activities after income tax		**(1,130)**	718
Total recognised income and expense		**(1,037)**	699
Attributable to:			
Minority interests	31	**(63)**	(6)
Equity holders of the Company		**(974)**	705

Group Financial Statements

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
(Loss)/profit from ordinary activities after income tax		**(1,130)**	718
Adjustments for non cash movements in net (loss)/profit for the period			
Realised and unrealised losses/(gains) on financial investments and investment properties		**48,376**	(4,862)
Investment income		**(10,086)**	(7,797)
Interest expense		**379**	214
Income tax (credit)/expense		**(1,023)**	77
Other adjustments		**77**	46
Net decrease/(increase) in operational assets			
Investments designated as held for trading or fair value through profit or loss		**2,161**	(8,322)
Investments designated as available-for-sale		**(93)**	(98)
Other assets		**(1,702)**	(230)
Net (decrease)/increase in operational liabilities			
Insurance contracts		**(1,479)**	152
Transfer from unallocated divisible surplus		**(798)**	(455)
Investment contracts		**(43,485)**	17,686
Value of in-force non-participating contracts		**105**	115
Other liabilities		**541**	(73)
Cash used in operations		**(8,157)**	(2,829)
Interest paid		**(377)**	(214)
Interest received		**5,214**	4,202
Income tax paid		**(208)**	(244)
Dividends received		**4,614**	3,312
Net cash flows from operating activities		**1,086**	4,227
Cash flows from investing activities			
Net acquisition of plant and equipment		**(14)**	(58)
Acquisitions (net of cash acquired)	15	**1,004**	–
Net cash flows from investing activities		**990**	(58)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(367)**	(369)
Proceeds from issue of ordinary share capital		**10**	4
Purchase of employee scheme shares		**(9)**	(5)
Purchase of shares under share buyback programme	27	**(523)**	(320)
Proceeds from borrowings		**3,568**	1,948
Repayment of borrowings		**(2,960)**	(1,637)
Net cash flows from financing activities		**(281)**	(379)
Net increase in cash and cash equivalents		**1,795**	3,790
Exchange gains on cash and cash equivalents		**156**	17
Cash and cash equivalents at 1 January		**8,737**	4,930
Cash and cash equivalents at 31 December	26	**10,688**	8,737

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

Notes to the Financial Statements

1 Accounting policies

A 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 chosen to adopt IFRS 8, 'Operating Segments', in 2008, in advance of the 31 December 2009 deadline. IFRS 8 supersedes the disclosure requirements of IAS 14, 'Segment Reporting' and reflects the basis on which the business is managed. In accordance with the provisions of the standard, comparatives have been restated. There is no impact on current or prior year profit or net assets resulting from the adoption of this standard, as its provisions relate to disclosure.

B 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. This is particularly relevant to the determination of fair values of unquoted financial investments (Notes 18 and 19), estimation of deferred acquisition costs (Note 22), tax balances (Notes 23 and 24), and insurance and investment contract liabilities (Notes 33 and 34) and associated balances.

The significant estimates and assumptions used are disclosed in the relevant notes to these financial statements, including Note 37 on Long term insurance valuation assumptions.

C 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.

D 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 (Note 45). 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.

Acquisitions

The Group applies the purchase method in its accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

E 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.

F 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. 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 Ltd.'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 ordinary 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.

G 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.

H 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.

I 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.

J 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.

1 Accounting policies (continued)

K 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 and other intangible assets

Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio. Other intangible assets acquired via business combinations are recognised at fair value and are subsequently amortised over their useful life in line with the expected emergence of profit from the business.

L 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 for certain overseas assets 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, consensus market pricing, 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 techniques 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.

M 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.

N Impairment policy

The Group reviews the carrying value of its financial 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 assets held at amortised cost or fair value of assets classified as AFS.

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.

O 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.

P 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 affects profit or loss 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, unless the embedded derivative itself meets the definition of an insurance contract.

Q 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 income statement over the borrowing period using the effective interest method.

Borrowings comprise unsecured subordinated debt such as Tier 1 and Tier 2 bond issues, short and long term unsecured senior debt such as long dated bond issues, commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities including bank overdrafts. Borrowings raised from individual banks, syndicated banks and capital markets secured on specific assets/cash flows such as Triple X securitisations and property partnerships' assets are included as non recourse borrowings, as are mortgage loans raised by SIPP clients secured on their properties invested in their portfolio of linked SIPP investments which we manage on their behalf.

R 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).

No deferred tax is provided on the undeclared surplus in Society's LTF represented by the Shareholder Retained Capital (SRC) on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus exists and there is no expectation that such a declaration will occur. At 31 December 2007, there was an expectation that a future declaration of surplus would be made and deferred tax was therefore provided at the incremental tax rate on the balance of the SRC which remained in Society's LTF.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

S 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.

T 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. Obligations under defined benefit pension schemes are included within provisions.

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.

U 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 own equity instruments, 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 (net of income taxes), 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.

V 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.

W 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.

X 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.

Y 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.

Z Operational income and expenses

Operational income comprises fee income from estate agency operations and agency fee income relating to distribution services. 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.

AA 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 and shares acquired under the share buyback programme prior to cancellation. 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.

AB Segmental reporting

Under the requirements of IFRS 8, operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

AC 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 2009 or later periods but which the Group has not adopted early, as follows:

- Revised IAS 1, 'Presentation of financial statements' – Comprehensive revision including requiring a statement of comprehensive income (effective from 1 January 2009). The revision is aimed at improving users' ability to analyse and compare the information given in financial statements. It prohibits the presentation of items of income and expenses in the statement of changes in equity, and requires changes in equity attributable to shareholders to be presented separately to changes in equity resulting from transactions and other events other than those resulting from transactions with shareholders. These amendments are presentational and are not likely to have a material impact on the Group accounts.
- Revised IAS 1, 'Presentation of financial statements' and IAS 32, 'Financial instruments –presentation'– Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective from 1 January 2009). The amendments require the following disclosures if an entity has a puttable instrument that is presented as equity : summary quantitative data about the amount classified as equity and the entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period. These amendments are presentational and are not likely to have a material impact on the Group accounts.
- There are various amendments resulting from the IASB's annual improvements project published in May 2008 (effective from both 1 January 2009 and 1 July 2009), these are unlikely to have a material impact on the Group accounts.

1 Accounting policies (continued)

- Revised IFRS 7, 'Financial instruments disclosures'. In March 2009, the IASB issued 'Improving Disclosures about Financial Instruments (Amendments to IFRS 7)' requiring enhanced disclosures about fair value measurements and liquidity risk. The disclosures include a three-level hierarchy for reporting the fair value movements: Level 1 – fair values measured using quoted prices in an active market for identical assets or liabilities, Level 2 – fair values measured using valuation techniques for which all inputs significant to the measurement are based on observable market data and Level 3 – fair values measured using valuation techniques for which any input significant to the measurement is not based on observable market data. The amendments are required for annual periods beginning on or after 1 January 2009 with earlier application permitted. These amendments are presentational and are not likely to have a material impact on the Group accounts.
- 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.
- Amendments to IFRS 2, 'Share-based payment' (effective from 1 January 2009). The amendments clarify what vesting conditions are, and specify the accounting treatment for cancellations of granted equity instruments. The anticipated impact is not expected to be material.
- 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. The Group does not consider that this amendment will result in any significant impact on the financial statements.
- Revised IFRS 3, 'Business combinations' – This standard comprehensively revises the acquisition method of accounting with consequential amendments to IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures' (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 future business acquisitions.
- Amendment to IAS 39, 'Financial Instruments: Recognition and measurement' – This standard amends eligible hedged items (effective from 1 July 2009). The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations. The responses to an exposure draft of proposed guidance (published in September 2007) indicated that diversity in practice existed, or was likely to exist, in the designation of a one-sided risk in a hedged item and inflation in a financial hedged item. The IASB has therefore focused on developing application guidance to illustrate how the principles underlying hedge accounting should be applied in those situations. The Group does not consider that these amendments will have a material impact on the financial statements.
- Revised IFRS 1, 'First-time adoption of International Financial Reporting Standards' – This standard amends the rules on cost of an investment on first-time adoption and IAS 27, 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). This amendment is not relevant to the Group's financial statements.
- Amendment to IAS 39, 'Financial Instruments: Recognition and measurement' and IFRS 7, 'Financial Instruments: Disclosures' (effective 30 June 2009). The amendments permit reclassification of some financial instruments out of the fair-value-through-profit-or-loss category (FVTPL) and out of the available-for-sale category. The amendments do not permit reclassification into FVTPL. These amendments are not relevant to the Group's financial statements as the Group has not made use of the reclassification amendments.
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). This interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction contracts', should be applied to particular transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). This clarifies the accounting treatment in respect of net investment hedging. The IFRIC is not expected to have a material impact on the Group's financial statements.
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009). The interpretation clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss; and an entity will provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The IFRIC is not expected to have a material impact on the Group's financial statements.
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009). This IFRIC clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This IFRIC is not relevant to the Group's operations as the Group does not have such agreements with customers.

2 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. Supplementary IFRS operating profit is one of the Group's key performance indicators.

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

Operating profit for the Risk segment represents the net capital invested/released from the non profit Risk businesses (individual and group protection, and individual and bulk purchase annuities) and the operating profit of our General insurance business. This incorporates the total investment return on assets backing the liabilities of the non profit Risk businesses which in 2008 includes £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn. General insurance operating profit includes a longer term expected investment return on shareholders' funds.

Operating profit for the Savings segment represents the net capital invested/released from the non profit Savings businesses (non profit investment bonds and non profit pensions (including SIPPs)), the with-profits transfer and the operating profit of our core retail investments business.

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

Investment return on Group capital incorporates a longer term expected investment return using longer term investment return assumptions applied to the average balance of Group invested assets (including interest bearing intra-group balances) calculated on a quarterly basis.

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

	Notes	2008 £m	2007 £m
From continuing operations			
Risk	(ii)	**(603)**	104
Savings	(iii)	**66**	112
Investment management	(iv)	**165**	143
International	(v)	**59**	86
Group capital and financing	(vi)	**124**	213
Operating (loss)/profit		**(189)**	658
Variation from longer term investment return		**(1,239)**	(90)
Release of 1996 Sub-fund	29	**–**	321
Property losses attributable to minority interests		**(63)**	(6)
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company		**(1,491)**	883
Tax credit/(expense) attributable to equity holders of the Company	11	**361**	(165)
(Loss)/profit from ordinary activities after tax		**(1,130)**	718

(ii) Risk operating profit

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

1. Includes £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn. Non profit Risk includes individual and group protection, and individual and bulk purchase annuities.
2. Other comprises estate agencies and housing related business conducted through our regulated mortgage network. It also includes Nationwide Life Risk business and business unit costs of £3m (2007: £4m) allocated to the Risk business.

Notes to the Financial Statements (continued)

2 Supplementary operating profit information (continued)

(iii) Savings operating profit

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

1. Non profit Savings businesses includes non profit investment bonds and non profit pensions (including SIPPs).
2. With-profits business operating profit is the shareholders' share of policyholder bonuses.
3. Other includes Suffolk Life, operations in Ireland, Nationwide Life Savings business and business unit costs of £3m (2007: £4m), allocated to the Savings business.

(iv) Investment management operating profit

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

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

(v) International operating profit

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

Exchange rates are provided in Note 10.

(vi) Group capital and financing operating profit

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

1. The longer term expected investment return of £351m (2007: £387m) reflects an average return of 7% (2007: 7%) on the average balance of invested assets held within Group capital and financing (including interest bearing intra-group balances) calculated on a quarterly basis. The invested assets (including interest bearing intra-group balances) held within Group capital and financing amounted to £4.8bn at 31 December 2008 (2007: £5.7bn).
2. Interest expense excludes interest on non recourse financing (see Note 38).
3. The defined benefit pension scheme (expense)/income includes the actuarial gains and losses arising on annuity assets held by the schemes that have been purchased from Legal & General Assurance Society. Under IFRS, these annuity assets cannot be classified as plan assets in accordance with IAS 19 and so the associated actuarial gains and losses cannot be taken to the statement of recognised income and expense (2008 expense: £15m; 2007 income: £4m). The 2007 comparative also includes income of £17m arising from a pension deficit reduction payment which was charged to the operating segments in 2008.

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

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

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

The combined operating ratio is:

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

(viii) Earnings per share

	Notes	Loss before tax 2008 £m	Tax credit 2008 £m	Loss after tax 2008 £m	Number of shares[1] 2008 m	Earnings per share 2008 p
Operating loss from continuing operations	(i)	**(189)**	**59**	**(130)**	**5,968**	**(2.18)**
Variation from longer term investment return	(i)	**(1,239)**	**302**	**(937)**		**(15.70)**
Loss attributable to equity holders/EPS[2]		**(1,428)**	**361**	**(1,067)**	**5,968**	**(17.88)**

	Notes	Profit before tax 2007 £m	Tax (expense)/ credit 2007 £m	Profit 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

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

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

3 Segmental analysis

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

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

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

The Savings segment comprises non profit investment bonds, non profit pensions (including SIPPs), ISAs, retail unit trusts, and all with-profits products.

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

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

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

Notes to the Financial Statements (continued)

3 Segmental analysis (continued)

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

The Group assesses performance and allocates resources on the basis of IFRS operating profit before tax, (set out in Note 2). Segmental IFRS operating profit before tax is reconciled to the consolidated profit from continuing operations before tax attributable to equity holders and consolidated profit from ordinary activities after income tax.

The Group considers additional performance measures in assessing the performance of the segments. These include new business levels (Note 4) and EEV reporting (Supplementary Financial Statements).

(i) Operating (loss)/profit

For the year ended 31 December 2008	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Operating (loss)/profit	**(603)**	**66**	**165**	**59**	**124**	**(189)**
Variation from longer term investment return	**(29)**	**–**	**7**	**4**	**(1,221)**	**(1,239)**
Release of 1996 Sub-fund	**–**	**–**	**–**	**–**	**–**	**–**
Property losses attributable to minority interests	**–**	**–**	**–**	**–**	**(63)**	**(63)**
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company	**(632)**	**66**	**172**	**63**	**(1,160)**	**(1,491)**
Tax credit/(expense) attributable to equity holders of the Company	**172**	**(7)**	**(52)**	**(21)**	**269**	**361**
(Loss)/profit from ordinary activities after tax	**(460)**	**59**	**120**	**42**	**(891)**	**(1,130)**

For the year ended 31 December 2007	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Operating profit	104	112	143	86	213	658
Variation from longer term investment return	(9)	–	4	(11)	(74)	(90)
Release of 1996 Sub-fund	–	–	–	–	321	321
Property losses attributable to minority interests	–	–	–	–	(6)	(6)
Profit from continuing operations before tax attributable to equity holders of the Company	95	112	147	75	454	883
Tax expense attributable to equity holders of the Company	(32)	(33)	(44)	(22)	(34)	(165)
Profit from ordinary activities after tax	63	79	103	53	420	718

(ii) Revenue

For the year ended 31 December 2008	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Internal revenue	132	133	119	–	(384)	–
External revenue	2,648	(6,008)	(28,229)	741	(796)	(31,644)
Total revenue	**2,780**	**(5,875)**	**(28,110)**	**741**	**(1,180)**	**(31,644)**

For the year ended 31 December 2007	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Internal revenue	176	106	87	–	(369)	–
External revenue	3,223	2,475	11,282	1,000	222	18,202
Total revenue	3,399	2,581	11,369	1,000	(147)	18,202

Total revenue includes investment losses of £37,749m (2007: gains of £13,225m).

(iii) Consolidated balance sheet

As at 31 December 2008	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Assets						
Investment in associates	–	14	–	–	–	14
Investment property	–	2,866	273	7	823	3,969
Financial investments	19,119	34,160	173,255	6,250	1,730	234,514
Reinsurers' share of contract liabilities	1,479	474	–	302	(258)	1,997
Deferred acquisition costs	51	1,018	18	1,100	(75)	2,112
Other assets	2,199	518	1,471	1,427	(2,182)	3,433
Cash and cash equivalents	412	3,941	3,376	618	2,341	10,688
Total assets	**23,260**	**42,991**	**178,393**	**9,704**	**2,379**	**256,727**
Shareholders' equity	101	73	322	1,272	1,820	3,588
Minority interests	–	–	–	–	144	144
Total equity	**101**	**73**	**322**	**1,272**	**1,964**	**3,732**
Liabilities						
Subordinated borrowings	–	–	–	–	1,657	1,657
Participating contract liabilities	–	14,829	–	2,289	–	17,118
Non-participating contract liabilities	19,001	25,917	174,469	3,691	(539)	222,539
Senior borrowings[1]	–	161	9	676	1,468	2,314
Other liabilities	4,158	2,011	3,593	1,776	(2,171)	9,367
Total liabilities	**23,159**	**42,918**	**178,071**	**8,432**	**415**	**252,995**
Total equity and liabilities	**23,260**	**42,991**	**178,393**	**9,704**	**2,379**	**256,727**

1. Includes non recourse financing.

Notes to the Financial Statements (continued)

3 Segmental analysis (continued)
(iii) Consolidated balance sheet (continued)

As at 31 December 2007	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Assets						
Investment in associates	–	14	–	–	–	14
Investment property	–	4,062	401	7	1,499	5,969
Financial investments	16,656	38,170	198,209	4,757	3,926	261,718
Reinsurers' share of contract liabilities	915	406	–	209	–	1,530
Deferred acquisition costs	49	972	19	702	(46)	1,696
Other assets	1,556	345	914	1,047	(2,241)	1,621
Cash and cash equivalents	506	2,609	4,419	499	704	8,737
Total assets	19,682	46,578	203,962	7,221	3,842	281,285
Shareholders' equity	113	53	310	888	4,082	5,446
Minority interests	–	–	–	–	178	178
Total equity	113	53	310	888	4,260	5,624
Liabilities						
Subordinated borrowings	–	–	–	–	1,461	1,461
Participating contract liabilities	–	18,828	–	1,742	–	20,570
Non-participating contract liabilities	17,370	25,594	202,541	2,811	(537)	247,779
Senior borrowings[1]	2	2	6	489	828	1,327
Other liabilities	2,197	2,101	1,105	1,291	(2,170)	4,524
Total liabilities	19,569	46,525	203,652	6,333	(418)	275,661
Total equity and liabilities	19,682	46,578	203,962	7,221	3,842	281,285

1. Includes non recourse financing.

(iv) Gross written premiums

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

4 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 2008 £m	**Single 2008 £m**	Annual 2007 £m	Single 2007 £m
Protection	**207**	**–**	223	–
Annuities[1]	**–**	**2,806**	–	2,045
Total Risk	**207**	**2,806**	223	2,045
Unit linked bonds	**–**	**1,306**	–	2,512
Pensions, stakeholder and other non profit	**181**	**1,468**	141	1,122
With-profits	**108**	**838**	130	983
Core retail investments[2]				
– ISAs	**29**	**413**	14	437
– Unit trusts	**12**	**1,466**	7	962
Total Savings	**330**	**5,491**	292	6,016
Total Risk and Savings	**537**	**8,297**	515	8,061
International				
USA	**51**	**–**	45	–
Netherlands	**13**	**157**	11	157
France	**17**	**227**	17	272
	618	**8,681**	588	8,490
Investment management				
UK managed pension funds[3]				
– Pooled funds		**26,733**		49,460
– Segregated funds		**841**		2,603
		27,574		52,063
Limited partnerships		**51**		171
Other funds[2]	**1**	**5,465**	2	2,195
	1	**33,090**	2	54,429
Total new business	**619**	**41,771**	590	62,919

	Annual 2008 £m	**Single 2008 £m**	Annual 2007 £m	Single 2007 £m
Comprising:				
Insurance contracts				
Risk and savings				
– Participating	**1**	**855**	6	710
– Non-participating	**284**	**2,394**	295	1,681
Investment contracts				
Risk and savings				
– Participating	**4**	**237**	5	248
– Non-participating	**288**	**3,253**	261	4,428
Core retail investments	**41**	**1,942**	21	1,423
Investment management	**1**	**33,090**	2	54,429
Total new business	**619**	**41,771**	590	62,919

1. Risk annuity new business includes those premiums written in the with-profits fund of £27m (2007: £47m). For segmental profit reporting these contracts are incorporated with all other with-profits business in the Savings segment on the basis of materiality.
2. UK core retail investments excludes institutional investments which are disclosed with segregated property, property partnerships, ventures partnerships and institutional clients funds which are disclosed as part of Institutional fund management. Other funds comprise new business from Legal & General Investment Management (2008: £3,249m; 2007: £388m) and from Legal & General Retail Investments (2008: £2,218m; 2007: £1,809m).
3. Excludes £7.4bn (2007: £19.4bn) which is held on a temporary basis, generally as part of portfolio reconstructions.

The UK pooled managed funds of £26.7bn (2007: £49.5bn) 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 52.9% (2007: 51.5%) reinsured, and permanent health insurance, which is 28.4% (2007: 26.3%) reinsured.

Notes to the Financial Statements (continued)

5 Investment return

	2008 £m	2007 £m
Financial investment return[1]	**(36,603)**	13,109
Property investment return[2]	**(1,146)**	116
Investment return	**(37,749)**	13,225

1. Financial investment return includes fair value gains and losses, excluding fair value movements attributable to AFS investments, dividends and interest. Net (losses)/gains (excluding interest and dividend income) of £(46,072)m (2007: £4,914m) arose on financial investments designated as FVTPL and £(866)m (2007: £178m) arose on derivative contracts classified as HFT. Interest income of £77m (2007: £71m) arose on financial investments designated as AFS. Impairments on assets classified as AFS amounted to £17m during the year (2007: £nil). Investment income of £545m (2007: £396m) arose on loans and receivables.
2. Property investment return includes £294m (2007: £346m) of rental income.

6 Net claims and change in insurance liabilities

From continuing operations	Long term insurance 2008 £m	General insurance 2008 £m	Total 2008 £m	Long term insurance 2007 £m	General insurance 2007 £m	Total 2007 £m
Claims paid						
– gross	**4,429**	**235**	**4,664**	3,922	255	4,177
– reinsurance recoveries	**(406)**	**(7)**	**(413)**	(269)	(3)	(272)
	4,023	**228**	**4,251**	3,653	252	3,905
Change in insurance liabilities						
– gross	**(1,333)**	**(44)**	**(1,377)**	255	35	290
– reinsurance recoveries	**(182)**	**8**	**(174)**	(66)	(7)	(73)
Net claims and change in insurance liabilities	**2,508**	**192**	**2,700**	3,842	280	4,122

In 2008, the change in long term insurance liabilities includes the impact arising from the current interest rate environment and increased credit spreads reducing liabilities, partially offset by the £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn.

In 2007, the change in long term insurance liabilities includes £214m relating to the strengthening of assumptions for annuitant longevity on existing business. This was largely offset by mortality and changes to expense assumptions on term business (on a gross reassurance basis), which reflected improved experience.

7 Auditors' remuneration

	2008 £m	2007 £m
Remuneration receivable by the Company's auditor for the audit of the consolidated and Company financial statements	**1.2**	1.1
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	**1.7**	1.4
	2.9	2.5
Other services supplied pursuant to legislation	**0.5**	0.5
Tax services	**0.4**	0.6
Other services not covered above	**1.5**	1.4
Total remuneration	**5.3**	5.0

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 £nil (2007: £0.1m).

8 Employee information

	2008	2007
Average number of staff employed during the year:		
UK	**8,999**	9,296
Europe	**360**	363
USA	**418**	408
Worldwide employees	**9,777**	10,067

	Notes	2008 £m	2007 £m
Salaries		**330**	330
Social security costs		**39**	43
Share-based incentive awards		**23**	18
Defined benefit pension costs	39	**58**	39
Defined contribution pension costs	39	**25**	21
		475	451

9 Profit before income tax

	Notes	2008 £m	2007 £m
The following items have been included in arriving at profit before income tax:			
– Depreciation on plant and equipment	16	**23**	20
– Amortisation of purchased interest in long term businesses and other intangibles	21	**30**	3
– Operating lease rentals		**24**	25
– Reinsurance commissions		**(10)**	(14)
– Direct operating expenses arising from investment properties which generate rental income		**19**	16

During the year, the Group entered into prospective reinsurance arrangements which resulted in a profit of £130m (2007: £145m). This profit has been reflected in the consolidated income statement for the year.

10 Foreign exchange and exchange rates

Loss for the year includes foreign exchange gains on financial instruments. The gain for the year also includes foreign exchange gains of £11m (2007: losses of £268m) arising on conversion of monetary assets and liabilities to functional currencies.

Principal rates of exchange used for translation are:

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

11 Income tax (credit)/expense

	2008 £m	2007 £m
Current tax		
– Current tax for the year	**103**	261
– Adjustments in respect of prior years	**1**	2
Total current tax	**104**	263
Deferred tax		
– Origination and reversal of temporary differences	**(1,127)**	(186)
Total income tax (credit)/expense	**(1,023)**	77
Represented by:		
Income tax credit attributable to policyholder returns	**(662)**	(88)
Income tax (credit)/expense attributable to equity holders	**(361)**	165
Total income tax (credit)/expense	**(1,023)**	77

Notes to the Financial Statements (continued)

11 Income tax (credit)/expense (continued)

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.

The tax assessed for the year is lower (2007: lower) than the standard corporation tax rate applicable to companies operating in the UK of 28.5% (2007: 30%). The differences are explained below:

	2008 £m	2007 £m
Income tax (credit)/expense calculated at standard UK corporation tax rate	(614)	239
Effects of:		
Income tax credit relating to policyholder returns	(474)	(62)
Disallowable expenditure	5	5
Non taxable income including UK dividends	(15)	(12)
Adjustments in respect of prior years	1	1
Differences between taxable and accounting investment gains/losses	7	(15)
Difference between taxable and accounting acquisition costs	(6)	–
Unrelieved tax losses	47	–
Overseas tax	6	(1)
No tax in respect of property losses attributable to minority interests	18	2
Higher tax on SRC investment return	2	22
Difference between tax relief and accounting expense for share releases and option exercises	(1)	3
No tax in respect of merger of 1996 Sub-fund with SRC	–	(96)
Reduction in UK corporate tax rate	3	(9)
Other	(2)	–
Total income tax (credit)/expense	**(1,023)**	77

	2008 £m	2007 £m
Deferred tax recognised directly in equity		
Relating to net gains or losses recognised directly in equity	(19)	10
Exchange gains	77	–
Deferred tax recognised directly in equity	**58**	10

No deferred tax is provided at the incremental rate on the undeclared surplus of £527m (2007: £2,047m) in Society's LTF represented by the Shareholder Retained Capital (SRC), on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually exists and there is no expectation that such a declaration will occur. The maximum amount of incremental tax which would crystallise on such a declaration of surplus is estimated to be £nil (2007: £nil).

12 Dividends and other distributions

	Per share 2008 p	Total 2008 £m	Per share 2007 p	Total 2007 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	4.10	248	3.81	248
– Current year interim dividend	2.01	119	1.87	121
	6.11	367	5.68	369
Ordinary share dividend proposed[1]	**2.05**	**120**	4.10	247

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

13 Earnings per share

Earnings per share have been calculated using the weighted average number of ordinary shares in issue and the (losses)/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 (loss)/profit attributable to equity holders

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

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

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

14 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 08**	**29 Aug 08**	**29 Apr 08**
Weighted average share price	**132p**	**101p**	**126p**
Weighted average exercise price	**99p**	**86p**	**n/a**
Expected volatility	**26 – 33%**	**27 – 34%**	**n/a**
Expected life	**3 – 7 years**	**3 – 7 years**	**3 years**
Risk free investment rate	**4.0 – 4.3%**	**4.5%**	**n/a**
Dividend yield	**4.1%**	**4.8%**	**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.

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.

	Options 2008	Weighted average exercise price 2008 p	Options 2007	Weighted average exercise price 2007 p
Outstanding at 1 January	**36,140,337**	**82**	34,935,949	77
Granted during the year	**24,847,859**	**92**	7,672,510	114
Forfeited during the year	**(1,367,401)**	**97**	(1,098,923)	90
Exercised during the year	**(14,557,902)**	**60**	(3,305,251)	80
Expired during the year	**(15,873,248)**	**102**	(2,063,948)	110
Outstanding at 31 December	**29,189,645**	**90**	36,140,337	82
Exercisable at 31 December	**763,190**	**88**	201,854	82

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 29p (2007: 45p). The Group recognised total expenses of £2m (2007: £2m) related to the SAYE scheme. The intrinsic value of vested SAYE options was £nil (2007: £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 2008 had a weighted average remaining contractual life of 3 years.

Notes to the Financial Statements (continued)

14 Share-based payments (continued)

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.

	Options 2008	Weighted average exercise price 2008 p	Options 2007	Weighted average exercise price 2007 p
Outstanding at 1 January	**38,365,089**	**138**	41,352,016	136
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(2,911,495)**	**146**	(696,798)	149
Exercised during the year	**(640,846)**	**86**	(1,961,215)	90
Expired during the year	**(371,082)**	**149**	(328,914)	166
Outstanding at 31 December	**34,441,666**	**139**	38,365,089	138
Exercisable at 31 December	**34,441,666**	**139**	38,365,089	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 97. No options have been granted since 2004 under these schemes.

The Group recognised total expenses of £nil (2007: £nil) related to the CSOP and ESOS. The intrinsic value of vested share options at the year end was £nil (2007: £4m). The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 3 years.

Share bonus plan (SBP)

SBP grants restricted shares which vest with employees three years after the grant date; recipients are entitled to both vote and receive dividends. 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.

During the year, 9,512,807 shares (2007: 6,670,313 shares) were awarded under the SBP. The weighted average fair value of the shares issued was 124p (2007: 155p). The Group recognised a total expense of £11m (2007: £7m) relating to the SBP.

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 dependent on the Group's relative TSR. The award will vest in full for upper quintile performance. One quarter of the award will vest for median performance. Awards will vest on a straight line prorated basis for performance between the median and upper quintile.

For awards made prior to 2008, the performance condition is based upon the FTSE 100. For awards made during or after 2008, half of each award will be measured using the existing FTSE 100 test, the remaining half is measured against a bespoke group of UK and European insurance companies. The group comprises all UK-listed life insurers that are constituents of the FTSE 350, plus all members of the insurance sector of the FTSE Eurotop 300. The two halves are measured independently, thus it is possible that one half may vest, whilst the other does not.

For both comparator groups, the companies used are members of the relevant indices as at the date of award.

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

During the year, 2,036,380 performance shares (2007: 1,773,775) were awarded. The weighted average fair value of each award issued was 232p (2007: 306p). The Group recognised a total expense of £5m (2007: £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, 4,329,878 shares (2007: 4,127,529 shares) were granted under the ESP. The weighted average fair value of the shares issued was 117p (2007: 148p). The Group recognised a total expense of £5m (2007: £4m) relating to the ESP during the year.

Total recognised expense

The total recognised expense relating to share based payments in 2008 was £23m (2007: £18m) before tax, all of which related to equity settled share schemes.

Total options

Options over 63,631,311 shares are outstanding under CSOP, ESOS and SAYE at 31 December 2008 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	2,919,853	2009 – 2010	110.01 – 120.00	2,784,432	2009 – 2014
60.01 – 70.00	–	–	120.01 – 130.00	31,873	2009
70.01 – 80.00	6,775,880	2009 – 2013	130.01 – 140.00	–	–
80.01 – 90.00	14,203,228	2009 – 2015	140.01 – 150.00	15,956,737	2011 – 2012
90.01 – 100.00	5,753,250	2009 – 2015	150.01 – 160.00	6,579,245	2010
100.01 – 110.00	4,337,615	2009 – 2014	160.01 – 170.00	4,289,198	2009

15 Acquisitions

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

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

(i) Nationwide Life Limited

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

(ii) Nationwide Unit Trust Managers Limited

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

(iii) Suffolk Life Group Plc

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

15 Acquisitions (continued)

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

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

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

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

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

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

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

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

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

16 Plant and equipment

	2008 £m	2007 £m
Cost		
As at 1 January	147	104
Additions	18	60
Disposals	(9)	(17)
As at 31 December	156	147
Depreciation		
As at 1 January	68	61
Provided during the year	23	20
Disposals	(10)	(13)
As at 31 December	81	68
Net book value at 31 December	75	79

17 Investment property

	Notes	Shareholder 2008 £m	Non profit non-unit linked 2008 £m	With-profits 2008 £m	Unit linked 2008 £m	Total 2008 £m
Fair value at 1 January		408	27	2,638	2,896	5,969
Additions		11	–	1	127	139
Improvements		2	–	85	18	105
Disposals		(58)	(27)	(485)	(515)	(1,085)
Fair value loss		(177)	–	(607)	(880)	(1,664)
Exchange revaluation		2	–	–	–	2
Acquisitions	15(iii)	–	–	–	503	503
Fair value at 31 December		188	–	1,632	2,149	3,969

17 Investment property (continued)

	Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Fair value at 1 January	409	220	3,095	3,128	6,852
Additions	1	–	7	312	320
Improvements	12	–	76	14	102
Disposals	(71)	(6)	(469)	(116)	(662)
Fair value gain/(loss)	56	(187)	(71)	(430)	(632)
Exchange revaluation	1	–	–	–	1
Other	–	–	–	(12)	(12)
Fair value at 31 December	408	27	2,638	2,896	5,969

18 Financial investments

	Notes	**Shareholder 2008 £m**	**Non profit non-unit linked 2008 £m**	**With-profits 2008 £m**	**Unit linked 2008 £m**	**Total 2008 £m**
Financial investments at fair value designated as:						
Fair value through profit or loss		**3,305**	**17,995**	**15,593**	**187,718**	**224,611**
Available-for-sale		**1,896**	**–**	**–**	**5**	**1,901**
Held for trading		**304**	**1,994**	**40**	**3,764**	**6,102**
Financial investments at fair value	(i)	**5,505**	**19,989**	**15,633**	**191,487**	**232,614**
Loans and receivables	(ii)	**98**	**–**	**282**	**1,520**	**1,900**
Total financial investments		**5,603**	**19,989**	**15,915**	**193,007**	**234,514**
Expected to be settled within 12 months						**40,742**
Expected to be settled after 12 months						**193,772**

		Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,734	16,449	19,011	218,040	258,234
Available-for-sale		1,440	–	–	2	1,442
Held for trading		75	151	13	455	694
Financial investments at fair value	(i)	6,249	16,600	19,024	218,497	260,370
Loans and receivables	(ii)	119	–	25	1,204	1,348
Total financial investments		6,368	16,600	19,049	219,701	261,718
Expected to be settled within 12 months						41,988
Expected to be settled after 12 months						219,730

Investment risks on unit linked assets are borne by the policyholders. The remaining risks are outlined in the risk management note (see Note 50).

Financial investments include £690m (2007: £164m) of debt securities pledged as collateral against derivative liabilities. The assets used as collateral are Treasury Gilts, AAA Supranational Bonds and AAA & AA rated bonds (2007: AAA rated bonds) having a residual maturity of over 16 years (2007: over 21 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	**Shareholder 2008 £m**	**Non profit non-unit linked 2008 £m**	**With-profits 2008 £m**	**Unit linked 2008 £m**	**Total 2008 £m**
Equity securities		**1,317**	**69**	**4,121**	**107,357**	**112,864**
Debt securities		**3,827**	**17,591**	**11,195**	**79,400**	**112,013**
Accrued interest		**56**	**335**	**251**	**965**	**1,607**
Derivative assets	19	**305**	**1,994**	**66**	**3,765**	**6,130**
Total investments at fair value		**5,505**	**19,989**	**15,633**	**191,487**	**232,614**

		Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With- profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Equity securities		2,715	288	7,308	143,915	154,226
Debt securities		3,410	15,885	11,496	73,296	104,087
Accrued interest		49	276	207	831	1,363
Derivative assets	19	75	151	13	455	694
Total investments at fair value		6,249	16,600	19,024	218,497	260,370

Private equity investments are included within equity securities. £(19)m (2007: gain of £47m) 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. £(9)m (2007: £(7)m) has been recognised in the income statement in respect of the movement in fair value of these investments.

Included within unit linked equity securities are £172m (2007: £335m) of debt instruments which incorporate an embedded derivative linked to the value of the Group's share price.

The Group obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Group seeks further evidence of the fair value from alternative pricing sources and market information.

Notes to the Financial Statements (continued)

18 Financial investments (continued)

The Group holds collateralised debt obligations (CDO) with a market value of £1,004m classified within debt securities.

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

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

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 28%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 33%, then over 42% of the reference names would have to default before the CDOs incur any default losses.

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

The CDOs also incorporate features under which, in certain circumstances, the Group can choose either to post additional cash or to allow wind up of the structures. These features are dependent on the portfolios' weighted average spreads, default experience to date and time to maturity. To manage this, the Group has the right to substitute individual securities into and out of the reference portfolio. An additional £155m was posted into one of the CDOs during 2008.

These CDOs are valued using an internal valuation which is based on market inputs. This is then validated against a third party valuation model and, at the year end, validated by independent external consultants.

For the purposes of valuing the non profit annuity regulatory and IFRS liabilities the yield on the CDOs are included within the calculation of the yield used to calculate the valuation discount rate for the annuity liabilities. An allowance for the risks, including default, is also made.

(ii) Loans and receivables

	Shareholder 2008 £m	Non profit non-unit linked 2008 £m	With-profits 2008 £m	Unit linked 2008 £m	Total 2008 £m
Deposits with credit institutions	**11**	**–**	**107**	**1,520**	**1,638**
Policy loans	**62**	**–**	**23**	**–**	**85**
Other loans	**25**	**–**	**152**	**–**	**177**
Total loans and receivables	**98**	**–**	**282**	**1,520**	**1,900**

	Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Deposits with credit institutions	68	–	5	1,204	1,277
Policy loans	51	–	19	–	70
Other loans	–	–	1	–	1
Total loans and receivables	119	–	25	1,204	1,348

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 2008 £m	Fair values Assets 2008 £m	Fair values Liabilities[1] 2008 £m	Contract/ notional amount 2007 £m	Fair values Assets 2007 £m	Fair values Liabilities[1] 2007 £m
Shareholder derivatives:						
Interest rate contracts – fair value hedges	**629**	**85**	**–**	1,065	18	28
Interest rate contracts – held for trading	**1,820**	**6**	**110**	600	13	2
Forward foreign exchange contracts – net investment hedges	**679**	**–**	**19**	595	1	2
Forward foreign exchange contracts – held for trading	**619**	**191**	**26**	441	43	–
Equity/index derivatives – held for trading	**(41)**	**12**	**1**	2	–	–
Credit derivatives – held for trading	**173**	**11**	**3**	–	–	–
Total shareholder derivatives		**305**	**159**		75	32
Non profit non-unit linked derivatives:						
Interest rate contracts – held for trading	**14,596**	**1,209**	**1,223**	7,767	101	244
Forward foreign exchange contracts – held for trading	**–**	**10**	**264**	–	–	45
Equity/index derivatives – held for trading	**50**	**716**	**–**	8	–	–
Currency swap contracts – held for trading	**–**	**–**	**–**	10	–	–
Inflation swap contracts – held for trading	**4,106**	**32**	**341**	3,946	18	5
Credit derivatives – held for trading	**1,855**	**27**	**392**	3,200	31	43
Other derivatives – held for trading	–	–	–	10	1	–
Total non profit non-unit linked derivatives		**1,994**	**2,220**		151	337
With-profits derivatives:						
Interest rate contracts – held for trading	**1,412**	**59**	**88**	999	9	6
Forward foreign exchange contracts – held for trading	**–**	**–**	**34**	–	–	10
Equity/index derivatives – held for trading	**(82)**	**7**	**3**	152	4	–
Total with-profits derivatives		**66**	**125**		13	16
Unit linked derivatives:						
Interest rate contracts – held for trading	**16,916**	**3,408**	**645**	7,437	263	139
Forward foreign exchange contracts – held for trading	**160**	**221**	**1,031**	–	1	200
Credit derivatives – held for trading	**–**	**–**	**–**	87	–	7
Inflation swap contracts – held for trading	**–**	**–**	**–**	–	1	–
Equity/index derivatives – held for trading	**419**	**25**	**2**	907	15	4
Other derivatives – held for trading	**–**	**1**	**–**	–	–	–
Inflation rate contracts – held for trading	**11,888**	**110**	**1,037**	6,364	175	13
Total unit linked derivatives		**3,765**	**2,715**		455	363
Total derivative assets and liabilities		**6,130**	**5,219**		694	748

1. Derivative liabilities are reported in the balance sheet within Payables and other financial liabilities.

Non-unit linked derivative assets have increased from £239m to £2,365m, primarily as a result of the movements in sterling interest rate hedging activities and the acquisition of assets backing guaranteed equity bond contracts with Nationwide Life £713m. Non-unit linked derivative liabilities have also increased from £385m to £2,504m reflecting hedging of market movements in exchange rates and inflation.

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.

Notes to the Financial Statements (continued)

19 Derivative assets and liabilities (continued)

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

Unit 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 2008	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							
Shareholder derivatives							
Derivative assets	**305**	**40**	**151**	**642**	**–**	**–**	**833**
Derivative liabilities	**(159)**	**991**	**40**	**35**	**5**	**3**	**1,074**
Non profit non-unit linked derivatives							
Derivative assets	**1,994**	**416**	**791**	**1,787**	**1,746**	**3,961**	**8,701**
Derivative liabilities	**(2,220)**	**5,097**	**685**	**1,405**	**1,123**	**1,976**	**10,286**
With-profits derivatives							
Derivative assets	**66**	**40**	**79**	**110**	**40**	**10**	**279**
Derivative liabilities	**(125)**	**457**	**52**	**95**	**32**	**7**	**643**
Total	**(139)**	**7,041**	**1,798**	**4,074**	**2,946**	**5,957**	**21,816**
Cash outflows							
Shareholder derivatives							
Derivative assets	**305**	**(34)**	**(140)**	**(450)**	**–**	**–**	**(624)**
Derivative liabilities	**(159)**	**(1,040)**	**(48)**	**(28)**	**(9)**	**(5)**	**(1,130)**
Non profit non-unit linked derivatives							
Derivative assets	**1,994**	**(340)**	**(567)**	**(1,431)**	**(1,180)**	**(2,420)**	**(5,938)**
Derivative liabilities	**(2,220)**	**(5,494)**	**(1,251)**	**(1,939)**	**(1,542)**	**(2,540)**	**(12,766)**
With-profits derivatives							
Derivative assets	**66**	**(30)**	**(50)**	**(85)**	**(25)**	**(5)**	**(195)**
Derivative liabilities	**(125)**	**(507)**	**(87)**	**(126)**	**(58)**	**(14)**	**(792)**
Total	**(139)**	**(7,445)**	**(2,143)**	**(4,059)**	**(2,814)**	**(4,984)**	**(21,445)**
Net shareholder derivatives cash flows		**(43)**	**3**	**199**	**(4)**	**(2)**	**153**
Net non profit non-unit linked derivatives cash flows		**(321)**	**(342)**	**(178)**	**147**	**977**	**283**
Net with-profits derivatives cash flows		**(40)**	**(6)**	**(6)**	**(11)**	**(2)**	**(65)**

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
		Maturity profile of undiscounted cash flows					
Cash inflows							
Shareholder derivatives							
Derivative assets	75	509	128	520	–	–	1,157
Derivative liabilities	(32)	127	26	18	–	–	171
Non profit non-unit linked derivatives							
Derivative assets	151	128	504	1,503	1,487	3,898	7,520
Derivative liabilities	(337)	1,999	591	749	526	2,406	6,271
With-profits derivatives							
Derivative assets	13	41	115	150	43	6	355
Derivative liabilities	(16)	416	32	54	36	11	549
Total	(146)	3,220	1,396	2,994	2,092	6,321	16,023
Cash outflows							
Shareholder derivatives							
Derivative assets	75	(507)	(132)	(492)	–	–	(1,131)
Derivative liabilities	(32)	(134)	(49)	(24)	–	–	(207)
Non profit non-unit linked derivatives							
Derivative assets	151	(160)	(703)	(1,561)	(1,526)	(2,121)	(6,071)
Derivative liabilities	(337)	(2,034)	(719)	(1,455)	(523)	(1,062)	(5,793)
With-profits derivatives							
Derivative assets	13	(43)	(111)	(137)	(38)	(5)	(334)
Derivative liabilities	(16)	(427)	(36)	(52)	(35)	(11)	(561)
Total	(146)	(3,305)	(1,750)	(3,721)	(2,122)	(3,199)	(14,097)
Net shareholder derivatives cash flows		(5)	(27)	22	–	–	(10)
Net non profit non-unit linked derivatives cash flows		(67)	(327)	(764)	(36)	3,121	1,927
Net with-profits derivatives cash flows		(13)	–	15	6	1	9

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 on hedging instruments were £55m (2007: £9m).
- Fair value losses on the hedged item attributable to the hedged risk were £60m (2007: £10m).

The total fair value gain on hedging instruments shown above excludes fair value losses arising from factors which are outside the designated hedging relationship of £20m (2007: gain of £2m).

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.

Notes to the Financial Statements (continued)

20 Reinsurers' share of contract liabilities

	Notes	Shareholder 2008 £m	Non profit non-unit linked 2008 £m	With-profits 2008 £m	Unit linked 2008 £m	Total 2008 £m
Reinsurers' share of:						
Insurance contract liabilities	33	**312**	**1,538**	**2**	**7**	**1,859**
Investment contract liabilities	34	**–**	**(1)**	**12**	**127**	**138**
Reinsurers' share of contract liabilities		**312**	**1,537**	**14**	**134**	**1,997**

	Notes	Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Reinsurers' share of:						
Insurance contract liabilities	33	228	1,088	1	5	1,322
Investment contract liabilities	34	–	17	74	117	208
Reinsurers' share of contract liabilities		228	1,105	75	122	1,530

21 Purchased interest in long term businesses and other intangible assets

	PILTB insurance contracts 2008 £m	PILTB investment contracts 2008 £m	Other intangible assets 2008 £m	Total 2008 £m	PILTB insurance contracts 2007 £m	PILTB investment contracts 2007 £m	Other intangible assets 2007 £m	Total 2007 £m
Cost								
As at 1 January	**173**	**–**	**–**	**173**	176	–	–	176
Acquisition of subsidiaries	**127**	**77**	**15**	**219**	–	–	–	–
Net exchange difference	**61**	**–**	**–**	**61**	(2)	–	–	(2)
Other	**11**	**–**	**–**	**11**	(1)	–	–	(1)
As at 31 December	**372**	**77**	**15**	**464**	173	–	–	173
Amortisation								
As at 1 January	**(154)**	**–**	**–**	**(154)**	(153)	–	–	(153)
Amortisation for the year	**(23)**	**(7)**	**–**	**(30)**	(3)	–	–	(3)
Net exchange difference	**(53)**	**–**	**–**	**(53)**	2	–	–	2
As at 31 December	**(230)**	**(7)**	**–**	**(237)**	(154)	–	–	(154)
Net book value as at 31 December	**142**	**70**	**15**	**227**	19	–	–	19
To be amortised within 12 months				**65**				3
To be amortised after 12 months				**162**				16

The intangible assets above have finite useful economic lives.

22 Deferred acquisition costs

(i) Analysis of deferred acquisition costs

	Notes	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
Insurance contract deferred acquisition costs	(ii)	**1,111**	**(90)**	734	(66)
Investment contract deferred acquisition costs	(iii)	**1,001**	**–**	962	–
Deferred acquisition costs		**2,112**	**(90)**	1,696	(66)

(ii) Insurance contract deferred acquisition costs

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**734**	**(66)**	695	(69)
Acquisition costs deferred	**159**	**(1)**	146	(1)
Amortisation charged to income	**(142)**	**6**	(132)	6
Increase/(decrease) due to currency translation	**282**	**(25)**	(6)	1
Other	**78**	**(4)**	31	(3)
As at 31 December	**1,111**	**(90)**	734	(66)
To be amortised within 12 months	**118**	**(4)**	99	(3)
To be amortised after 12 months	**993**	**(86)**	635	(63)

Of the total gross deferred acquisition costs, £1,011m (2007: £636m) relates to the US insurance business.

(iii) Investment contract deferred acquisition costs

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**962**	**–**	761	–
Acquisition costs deferred	**163**	**–**	271	–
Amortisation charged to income	**(95)**	**–**	(59)	–
Decrease due to currency translation	**11**	**–**	3	–
Other	**(40)**	**–**	(14)	–
As at 31 December	**1,001**	**–**	962	–
To be amortised within 12 months	**138**	**–**	57	–
To be amortised after 12 months	**863**	**–**	905	–

Notes to the Financial Statements (continued)

23 Deferred tax asset/(liabilities)

The deferred tax balances are as follows:

	As at 31 December 2008 £m	As at 31 December 2007 £m
Deferred tax liability arising in overseas entities	**(259)**	(195)
Deferred tax asset/(liability) arising in UK entities	**988**	(101)
	729	(296)

The movement in deferred tax asset/(liabilities) during the year is as follows:

	Net liability as at 31 December 2007 £m	(Charged)/ credited to the income statement £m	(Charged)/ credited to equity £m	Net asset as at 31 December 2008 £m
Unrealised gains and losses on investments and debt liabilities	**(458)**	**624**	**18**	**184**
Excess of depreciation over capital allowances	**32**	**9**	**–**	**41**
Temporary differences between the accounts and tax deduction for expenses	**7**	**128**	**(64)**	**71**
Temporary differences between the accounts and tax deduction for actuarial reserves	**(163)**	**(66)**	**(22)**	**(251)**
Tax losses carried forward	**232**	**436**	**17**	**685**
Temporary differences in relation to the pension fund deficit	**51**	**(5)**	**(7)**	**39**
Other temporary differences	**3**	**–**	**–**	**3**
	(296)	**1,126**	**(58)**	**772**
Acquisition in the year of Nationwide Life Limited, Nationwide Unit Trust Managers Limited and Suffolk Life Group Plc	**(44)**	**1**	**–**	**(43)**
Deferred tax asset/(liabilities)	**(340)**	**1,127**	**(58)**	**729**

Included in the amounts (charged)/credited to income and equity above is £3m (2007: £9m) relating to the change in UK corporation tax rate from 30% to 28% in April 2008.

	Net liability as at 31 December 2006 £m	(Charged)/ credited to the income statement £m	(Charged)/ credited to equity £m	Net liability 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 asset/(liabilities)	(472)	186	(10)	(296)

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.

	2008 £m	2007 £m
USA	**486**	369
France	**95**	63
	581	432

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 as at 31 December 2008 of £58m (2007: £15m). No deferred tax asset has been recognised in respect of these losses as at 31 December 2008 (or 31 December 2007), 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 it becomes probable that suitable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2008 is £17m (2007: £4m).

The Group has unrelieved post-cessation trading losses carried forward as at 31 December 2008 of £19m (2007: £18m). No deferred tax asset has been recognised in respect of these losses as at 31 December 2008 (or 31 December 2007), 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 it becomes probable that suitable post-cessation trading profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2008 is £5m (2007: £5m).

The Group has surplus non-trading loan relationship deficits and management expenses carried forward as at 31 December 2008 of £17m (2007: £17m). No deferred tax asset has been recognised in respect of these deficits and expenses as at 31 December 2008 (or 31 December 2007), 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 it becomes probable that suitable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2008 is £5m (2007: £5m).

The Group has net realised and unrealised capital losses carried forward as at 31 December 2008 of £724m (2007: £2m). No deferred tax asset has been recognised in respect of these losses as at 31 December 2008 (or 31 December 2007) 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 it becomes probable that suitable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2008 is £155m (2007: £1m).

24 Income tax

	2008 £m	2007 £m
Due within 12 months	**8**	–
Due after 12 months	**–**	4
Income tax recoverable	**8**	4

	2008 £m	2007 £m
Due within 12 months	**118**	427
Due after 12 months	**(113)**	(314)
Income tax liabilities	**5**	113

At 31 December 2008, a partial provision is held for an issue which Society has been discussing with HM Revenue & Customs, in relation to the application of certain tax legislation specific to life assurance companies for the years 1999 to 2006. The maximum exposure in relation to this issue is £230m plus interest of £85m. In the 2007 accounts, this issue was disclosed as a contingent liability.

25 Other assets

	Shareholder 2008 £m	Non profit non-unit linked 2008 £m	With-profits 2008 £m	Unit linked 2008 £m	Total 2008 £m
Reinsurance debtors	**35**	**2**	**–**	**–**	**37**
Accrued interest and rent	**2**	**–**	**36**	**101**	**139**
Prepayments and accrued income	**134**	**8**	**4**	**285**	**431**
Other debtors	**315**	**111**	**123**	**979**	**1,528**
Other assets	**486**	**121**	**163**	**1,365**	**2,135**
Due within 12 months					**2,098**
Due after 12 months					**37**

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Notes to the Financial Statements (continued)

25 Other assets (continued)

	Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Reinsurance debtors	25	9	–	–	34
Accrued interest and rent	8	1	62	74	145
Prepayments and accrued income	78	5	1	257	341
Other debtors	307	170	80	442	999
Other assets	418	185	143	773	1,519
Due within 12 months					1,515
Due after 12 months					4

26 Cash and cash equivalents

	Shareholder 2008 £m	**Non profit non-unit linked 2008 £m**	**With-profits 2008 £m**	**Unit linked 2008 £m**	**Total 2008 £m**
Cash at bank and in hand	**237**	**132**	**100**	**967**	**1,436**
Cash equivalents	**1,692**	**856**	**1,434**	**5,270**	**9,252**
Cash and cash equivalents	**1,929**	**988**	**1,534**	**6,237**	**10,688**

	Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Unit linked 2007 £m	Total 2007 £m
Cash at bank and in hand	63	59	82	267	471
Cash equivalents	1,171	452	1,139	5,504	8,266
Cash and cash equivalents	1,234	511	1,221	5,771	8,737

27 Share capital, share premium and employee scheme shares
(i) Share capital and share premium

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

Issued share capital, fully paid	Notes	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2008		**6,296,321,160**	**157**	**927**
Shares cancelled under share buyback programme[1]		**(449,891,914)**	**(11)**	**–**
Options exercised under share option schemes				
– Executive share option scheme	14	**640,846**	**–**	**1**
– Savings related share option scheme	14	**14,557,902**	**1**	**8**
As at 31 December 2008		**5,861,627,994**	**147**	**936**
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	14	1,961,215	–	2
– Savings related share option scheme	14	3,305,251	–	2
As at 31 December 2007		6,296,321,160	157	927

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

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

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

(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	2008 £m	2007 £m
As at 1 January	**38,176,859**	**42**	45
Shares purchased	**8,181,427**	**10**	5
Shares vested	**(5,792,858)**	**(6)**	(8)
As at 31 December	**40,565,428**	**46**	42

28 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 2008	**6**	**4**	**37**	**(1)**	**13**	**59**
Losses on AFS assets recognised directly in equity	**–**	**–**	**–**	**–**	**(56)**	**(56)**
Shares vested	**–**	**–**	**(17)**	**–**	**–**	**(17)**
Currency translation differences	**–**	**(43)**	**–**	**–**	**(10)**	**(53)**
Cancellation of shares under the share buyback programme	**11**	**–**	**–**	**–**	**–**	**11**
Net gains/(losses) not recognised in income statement	**11**	**(43)**	**(17)**	**–**	**(66)**	**(115)**
Employee share schemes:						
– Value of employee services	**–**	**–**	**14**	**–**	**–**	**14**
As at 31 December 2008	**17**	**(39)**	**34**	**(1)**	**(53)**	**(42)**

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28 Capital redemption and other reserves (continued)

	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

29 Capital review

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 2008, 691,099,181 ordinary shares had been acquired under the buyback programme for cancellation for total consideration of £843m.

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 was 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 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). This increased 2007 IFRS profit before tax by £321m, reflecting the transfer from unallocated divisible surplus to ordinary shareholders' equity.

For 2007, £1.7bn was 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 was 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.

Society's Board of Directors undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment will reduce to £450m in 2009 and then gradually reduce to zero over a period not exceeding nine years.

30 Retained earnings

	Notes	2008 £m	2007 £m
As at 1 January		**4,345**	4,335
(Loss)/profit for the year		**(1,067)**	724
Dividend distributions to equity holders of the Company during the year	12	**(367)**	(369)
Actuarial gains/(losses) on defined benefit pension schemes		**18**	(40)
Actuarial (losses)/gains on defined benefit pension schemes transferred to unallocated divisible surplus		**(8)**	16
Transfer from/(to) share-based payments reserve		**3**	(7)
Cancellation of shares under the share buyback programme		**(523)**	(320)
Exchange gains		**192**	6
As at 31 December		**2,593**	4,345

31 Minority interests

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

	2008 £m	2007 £m
As at 1 January	**178**	414
Share of net loss in subsidiaries	**(63)**	(6)
Movement in third party interests[1]	**29**	(230)
As at 31 December	**144**	178

1. The 2007 movement in third party interest includes the disposal of a unit trust of £331m arising from dilution of the Group's ownership below 50%.

32 Total equity

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

33 Insurance contract liabilities
(i) Analysis of insurance contract liabilities

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

(ii) Expected insurance contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2008	**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	**5,849**	**3,757**	**867**	**326**	**10,799**	**9,384**
Life and pensions non-participating insurance contracts	**8,148**	**13,360**	**11,559**	**14,334**	**47,401**	**17,695**
General insurance contracts[1]	**128**	**–**	**–**	**–**	**128**	**128**
Insurance contract liabilities	**14,125**	**17,117**	**12,426**	**14,660**	**58,328**	**27,207**

	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	158	–	–	–	158	158
Insurance contract liabilities	12,981	16,275	10,680	12,583	52,519	27,115

1. Excludes unearned premium reserve of £131m (2007: £133m) for which there are no cash flows.

Notes to the Financial Statements (continued)

33 Insurance contract liabilities (continued)

Insurance contract undiscounted cash flows are based on the expected date of settlement.

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

(iii) Movement in participating insurance contract liabilities

	Notes	**Gross 2008 £m**	**Reinsurance 2008 £m**	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January		**11,663**	**(1)**	12,660	(1)
New liabilities in the year		**333**	**–**	219	–
Liabilities discharged in the year		**(1,628)**	**–**	(1,684)	–
Unwinding of discount rates		**383**	**–**	520	–
Effect of change in non-economic assumptions	37	**58**	**–**	(102)	–
Effect of change in economic assumptions	37	**(1,348)**	**–**	50	–
Other		**(77)**	**–**	–	–
As at 31 December		**9,384**	**(1)**	11,663	(1)
Expected to be settled within 12 months (net of reinsurance)		**1,522**		1,799	
Expected to be settled after 12 months (net of reinsurance)		**7,861**		9,863	

(iv) Movement in non-participating insurance contract liabilities

	Notes	**Gross 2008 £m**	**Reinsurance 2008 £m**	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January		**22,568**	**(1,302)**	21,321	(1,237)
New liabilities in the year		**3,020**	**(262)**	2,463	(286)
Liabilities discharged in the year		**(1,493)**	**79**	(1,108)	78
Unwinding of discount rates		**1,022**	**(88)**	876	(126)
Effect of change in non-economic assumptions[1]	37	**(87)**	**121**	1	179
Effect of change in economic assumptions[2]	37	**(1,366)**	**(26)**	(902)	–
Foreign exchange adjustments		**946**	**(82)**	109	2
Acquisitions		**1,172**	**(286)**	–	–
Other		**(200)**	**(1)**	(192)	88
As at 31 December		**25,582**	**(1,847)**	22,568	(1,302)
Expected to be settled within 12 months (net of reinsurance)		**751**		1,475	
Expected to be settled after 12 months (net of reinsurance)		**22,984**		19,791	

1. 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. This was largely offset by mortality and changes to expense assumptions on term business (on a gross of reassurance basis), which reflected improved experience.

2. In 2008, the Effect of changes in economic assumptions includes the impact arising from the current interest rate environment and increased credit spreads reducing liabilities, partially offset by the £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn.

(v) Analysis of general insurance contract liabilities

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

(vi) Movement in general insurance claim liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**172**	**(12)**	137	(5)
Claims arising	**231**	**(4)**	323	(6)
Claims paid	**(235)**	**6**	(255)	(2)
Adjustments to prior year liabilities	**(40)**	**6**	(33)	1
As at 31 December	**128**	**(4)**	172	(12)
Expected to be settled within 12 months (net of reinsurance)	**88**		122	
Expected to be settled after 12 months (net of reinsurance)	**36**		38	

(vii) Unearned premiums

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**133**	**(7)**	144	(11)
Earned in the period	**(133)**	**7**	(144)	11
Gross written premiums in respect of future periods	**131**	**(7)**	133	(7)
As at 31 December	**131**	**(7)**	133	(7)
Expected to be earned within 12 months (net of reinsurance)	**124**		125	
Expected to be earned after 12 months (net of reinsurance)	**–**		1	

(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	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**171**	**209**	**205**	**294**	**191**	
– One year later	**166**	**195**	**192**	**277**	**–**	
– Two years later	**160**	**191**	**192**	**–**	**–**	
– Three years later	**160**	**191**	**–**	**–**	**–**	
– Four years later	**162**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**162**	**191**	**192**	**277**	**191**	**1,013**
Cumulative payments	**(156)**	**(183)**	**(179)**	**(262)**	**(117)**	**(897)**
Outstanding claims provision	**6**	**8**	**13**	**15**	**74**	**116**
Prior period outstanding claims						**8**
Claims handling provision						**4**
Total claims liabilities recognised in the balance sheet						**128**

Net of reinsurance

Accident year	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**162**	**205**	**200**	**280**	**189**	
– One year later	**161**	**193**	**188**	**267**	**–**	
– Two years later	**157**	**189**	**189**	**–**	**–**	
– Three years later	**158**	**189**	**–**	**–**	**–**	
– Four years later	**159**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**159**	**189**	**189**	**267**	**189**	**993**
Cumulative payments	**(154)**	**(182)**	**(176)**	**(255)**	**(117)**	**(884)**
Outstanding claims provision	**5**	**7**	**13**	**12**	**72**	**109**
Prior period outstanding claims						**12**
Claims handling provision						**3**
Total claims liabilities recognised in the balance sheet						**124**

Notes to the Financial Statements (continued)

34 Investment contract liabilities

(i) Analysis of investment contract liabilities

	Notes	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
Participating investment contracts		**6,992**	**(12)**	7,462	(74)
Non-participating investment contracts		**196,698**	**(126)**	224,906	(134)
Investment contract liabilities	(ii)	**203,690**	**(138)**	232,368	(208)
Expected to be settled within 12 months (net of reinsurance)		**37,058**		38,592	
Expected to be settled after 12 months (net of reinsurance)		**166,494**		193,568	

(ii) Movement in investment contract liabilities

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

Fair value movements of £32,743m (2007: £11,789m) 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 2008	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Participating investment contracts	**(2,880)**	**(3,701)**	**(1,939)**	**(1,053)**	**(9,573)**	**(6,992)**

	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)

Investment contract undiscounted net cash flows are based on the expected date of settlement.

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

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. In such a scenario, the liability would be reduced due to the application of surrender penalties.

35 Unallocated divisible surplus

	2008 £m	2007 £m
As at 1 January	**1,721**	2,178
Transferred to the income statement[1]	**(806)**	(438)
Actuarial gains/(losses) on defined benefit pension schemes transferred from the SORIE	**8**	(16)
Foreign exchange adjustments	**(10)**	(3)
As at 31 December	**913**	1,721

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

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.

36 Value of in-force non-participating contracts
(i) Movement in value of in-force non-participating contracts

	2008 £m	2007 £m
As at 1 January	**276**	391
Unwinding of the discount rates	**14**	21
Investment return	**(149)**	(44)
Other	**30**	(92)
As at 31 December	**171**	276
Expected to be settled within 12 months	**17**	30
Expected to be settled after 12 months	**154**	246

(ii) Expected net cash flows

	Date of undiscounted cash flow					
As at 31 December 2008	**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	**(94)**	**(125)**	**(49)**	**(33)**	**(301)**	**(171)**

	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)

Value of in-force non-participating undiscounted net cash flows are based on the expected date of realisation.

Notes to the Financial Statements (continued)

37 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 prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed.

Valuation rates of interest and discount rates

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

Corporate debt yields are adjusted to reflect the risk of default associated with these investments. A long term default provision based on historic published information by credit rating agencies is calculated for assets backing the liabilities, and is equivalent to 30bps (2007: 30bps for non profit business and 40bps for business in the with-profits part of the Society long term fund) per annum. In the current market environment the Group has decided it is prudent to reserve against the risk of significant short term increase in corporate bond defaults by increasing assumptions for the next four years by approximately 100bps per annum to 130bps per annum.

The pre-tax impact on liabilities of 10bps per annum strengthening in the non-participating short term default provision is £65m. The pre-tax impact on liabilities of 10bps per annum strengthening of the non-participating long term default assumption is £168m. Sensitivities have been provided to the short and long term default provisions independently.

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 below sets out the current valuation assumptions used to establish the long term liabilities for Society, LGPL and Legal & General Assurance (Pensions Management) Limited.

	2008	2007
Rate of interest/discount rates		
Non-participating business		
Life assurances	**2.25% pa and 7.60% pa**[1]	3.00% pa and 7.60% pa[1]
Pension assurances	**2.50 – 3.75% pa and 7.60% pa**[1]	3.00 – 3.75% pa and 7.60% pa[1]
Annuities in deferment	**6.50% pa**	4.17 – 5.51% pa
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**2.20% pa**	0.59 – 1.56% pa
Vested annuities	**5.54 – 6.50% pa**	4.97 – 5.51% pa
Vested annuities (RPI-linked; net rate after allowance for inflation)	**0.80 – 2.20% pa**	1.00 – 1.56% pa
Participating business		
Risk free rate (10 years)	**3.57% pa**	4.72% 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)	**36.4%**	26.9%
Property volatility	**15.0%**	15.0%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:		
Smokers	**109 – 123% TMS00/TFS00 Sel 5**[2]	104 – 127% TMS00/TFS00 Sel 5[2]
Non-smokers	**103 – 125% TMN00/TFN00 Sel 5**[2]	104 – 111% TMN00/TFN00 Sel 5[2]
Smoker status unknown	**138% TM00/TF00 Sel 5**[2]	124% TM00/TF00 Sel 5[2]
Non-linked individual term assurances with critical illness	**66 – 99% CIBT93M/F Ult Comb**[2]	62 – 96% 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	**69 – 78% AM92/AF92**	73 – 81% AM92/AF92
Vested annuities[3]		
Bulk purchase annuities	**90 – 94% PCMA00/PCFA00**	94 – 98% PCMA00/PCFA00
Other annuities	**61 – 88% PCMA00/PCFA00**	61 – 89% PCMA00/PCFA00

1. For product groups where liabilities are positive, the lower interest rate of 2.25% or 2.50 – 3.75% is used (2007: 3.00 – 3.75%). However, for product groups where liabilities are negative, the higher rate of 7.60% (2007: 7.60%) is used.
2. For term assurance, mortality rates are assumed to increase at a rate of 0% pa (2007: 0.5% pa). For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 1.00% pa for males and 1.75% pa for females. No allowance is made for AIDS (2007: 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 30 (2007: Paper 1) projection MC with a minimum of 2.0% (2007: 2.0%) pa up to age 90 tapering to a minimum of 0% (2007: 0%) pa at age 120 for males. For females, mortality rates are assumed to reduce according to 75% (2007: 75%) CMIB projection MC with a minimum of 1.5% (2007: 1.5%) pa up to age 90 tapering to a minimum of 0% (2007: 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.

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 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.

Notes to the Financial Statements (continued)

37 Long term insurance valuation assumptions (continued)

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.

	2008 Average lapse rate for the policy years			
	1 – 5	6 – 10	11 – 15	16 – 20
Product	%	%	%	%
Level term	12.6	9.1	5.5	2.9
Decreasing term	12.6	9.1	5.8	5.3
Accelerated critical illness cover	18.4	10.5	5.3	4.9
Pensions term	11.9	8.8	5.4	4.8
Savings endowment (unitised with-profits)	0.0	2.3	3.0	3.6
Target cash endowment (unitised with-profits)	3.6	4.4	4.3	3.8
Savings endowment (unit linked)	0.0	2.3	3.0	3.6
Target cash endowment (unit linked)	3.6	4.4	4.3	3.8
Bond (unitised with-profits)	1.5	5.9	4.1	3.7
Bond (unit linked)	2.3	5.6	3.8	3.6
Individual pension regular premium (unitised with-profits)	1.1	1.1	1.1	1.1
Individual pension regular premium (unit linked)	1.6	1.1	1.1	1.1
Group pension regular premium (unitised with-profits)	2.3	2.3	2.3	2.3
Group pension regular premium (unit linked)	2.0	2.0	2.0	2.0
Trustee Investment Plan regular premium (unitised with-profits)	0.3	0.3	0.3	0.3
Trustee Investment Plan regular premium (unit linked)	1.2	1.2	1.2	1.2
Individual pension single premium (unitised with-profits)	3.2	3.2	3.2	3.2
Individual pension single premium (unit linked)	3.5	3.0	2.8	2.8
Group pension single premium (unitised with-profits)	7.7	7.7	7.7	7.7
Group pension single premium (unit linked)	6.5	6.5	6.5	6.5
Trustee Investment Plan single premium (unitised with-profits)	10.5	10.2	10.1	10.1
Trustee Investment Plan single premium (unit linked)	6.5	5.3	5.0	5.0

	2007 Average lapse rate for the policy years			
	1 – 5	6 – 10	11 – 15	16 – 20
Product	%	%	%	%
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
Savings endowment (unitised with-profits)	0.6	2.5	3.1	3.8
Target cash endowment (unitised with-profits)	3.6	5.0	4.6	3.8
Savings endowment (unit linked)	0.6	2.5	3.1	3.8
Target cash endowment (unit linked)	3.6	5.0	4.6	3.8
Bond (unitised with-profits)	1.6	7.7	3.5	3.3
Bond (unit linked)	1.4	4.3	3.6	3.6
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
Trustee Investment Plan regular premium (unitised with-profits)	0.4	0.4	0.4	0.4
Trustee Investment Plan 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)	15.4	15.4	15.4	15.4
Group pension single premium (unit linked)	14.5	14.5	14.5	14.5
Trustee Investment Plan single premium (unitised with-profits)	9.8	9.2	9.2	9.2
Trustee Investment Plan single premium (unit linked)	6.7	5.2	5.2	5.2

Endowment reserve

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

Overseas business

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

38 Borrowings

(i) Analysis by type

	Unit linked borrowings 2008 £m	Other borrowings 2008 £m	Total 2008 £m	Unit linked borrowings 2007 £m	Other borrowings 2007 £m	Total 2007 £m
Subordinated borrowings	**–**	**1,657**	**1,657**	–	1,461	1,461
Senior borrowings	**180**	**2,134**	**2,314**	11	1,316	1,327
Total borrowings	**180**	**3,791**	**3,971**	11	2,777	2,788

Unit linked borrowings have increased following the acquisition of Suffolk Life. Unit linked borrowings are excluded from the analysis below as the risk is retained by the policyholders.

(ii) Shareholder borrowings – analysis by nature

	Carrying amount 2008 £m	Coupon rate 2008 %	Fair value 2008 £m	Carrying amount 2007 £m	Coupon rate 2007 %	Fair value 2007 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities	**692**	**6.39**	**414**	620	6.39	591
5.875% Sterling undated subordinated notes	**426**	**5.88**	**287**	427	5.88	387
4.0% Euro subordinated notes 2025	**539**	**4.00**	**283**	414	4.00	409
Total subordinated borrowings	**1,657**		**984**	1,461		1,387
Senior borrowings						
Sterling medium term notes 2031-2041	**608**	**5.87**	**493**	608	5.87	626
Euro commercial paper 2009	**609**	**3.69**	**610**	118	4.66	118
Bank loans 2009	**154**	**6.20**	**154**	7	5.84	7
Non recourse financing						
– US Dollar Triple X securitisation 2025	**369**	**2.94**	**369**	266	6.27	266
– US Dollar Triple X securitisation 2037	**308**	**2.25**	**308**	223	5.61	223
– Sterling property partnership loans 2011	**86**	**5.47**	**86**	94	7.09	94
Total senior borrowings	**2,134**		**2,020**	1,316		1,334
Total other borrowings	**3,791**		**3,004**	2,777		2,721
Total other borrowings (excluding non recourse financing)	**3,028**		**2,241**	2,194		2,138

£140m of interest expense was incurred during the period (2007: £119m) on borrowings excluding non recourse financing and unit linked borrowings.

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 liabilities as the interest payments become mandatory in certain circumstances.

5.875% Sterling undated subordinated notes

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

4.0% Euro subordinated notes 2025

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

Notes to the Financial Statements (continued)

38 Borrowings (continued)

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

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

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

(iii) Shareholder borrowings – analysis by maturity

As at 31 December 2008	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	**692**	**–**	**–**	**–**	**–**	**(600)**	**(600)**
5.875% Sterling undated subordinated notes	**426**	**–**	**–**	**–**	**–**	**(400)**	**(400)**
4.0% Euro subordinated notes 2025	**539**	**–**	**–**	**–**	**(583)**	**–**	**(583)**
Senior borrowings							–
Sterling medium term notes 2031-2041	**608**	**–**	**–**	**–**	**(590)**	**(10)**	**(600)**
Euro commercial paper 2009	**609**	**(611)**	**–**	**–**	**–**	**–**	**(611)**
Bank loans 2009	**154**	**(154)**	**–**	**–**	**–**	**–**	**(154)**
Non recourse financing							**–**
– US Dollar Triple X securitisation 2025	**369**	**–**	**–**	**–**	**(375)**	**–**	**(375)**
– US Dollar Triple X securitisation 2037	**308**	**–**	**–**	**–**	**–**	**(313)**	**(313)**
– Sterling property partnership loans 2011	**86**	**–**	**(85)**	**–**	**–**	**–**	**(85)**
Total borrowings	**3,791**	**(765)**	**(85)**	**–**	**(1,548)**	**(1,323)**	**(3,721)**
Contractual undiscounted interest payments		**(144)**	**(564)**	**(1,384)**	**(1,067)**	**(33)**	**(3,192)**
Total contractual undiscounted cash flows		**(909)**	**(649)**	**(1,384)**	**(2,615)**	**(1,356)**	**(6,913)**

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 2008	118	(118)	–	–	–	–	(118)
Bank loans 2008	7	(7)	–	–	–	–	(7)
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	94	–	(94)	–	–	–	(94)
Total borrowings	2,777	(125)	(94)	–	(1,063)	(1,476)	(2,758)
Contractual undiscounted interest payments		(151)	(598)	(1,444)	(1,181)	(82)	(3,456)
Total contractual undiscounted cash flows		(276)	(692)	(1,444)	(2,244)	(1,558)	(6,214)

As at 31 December 2008, the Group had in place a £960m syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2012.

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.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

At 31 December 2008, short term assets available at the holding company level exceeded the amount of short term borrowings of £763m (Euro Commercial Paper and Bank Loans).

39 Provisions

(i) Analysis of provisions

	Notes	2008 £m	2007 £m
Retirement benefit obligations	(ii)	**551**	595
Other provisions		**190**	147
		741	742

Other provisions includes £186m (2007: £147m) 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 £229m (2007: £212m).

(ii) 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 £25m (2007: £21m) 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 2007.
- 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.

39 Provisions (continued)

(ii) Retirement benefit obligations (continued)

The principal actuarial assumptions for the UK defined benefit schemes were:

	Fund and Scheme 2008 %	Fund and Scheme 2007 %
Rate used to discount liabilities	**6.50**	5.70
Expected return on plan assets	**6.71**	6.67
Rate of increase in salaries[1]	**2.30**	4.40
Rate of increase in pensions in payment	**3.20**	3.40
Rate of increase in deferred pensions	**3.75**	4.40
Rate of general inflation (RPI)	**2.70**	3.40
Rate of wage inflation	**2.30**	4.40
Post retirement mortality		
– 2008	**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**	
– 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	

1. On 1 December 2008, the conditions of the Fund and Scheme were amended to cap future pensionable salary increases at a maximum of 2.5% each year with effect from 1 January 2009.

	Fund and Scheme 2008 £m	Overseas 2008 £m	Fund and Scheme 2007 £m	Overseas 2007 £m
Change in present value of defined benefit obligations				
As at 1 January	**(1,365)**	**(19)**	(1,327)	(19)
Current service cost	**(17)**	**(1)**	(17)	–
Past service cost	**5**	**–**	–	–
Interest expense	**(77)**	**(1)**	(67)	–
Plan participants' contributions	**(3)**	**–**	(3)	–
Actuarial (loss)/gain (recognised in SORIE)	**249**	**–**	(1)	–
Benefits paid	**48**	**1**	50	1
Exchange differences	**–**	**(7)**	–	(1)
As at 31 December	**(1,160)**	**(27)**	(1,365)	(19)
Change in fair value of plan assets				
As at 1 January	**771**	**18**	761	17
Expected return on plan assets	**51**	**1**	51	–
Actuarial (loss)/gain (recognised in SORIE)	**(222)**	**(1)**	(32)	–
Employer contributions	**54**	**4**	38	1
Plan participants' contributions	**3**	**–**	3	–
Benefits paid	**(48)**	**(1)**	(50)	(1)
Exchange differences	**–**	**6**	–	1
As at 31 December	**609**	**27**	771	18
Gross pension obligations included in provisions	**(551)**	**–**	(594)	(1)
Annuity obligations insured by Society	**411**	**–**	413	–
Gross defined benefit pension deficit	**(140)**	**–**	(181)	(1)
Deferred tax on defined benefit pension deficit	**39**	**–**	51	–
Net defined benefit pension deficit	**(101)**	**–**	(130)	(1)

The total amount of actuarial gains/(losses) net of tax recognised in the SORIE for the year was £18m; cumulative £(117)m (2007: £(40)m; cumulative £(135)m). Actuarial gains/(losses) net of tax relating to with-profits policyholders of £8m (2007: £(16)m) have been allocated to the unallocated divisible surplus.

The historic funding and experience adjustments are as follows:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	**(1,187)**	(1,384)	(1,346)	(1,304)	(1,106)
Fair value of plan assets	**636**	789	778	722	603
Gross pension obligations	**(551)**	(595)	(568)	(582)	(503)
Experience adjustments on plan liabilities	**3**	(19)	(13)	(9)	(9)
Experience adjustments on plan assets	**(222)**	(32)	10	76	36

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 2008	**UK £m**	**Expected return %**	**Overseas £m**	**Expected return %**
Equities	**293**	**7.0**	**5**	**8.3**
Bonds	**280**	**6.5**	**18**	**4.1**
Properties	**36**	**6.0**	**–**	**–**
Other investments	**–**	**–**	**4**	**2.3**
	609		**27**	

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	

The average credit rating of the bond portfolio is AA (2007: AA).

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 2008 was £(173)m (2007: £19m).

Employer contributions increased to £58m (2007: £39m) including a pension deficit reduction payment of £39m (2007: £22m). Employer contributions of £70m are expected to be paid to the plan during 2009.

The following amounts have been charged/(credited) to the income statement:

	2008 £m	2007 £m
Current service costs	**18**	17
Interest expense	**78**	67
Expected return on plan assets	**(52)**	(51)
Total included in other expenses	**44**	33

40 Payables and other financial liabilities

	Notes	2008 £m	2007 £m
Derivative liabilities	19	**5,219**	748
Collateral received from banks		**668**	–
Other		**726**	861
Payables and other financial liabilities		**6,613**	1,609
Settled within 12 months		**6,086**	1,562
Settled after 12 months		**527**	47

Payables and other financial liabilities settled after 12 months are expected to be settled within five years.

Notes to the Financial Statements (continued)

41 Other liabilities

	2008 £m	2007 Restated £m
Accruals	**188**	186
Reinsurers' share of deferred acquisition costs	**90**	66
Deferred income liabilities	**463**	493
Other	**256**	107
Other liabilities	**997**	852
Settled within 12 months	**496**	200
Settled after 12 months	**501**	652

Other liabilities settled after 12 months are expected to be settled within five years.

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 39.

At 31 December 2008 and 31 December 2007 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:

	2008 £m	2007 £m
Salaries	**5**	6
Social security costs	**1**	1
Post-employment benefits	**1**	1
Share-based incentive awards	**3**	3
Key management personnel compensation	**10**	11
Number of key management personnel	**16**	16

The UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £49m (2007: £52m) during the year, priced on an arm's length basis.

The Group's investment portfolio includes investments in venture capital, property and financial investments which are held via collective investment vehicles. Net investments in associate investment vehicles totalled £1,488m during the year (2007: £1,394m). The Group has outstanding loans to these associates of £2m (2007: £5m) and received investment management fees of £43m during the year (2007: £41m). Distributions from these investment vehicles to the Group totalled £170m (2007: £178m).

43 Contingent liabilities, guarantees and indemnities

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

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

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

Group companies have given indemnities and guarantees as a normal part of their operating activities or in relation to capital market transactions.

44 Commitments

(i) Capital commitments

	2008 £m	2007 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December		
– Long term business	**35**	158

(ii) Operating lease commitments

	2008 £m	2007 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**34**	25
– Later than 1 year and not later than 5 years	**130**	122
– Later than 5 years	**333**	363
	497	510
Future aggregate minimum sublease payments expected to be received under operating subleases	**10**	8
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	**10**	6
– Later than 5 years	**3**	1
	15	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
Nationwide Life Limited	Long term business	England and Wales
Suffolk Life Annuities Limited	Long term business	England and Wales
Suffolk Life Pensions Limited	Long term business	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.

(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	% of equity shares held by the Group
Bucklersbury House Unit Trust	Property unit trust	Jersey	31/12/2008	100.0
Legal & General Spectrum (Jersey) Unit Trust	Property unit trust	Jersey	31/12/2008	100.0
Chineham Shopping Centre Limited Partnership	Property partnership	Jersey	31/12/2008	100.0
Ealing Shopping Centre Limited Partnership	Property partnership	Jersey	31/12/2008	100.0
Gresham Street Limited Partnership	Property partnership	Jersey	31/12/2008	100.0
Legal & General City Offices Limited Partnership	Property partnership	Jersey	31/12/2008	100.0
Northampton Shopping Centre Limited Partnership	Property partnership	Jersey	31/12/2008	100.0
Legal & General Investment Management Global Macro Fund Plc	Open ended investment company	Ireland	31/12/2008	100.0
Legal & General Investment Management High Yield Alpha Fund Plc	Open ended investment company	Ireland	31/12/2008	100.0
Legal & General Investment Management UK Smaller Companies Alpha Fund Plc	Open ended investment company	Ireland	31/12/2008	100.0
Legal & General Investment Management Liquidity Funds Plc	Open ended investment company	Ireland	31/12/2008	96.0
Legal & General Asian Income Trust	Equity unit trust	UK	10/09/2008	90.3
Legal & General European Trust	Equity unit trust	UK	28/07/2008	85.8
Legal & General Pacific Growth Trust	Equity unit trust	UK	25/03/2008	84.4
Legal & General North American Trust	Equity unit trust	UK	16/01/2008	84.0
Legal & General Equity Trust	Equity unit trust	UK	15/08/2008	82.3
Legal & General Japanese Trust	Equity unit trust	UK	17/10/2008	80.6
ARC Property Fund Unit Trust	Property unit trust	Jersey	31/12/2008	80.0
Legal & General Alpha Trust	Equity unit trust	UK	18/06/2008	67.7
Legal & General Global Growth Trust	Equity unit trust	UK	15/01/2008	66.9
Legal & General High Income Trust	Fixed interest unit trust	UK	05/09/2008	65.8
Legal & General UK Smaller Companies Trust	Equity unit trust	UK	18/06/2008	63.6
Legal & General Growth Trust	Equity unit trust	UK	15/05/2008	62.4
Legal & General Investment Management Japan Alpha Fund Plc	Open ended investment company	Ireland	31/12/2008	61.0
Legal & General Dynamic Bond Trust	Fixed interest unit trust	UK	05/09/2008	54.9
Central St Giles Limited Partnership	Property partnership	Jersey	31/12/2008	50.0
The Leisure Fund Limited Partnership[1]	Property partnership	England and Wales	31/12/2008	41.9
Lagoon Finance Limited[2]	Limited liability company	Ireland	31/12/2008	–
Trees S.A.[2]	Limited liability company	Luxembourg	30/06/2008	–

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. Only the controlled cell of the Trees S.A. investment vehicle is consolidated.

Group Financial Statements

Notes to the Financial Statements (continued)

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 the Group
Bracknell Property Unit Trust[1]	Jersey	FVTPL	31/03/2008	50.5
Mithras Capital Fund Limited Partnership	Scotland	FVTPL	31/12/2008	50.0
Performance Shopping Centre Limited Partnership	England and Wales	FVTPL	31/12/2008	50.0
Meteor Industrial Partnership	England and Wales	FVTPL	31/12/2008	49.9
LGV 3 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/2008	46.6
LGV 1 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/2008	46.3
Legal & General Ethical Trust	England and Wales	FVTPL	12/12/2008	46.0
Legal & General Pacific Index Trust	England and Wales	FVTPL	23/03/2008	46.0
UK Logistics Fund Unit Trust	Jersey	FVTPL	31/12/2008	42.7
Arlington Business Parks Unit Trust	Jersey	FVTPL	31/12/2008	41.3
Legal & General Active Opportunities Trust	England and Wales	FVTPL	14/10/2008	39.0
Legal & General European Index Trust Plc	England and Wales	FVTPL	31/07/2008	38.0
Legal & General Japanese Index Trust	England and Wales	FVTPL	24/10/2008	38.0
Legal & General US Index Trust	England and Wales	FVTPL	05/12/2008	38.0
English Cities Fund	England and Wales	FVTPL	31/12/2008	37.5
LGV 2 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/2008	37.1
LGV 4 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/2008	36.7
LGV 5 Private Equity Fund Limited Partnership	England and Wales	FVTPL	30/09/2008	36.0
Mithras Investment Trust Plc	England and Wales	FVTPL	31/12/2008	34.7
Legal & General UK Property Trust	England and Wales	FVTPL	31/12/2008	29.5
Cofunds (Holdings) Limited	England and Wales	Equity method	31/12/2008	25.4
Warrington Retail Unit Trust	Jersey	FVTPL	31/12/2008	25.0
The IPIF Feeder Unit Trust	Jersey	FVTPL	31/12/2008	23.6
Dunedin Capital Group Limited	Scotland	FVTPL	28/02/2008	22.6
Legal & General Fixed Interest Trust	England and Wales	FVTPL	05/09/2008	21.0

1. The Bracknell Property Unit Trust is not consolidated as the Group does not have the power to control the entity.

Summarised financial information for associates which are classified as FVTPL is shown below.

2008	Private equity £m	Property partnerships £m	Unit trusts £m	Total £m
Aggregate revenues	**68**	**141**	**198**	**407**
Aggregate profit	**60**	**79**	**144**	**283**
Gross assets	**187**	**3,225**	**4,717**	**8,129**
Gross liabilities	**6**	**1,559**	**99**	**1,664**

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

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 (2007: £70m). No goodwill arose on acquisitions made during the year.

48 Management of capital resources

Capital structure

The Group's total capital resources of £6.1bn (2007: £8.6bn) on an IFRS basis comprise equity holders' capital, £3.6bn (2007: £5.5bn), subordinated debt, £1.6bn (2007: £1.4bn), and unallocated divisible surplus, £0.9bn (2007: £1.7bn).

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. At 31 December 2008, Legal & General's Insurance Group Directive (IGD) capital resources were £1.8bn in excess of capital requirements of £2.6bn, representing a solvency coverage ratio of 169%. This surplus capital is after the payment of the 2008 final dividend of £120m.

The Group writes a range of long term insurance and investment business in the long term fund (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 profits or incur losses. Capital in excess of the amount required to cover the liabilities is currently held within Society. This capital provides support for new and existing non profit business within our UK life and pensions business.

The non-linked non profit pensions and annuity business of Society is ceded, on arm's length terms, to a wholly owned Insurance Special Purpose Vehicle (ISPV), Legal & General Pensions Limited (LGPL). Whilst an ISPV is not required to segregate policyholder assets within an LTF, LGPL continues to manage policyholder and shareholder assets separately for internal purposes.

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, the Group operates two UK long term insurance businesses acquired during the year (Nationwide Life Limited and Suffolk Life Annuities Limited). 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 France.

Capital management policies and objectives

The Group aims to manage its capital resources to maintain financial strength, policyholder security and relative external 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 frameworks 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*
  Management use the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend paying capacity. In addition, the supplementary accounts prepared using EEV principles provide a 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 also analysed and measured on this basis.

- *Regulatory bases*
  The financial strength of the Group's insurance subsidiaries is measured under various local regulatory requirements (see below). One of these regulatory measures, Individual Capital Assessment (ICA), measures capital using risk based stochastic techniques, and provides a measure of the level of economic capital required to run the Group's business.

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.

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 overleaf:

48 Management of capital resources (continued)

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 Individual Capital Assessment (ICA).

The public pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk (Peak 1). There are further stress tests for participating business, as measured in the Realistic Balance Sheet (Peak 2), which may increase the required capital under Peak 1 calculations.

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 in this business.

US regulatory basis

Required capital is determined to be the Regulatory 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 higher factors used for those items with greater underlying risk and lower factors 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).

Available regulatory capital resources

Capital resources available to meet regulatory UK capital requirements are determined using FSA valuation rules. The asset valuation rules are based on UK GAAP, adjusted for admissibility and counterparty exposure 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 unaudited[1] FSA returns, are £4.0bn (2007: £6.5bn) of which £2.6bn (2007: £3.9bn) 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 (with-profits estate) is determined in accordance with the realistic balance sheet rules prescribed by the FSA.

At 31 December 2008, the realistic value of the UK participating liabilities was £14.7bn (2007: £18.5bn) under the FSA realistic capital regime. The excess of realistic assets over realistic liabilities was £0.6bn (2007: £1.0bn). 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 position statement.

1. The FSA returns are audited and filed subsequent to the publication of the Group's capital position.

Table 1 – Regulatory capital position statement

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

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

Notes to the Financial Statements (continued)

48 Management of capital resources (continued)
Table 1 – Regulatory capital position statement (continued)

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
Ordinary shareholders' equity outside the LTF	–	–	512	1,104	1,616	1,648	3,264
Ordinary shareholders' equity 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:							
Unallocated divisible surplus[1]	1,757	–	–	(36)	1,721	–	1,721
Other[2]	(710)	(349)	(5)	(506)	(1,570)	(255)	(1,825)
Other qualifying capital:							
Subordinated borrowings[3]	–	–	–	–	–	1,429	1,429
Internal loans[4]	–	(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[1]	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	642	561	–	1,183	2,386	–	2,386
Non-linked non-participating life assurance liabilities	2,132	16,472	–	1,578	20,182	–	20,182
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. The negative overseas unallocated divisible surplus arises as a result of differences between regulatory and IFRS reporting.
2. 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.
3. In 2007, the Group issued £600m of perpetual capital securities which are treated as innovative tier I capital for regulatory purposes.
4. 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.

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 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 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 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 crystallise if mortality of the lives insured was higher than that assumed, possibly because of an epidemic.

A range of management actions is available to mitigate any adverse impact from changing market conditions and experience, including changes to with-profits bonus rates, changes to discretionary surrender terms and 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 2008 £m	UK non profit and SRC[1] 2008 £m	LGPL[2] 2008 £m	Overseas and PMC 2008 £m	Total life 2008 £m
As at 1 January	**1,047**	**1,130**	**1,210**	**562**	**3,949**
Effect of investment variations	**(279)**	**(449)**	**(250)**	**15**	**(963)**
Effect of changes in valuation assumptions	**(14)**	**118**	**(779)**	**–**	**(675)**
Changes in management policy	**–**	**–**	**–**	**–**	**–**
Changes in regulatory requirements	**–**	**–**	**–**	**–**	**–**
New business	**(38)**	**(187)**	**(147)**	**(75)**	**(447)**
Cash distributions	**–**	**(30)**	**(150)**	**(83)**	**(263)**
Acquisitions	**–**	**156**	**–**	**–**	**156**
Other factors	**(75)**	**(65)**	**681**	**268**	**809**
As at 31 December	**641**	**673**	**565**	**687**	**2,566**

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited acquired during the year.
2. Effect of changes in valuation assumptions includes a £650m increase in credit default reserving. The corresponding deferred tax asset is included within Other factors.

	UK with-profits 2007 £m	UK non profit and SRC 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

Group Financial Statements

49 Assets analysis

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

- **Unit linked**
  For unit linked contracts, there is a direct link between the investments and the obligations. Unit linked business is written in 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 directly exposed to any market risk, currency risk or credit risk for these contracts. Detailed risk disclosures have not been presented for unit linked assets and liabilities.

- **With-profits**
  Policyholders and shareholders share in the risks and returns of the with-profits part of the Society LTF. 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. With-profits also includes participating business in the France operation which shares similar characteristics. The with-profits classification excludes unit linked contracts.

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

- **Shareholder**
  All other assets are classified as shareholder. Shareholders of the Group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations.

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 50 have been provided using this categorisation.

As at 31 December 2008	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Investment in associates	14	–	–	–	14
Plant and equipment	75	–	–	–	75
Investments[1]	7,720	20,589	19,080	201,394	248,783
Purchased interests in long term business	118	109	–	–	227
Other operational assets	2,927	2,405	393	1,515	7,240
Total assets	**10,854**	**23,103**	**19,473**	**202,909**	**256,339**
Liabilities					
Subordinated borrowings	1,657	–	–	–	1,657
Participating contract liabilities	–	39	16,890	189	17,118
Non-participating contract liabilities	2,514	19,070	1,944	199,011	222,539
Senior borrowings	2,031	29	74	180	2,314
Other liabilities[1]	2,237	2,761	456	3,525	8,979
Total liabilities	**8,439**	**21,899**	**19,364**	**202,905**	**252,607**

As at 31 December 2007	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Investment in associates	14	–	–	–	14
Plant and equipment	79	–	–	–	79
Investments[1]	8,010	17,101	22,910	228,367	276,388
Purchased interests in long term business	19	–	–	–	19
Other operational assets	1,392	2,002	445	910	4,749
Total assets	9,514	19,103	23,355	229,277	281,249
Liabilities					
Subordinated borrowings	1,461	–	–	–	1,461
Participating contract liabilities	–	81	20,248	241	20,570
Non-participating contract liabilities	1,883	16,583	2,021	227,292	247,779
Senior borrowings	1,206	28	82	11	1,327
Other liabilities[1]	1,198	1,307	301	1,682	4,488
Total liabilities	5,748	17,999	22,652	229,226	275,625

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £388m (2007: £36m) as a deduction to non profit non-unit linked investments and other liabilities.

50 Risk management and control

This section describes the Group's approach to risk management. It covers the overall approach that applies to all risks, and includes a detailed review of risks within the Group's key businesses.

Risk management objectives

The Group's 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. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures.

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.

Contagion risk: the occurrence of a risk in one part of the Group may result in contagion elsewhere in the Group.

An explanation of the risk framework and the methods used to monitor and assess risk exposures can be found in pages 50 to 57.

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.

Notes to the Financial Statements (continued)

50 Risk management and control (continued)

Insurance risk

Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of 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 on pages 150 to 153. Insurance risk is managed using the following techniques:

Policies and delegated authorities for underwriting, pricing and reinsurance

The Group's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place. 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 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.

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 37.

Market risk

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

Significant areas where the Group is exposed to these risks are:

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

The Group's market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

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 is 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 38).

Asset liability matching significantly reduces the Group's exposure to interest rate risk. Sensitivity to interest rate changes is included in Table 6 of Note 50.

Inflation risk
Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. The Group is exposed to inflation risk in two specific areas.

- Certain non-linked contracts, such as annuities, may provide for future benefits to be paid taking account of changes in the level of inflation. Contracts in payment may also include an annual adjustment for movements in prices indices, subject to an annual cap. The Group seeks to manage the risk of movements in price indices through an appropriate investment strategy including the use of inflation swaps.

- In writing long term business, the Group makes assumptions regarding the future costs of product servicing. The assumptions take account of changes in price indices and the costs of employment, with stress testing evaluating the effect of significant deviations on the Group's capital position.

Currency risk
The Group is potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. 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.

As described in Note 49, the Group is not directly exposed to risks on unit linked contracts. Detailed risk disclosures have not been presented for unit linked assets and liabilities.

Notes to the Financial Statements (continued)

50 Risk management and control (continued)

Table 1 – Currency risk

Table 1 summarises the Group's exposure to foreign currency exchange risk, in sterling. The functional currency represents the currency of the primary economic environment in which each of the Group's subsidiaries operates.

Shareholder As at 31 December 2008	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Assets							
Investment in associates	–	–	–	–	–	14	14
Plant and equipment	–	–	–	–	–	75	75
Investments	–	886	423	59	87	6,265	7,720
Purchased interests in long term business	–	–	–	–	–	118	118
Other operational assets	–	1	3	–	(2)	2,925	2,927
Total assets	–	887	426	59	85	9,397	10,854
Liabilities							
Subordinated borrowings	–	539	–	–	–	1,118	1,657
Participating contract liabilities	–	–	–	–	–	–	–
Non-participating contract liabilities	25	1	13	–	1	2,474	2,514
Senior borrowings	–	92	–	–	–	1,939	2,031
Other liabilities	–	272	848	–	–	1,117	2,237
Total liabilities	25	904	861	–	1	6,648	8,439

Non profit non-unit linked As at 31 December 2008	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Assets							
Investment in associates	–	–	–	–	–	–	–
Plant and equipment	–	–	–	–	–	–	–
Investments[1]	–	1,576	4,435	–	–	14,578	20,589
Purchased interests in long term business	–	–	–	–	–	109	109
Other operational assets	–	–	3	–	–	2,402	2,405
Total assets	–	1,576	4,438	–	–	17,089	23,103
Liabilities							
Subordinated borrowings	–	–	–	–	–	–	–
Participating contract liabilities	–	–	–	–	–	39	39
Non-participating contract liabilities	–	–	–	–	–	19,070	19,070
Senior borrowings	–	–	–	–	–	29	29
Other liabilities[1]	–	1,545	4,423	–	–	(3,207)	2,761
Total liabilities	–	1,545	4,423	–	–	15,931	21,899

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within variable rate securities (£1,266m) and derivative liabilities (£388m).

With-profits As at 31 December 2008	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Assets							
Investment in associates	–	–	–	–	–	–	–
Plant and equipment	–	–	–	–	–	–	–
Investments	–	646	665	443	457	16,869	19,080
Purchased interests in long term business	–	–	–	–	–	–	–
Other operational assets	–	1	5	1	6	380	393
Total assets	–	647	670	444	463	17,249	19,473
Liabilities							
Subordinated borrowings	–	–	–	–	–	–	–
Participating contract liabilities	–	–	–	–	–	16,890	16,890
Non-participating contract liabilities	–	–	–	–	–	1,944	1,944
Senior borrowings	–	–	–	–	–	74	74
Other liabilities	–	264	302	–	–	(110)	456
Total liabilities	–	264	302	–	–	18,798	19,364

Table 1 – Currency risk continued

Shareholder **As at 31 December 2007**	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Assets							
Investment in associates	–	–	–	–	–	14	14
Plant and equipment	–	–	–	–	–	79	79
Investments	–	755	186	102	153	6,814	8,010
Purchased interests in long term business	–	–	1	–	–	18	19
Other operational assets	–	–	1	–	–	1,391	1,392
Total assets	–	755	188	102	153	8,316	9,514
Liabilities							
Subordinated borrowings	–	404	–	–	–	1,057	1,461
Participating contract liabilities	–	–	–	–	–	–	–
Non-participating contract liabilities	32	1	21	–	1	1,828	1,883
Senior borrowings	–	118	–	–	–	1,088	1,206
Other liabilities	–	146	469	–	–	583	1,198
Total liabilities	32	669	490	–	1	4,556	5,748

Non profit non-unit linked **As at 31 December 2007**	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Assets							
Investment in associates	–	–	–	–	–	–	–
Plant and equipment	–	–	–	–	–	–	–
Investments[1]	–	636	1,392	14	21	15,038	17,101
Purchased interests in long term business	–	–	–	–	–	–	–
Other operational assets	–	–	4	2	–	1,996	2,002
Total assets	–	636	1,396	16	21	17,034	19,103
Liabilities							
Subordinated borrowings	–	–	–	–	–	–	–
Participating contract liabilities	–	–	–	–	–	81	81
Non-participating contract liabilities	–	–	–	–	–	16,583	16,583
Senior borrowings	–	–	–	2	–	26	28
Other liabilities[1]	–	583	1,384	–	–	(660)	1,307
Total liabilities	–	583	1,384	2	–	16,030	17,999

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within variable rate securities (£741m) and derivative liabilities (£36m).

With-profits **As at 31 December 2007**	Sterling £m	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Assets							
Investment in associates	–	–	–	–	–	–	–
Plant and equipment	–	–	–	–	–	–	–
Investments	–	875	694	500	757	20,084	22,910
Purchased interests in long term business	–	–	–	–	–	–	–
Other operational assets	–	1	5	1	6	432	445
Total assets	–	876	699	501	763	20,516	23,355
Liabilities							
Subordinated borrowings	–	–	–	–	–	–	–
Participating contract liabilities	–	–	–	–	–	20,248	20,248
Non-participating contract liabilities	–	–	–	–	–	2,021	2,021
Senior borrowings	–	–	1	–	–	81	82
Other liabilities	–	206	216	1	–	(122)	301
Total liabilities	–	206	217	1	–	22,228	22,652

Notes to the Financial Statements (continued)

50 Risk management and control (continued)

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 2.

Table 2 – Currency sensitivity analysis

Currency sensitivity test	Impact on pre-tax profit 2008 £m	Impact on equity 2008 £m	Impact on pre-tax profit 2007 Restated £m	Impact on equity 2007 Restated £m
10% Euro appreciation	**1**	**1**	14	10
10% Dollar appreciation	**(42)**	**(29)**	(29)	(20)

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 3 indicates the Group's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

Table 3 – Exposure to worldwide equity markets

	Shareholder 2008 £m	Non profit non-unit linked 2008 £m	With-profits 2008 £m	Total 2008 £m	Shareholder 2007 £m	Non profit non-unit linked 2007 £m	With-profits 2007 £m	Total 2007 £m
UK	**697**	**69**	**1,968**	**2,734**	1,991	191	4,103	6,285
North America	**61**	**–**	**353**	**414**	87	12	426	525
Europe	**230**	**–**	**529**	**759**	301	27	896	1,224
Japan	**70**	**–**	**433**	**503**	100	14	491	605
Asia Pacific	**26**	**–**	**335**	**361**	121	17	595	733
Other	**58**	**–**	**8**	**66**	5	3	17	25
Listed equities	**1,142**	**69**	**3,626**	**4,837**	2,605	264	6,528	9,397
Unlisted UK equities	**9**	**–**	**66**	**75**	20	3	156	179
Holdings in unit trusts	**166**	**–**	**429**	**595**	90	21	624	735
Total equities	**1,317**	**69**	**4,121**	**5,507**	2,715	288	7,308	10,311

The Group holds non-unit linked property investments totalling £189m (2007: £435m), of which £182m (2007: £428m) are located in the UK.

Credit risk

The Group's credit risk policy defines the overall framework for the management of credit risk. 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 and regular review 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 4. The credit rating bands are provided by independent rating agencies. For unrated assets, the Group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

The carrying amount of non-unit linked assets included in the balance sheet represents the maximum credit exposure.

Table 4 – Exposure to credit risk

Shareholder

As at 31 December 2008	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Bespoke CDOs £m	Unrated Other £m	Total £m
Government securities		805	25	2	–	–	–	–	832
Other fixed rate securities		454	158	881	528	13	–	42	2,076
Variable rate securities		541	127	132	66	2	–	51	919
Total debt securities	18i	1,800	310	1,015	594	15	–	93	3,827
Accrued interest	18i	21	5	17	12	–	–	1	56
Loans and receivables	18ii	–	4	6	–	–	–	88	98
Derivative assets	19	–	135	170	–	–	–	–	305
Cash and cash equivalents[1]	26	166	549	1,191	–	–	–	23	1,929
Financial assets		1,987	1,003	2,399	606	15	–	205	6,215
Reinsurers' share of contract liabilities	20	8	158	31	1	11	–	103	312
Other assets	25	–	36	87	16	–	–	347	486
		1,995	1,197	2,517	623	26	–	655	7,013

1. 'A' rated cash and cash equivalents include £301m (2007: £460m) holdings in commercial paper which are short term instruments which carry a short term rating of A1+/A1 from Standard & Poor's.

Non profit non-unit linked

As at 31 December 2008	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Bespoke CDOs £m	Unrated Other £m	Total £m
Government securities		663	12	–	–	–	–	–	675
Other fixed rate securities		1,126	1,522	6,022	3,437	161	–	623	12,891
Variable rate securities[1]		977	473	963	252	–	878	94	3,637
Total debt securities	18i	2,766	2,007	6,985	3,689	161	878	717	17,203
Accrued interest	18i	31	37	161	90	7	–	9	335
Loans and receivables	18ii	–	–	–	–	–	–	–	–
Derivative assets	19	11	654	1,326	3	–	–	–	1,994
Cash and cash equivalents	26	362	148	478	–	–	–	–	988
Financial assets		3,170	2,846	8,950	3,782	168	878	726	20,520
Reinsurers' share of contract liabilities	20	4	1,072	419	–	–	–	42	1,537
Other assets	25	–	1	–	–	–	–	120	121
		3,174	3,919	9,369	3,782	168	878	888	22,178

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within variable rate securities (£1,266m) and derivative liabilities (£388m).

With-profits

As at 31 December 2008	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Bespoke CDOs £m	Unrated Other £m	Total £m
Government securities		1,991	6	–	–	–	–	–	1,997
Other fixed rate securities		3,455	957	2,767	1,123	44	–	587	8,933
Variable rate securities		158	37	62	3	–	–	5	265
Total debt securities	18i	5,604	1,000	2,829	1,126	44	–	592	11,195
Accrued interest	18i	95	26	77	35	3	–	15	251
Loans and receivables	18ii	–	70	25	–	–	–	187	282
Derivative assets	19	–	7	59	–	–	–	–	66
Cash and cash equivalents	26	114	91	1,326	–	–	–	3	1,534
Financial assets		5,813	1,194	4,316	1,161	47	–	797	13,328
Reinsurers' share of contract liabilities	20	–	1	–	–	–	–	13	14
Other assets	25	–	–	–	–	–	–	163	163
		5,813	1,195	4,316	1,161	47	–	973	13,505

At the year end, the Group held £1,023m (2007: £245m) of collateral in respect of non-unit linked derivative assets.

Notes to the Financial Statements (continued)

50 Risk management and control (continued)

Table 4 – Exposure to credit risk (continued)

Shareholder

As at 31 December 2007	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Bespoke CDOs £m	Unrated Other £m	Total £m
Government securities		574	4	–	–	–	–	–	578
Other fixed rate securities		497	277	649	368	17	–	16	1,824
Variable rate securities		675	101	189	–	–	–	43	1,008
Total debt securities	18i	1,746	382	838	368	17	–	59	3,410
Accrued interest	18i	17	4	11	6	–	–	11	49
Loans and receivables	18ii	–	70	1	–	–	–	48	119
Derivative assets	19	–	69	6	–	–	–	–	75
Cash and cash equivalents	26	55	321	845	–	–	–	13	1,234
Financial assets		1,818	846	1,701	374	17	–	131	4,887
Reinsurers' share of contract liabilities	20	8	111	14	–	8	–	87	228
Other assets	25	1	54	30	11	–	–	322	418
		1,827	1,011	1,745	385	25	–	540	5,533

Non profit non-unit linked

As at 31 December 2007	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Bespoke CDOs £m	Unrated Other £m	Total £m
Government securities		800	13	23	–	–	–	–	836
Other fixed rate securities		2,649	1,787	4,513	1,951	82	–	717	11,699
Variable rate securities[1]		1,738	98	642	48	–	705	83	3,314
Total debt securities	18i	5,187	1,898	5,178	1,999	82	705	800	15,849
Accrued interest	18i	68	40	106	47	3	–	12	276
Loans and receivables	18ii	–	–	–	–	–	–	–	–
Derivative assets	19	–	77	74	–	–	–	–	151
Cash and cash equivalents	26	–	59	452	–	–	–	–	511
Financial assets		5,255	2,074	5,810	2,046	85	705	812	16,787
Reinsurers' share of contract liabilities	20	–	905	86	–	54	–	60	1,105
Other assets	25	–	9	–	–	–	–	176	185
		5,255	2,988	5,896	2,046	139	705	1,048	18,077

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within variable rate securities (£741m) and derivative liabilities (£36m).

With-profits

As at 31 December 2007	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Bespoke CDOs £m	Unrated Other £m	Total £m
Government securities		2,467	–	2	9	–	–	–	2,478
Other fixed rate securities		3,402	1,138	2,436	1,163	19	–	623	8,781
Variable rate securities		170	42	16	4	–	–	5	237
Total debt securities	18i	6,039	1,180	2,454	1,176	19	–	628	11,496
Accrued interest	18i	78	29	52	32	1	–	15	207
Loans and receivables	18ii	–	–	1	–	–	–	24	25
Derivative assets	19	–	11	2	–	–	–	–	13
Cash and cash equivalents	26	124	80	1,016	–	–	–	1	1,221
Financial assets		6,241	1,300	3,525	1,208	20	–	668	12,962
Reinsurers' share of contract liabilities	20	–	1	–	–	–	–	74	75
Other assets	25	–	–	–	–	–	–	143	143
		6,241	1,301	3,525	1,208	20	–	885	13,180

Table 5 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. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

Table 5 – Ageing of financial assets that are past due but not impaired

As at 31 December 2008	Notes	Neither past due nor impaired £m	Financial assets that are past due but not impaired 0-3 months £m	3-6 months £m	6 months–1 year £m	Over 1 year £m	Financial assets that have been impaired[1] £m	Carrying value £m
Shareholder								
Government securities		832	–	–	–	–	–	832
Other fixed rate securities[1]		2,076	–	–	–	–	23	2,076
Variable rate securities		915	–	–	–	4	–	919
Total debt securities	18i	3,823	–	–	–	4	23	3,827
Accrued interest	18i	56	–	–	–	–	–	56
Loans and receivables	18ii	98	–	–	–	–	–	98
Derivative assets	19	305	–	–	–	–	–	305
Cash equivalents	26	1,692	–	–	–	–	–	1,692
Financial assets		5,974	–	–	–	4	23	5,978
Reinsurers' share of contract liabilities	20	312	–	–	–	–	–	312
Other assets	25	453	25	3	3	2	4	486
		6,739	25	3	3	6	27	6,776

1. The £23m of debt securities that have been impaired include Other fixed rate securities in the US, primarily Lehman Brothers (£15m) and Harrah's (£4m).

As at 31 December 2008	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
Non profit non-unit linked								
Government securities		675	–	–	–	–	–	675
Other fixed rate securities		12,891	–	–	–	–	–	12,891
Variable rate securities[1]		3,637	–	–	–	–	–	3,637
Total debt securities	18i	17,203	–	–	–	–	–	17,203
Accrued interest	18i	335	–	–	–	–	–	335
Loans and receivables	18ii	–	–	–	–	–	–	-
Derivative assets	19	1,994	–	–	–	–	–	1,994
Cash equivalents	26	856	–	–	–	–	–	856
Financial assets		20,388	–	–	–	–	–	20,388
Reinsurers' share of contract liabilities	20	1,537	–	–	–	–	–	1,537
Other assets	25	22	74	9	9	7	10	121
		21,947	74	9	9	7	10	22,046

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within variable rate securities (£1,266m) and derivative liabilities (£388m).

As at 31 December 2008	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
With-profits								
Government securities		1,997	–	–	–	–	–	1,997
Other fixed rate securities		8,933	–	–	–	–	–	8,933
Variable rate securities		265	–	–	–	–	–	265
Total debt securities	18i	11,195	–	–	–	–	–	11,195
Accrued interest	18i	251	–	–	–	–	–	251
Loans and receivables	18ii	282	–	–	–	–	–	282
Derivative assets	19	66	–	–	–	–	–	66
Cash equivalents	26	1,434	–	–	–	–	–	1,434
Financial assets		13,228	–	–	–	–	–	13,228
Reinsurers' share of contract liabilities	20	14	–	–	–	–	–	14
Other assets	25	138	21	1	1	2	2	163
		13,380	21	1	1	2	2	13,405

Notes to the Financial Statements (continued)

50 Risk management and control (continued)

As at 31 December 2007	Notes	Neither past due nor impaired £m	Financial assets that are past due but not impaired 0-3 months £m	3-6 months £m	6 months–1 year £m	Over 1 year £m	Financial assets that have been impaired1 £m	Carrying value £m
Shareholder								
Government securities		578	–	–	–	–	–	578
Other fixed rate securities		1,824	–	–	–	–	1	1,824
Variable rate securities		1,008	–	–	–	–	–	1,008
Total debt securities	18i	3,410	–	–	–	–	1	3,410
Accrued interest	18i	49	–	–	–	–	–	49
Loans and receivables	18ii	119	–	–	–	–	–	119
Derivative assets	19	75	–	–	–	–	–	75
Cash equivalents	26	1,142	22	7	–	–	3	1,171
Financial assets		4,795	22	7	–	–	4	4,824
Reinsurers' share of contract liabilities	20	228	–	–	–	–	–	228
Other assets	25	401	15	1	1	–	4	418
		5,424	37	8	1	–	8	5,470
Non profit non-linked								
Government securities		836	–	–	–	–	–	836
Other fixed rate securities		11,699	–	–	–	–	–	11,699
Variable rate securities[1]		3,314	–	–	–	–	–	3,314
Total debt securities	18i	15,849	–	–	–	–	–	15,849
Accrued interest	18i	276	–	–	–	–	–	276
Loans and receivables	18ii	–	–	–	–	–	–	–
Derivative assets	19	151	–	–	–	–	–	151
Cash equivalents	26	452	–	–	–	–	–	452
Financial assets		16,728	–	–	–	–	–	16,728
Reinsurers' share of contract liabilities	20	1,105	–	–	–	–	–	1,105
Other assets	25	85	80	7	10	3	7	185
		17,918	80	7	10	3	7	18,018

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within variable rate securities (£741m) and derivative liabilities (£36m).

With-profits								
Government securities		2,478	–	–	–	–	–	2,478
Other fixed rate securities		8,781	–	–	–	–	–	8,781
Variable rate securities		237	–	–	–	–	–	237
Total debt securities	18i	11,496	–	–	–	–	–	11,496
Accrued interest	18i	207	–	–	–	–	–	207
Loans and receivables	18ii	25	–	–	–	–	–	25
Derivative assets	19	13	–	–	–	–	–	13
Cash equivalents	26	1,139	–	–	–	–	–	1,139
Financial assets		12,880	–	–	–	–	–	12,880
Reinsurers' share of contract liabilities	20	75	–	–	–	–	–	75
Other assets	25	120	20	1	1	1	–	143
		13,075	20	1	1	1	–	13,098

Liquidity risk

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 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 £960m syndicated borrowing facility, expiring in 2012, which provides flexibility in the management of the Group's liquidity.

Other risks

Operational risk

All business managers are required to confirm regularly the adequacy of controls over operational risks to business unit Risk and Compliance Committees (RCCs), the Group Risk and Compliance Committee (GRCC) and the Group Audit Committee. Significant control issues which business areas identify are escalated to business unit RCCs, which oversee their resolution. There are a number of categories under which operational risk and its management across the Group can be considered, and these are outlined in the following paragraphs.

Internal process failure

The Group is potentially 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.

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.

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. 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 significant external 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 systems and for the increased cost of working in the event of business disruption.

Fraud

The Group is potentially exposed to the risk of internal fraud, claims-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 management oversight. The activities of Internal Audit also act to counter the risk. Claims-related fraud is managed by ensuring business processes are designed to fully validate claims and ensure that only bona fide claims are settled. Anti-fraud techniques are regularly updated to mitigate risks and emerging threats. The Group's approach to mitigating fraud and other dishonest acts is supported by promoting an open and honest culture in all dealings between employees, managers and those parties with which the Group has contact. A formal code of ethics sets out the Group's expectations in this respect. Effective and honest communication is essential if malpractice is to be effectively dealt with. The Group has defined whistle blowing procedures to enable all employees and those who work with Legal & General to raise matters of concern relating to Legal & General in confidence. Personnel independent of the business reporting line act as designated whistle blowing contacts and include the heads of Internal Audit and Group Compliance. The Group also operates a "speak up" hotline facility to report concerns, either in confidence or anonymously.

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.

Contagion risk

The potential for contagion risk arises as a consequence of:

- the use of a common brand across the majority of the Group;
- the provision of intra-group loans and indemnities.

The Group has defined policies and procedures for managing matters that may have reputational implications, to ensure that Legal & General's position is correctly understood. The Group also has defined policies for the provision of guarantees, indemnities and letters of comfort, with the position being subject to review by the GRCC.

50 Risk management and control (continued)

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.

Long term insurance risks

UK long term insurance 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.

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. They 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 accepts the assets and 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 2008 was £226m (2007: £162m). Thus, 1% negative inflation, which was reversed in the following year would result in a guarantee cost of approximately £2m (2007: £2m). 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 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 deductions 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.

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 or 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.

(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. The management of associated counterparty risks from the use of reinsurance is set out on page 144.

(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 strategy is to invest in fixed income securities of appropriate maturity dates. The risk of default on fixed interest securities is managed through diversified portfolios with exposure limited to individual economies, sectors and counterparties.

Interest rate risk is reduced by managing the duration and maturity structure of each investment portfolio in relation to the estimated cash flows 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.

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.

At 30 June 2005 an assessment was made of the expected cost of guarantees and options to be paid in the future, and funds with the same value to meet these costs were associated from the capital in the with-profits sub-fund. The value of the funds is regularly assessed and is reduced by the cost of guarantees and options paid since 1 July 2005. At each assessment point, if the value of the funds is lower than the expected cost of guarantees and options, it is intended to make deductions from asset shares to cover the difference. It is intended to limit deductions to no more than 0.75% each year, up to a maximum of 5% per policy.

Following the movement in the expected cost and the value of the associated funds up to 31 December 2008, and in accordance with the Group's PPFM, a deduction of 0.75% has been made from the asset shares. In the technical provisions, allowance has also been made for future deductions in respect of the expected costs of meeting future guarantees and options not covered by the current year deduction. For policyholders who decide to surrender a charge will generally be made in respect of the expected cost of guarantees and options not covered by the charge already taken.

Some older participating contracts include a guaranteed minimum rate of roll up of the policyholders' 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.

50 Risk management and control (continued)

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 £48m (2007: £59m).

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 £133m (2007: £111m).

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 – 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. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets.

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.

As part of the 2007 Society LTF restructure, the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). As a result, Society's Board of Directors undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment will reduce to £450m in 2009 and then gradually reduce to zero over a period not exceeding nine years.

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.

Unit linked 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 component. In addition, 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 $753m and $230m respectively at 31 December 2008 (2007: $758m and $248m 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 2007).

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)

50 Risk management and control (continued)

Table 6 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 172 of the Annual Report & Accounts.

Table 6 – Effect on embedded value

As at 31 December 2008	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
UK	**6,146**	**384**	**(336)**	**(73)**	**5**	**110**
International	**1,463**	**126**	**(109)**	**17**	**(23)**	**3**
	7,609	**510**	**(445)**	**(56)**	**(18)**	**113**

As at 31 December 2008	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
UK	**6,146**	**(248)**	**68**	**66**	**(111)**	**40**
International	**1,463**	**(6)**	**12**	**59**	**n/a**	**95**
	7,609	**(254)**	**80**	**125**	**(111)**	**135**

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
UK	7,293	355	(311)	182	(201)	170
International	1,101	86	(74)	19	(23)	5
	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
UK	7,293	(277)	71	78	(119)	39
International	1,101	(8)	12	43	n/a	65
	8,394	(285)	83	121	(119)	104

Opposite sensitivities are broadly symmetrical.

The Group also uses embedded value (EV) financial information in addition to IFRS to manage and monitor performance, and to manage interdependences between different aspects of financial risks, for example for market risk. This provides 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 (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. Whilst EV sensitivities do not directly reflect the short term movements under IFRS, they more closely reflect the long term economic out turn.

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 161 in the Supplementary Financial Statements.

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 £270m (2007: £30m and £230m) for a single weather event.
- 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, usually 12 months.
- 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 continues in run-off, the final policy having expired in August 2007, but this is expected to take several years.
- 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. The healthcare business is in run-off with the final policies having expired in July 2008. By the year end, the level of residual claims was minimal and claims payments are expected to cease during 2009.
- 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.

ASU

Periods of rapid and prolonged national economic downturn can create significant variation in the frequency and severity of claims experience.

This risk is managed through the monitoring of economic trends and the underwriting of policies only when attached to the customer completing a mortgage loan transaction, having achieved credit scoring approval.

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 (2007: £1m).

Sensitivity analysis

Table 7 shows material sensitivities for the General insurance business on pre-tax profit and equity, net of reinsurance.

Table 7 – General insurance sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2008 £m	**Impact on equity net of reinsurance 2008 £m**	Impact on pre–tax profit net of reinsurance 2007 £m	Impact on equity net of reinsurance 2007 £m
Sensitivity test				
Single storm event with 1 in 200 year probability	**(50)**	**(36)**	(42)	(29)
Subsidence event – worst claim ratio in last 30 years	**(46)**	**(33)**	(36)	(25)
Repeat of 1990 recession on ASU/DMI/household accounts	**(39)**	**(28)**	(54)	(38)
5% decrease in overall claims ratio	**10**	**7**	13	9
5% surplus over claims liabilities	**6**	**4**	7	5

For any single event with claims in excess of £30m but less than £270m, 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 £120m.

Supplementary Financial Statements – European Embedded Value Basis

Consolidated Income Statement
For the year ended 31 December 2008

	Notes	2008 £m	2007 Restated £m
From continuing operations			
Risk	3	**439**	219
Savings	3	**50**	146
Investment management	4	**130**	120
International	5	**100**	136
Group capital and financing	6	**151**	227
Operating profit		**870**	848
Variation from longer term investment return	9	**(1,579)**	116
Effect of economic assumption changes	10	**(609)**	52
Property losses attributable to minority interests		**(63)**	(6)
Corporate restructure	19	**–**	161
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company		**(1,381)**	1,171
Tax credit/(expense) on (loss)/profit from ordinary activities	12	**327**	(310)
Effect of UK Budget tax changes		**–**	86
Tax impact of corporate restructure	19	**81**	206
(Loss)/profit from ordinary activities after tax		**(973)**	1,153
Loss attributable to minority interests		**63**	6
(Loss)/profit attributable to equity holders of the Company		**(910)**	1,159

		p	Restated p
Earnings per share	13		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**10.66**	9.06
Based on (loss)/profit attributable to equity holders of the Company		**(15.25)**	17.99
Diluted earnings per share	13		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**10.62**	9.02
Based on (loss)/profit attributable to equity holders of the Company		**(15.25)**	17.89

Consolidated Balance Sheet
As at 31 December 2008

	Notes	2008 £m	2007 Restated £m
Assets			
Investments		**249,185**	276,438
Long term in-force business asset		**3,160**	2,701
Other assets		**7,315**	4,828
		259,660	283,967
Equity and liabilities			
Shareholders' equity	15/16	**6,521**	8,128
Minority interests		**144**	178
Total equity		**6,665**	8,306
Subordinated borrowings		**1,657**	1,461
Unallocated divisible surplus		**913**	1,721
Participating contract liabilities		**16,205**	18,849
Non-participating contract liabilities		**222,539**	247,779
Senior borrowings		**2,314**	1,327
Other liabilities and provisions		**9,367**	4,524
		259,660	283,967

Consolidated Statement of Recognised Income and Expense
For the year ended 31 December 2008

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

Notes to the supplementary financial statements – European Embedded Value Basis

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.

Restatement

A contingent loan has been advanced by Legal & General Assurance Society Limited to Legal & General Pensions Limited (LGPL) to finance the business that is reinsured to LGPL. For 2008 the loan asset has been treated as part of the value of in-force business and offsets LGPL's liability. Previously the value of the loan (2008: £786m; 2007: £614m) was included in free surplus, and the expected return on the loan (2008: £64m; 2007: £51m) included in contribution from shareholder net worth. 2007 comparatives have been restated accordingly. There is no impact on profit after tax or shareholders' equity.

For 2008 the managed pension funds business within Investment management has been reported on an IFRS basis, as management believe IFRS to be the most appropriate reporting basis for the investment management business. Investment management operating profit excludes £35m (2007: £23m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis within Risk, Savings and Group capital and financing covered business on an EEV basis. This change has reduced 2007 operating profit before tax by £64m, profit after tax by £59m and shareholders' equity by £340m. 2007 comparatives have been restated accordingly.

Segmental reporting

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

Covered business

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Continental Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business.

For 2008, business written in our UK managed pension funds company was removed from covered business and the result of the managed pension funds business reported on an IFRS basis. 2007 comparatives have been restated accordingly.

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

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

Description of methodology

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

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

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

i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and
ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

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

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

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

Service companies

All services relating to the UK covered business are charged on a cost recovery basis, with the exception of investment management services provided to LGPL, which have been charged at market referenced rates since 1 January 2007, and to Society, which have been charged at market referenced rates 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 Risk and Savings segments on an EEV basis.

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

New business

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

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

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.

Projection assumptions

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

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

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

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known or expected future changes. This includes tax which would arise if surplus assets within the covered business were eventually to be distributed. The benefit of certain current UK tax rules on the apportionment of income has not been reflected as it is expected that these rules will be amended before such benefit is realised.

Allowance for risk

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

i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;
ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and
iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

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

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

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

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

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

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

1 Basis of preparation (continued)

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

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

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

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

Financial options and guarantees

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

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

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

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

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

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

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

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

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

Risk discount rate

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

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

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters are forward looking, although informed by historic information. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 28%.

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital, the inherent strength of the Group's regulatory reserves and the explicit deduction for the cost of options and guarantees, is appropriate to reflect the risks within the covered business.

For the 2008 results the risk margin was increased to 4.5% (31.12.07: 3.0%). This 1.5% increase includes a 0.5% increase in the equity risk premium and a further 1% increase to reflect increased market perceived company specific risks in the current dislocated market conditions.

Key assumptions are summarised below:

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

Analysis of profit

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

i. new business;
ii. the management of in-force business;
iii. development costs; and
iv. return on shareholder net worth.

Further profit contributions arise from actual investment 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 relate to investment in strategic systems and development capability.

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

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

Investment return variances represent the effect of actual investment performance and changes to investment policy on shareholder net worth and the value of 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 the value of 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.

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

2 Present value of new business premiums (PVNBP)

For the year ended 31 December 2008	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor	Single premiums £m	PVNBP £m	New business margin %
Risk	**207**	**1,005**	**4.9**	**2,806**	**3,811**	**7.1**
Savings	**289**	**1,110**	**3.8**	**3,612**	**4,722**	**(0.1)**
International	**81**	**575**	**7.1**	**321**	**896**	**3.6**
	577	**2,690**		**6,739**	**9,429**	**3.1**

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 %
Risk	223	1,161	5.2	2,045	3,206	9.2
Savings	271	1,069	4.0	4,617	5,686	0.5
International	73	510	7.0	405	915	4.1
	567	2,740		7,067	9,807	3.7

3 (Loss)/profit from continuing operations after tax

For the year ended 31 December 2008	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital		**265**		**32**		**297**
Contribution from in-force business:						
– expected return[1]		**370**		**100**		**470**
– experience variances	7	**12**		**(34)**		**(22)**
– operating assumption changes	8	**(100)**		**(15)**		**(115)**
Development costs		**(51)**		**–**		**(51)**
Contribution from shareholder net worth[2]				**17**	**256**	**273**
Operating profit on covered business		**496**	**–**	**100**	**256**	**852**
Business reported on an IFRS basis:						
General insurance		**(2)**				**(2)**
Core retail investments		**–**				**–**
Investment management[3]	4		**130**			**130**
Group capital financing	6				**(105)**	**(105)**
Other[4]		**(5)**				**(5)**
Total operating profit		**489**	**130**	**100**	**151**	**870**
Variation from longer term investment return	9	**(175)**	**7**	**(110)**	**(1,301)**	**(1,579)**
Effect of economic assumption changes	10	**(505)**	**–**	**(110)**	**6**	**(609)**
Property losses attributable to minority interests		**–**	**–**	**–**	**(63)**	**(63)**
(Loss)/profit from continuing operations before tax		**(191)**	**137**	**(120)**	**(1,207)**	**(1,381)**
Tax credit/(expenses) on (loss)/profit from ordinary activities		**54**	**(42)**	**37**	**278**	**327**
Tax impact of corporate restructure[5]		**53**	**–**	**–**	**28**	**81**
(Loss)/profit from ordinary activities after tax		**(84)**	**95**	**(83)**	**(901)**	**(973)**
Operating profit attributable to:						
Risk		**439**				
Savings		**50**				

1. The expected return on in-force is based on the unwind of the discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £3,460m in 2008. This is adjusted for the effects of opening model changes (-£18m) to give an adjusted opening base VIF of £3,442m. This is then multiplied by the opening risk discount rate of 7.5% and the result grossed up at the notional attributed tax rate of 28% to give a return of £359m. This is added to the expected return on the in-force of businesses acquired in the year (£11m) to give a total UK expected return of £370m.
2. The 2008 Group capital and financing contribution from shareholder net worth (SNW) of £256m reflects an average return on the average balance of invested assets. This is offset by pre-tax corporate expenses charged to shareholders' funds of £12m, and an adjustment for opening tax and other modelling changes of £10m.
3. Investment management operating profit excludes £35m (2007: £23m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.
4. On an EEV basis Nationwide Life, Suffolk Life, operations in Ireland and business unit costs allocated to the Risk and Savings business are included in the covered business operating profit. These are included within Other Risk and Other Savings operating profit on an IFRS basis.
5. In 2008 £0.9bn was transferred from Shareholder Retained Capital to shareholder capital held outside Society's long term fund. This transfer did not give rise to any incremental tax and therefore resulted in an £81m benefit to embedded value.

For the year ended 31 December 2007	Notes	Risk and Savings Restated £m	Investment management Restated £m	International £m	Group capital and financing Restated £m	Total Restated £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital		321		38		359
Contribution from in-force business:						
– expected return		314		80		394
– experience variances	7	108		3		111
– operating assumption changes	8	(275)		2		(273)
Development costs		(44)		–		(44)
Contribution from shareholder net worth				13	296	309
Operating profit on covered business		424	–	136	296	856
Business reported on an IFRS basis:						
General insurance		(67)				(67)
Core retail investments		12				12
Investment management[1]	4		120			120
Group capital financing	6				(69)	(69)
Other		(4)				(4)
Total operating profit		365	120	136	227	848
Variation from longer term investment return	9	274	4	(8)	(154)	116
Effect of economic assumption changes	10	44	–	(18)	26	52
Property losses attributable to minority interests		–	–	–	(6)	(6)
Corporate restructure		37	–	–	124	161
Profit from continuing operations before tax		720	124	110	217	1,171
Tax charge on profit from ordinary activities		(202)	(39)	(32)	(37)	(310)
Effect of UK Budget tax changes		48	–	–	38	86
Tax impact of corporate restructure[2]		–	–	–	206	206
Profit from ordinary activities after tax		566	85	78	424	1,153
Operating profit attributable to:						
Risk		219				
Savings		146				

1. 2007 Investment management operating profit excludes £23m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.
2. In 2007 £1.7bn was transferred from Shareholder Retained Capital to shareholder capital held outside the long term fund. This transfer did not give rise to any incremental tax and therefore resulted in a £206m benefit to embedded value.

4 Investment management operating profit

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

1. The managed pension funds business within Investment management has been reported on an IFRS basis as management believe IFRS to be the most appropriate reporting basis for the investment management business. 2007 comparatives have been restated accordingly.
2. Other income excludes £35m (2007: £23m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis within the Risk, Savings and Group capital and financing covered business on an EEV basis.
3. Investment management operating profit excludes core retail investments, of £nil (2007: £12m), which has been disclosed as part of Savings. The comparatives have been restated accordingly.

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

5 International operating profit

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

6 Group capital and financing operating profit[1]

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

1. Group capital and financing represents operating profit on the shareholder assets held within the covered business, reported on an embedded value basis, and operating profit on the shareholder assets held outside the covered business reported on an IFRS basis.
2. Interest expense excludes non recourse financing.
3. The defined benefit pension scheme (expense)/income includes the actuarial gains and losses arising on annuity assets held by the schemes that have been purchased from Legal & General Assurance Society Limited relating to the non-covered business. Under IFRS, these annuity assets cannot be classified as plan assets in accordance with IAS 19 and so the associated actuarial gains and losses cannot be taken to the statement of recognised income and expense. The 2007 comparative also includes income arising from a pension deficit reduction payment which was charged to the operating segments in 2008.

7 Analysis of experience variances

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

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

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

8 Analysis of operating assumption changes

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

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

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

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

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

9 Variation from longer term investment return

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

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

10 Effect of economic assumption changes

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

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

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

11 Time value of options and guarantees

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

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

12 Tax

Analysis of tax

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

13 Earnings per share

(a) Earnings per share

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

(b) Diluted earnings per share

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

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

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

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

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

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

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

14 Embedded value reconciliation

For the year ended 31 December 2008	UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m	International £m	Total £m
At 1 January						
Value of in-force business (VIF)			3,460	3,460	782	4,242
Shareholder net worth (SNW)	2,639	1,198		3,837	324	4,161
	2,639	1,198	3,460	7,297	1,106	8,403
Exchange rate movements	–	–	–	–	386	386
Opening adjustment	27	–	(27)	–	–	–
	2,666	1,198	3,433	7,297	1,492	8,789
Loss for the period:						
– New business contribution (including short term default reserve)[1]	(661)	232	620	191		
– Expected return on VIF	–	–	267	267		
– Expected transfer from VIF and required capital to free surplus	565	(115)	(450)	–		
– Experience variances	39	3	(38)	4		
– Operating assumption changes	(31)	1	(38)	(68)		
– Development costs	(37)	–	–	(37)		
– Expected return on SNW	140	51	–	191		
– Investment variances	(1,092)	(83)	189	(986)		
– Economic assumption changes	(531)	(3)	175	(359)		
– Tax impact of corporate restructure	28	–	53	81		
Loss for the period[2]	(1,580)	86	778	(716)	(83)	(799)
Capital movements[3]	(260)	–	–	(260)	60	(200)
Embedded value of businesses acquired	71	85	143	299	–	299
Distributions:						
– With-profits transfer	77	–	(77)	–		
– Dividend to Group	(405)	–	–	(405)		
Distributions	(328)	–	(77)	(405)	(6)	(411)
Other reserve movements including pension deficit	(35)	–	(9)	(44)	–	(44)
Transfer to non-covered business[4]	(25)	–	–	(25)	–	(25)
Embedded value	509	1,369	4,268	6,146	1,463	7,609
Represented by:						
– Non profit			3,845			
– With-profits			423			
Value of in-force business			4,268	4,268	1,059	5,327
Shareholder net worth	509	1,369		1,878	404	2,282

1. The free surplus reduction of £661m to finance new business includes £101m of the short term default allowance, as well as £334m IFRS new business strain and £232m additional required capital. Other items have a net positive impact of £6m.
2. Included in the loss for the period is a non profit inter-fund transfer from free surplus to VIF of £710m.
3. Capital movements within the UK comprise the £252m cost of acquiring Nationwide Life and £8m (€10m) of capital injected from Society into France. The acquisition of Suffolk Life (£63m) was funded from the non-covered business element of Group capital and financing. The International capital movements comprise £52m ($96m) of capital injected into the USA and the £8m (€10m) of capital injected into France.
4. The transfer to non-covered business represents the IFRS profits arising in the period from the provision of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.

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

1. Included in the profit for the period is an inter-fund transfer from non profit (included in VIF) to SSC (included in free surplus) of £60m.
2. Capital movements comprise the repayment of £602m of intra-group subordinated debt; offset by £57m ($114m) of capital injected into the USA and £39m injected into Legal & General International (Ireland) from Group, together with £27m (€40m) injected into France from Society.
3. In previous periods, UK SNW represented the amounts in the Society long term fund and LGPL shareholder capital which were regarded as either required capital or free surplus held within the covered business. As a consequence of the 2007 Capital review all shareholder capital in Society and LGPL is included as SNW within the covered business. This notional transfer of the previously excluded Society Shareholder Capital (SSC) into UK SNW is included as Other capital movements.
4. The transfer to non-covered business represents the IFRS profits arising in the period from the provision of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

15 Analysis of shareholders' equity

As at 31 December 2008	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	**174**	**322**	**1,272**	**1,820**	**3,588**
Additional retained profit/(loss) on an EEV basis	**4,268**	**–**	**203**	**(1,538)**	**2,933**
Shareholders' equity on an EEV basis	**4,442**	**322**	**1,475**	**282**	**6,521**
Comprising:					
Business reported on an IFRS basis	**174**	**322**	**12**	**(1,596)**	**(1,088)**
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]			**144**	**509**	**653**
– Required capital to cover solvency margin			**260**	**1,369**	**1,629**
Value of in-force					
– Value of in-force business	**4,576**		**1,156**		**5,732**
– Cost of capital[3]	**(308)**		**(97)**		**(405)**

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

1. Shareholders' equity supporting the non profit Risk and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the Group capital and financing segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. For 2008 the cost of capital reflects a risk margin of 4.5% in the risk discount rate and an equity backing ratio for the assets backing the solvency capital of 55% (2007 risk margin of 3.0% and equity backing ratio of 79%).

Further analysis of shareholders' equity is included in Note 16.

16 Segmental analysis of shareholders' equity

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

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

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

17 Reconciliation of shareholder net worth (SNW)

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

1. On an EEV basis the contingent loan (between Society and LGPL) is modelled within the VIF. On an IFRS basis the contingent loan asset is included within the Group capital and financing net assets.
2. Deferred tax represents all tax which is expected to be paid under current legislation.
3. Other in the UK covered business relates primarily to the different treatment of sterling reserves, other long term reserves and the non profit result of LGPL under EEV compared with IFRS. Total business also includes the different treatment of the US Triple X securitisation on an EEV and IFRS basis.

18 Sensitivities

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

Effect on embedded value as at 31 December 2008

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

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

Effect on new business contribution for the year

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

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

Opposite sensitivities are broadly symmetrical.

19 Capital review

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 (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 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 undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment will reduce to £450m in 2009 and then gradually reduce to zero over a period not exceeding nine years.

In 2007 £1.7bn was 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 2007 EEV results were:

	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.

Notes to the supplementary financial statements – European Embedded Value Basis (continued)

20 Assumptions

UK Assumptions

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

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

Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.50% p.a. at 31.12.2007) 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 0.12% p.a. respectively across the portfolios as a whole (0.11% p.a. and 0.10% p.a. at 31.12.2007). In 2008 Legal & General Pensions Limited has reserved an additional £313m before discounting to allow for our best estimate of the credit defaults over the next four years.

Economic assumptions

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

UK covered business

i. Assets are valued at market value.

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

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

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

An allowance is made for future improvements in annuitant mortality based on experience and externally published data. Male annuitant mortality is assumed to improve in accordance with CMI Working Paper 30, projection MC, with a minimum annual improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 75% of projection MC, with a minimum annual improvement of 1.0% for future experience and 1.5% for statutory reserving. In each case, the annual improvement is assumed to reduce linearly after age 89 to zero at age 120.

On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 25.2 years (31.12.07: 25.1 years). The expectation of life on the regulatory reserving basis is 26.4 years (31.12.07: 26.2 years).

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

International

vi. Key assumptions:

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

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

Tax

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

Independent Auditors' Report

To the Directors of Legal & General Group Plc on the Supplementary Financial Statements

We have audited the supplementary financial statements for the year ended 31 December 2008 which comprise the Consolidated Income Statement – European Embedded Value basis, the Consolidated Balance Sheet – European Embedded Value basis and the Consolidated Statement of Recognised Income and Expense – European Embedded Value basis and the related notes ('the supplementary financial statements') which have been prepared in accordance with the European Embedded Value ('EEV') basis set out in the Basis of preparation 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 the Basis of preparation. Our responsibilities, as independent auditors, in relation to the supplementary financial statements are, as set out in our letter of engagement dated 17 March 2009, 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 17 March 2009, 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 Basis of preparation is 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 2008 have been properly prepared in all material respects in accordance with the EEV basis set out in the Basis of preparation.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
24 March 2009

Notes:
(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 2008 which comprise the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movement 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 2008.

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 the Governance Section 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 Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent 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 judgments 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 2008;
- 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
24 March 2009

Notes:

(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 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	8	**5,075**	6,115
Current assets			
Amounts owed by Group undertakings		**747**	1,341
Tax		**30**	35
Derivative assets	9	**280**	74
Other debtors		**9**	13
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		**(9)**	(6)
Other creditors and accruals	10	**(116)**	(48)
Net current assets		**941**	1,409
Total assets less current liabilities		**6,016**	7,524
Creditors: amounts falling due after more than one year			
Dated subordinated borrowings	11	**(1,657)**	(1,461)
Senior borrowings	11	**(146)**	–
Amounts owed to Group undertakings		**(621)**	(621)
Shareholders' net assets		**3,592**	5,442
Representing capital and reserves			
Share capital	12	**147**	157
Share premium account	12	**936**	927
Capital redemption and other reserves	13	**54**	39
Revaluation reserve	13	**1,351**	2,774
Profit and loss account	13	**1,104**	1,545
Total equity		**3,592**	5,442

The notes on pages 179 to 184 form an integral part of these financial statements.

The financial statements on pages 177 to 184 were approved by the directors on 24 March 2009 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 2008

	2008 £m	2007 £m
Profit for the financial year	**445**	1,365
Losses on revaluation of investments in subsidiary undertakings	**(1,423)**	(657)
Total recognised gains and losses relating to the year	**(978)**	708

Company Reconciliation of Movements in Total Equity

For the year ended 31 December 2008

	2008 £m	2007 £m
As at 1 January	**5,442**	5,420
Total recognised gains and losses	**(978)**	708
Net movements in employee scheme shares	**4**	7
Dividend distributions to equity holders of the Company during the year	**(367)**	(369)
Issue of share capital	**10**	4
Cancellation of shares under the share buyback programme	**(523)**	(320)
Transfer from/(to) share-based payments reserve	**4**	(8)
As at 31 December	**3,592**	5,442

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 as amended by the Companies Act 1989 and subsequent statutory instruments, 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 a general meeting and interim dividends are recognised 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 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 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.

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.

Notes to the Company Financial Statements (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 estimate, 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.

3 Dividends and other distributions

	Per share 2008 p	Total 2008 £m	Per share 2007 p	Total 2007 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**4.10**	**248**	3.81	248
– Current year interim dividend	**2.01**	**119**	1.87	121
	6.11	**367**	5.68	369
Ordinary share dividend proposed[1]	**2.05**	**120**	4.10	247

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 Legal & General 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 2008 there were no loans outstanding with directors of the Company (2007: £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 2008 or 31 December 2007 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 2008 of £101m (2007: £130m) and the contributions in respect of them for the year were £54m (2007: £38m). Further information is given in Note 39 of the Group's consolidated financial statements.

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 Group's consolidated financial statements.

The total expense recharged to the Company in relation to share-based payments was £nil (2007: £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's consolidated IFRS financial statements disclose the aggregate remuneration receivable by the Company's auditor for the audit of the Group's annual accounts, 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.

Notes to the Company Financial Statements (continued)

8 Investments

	Shares in Group companies 2008 £m	Loans to Group companies 2008 £m	Total 2008 £m	Shares in Group companies 2007 £m	Loans to Group companies 2007 £m	Total 2007 £m
At valuation, 1 January	**5,446**	**669**	**6,115**	5,408	1,282	6,690
Additions	**214**	**97**	**311**	2,035	–	2,035
Disposal	**–**	**–**	**–**	(1,340)	–	(1,340)
Repayment	**–**	**(97)**	**(97)**	–	(618)	(618)
Revaluation	**(1,423)**	**169**	**(1,254)**	(657)	5	(652)
At valuation, 31 December	**4,237**	**838**	**5,075**	5,446	669	6,115
At cost, 31 December	**2,920**	**746**	**3,666**	2,706	746	3,452

9 Derivative assets and liabilities

	Contract/ notional amount 2008 £m	Fair values	
		Assets 2008 £m	Liabilities[1] 2008 £m
Interest rate contracts – held for trading	**1,583**	**5**	**94**
Interest rate contracts – fair value hedges	**600**	**84**	**-**
Forward foreign exchange contracts – net investment hedges	**679**	**–**	**19**
Forward foreign exchange contracts – held for trading	**583**	**191**	**–**
Derivative assets and liabilities		**280**	**113**

	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

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 50 of the Group's consolidated financial statements.

10 Other creditors and accruals

	2008 £m	2007 £m
Derivative liabilities (Note 9)	**113**	31
Accruals	**–**	7
Other creditors	**3**	10
Other creditors and accruals	**116**	48

Other creditors and accruals are expected to be settled within five years.

11 Borrowings
Analysis by nature

	Carrying amount 2008 £m	Coupon rate 2008 %	Fair value 2008 £m	Carrying amount 2007 £m	Coupon rate 2007 %	Fair value 2007 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities	**692**	**6.39**	**414**	620	6.39	591
5.875% Sterling undated subordinated notes	**426**	**5.88**	**287**	427	5.88	387
4.0% Euro subordinated notes 2025	**539**	**4.00**	**283**	414	4.00	409
Total borrowings	**1,657**		**984**	1,461		1,387
Senior borrowings						
Bank loans 2009	**146**	**6.43**	**146**	–	–	–
Total borrowings	**1,803**		**1,130**	1,461		1,387

As at 31 December 2008, the Company had in place a £960m syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2012.

£86m of interest expense was incurred during the year (2007: £74m).

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 liabilities as the interest payments become mandatory in certain circumstances.

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

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

Notes to the Company Financial Statements (continued)

12 Share capital and share premium

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

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

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2007	6,532,261,961	163	923
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

Options over the ordinary share capital of the Company are disclosed in Note 14 of the Group's consolidated financial statements.

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

13 Movement in reserves

	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2008	**6**	**(1)**	**34**	**2,774**	**1,545**	**4,358**
Retained profit after tax and dividends	**–**	**–**	**–**	**–**	**78**	**78**
Decrease in the net assets of subsidiaries	**–**	**–**	**–**	**(1,423)**	**–**	**(1,423)**
Value of employee services	**–**	**–**	**22**	**–**	**–**	**22**
Shares vested and transfer from share-based payments reserve	**–**	**–**	**(18)**	**–**	**4**	**(14)**
Cancellation of shares under the share buyback programme	**11**	**–**	**–**	**–**	**(523)**	**(512)**
Balance at 31 December 2008	**17**	**(1)**	**38**	**1,351**	**1,104**	**2,509**

	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £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)
Balance at 31 December 2007	6	(1)	34	2,774	1,545	4,358

14 Subsidiary undertakings

Full disclosure of the Company's investments in subsidiary undertakings is contained in Note 45 of the Group's consolidated financial statements.

Abbreviations

AFS	Available-for-sale
APE	Annual Premium Equivalent
ASU	Accident, sickness and unemployment
BPA	Bulk Purchase Annuity
CAL	Company Action Level
CDO	Collateralised Debt Obligations
CFO	Chief Financial Officer
CMIB	Continuous Mortality Investigation Bureau
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

Categories of ordinary shareholders and ranges of shareholdings at 31 December 2008 were:

	Shareholders Number	Shareholders %	Share Number	Share %
Category of shareholder				
Individuals	33,785	72.84	321,912,828	5.40
Banks	8	0.02	33,538,784	0.39
Nominee companies	10,750	24.85	5,248,717,682	91.91
Insurance companies and pension funds	25	0.05	324,568	0.01
Limited companies	632	1.51	68,941,321	1.22
Other corporate bodies	368	0.73	188,192,811	1.07
	45,568	100.00	5,861,627,994	100.00
Range of holdings				
1 – 20,000	40,551	88.99	182,234,179	3.11
20,001 – 100,000	3,686	8.09	143,627,000	2.45
100,001 – 500,000	682	1.50	150,840,377	2.57
500,001 and over	649	1.42	5,384,926,438	91.87
	45,568	100.00	5,861,627,994	100.00

The number of shares on the register at 31 December 2008 includes shares purchased as part of the share buyback programme which were in the course of cancellation.

Annual General Meeting

The 2009 Annual General Meeting (AGM) will be held on Wednesday, 27 May 2009 at 11.30am at The Institution of Engineering and Technology, Savoy Place, London WC2R 0BL.

The AGM provides Legal & General with the opportunity to meet its shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors.

Dividend information

Dividend per Share

This year, the directors are recommending the payment of a final dividend of 2.05p per share. If you add this to your interim dividend of 2.01p per share, the total dividend recommended for 2008 will be 4.06p per share (2007: 5.97p per share), a reduction of 32%.

The key dates for your dividends payable in 2009 are:

Final dividend 2008	
Ex-dividend date	15 April 2009
Record date	17 April 2009
Payable	1 June 2009

Interim dividend 2009	
Ex-dividend date	2 September 2009
Record date	4 September 2009
Payable	1 October 2009

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 Registrars can be found on the opposite page.

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.

Investor Relations

For more information, visit the Investor Relations section on our website at: www.legalandgeneralgroup.com/investors/investors.cfm

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 and 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
You can contact our Registrars, Equiniti Limited:

By post: Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

By telephone: Shareholder Helpline: 0871 384 2118*.

* Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

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.

Shareholder Offer Line: For details of shareholder offers on Legal & General products call 0500 65 5555.

Financial Reporting Calendar

Publication of Preliminary Results 2008	25 March 2009
Ex-dividend date	15 April 2009
Last day for DRIP elections	15 May 2009
Annual General Meeting	27 May 2009
Payment of Final Dividend for 2008 (to members registered on 17 April 2009)	1 June 2009
Publication of Interim Results for 2009 and Declaration of Interim Dividend	4 August 2009
Ex-dividend date	2 September 2009
Last day for DRIP elections	17 September 2009
Payment of Interim Dividend for 2009 (to members registered on 4 September 2009)	1 October 2009

Notes

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www.legalandgeneralgroup.com

Legal & General Group Plc
One Coleman Street, London EC2R 5AA
T 020 3124 2000, F 020 3124 2500