Legal & General Group PLC

Half-Year Results

Follow up Technical Questions

How are you achieving a 5.5% return on annuity assets in current markets?

The LGPL portfolio is invested largely in bonds, (see information in tables 4.01 and 4.02). The average rating in the bond portfolio is about an A, the IBOXX yield for which was 5.7% at half year. Allowing for some higher yielding assets (e.g. sale and leaseback assets and CDOs) less an allowance for expenses and defaults gets you to the EV assumption.

What is the impact of current low gilt yields on the with profit capital position?

Overall the regulatory position of the WP business is well protected to a fall in risk free rates as we have organised the assets that don't back asset shares (i.e. assets backing the Estate and the cost of options and guarantees*) to protect the fund against changes in market conditions. We would therefore expect almost no change in the Peak 2 position in these circumstances and the WP part of the fund would continue to meet its capital requirements without recourse to shareholder support.

Margins - What is the driver behind the fall in new business margin on with-profits?

With Profits Bond margin is down due to a change in business mix. The proportion of with-profits bond business in total new with-profits business has reduced compared to H12010.

Are there any corrective measures going through to improve the margins in the Netherlands or is this a zero margin business going forward?

Volumes were lower in the Netherlands with an impact on expense recovery as well as product mix moving away from higher margin term assurance across the market. We are taking actions to improve our market positioning on term as well as increasing volumes across the Board. We do not consider that the Netherlands is inherently a zero margin business or market.

On the US margins, are there any one-off effects from the restructuring impacting the margin of 7.8%? If so when will these drop away?

There are no one off effects in this margin. New business margins rose sharply as a result of the significant increase in volume, with its effect on expense recovery and increasing reinvestment yields.

Profitability in France increased materially due to positive investment variance. Can you please indicate likely sustainability of this level of profit?

There is good underlying performance in France, but some one off impacts in H1 may not be repeated in H2 and going forward.

Where are all the XXX reserves – they seem to be relatively low on the balance sheet?

We have just over $3bn of XXX reserves on a gross basis. This includes a number of structures including captive reinsurance through both long dated surplus notes and letters of credit, external reinsurance and internal solutions.

Around $0.4bn are in a captive reinsurer, First British American II which issued long-dated surplus notes, and this is the £276m you can see in note 2.16 of the pack.

Around another $1.4bn have been reinsured to internal captives and make use of letters of credit.

We have external reinsurance for a further around $0.3bn.

$0.5bn have been reinsured to LGAS through the Capital transaction disclosed in February. A small but growing of amount of funding is provided through our internally-funded solution for new business, set up in 2011.

Finally, we retain around $0.5bn, which are reflected in LGA's statutory balance sheet.

We are working on a number of transactions with the following aims:

- To continue to be able to write a growing volume of profitable new business
- To free up capital, and improve the Group's fungibility of capital
- To eliminate as far as is possible paying external parties for taking on risk which we are happy to retain within the Group"

Why has the Earned Interest Margin fallen from 117bps to 100bps between H110 and H111?

The earned interest margin is aimed at providing an indicative measure of the return on the assets underlying the Annuities business. It is defined as annualised Operational Cash divided by expected average AUM in respect of in-force business. The reduction occurs because the numerator is broadly stable over the period whilst the denominator has increased.

This demonstrates one of the limitations of the earned interest margin calculation, in that the denominator is much more sensitive to changes in yields than the numerator. It is important to note that the lower interest margin is now being applied to a higher asset base.

PS11/09 Delivering the RDR and other issues for platforms and nominee related services" – how are you affected

We believe that while there is a cost of change associated with implementing new requirements, it is unlikely that anything in the paper will damage the long-term prospects of the platform market.

Unbundled pricing will require a change in commercial model for all supermarket-style platforms (including our own IPS). However, we were already planning to incorporate this as unbundled platform charging will help us realise synergies with our market leading passive proposition.

We believe the new platform definition, which includes open architecture ISA managers and execution-only stockbrokers, is appropriate and recognises that all these types of businesses are largely competing on a similar proposition to similar customers.

We are fully supportive of platforms being subject to same rules and standards when administering advice charges as product providers. This will have little impact on our platforms business.

There will be a marginal impact on costs arising as a result of additional responsibility placed on platforms.

Our early view is that the impact of the changes suggested in the paper will be margin neutral for us.

What is the profile of DTA utilisation?

The Deferred Tax Asset, which is analysed in detail on page 14 of the pack, represents the value of tax losses that are expected to be utilised against future taxable profits, thereby reducing future cash tax payments. The component of deferred tax for "trading losses" impacts on Operational and Net Cash Generation and this impact can be seen in the analysis of Risk Operating Profit [note 2.01(b)] which includes within Movements in Non-Cash Items [note 2.01(e)] an item of £38m for the utilisation of deferred tax losses. Around £34m of this amount relates to the utilisation of trading losses in H1

2011 and is included within Net Cash Generation. We expect a similar movement in H2, and based on our profit projections, we expect to utilise the remaining trading losses by 2013.

What is the tax item in note 2.01c of £16m? Is this included with net operational cash?

This item relates to the modelled utilisation of the deferred tax asset for Deferred and Excess Expenses (XSE). On our methodology, it is specifically excluded from both Operational and Net Cash Generation and the utilisation is taken through the Experience variance.

How has the reduction in UK corporate tax rates been reflected in the deferred tax?

The reduction in corporate tax rate to 26% has produced a net £4m reduction in the value of the deferred tax asset. This is shown on note 2.07.

What is the overseas deferred tax liability?

The overseas deferred tax liability of £373m [2010 H1 £358m] is a an accounting technical adjustment in relation to Legal & General America's deferred acquisition costs. Under IFRS, the rate at which new business costs are expensed is slower than for US tax purposes. This gives rise to a timing difference between the two bases and, therefore, a deferred tax liability.

What is the deferred tax asset for capital losses and why has it fallen so much?

The deferred tax asset balance for capital losses at H1 2011 of £30m [2010 H1 £302m] has decreased significantly due to an improvement in the market value of equities in the second half of 2010.

What are the level 2 equities? Why did the level 2 equities valuation double since full year given that the text states there were no new allocations to level 2 (implying a valuation issue).

The level 2 equities predominately relate to global macro funds. The increase has been driven by an additional investment in a global macro fund and does not represent a valuation issue.

How can your ICA surplus be bigger than your IGD surplus? Is that for the whole business? Isn't there always an annuity add on?

Pillar 1 is the dominant regulatory capital basis for the Group, including the annuity business.

Under the Pillar 1 regime each individual assumption is required to be prudent on its own and no diversification is allowed either between risks or

between products. Pillar 2 allows diversification both between risks and between products.

We cannot comment on other firms' Pillar 2 capital add ons.

Please can you expand on the change in cash definition and the impact year on year.

A. We have amended the operational cash definition to incorporate expected capital growth on equities on the Group capital and financing assets. There has been no change to the treatment under IFRS operating profit or EEV operating profit in which it was already included.

In previous periods we have incorporated into operational cash only a longer term expected dividend yield on equities held within the Group capital and financing segment.

This new definition brings equities in line with all other asset types held and is comparable with the treatment of equities by our peers.

The impact of this change has been to increase operational cash generation and net cash by £18m in H1 2011 (H1 2010: £15m, FY 2010: £32m).

The operational cash growth of 19% and net cash of 14% are therefore predominantly due to business performance reasons. The growth in operational cash from H1 2010 to H1 2011 of £81m therefore includes £3m arising from this change in definition, less than 1%.

The scale of this impact in future will be dependant on the level of equity holdings within the Group capital and financing segment and the economic assumptions used for embedded value reporting.

Mortality/morbidity experience into the 2H so far - have you observed the large value claims settling back towards "normal"?

We do expect a certain number of large claims on our Group Life book. It is too early to draw any conclusions as to whether H2 is reverting to normal but we will be monitoring claims experience closely and continue to take appropriate pricing action where required.

BPA data loading (£19m) - will this run down materially due to lower BPA volumes?

The scope for future releases on BPA loading is reduced as backlogs have now been cleared and current levels of release are unlikely to reflect the exceptional levels of recent years. However, there is always an element of inherent data uncertainty when bulk business is initially priced prior to being loaded and the release of these reserves over time reflects necessary prudence.