Legal & General Group Plc
With-profits Business Realistic Balance Sheet for Legal & General Assurance Society Ltd ("Society") as at 31 December 2003

- **With-profits Estate in excess of £1bn on a fully market consistent basis**
- **Guarantees and option costs represent only 5% of asset shares**
- **Risk Capital Margin (RCM) relating to increased cost of policyholder benefits £560m**
- **out of a total RCM of £960m**
- **RCM is 4.7 times covered by Society capital**
- **Considerable scope for management actions**

Legal & General Group Plc today announced details of the with-profits business realistic balance sheet for Society as at 31 December 2003, which it recently submitted to the Financial Services Authority.

The with-profits business realistic balance sheet* shows:

	£m
Total assets	18,610
Total liabilities	17,580
With-profits estate	1,030
RCM relating to:	
Increased cost of policyholder benefits	560
Discretionary mismatch on non-policyholder assets	400
Total RCM	960
Excess over RCM	70

The RCM is 4.7 times covered by Society capital.

Commenting on the Society's with-profits business realistic balance sheet, David Prosser, Group Chief Executive said "Legal & General is a financially strong company. It has an efficient financial structure with a clear separation between its with-profits and non profit businesses. It has carefully controlled the level of guarantees in its with-profits business with the result that the total realistic liability for guarantees and options represents only 5% of with-profits asset shares. In addition, these calculations have been made on a basis which has taken no credit for a range of available asset management actions. It remains our firm intention to operate the with-profits part of Society's long term fund without the need for external capital support."

*For full details of the Society's realistic balance sheet, please see the notes below.

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Notes to Editors:

The information contained herein has been reviewed by our consulting actuaries, Tillinghast Towers-Perrin.

Legal & General Assurance Society Ltd
With-Profits Business Realistic Balance Sheet as at 31 December 2003

	Note	£m
Total statutory assets	1	18,120
Additional assets on realistic basis	2	490
Total assets		18,610
Asset shares and other policyholder liabilities		16,190
Smoothing		150
Financial guarantees and options		780
Current liabilities	3	460
Total liabilities	4	17,580
With-profits estate	5	1,030
Risk capital margin relating to:		
Increased cost of policyholder benefits		560
Discretionary mismatch on non-policyholder assets		400
Total RCM	6	960
Excess over RCM		70

(This realistic balance sheet can be found on page 186 of the 2003 FSA return.)

Basis of preparation

This with-profits realistic basis balance sheet has been prepared in accordance with Association of British Insurers guidance dated 20 November 2003.

Note 1:

This line is the value, on a statutory basis, of the assets available within the with-profits part of the Society's long term fund to support participating with-profits policies.

Note 2:

This line includes the embedded value of non-participating business written in the with-profits part of the long term fund. The assumptions used in calculating this embedded value are consistent with those used to calculate the published Achieved Profits balance sheet for Legal & General Group Plc as at 31 December 2003.

Note 3:

This line is the share of current liabilities attributable to the with-profits business.

Note 4:

The calculation of the realistic liabilities takes account of bonus decisions which are consistent with the Society Board's current policy.

The assumed investment policy is that investments supporting participating with-profits policies are rebalanced to the end 2003 proportions at each projected calendar year end in the stochastic modelling. Those proportions were:

	%
Fixed interest	31
Property	18
UK equities	41
Overseas equities	10
	100

The assets supporting the value of the guarantees and options and the with-profits estate were assumed to be invested in the same proportions.

The liability in respect of Society's with-profits business includes an assessment of the cost of any options and guarantees included in this business. This assessment has been undertaken using a stochastic model of Society's with-profits business with the investment return model calibrated so as to reproduce the market prices of traded financial instruments as at 31 December 2003.

The assumed risk free rate of return has been determined by reference to the yield curve underlying pricing of swaps contracts, less a deduction of 10 basis points to allow for default risk.

Equity volatility has been set by reference to the market prices of traded equity options. For a ten year at the money option this has led to implied equity volatility of 20% p.a..

Property volatility has been set by reference to historic variations in property prices leading to a uniform volatility assumption of 15% p.a..

Note 5:

As at 31 December 2003, the value of the with-profits estate, calculated on a fully market consistent basis, was £1,030m.

The with-profits estate at 31 December 2002 was £1,090m. In this assessment the liability for smoothing, guarantees and options was not calculated on a fully market consistent basis. The equivalent figure as at 31 December 2003, calculated on the 2002 methodology, would have been £1,350m.

Note 6:

The RCM is the value of the additional assets required at the balance sheet date to cover the following instantaneous stress test:

a) reduction in the market value of equities of 18%; and
b) reduction in the market value of property investments of 20%; and
c) downward shift in the yield curve of 20% at all terms; and
d) increase of 50 basis points in credit spreads together with an increase of approximately 10 basis points in future default rates.

Other assumptions, including volatilities, are unchanged.

The RCM can be split into two parts. The first part relates to the increase in the cost of policyholder benefits (predominantly guarantees and options) arising from applying the stress test. This comes to £560m. The remainder relates to the effect of applying the stress test described above to the assets held to back other reserves such as the RCM itself.

At the year end, 69% of the with-profits assets were held as equities and properties. The risk capital margin is 4.7 times covered by Society capital.