

27 February 2001

Legal & General Group Plc**Results for the year ended 31 December 2000**

	2000	1999	
Modified Statutory Solvency basis -			
Operating profit before tax	£479m	£418m	up 15%
Earnings per share¹	6.61p	6.56p	up 1%
Dividend per share	4.71p	4.13p	up 14%
Achieved Profits basis -			
Operating profit before tax	£678m	£652m	up 4%
Contribution from new business²	£196m	£178m	up 10%
Shareholders' funds	£5,274m	£5,250m	up 5% ³

¹based on operating profit after a 2000 tax charge of £140m (1999: £83m).

²contribution before tax from worldwide life and pensions businesses.

³before the dividend to shareholders of £243m.

Group Chief Executive, David Prosser said: "In our core UK individual life and pensions business we have achieved volume growth, taken further market share and, in a highly competitive market, maintained margins.

This momentum will be increased further by our strategic alliance with Barclays. The alliance will strengthen our position in the key Stakeholder pensions market and in retail investment funds.

The recently announced partnership with Alliance & Leicester is a further strong endorsement of our strategy and our good value products. We expect the agreements with Barclays and Alliance & Leicester to increase our UK individual equivalent premium income by a third in the first full year of operation. We are building on our existing business with leading banks and mortgage lenders and there is more to come.

With its financial strength, value for money product range and strong brand, Legal & General has the ingredients for continued success."

Overview of results

- The Group's operating profit before tax grew by 15%, driven by a 13% growth in profits from the Group's life and pensions businesses and a 44% increase in the contribution from investment management. Profit after tax and earnings per share reflect a tax charge of 36% (1999: 13%).
- The contribution from worldwide new business on the Achieved Profits basis amounted to £196m, an increase of 10% over 1999, reflecting increased new business volumes, maintained margins and a favourable mix of business.
- New UK individual life and pensions business continued the growth pattern of recent years, increasing by 11% to £369m EPI¹ (1999: £331m). Group business fell as a result of lower volumes of bulk purchase annuity business in 2000. Unit trust/ISA volumes were also lower. International business, including unit trust sales, grew by 9%. In aggregate, worldwide new business for the year was £630m EPI, a little above the 1999 level of £628m.
- Our investment management business again delivered impressive results in 2000, winning £12.7bn of new institutional funds and increasing profits to £62m. This fast growing business is a key strategic asset of the Group.
- During 2000, Group shareholders' funds on the Achieved Profits basis grew from £5,250m to £5,274m, representing an increase of 5% before the dividend to shareholders of £243m.
- Reflecting the Group's strong performance, the Board has declared a final dividend per share of 3.23p. The total dividend for the year has therefore grown by 14% to reach 4.71p. Our progressive approach to dividend policy is supported by the transfer from the UK long term fund. In the current low inflationary environment, we believe that future dividend growth should be more closely aligned to the transfer from the UK long term fund, which has been growing at 10% per annum since 1999.

¹ Equivalent premium income (EPI) comprises new annual premiums + 10% of single premiums.

Results

	2000	1999	
Modified Statutory Solvency (MSS) basis			
Operating profit before tax	£479m	£418m	+15%
Profit before tax	£498m	£676m	-26%
Profit after tax	£317m	£587m	-46%
New life and pensions business EPI			
- UK individual	£369m	£331m	+11%
- UK group	£73m	£99m	-26%
- International	£90m	£84m	+7%
- Worldwide total	£532m	£514m	+4%
New ISA and unit trust EPI	£98m	£114m	-14%
New investment management business	£12.7bn	£13.1bn	-3%
Funds under management	£114bn	£108bn	+6%

Achieved Profits results

The Group's operating profit before tax for 2000 was £678m (1999: £652m), with the contribution from worldwide new business up 10% to £196m. The contribution from in-force business was £274m (1999: £289m). The growth in the in-force contribution from UK life and pensions, from £194m to £209m, was more than offset by reduced contributions from UK Managed Funds of £40m (1999: £46m) and International of £25m (1999: £49m). The contribution from shareholders' net worth increased to £145m (1999: £128m).

Profit on ordinary activities before tax, which includes investment return variance, was £392m (1999: £1,294m). There was a negative investment variance of £306m in 2000 (1999: a positive variance of £670m), reflecting the downturn in equity markets.

Shareholders' funds grew to £5,274m (1999: £5,250m), an increase of 5% before the dividend to shareholders of £243m. The Achieved Profits results are set out in Part 3 of this release.

Business review 2000

UK business

New individual life and pensions business continued the growth pattern of recent years, increasing by 11% to £369m EPI (1999: £331m). This represents a further increase in our market share since market new business volumes declined marginally in 2000. New group business fell as a result of lower volumes of bulk purchase annuity business. New unit trust and ISA sales in 2000 were also lower than in the previous year, although we are encouraged by the 14% growth in new business EPI in the final quarter over the corresponding period in 1999, following the launch of four new funds. In aggregate, new business for the year was £536m EPI, little changed from the 1999 level of £541m. The main features of 2000 were:

- In the pensions intermediary market, Legal & General has operated largely in the fee-based and low commission sectors. Support from these intermediaries for our pre-Stakeholder products contributed to the growth of 16% in our new individual pensions business to £165m EPI (1999: £142m).
- Legal & General's strengths in the housing market led to a 5% increase in new annual premiums from term and ISA business related to mortgages to £112m (1999: £107m). Our new business reflected an increasing trend towards repayment mortgages. Term assurance from this segment rose by 47% to £25m (1999: £17m). This significant growth in new business reflected the success of our Mortgage Club panel of lenders which saw completed loans increase by 53% to £5.1bn.
- Demand for our with-profits bonds from both IFAs and our major business partners was buoyant, increasing sales by 45% over the year to £648m (1999: £448m). Sales accelerated in the second half of the year, averaging over £63m each month.
- Early in 2000, Legal & General took the view that technology stocks were overpriced. As a consequence, we did not offer a technology fund at that time despite the then high levels of market demand. Although our first quarter market share was therefore depressed, new business has subsequently recovered. At the year-end, external unit trust and ISA assets under management in the UK were £3.9bn (1999: £3.5bn).
- Group business EPI fell as a result of lower volumes of bulk purchase annuity business. Overall, group life and pensions new business totalled £73m EPI in 2000 - a decrease of 26% (1999: £99m). Group risk continued its strong performance with new business totalling £31m EPI over the year (1999: £24m), reflecting further growth in the market's support for our value for money products.

The UK life and pensions operating profit before tax rose to £312m (1999: £285m), reflecting a 10% growth in the net transfer from the UK long term fund and a slightly lower tax grossing up rate.

Expanding distribution

Legal & General and Barclays Bank Plc have recently announced a strategic alliance. Initially, this important new alliance will focus on Stakeholder pensions but, subject to regulatory approval, it will be extended later this year to include Legal & General's full range of UK life, pensions and savings products. Last week we also announced a partnership with Alliance and Leicester. Together, these agreements are expected to increase Legal & General's UK new individual EPI by a third in the first full year of operation.

Investment management

Our fast growing investment management business is a key strategic asset of the Group. It provides fund management expertise to trustees of pension schemes, other institutional clients and to other Group operations. Group funds under management were £114bn at the year end (1999: £108bn).

In 2000, our investment management team again delivered impressive new business results, winning £12.7bn (1999: £13.1bn) of new institutional funds of which £11.4bn (1999: £12.8bn) came from managed fund business.

The profits from investment management increased by 44% to £62m (1999: £43m). The profit from the UK Managed Funds business was £53m (1999: £41m) reflecting the very strong growth in funds under management in recent years. The profit for 2000 includes the benefit of UK double taxation relief amounting to £16m (1999: £12m). This benefit will cease to be available from 2001 following changes in the 2000 Budget. The investment management profit also includes £3m (1999: £3m) from the Ventures operation and a profit of £2m (1999: £4m loss) from the unit trust and ISA/PEP business.

International life and pensions

The profits from the Group's international businesses grew strongly by 44% to £52m (1999: £36m). Each of our international businesses reported robust profit growth in local currency terms.

USA

Legal & General America has been successful in achieving a major position in the high net worth term assurance market. Business written is almost entirely annual premium in nature with the positive impact that will have on future premium revenue. Legal & General America is a highly focused manufacturer of term insurance with a proven ability to implement technological solutions, a strong reputation for expense control and for the quality of its underwriting.

New business EPI in 2000 was \$93m down from \$101m in 1999 when substantial volumes of business were written prior to pricing changes arising from new statutory solvency provisions, which came into effect on 1 January 2000. Legal & General America is well positioned to continue to increase its market share.

Profit before tax of \$62m was up 29% (1999: \$48m) reflecting the benefit of the rapid growth in business achieved in recent years.

Netherlands

In the Netherlands, new business EPI increased by 43% to €20m (1999: €14m) contrasting favourably with the decline in business seen in the market overall. Annual premium business increased 38% to €11m (1999: €8m) reflecting the strong support we have received following a number of product and service initiatives. Single premium sales were particularly strong, increasing 51% to €86m (1999: €57m) boosted by an annuity product launch in October 2000.

Operating profit before tax grew by 22% to €11m (1999: €9m) once again reflecting the strong growth in the business.

France

In France, new business EPI increased by 28% to €32m (1999: €25m). Within this result, single premium life and pension business increased by 48% to €170m (1999: €115m). Unit trust sales increased by 30% over the year to €65m (1999: €50m). The profit from this business was €5m compared with the 1999 result of €2m, which was adversely impacted by increased local reserving requirements and lower realised gains.

General insurance

The operating profit fell to £20m (1999: £25m). The household account remains the major component of the Group's general insurance premium income and includes our joint venture with Woolwich Plc. The household account produced an operating profit of £5m (1999: £7m), despite adverse weather claims of £17m in the fourth quarter of 2000.

The healthcare and ASU business, for which premiums have grown strongly, produced an operating profit of £1m (1999: £1m loss). The motor business also produced an operating profit of £1m (1999: £1m loss).

The operating profit for mortgage indemnity business was £21m (1999: £20m). This included £9m (1999: £6m) arising from the pre-1993 mortgage indemnity reserves, reflecting settlements made. The remaining provision for pre-1993 business is £14m.

As indicated at the half year, the overseas result for 2000 comprises a final settlement in respect of marine business written before 1980 through Andrew Weir Insurance Company Limited, a company now in administration.

Other income

Other income arising from investments held outside the UK long term fund, together with profits arising from other operations, was £33m (1999: £29m). The Group's other operations (banking, estate agency and Fairmount) produced a £1m profit (1999: £2m loss). Unallocated corporate expenses reduced to a more normal level of £5m (1999: £10m).

Change in shareholders' retained capital (SRC)

Accounting standards require that the change in SRC be included in the profit before tax.

For 2000, the change in SRC, grossed up to a pre-tax amount, was an increase of £30m (1999: £260m) and comprised:

- a reduction in SRC of £24m (1999: increase of £288m) resulting from a 1% negative rate of investment return on equities and property (1999: a positive rate of investment return of 23%); and
- the release of capital and profits from business written in previous years, which has been partially offset by the investment of SRC in the funding of new business not written in the with-profits fund. In aggregate, these items amounted to an increase of £231m compared with an increase of £126m in 1999 - a period in which we strengthened our mortality assumptions for annuitants; less
- the accrued transfer from SRC of £177m (1999: £154m), already included in the life and pensions operating profit.

Outlook

Significant changes to the design and distribution of long term savings and protection products are taking place. Consumer choice and increasingly flexible products, market regulation and Government initiatives will drive the pace of these changes.

The FSA is currently consulting on proposed changes to the existing polarisation regime. The proposals permit "multi-ties" for some products. Given Legal & General's experience in successfully managing multiple distribution channels, we believe the proposals, if adopted, will play to the Group's strengths.

April 2001 will see the launch of Stakeholder pensions. We believe our strength in distribution, e-commerce capabilities and investment management skills will prove especially advantageous in developing a powerful position in this highly important market over the next few years.

Dividend

The Board has declared a final dividend of 3.23p per share. The total dividend for the year has therefore grown by 14% to reach 4.71p, reflecting the Group's strong performance. The final dividend will be paid on 1 May 2001 to shareholders registered at the close of business on 6 April 2001. The shares go ex-dividend on 4 April 2001.

Notes:

- The Annual Report for 2000 will be sent to shareholders on 23 March 2001.
- The Annual General Meeting will be held on 25 April 2001.
- This release can also be found on the investor relations section of our web site, www.landg.com. The slides from the results presentation to analysts and a recording of that presentation will be added to the site later today.
- Institutional fund managers and analysts who cannot attend our results presentation may join a conference call at 15.00 GMT today. To join the conference please call +44 20 8515 2312 from 14.50 GMT. Investors in the USA and Canada may call toll free on 1 888 881 4892. The call will be archived for 48 hours on +44 20 8797 2499 pin 117227# and toll free in the USA and Canada on 1 416 640 1917 pin 94684.

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Part 2

Legal & General Group Plc

Summary of audited results for the year ended 31 December 2000

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Legal & General Group Plc

P1

Consolidated Profit and Loss Account

Year ended 31 December 2000

	Notes	2000 £m	1999 £m
Life and pensions	1	364	321
Investment management		62	43
General insurance	4	20	25
Other income	6	33	29
Operating profit		479	418
Variation from longer term general insurance investment return	5	(5)	3
Change in equalisation provision		(6)	(5)
Change in shareholders' retained capital (SRC)	7	30	260
Profit from ordinary activities before tax		498	676
Tax on profit on ordinary activities	8	(181)	(89)
Profit for the financial period		317	587
Dividends		(243)	(212)
Retained profit		74	375
<hr/>			
<i>Earnings per share</i>		p	p
Based on operating profit after tax		6.61	6.56
Based on profit for the financial period		6.18	11.50
<i>Diluted earnings per share</i>			
Based on operating profit after tax		6.59	6.53
Based on profit for the financial period		6.16	11.44
<i>Dividend per share</i>		4.71	4.13

Statement of Total Recognised Gains and Losses

	£m	£m
Profit for the financial period	317	587
Exchange gains	17	3
Total recognised gains and losses	334	590

These financial statements were approved by the Board on 26 February 2001 and have been prepared using the modified statutory solvency basis for long term business.

The results constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985 and are extracted from the Company's financial statements for the year ended 31 December 2000. The financial statements include the auditors' unqualified report and do not contain a statement under either sections 237(2) or 237(3) of the Companies Act 1985.

The 2000 Report and Accounts will be posted to shareholders on 23 March 2001 and delivered to the Registrar of Companies after the Annual General Meeting on 25 April 2001.

Consolidated Balance Sheet

As at 31 December 2000

	Notes	As at 2000 £m	As at 1999 £m
<i>Assets</i>			
Investments	9	35,077	34,143
Assets held to cover linked liabilities		70,678	65,928
Other assets		2,539	2,135
		108,294	102,206
<i>Liabilities</i>			
Shareholders' funds (i)	10	3,187	3,085
Fund for future appropriations (ii)		4,331	5,814
<i>Technical provisions</i>			
Technical provisions for linked liabilities		70,566	65,742
Long term business provisions		26,692	24,538
General insurance provisions		350	365
		97,608	90,645
Borrowings	12	571	426
Bank customer deposits		1,307	1,031
Other creditors		1,290	1,205
		108,294	102,206

(i) Shareholders' funds include profits retained as SRC in the UK long term fund. These amounts, net of allowance for tax, form part of the embedded value of the UK long term fund which is reported in the supplementary financial statements prepared on the Achieved Profits basis.

(ii) The fund for future appropriations comprises funds which have not been allocated between policyholders and shareholders at the end of the financial period and consists primarily of unrealised investment appreciation within the with-profits fund.

Notes to Financial Statements

Year ended 31 December 2000

1. Long term premiums and operating profit

	2000		1999	
	Gross premiums £m	Operating profit £m	Gross premiums £m	Operating profit £m
<i>UK with-profits business</i>				
- Life	1,335	98	1,233	88
- Individual pensions	778	33	688	35
- Group pensions	60	4	56	8
	2,173	135	1,977	131
<i>UK non-profit business</i>				
	1,161	177	1,284	154
UK	3,334	312	3,261	285
USA	256	42	181	30
Netherlands	98	7	72	5
France	140	3	102	1
	3,828	364	3,616	321

UK life and pensions profit is included in operating profit as the accrued statutory transfer, grossed up at the corporation tax rate. Profits for international business are reported on bases consistent with MSS or US GAAP.

International life and pensions premium income and results expressed at 31 December 2000 exchange rates are:

	Gross premiums £m	Operating profit £m	Gross premiums £m	Operating profit £m
USA	256	42	196	32
Netherlands	98	7	73	5
France	140	3	103	1

2. Principal sterling exchange rates used

	2000	1999
United States dollar	1.49	1.61
Euro	1.59	1.61

3. Half yearly analysis of operating profit

	2000		1999	
	Second half £m	First half £m	Second half £m	First half £m
Life and pensions	184	180	162	159
Investment management	33	29	30	13
General insurance	11	9	17	8
Other income	17	16	12	17
	245	234	221	197

Notes to Financial Statements

Year ended 31 December 2000

4. General insurance result

	Net premiums written	Underwriting result	Investment return	Operating profit (loss)	Change in equalisation provision	Total
	£m	£m	£m	£m	£m	£m
<i>2000</i>						
Household	181	(7)	12	5	(6)	(1)
Healthcare and ASU*	33	0	1	1	-	1
Motor	33	(2)	3	1	-	1
Mortgage indemnity	2	18	3	21	0	21
UK	249	9	19	28	(6)	22
Overseas	0	(8)	0	(8)	-	(8)
Total	249	1	19	20	(6)	14
<i>1999</i>						
Household	168	(4)	11	7	(5)	2
Healthcare and ASU*	14	(1)	0	(1)	-	(1)
Motor	26	(2)	1	(1)	-	(1)
Mortgage indemnity	3	16	4	20	0	20
UK	211	9	16	25	(5)	20
Overseas	0	(2)	2	0	-	0
Total	211	7	18	25	(5)	20

* Accident, Sickness and Unemployment business.

Investment return is determined using longer term rates of investment return. The rates used are consistent with those used for Achieved Profits reporting. Capital supporting the business, to which the longer term rates are applied, is based on the solvency margin appropriate for the business.

The investment return is calculated by applying the longer term rates of return shown below to the investment funds at the start of each quarter.

	2000 %	1999 %
UK equities	7.7 p.a.	7.1 p.a.
UK gilts	5.1 p.a.	4.5 p.a.

Notes to Financial Statements

Year ended 31 December 2000

5. Investment return

	2000 £m	1999 £m
Investment income	61	62
Interest expense and charges	(10)	(7)
Realised investment gains(losses)	19	(1)
Unrealised investment (losses)gains	(19)	8
	<u>51</u>	<u>62</u>

reported as:

Allocated to general insurance operating profit	19	18
Variation from longer term general insurance investment return (see note 4)	(5)	3
Shareholders' other income	37	41

The investment return shown represents the return on the general insurance and shareholders' funds excluding that in respect of SRC and non-insurance operations (primarily Legal & General Bank).

6. Other income

	2000 £m	1999 £m
<i>Shareholders' other income (excluding SRC)</i>		
- Investment return on shareholders' funds	46	47
- Interest expense on core debt	(9)	(6)
	<u>37</u>	<u>41</u>
- Other operations	1	(2)
- Unallocated corporate expenses	(5)	(10)
	<u>33</u>	<u>29</u>

Notes to Financial Statements

Year ended 31 December 2000

7. Change in SRC in the UK Long Term Fund

	2000 £m	1999 £m
Investment income	42	50
Interest expense and charges	(1)	(1)
Realised investment gains	106	97
Unrealised investment (losses)gains	(171)	142
Investment return on SRC	(24)	288
Net capital released from non-profit business	231	126
Accrued transfer to shareholders in respect of non-profit business included in operating profit	(177)	(154)
Change in SRC before tax	30	260

8. Tax

	2000		1999	
	Profit before tax £m	Tax (charge) credit £m	Profit before tax £m	Tax (charge) credit £m
Life and pensions	364	(97)	321	(79)
Investment management	62	(21)	43	(12)
General insurance	20	(6)	25	(1)
Other income	33	(16)	29	9
Operating profit and related tax	479	(140)	418	(83)
Variation from longer term general insurance investment return	(5)	1	3	(1)
Change in equalisation provision	(6)	2	(5)	2
Change in SRC	30	(44)	260	(7)
Profit on ordinary activities and related tax	498	(181)	676	(89)

The tax on UK life and pensions business and the change in SRC (excluding investment return) is determined by grossing up the statutory transfers and the net of tax amounts respectively at the UK corporation tax rate of 30% (1999: 30.25%).

Notes to Financial Statements

Year ended 31 December 2000

9. Funds under management

	2000		1999	
	Long term business £m	Other business £m	Long term business £m	Other business £m
Land and buildings	3,394	188	3,299	199
Shares, variable yield securities and unit trusts	13,610	1,459	14,337	1,448
Debt securities and other fixed income securities	12,728	723	12,055	1,019
Loans secured by mortgages	14	1,275	13	1,009
Other loans and investments	98	286	100	80
Deposits with credit institutions	863	439	339	245
Total investments	30,707	4,370	30,143	4,000
Held within the UK long term fund		3,137		2,718
Held outside the UK long term fund		1,233		1,282
		4,370		4,000
		Total £m		Total £m
Total investments		35,077		34,143
Assets held to cover linked liabilities		70,678		65,928
Funds included in the consolidated balance sheet		105,755		100,071
Segregated funds		4,565		4,027
Unit trusts, ISAs and PEPs (excluding cash ISAs)		3,867		3,450
Total funds under management		114,187		107,548
representing:				
Managed in the UK				
- active portfolios		34,751		35,414
- index tracking portfolios		74,913		67,817
- for international subsidiaries		1,089		964
		110,753		104,195
Mortgages and other		1,735		1,636
		112,488		105,831
Managed by international subsidiaries		1,699		1,717
		114,187		107,548

(i) Assets managed for external pension and institutional fund clients total £66,368m (1999: £61,320m).

(ii) The reported asset mix shown above does not reflect the use of derivatives. The effect of outstanding futures contracts is to change the mix as if the value as reported for shares, variable yield securities and unit trusts for long term business decreased by £69m (1999: £383m) and for shareholders' and general insurance funds it increased by £54m (1999: £94m decrease). In both cases, deposits would be changed by corresponding amounts. The effect of other derivatives is not considered significant enough to be separately reported.

Notes to Financial Statements

Year ended 31 December 2000

10. Shareholders' funds

	2000 £m	1999 £m
At 1 January	3,085	2,700
Total recognised gains and losses	334	590
Dividends	(243)	(212)
Increase in share capital/premium		
- conversion of bonds	3	1
- exercise of share options	8	6
At 31 December	<u>3,187</u>	<u>3,085</u>
Comprising:		
Share capital	129	128
Share premium	142	132
Profit and loss account		
-SRC	2,006	1,981
-Other	910	844
	<u>2,916</u>	<u>2,825</u>
	<u>3,187</u>	<u>3,085</u>

The number of fully paid ordinary shares of 2.5p in issue was 5,149m (1999: 5,129m), including 10m (1999: 13m) shares held within the Employee Share Ownership Trust.

11. Segmental analysis of shareholders' funds

	2000 £m	1999 £m
<i>Life and Pensions</i>		
- UK (SRC)*	1,805	1,818
- USA	483	377
- Netherlands	15	15
- France	43	40
	<u>2,346</u>	<u>2,250</u>
Investment management	134	92
General insurance	76	69
Banking	92	96
Corporate funds	539	578
	<u>3,187</u>	<u>3,085</u>

* Excluding SRC funds of £201m (1999: £163m) in respect of the net assets of subsidiaries.

Notes to Financial Statements

Year ended 31 December 2000

12. Borrowings

	2000			1999		
	Long term business £m	Other business £m	Total £m	Long term business £m	Other business £m	Total £m
Core debt	27	265 *	292	31	110	141
Mortgage related borrowings	5	274	279	8	277	285
Total borrowings	32	539	571	39	387	426

* Includes £147m attributable to SRC.

13. UK Long Term Fund as at 31 December

	2000 £bn	1999 £bn
With-profits business	27.0	26.9
Non profit business	9.4	8.6
Sub-fund	0.3	0.3
SRC	2.0	2.0
	2.3	2.3
Value of fund	38.7	37.8

Assets of the fund are valued at market value.

The sub-fund, together with the SRC, represents the amount of accumulated profits retained in the long term fund from non-profit business. Earnings on the sub-fund may, at the discretion of directors of the Legal & General Assurance Society Limited, be used to support with-profits business.

Consolidated cash flow statement (excluding long term business and SRC)

Year ended 31 December 2000

	2000 £m	1999 £m
Net cash inflow from operating activities	55	115
Interest paid on core debt	(9)	(6)
Tax (paid)received	(12)	36
Capital expenditure: net payments	(3)	-
Dividends paid	(223)	(193)
<i>Financing</i>		
- Issue of share capital	11	7
- Increase in core debt	131	30
	142	37
	(50)	(11)
<i>Cash flows (not including long term business) were invested as follows:</i>		
Increase in cash holdings	3	0
Shares, variable yield securities and unit trusts	(1)	2
Debt securities and other fixed income securities	(302)	283
Other loans and investments	193	(217)
Deposits with credit institutions	57	(79)
Net portfolio divestment	(53)	(11)
Net divestment	(50)	(11)
Reconciliation of profit before tax to operating cash flow		
Profit on ordinary activities before tax	498	676
- Profits relating to long term business and SRC	(454)	(617)
- Cash received from long term business	49	180
- Other items	(38)	(124)
Net cash inflow from operating activities	55	115

New business

Year ended 31 December 2000

<i>Life and pensions</i>	2000		1999	
	Annual £m	Single £m	Annual £m	Single £m
Life	160	751	150	634
Pensions	86	1,205	84	1,327
UK	246	1,956	234	1,961
USA	62	1	63	1
Netherlands	7	54	5	35
France	5	107	5	71
Insurance total	320	2,118	307	2,068
<i>Retail investment business</i>				
UK	27	672	23	877
France	-	41	-	31
Total new business	347	2,831	330	2,976

Equivalent premium income (EPI) is calculated for total new business, including unit trusts, ISAs (excluding cash ISAs) and PEPs, and comprises the new annual premiums together with 10% of single premiums. EPI from insurance business has increased from £514m in 1999 to £532m in 2000. EPI from total new business in the same period has increased from £628m in 1999 to £630m in 2000.

New international insurance premiums expressed at 31 December 2000 exchange rates

	2000		1999	
	Annual £m	Single £m	Annual £m	Single £m
USA	62	1	68	1
Netherlands	7	54	5	36
France	5	107	5	72

New UK business

Year ended 31 December 2000

<i>New UK annual premiums</i>	2000			1999		
	Full year £m	Second half £m	First half £m	Full year £m	Second half £m	First half £m
Life:						
Mortgage related	112	55	57	107	62	45
Savings	1	1	0	2	1	1
Protection	16	10	6	17	9	8
Group risk	31	17	14	24	14	10
Pensions:						
Individual pensions	77	35	42	73	33	40
Group pensions	9	6	3	11	7	4
Investments:						
ISAs/PEPs (excluding cash ISAs)	27	16	11	23	19	4
Total New UK Annual Business	273	140	133	257	145	112
<i>New UK single premiums</i>						
Bonds:						
With-profits	648	381	267	448	215	233
Other	103	43	60	186	99	87
Pensions:						
Individual pensions	342	185	157	260	125	135
Annuities - individual	426	237	189	304	167	137
Annuities - bulk purchase	258	167	91	573	276	297
Other group business	68	35	33	70	40	30
DSS rebates	111	85	26	120	76	44
Investments:						
ISAs/PEPs (excluding cash ISAs)	403	107	296	601	133	468
Unit trusts	269	125	144	276	152	124
Total New UK Single Business	2,628	1,365	1,263	2,838	1,283	1,555
<i>New UK EPI</i>						
Total individual life and pensions EPI	369	194	175	331	174	157
Total investments EPI	94	39	55	111	48	63
Total individual EPI	463	233	230	442	222	220
Total group EPI	73	43	30	99	52	47
Total UK EPI	536	276	260	541	274	267
<i>Institutional fund management*</i>						
UK Managed Funds	11,367	6,105	5,262	12,756	6,792	5,964
UK Other	1,310	703	607	342	302	40
	12,677	6,808	5,869	13,098	7,094	6,004

* Institutional fund management new business comprises new monies from external clients for both pooled and segregated pension funds and other business not invested in retail products.

Part 3

Legal & General Group Plc

Summary of audited results on the Achieved Profits basis

For the year ended 31 December 2000

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Legal & General Group Plc

Supplementary financial statements on the Achieved Profits basis

For the year to 31 December 2000

The Group's current primary reporting for long term business described in Parts 1 and 2 of the Stock Exchange announcement is based upon statutory requirements designed to demonstrate solvency. It defers the recognition of profit and does not fully recognise the fair value of the shareholders' interest in a portfolio of in-force long term business. The Association of British Insurers is continuing to develop the Achieved Profits reporting basis as a more realistic method of accounting for long term business. Achieved Profits reporting reflects the development of the embedded value of long term business.

A description of Achieved Profits methodology is given in the Report and Accounts. A discussion of the Achieved Profits results for long term business for the year to 31 December 2000 is provided below. Other businesses, including general insurance, which are not affected by the use of Achieved Profits, are discussed in Part 1 of the Stock Exchange announcement. These supplementary financial statements have been reviewed and reported on by the auditors.

2000 Results

The Group's operating profit was £678m compared with £652m in 1999, with the contribution from worldwide new business up 10% to £196m. The contribution from new business reflects the degree to which its anticipated profitability exceeds the target rate of return. Further contributions to operating profit will arise from the management of this business in future years. Profit on ordinary activities before tax was £392m (1999: £1,294m), which includes a negative investment return variance of £306m (1999: positive variance of £670m). Shareholders' funds were £5,274m (1999: £5,250m), after the dividend to shareholders of £243m.

UK life and pensions

Operating profit was £454m, compared with £412m for 1999. The contribution before tax from new business was up 19% to £118m. In an increasingly competitive market, we have again written new business which delivers significant value for our shareholders. As a percentage of EPI, the contribution increased from 23% in 1999 to 27%. Product margins have been maintained in 2000 and there has been a particularly favourable mix of new business.

The contribution from the in-force business was £209m (1999: £194m). This reflects the growth in the business portfolio in recent years and the impact of unwinding a higher risk discount rate in 2000. In 1999, variances in operating experience and net releases of reserves and provisions virtually offset expenditure on strategic systems. However, in 2000, despite lower investment in strategic systems (2000: £15m; 1999: £50m), the overall variance was negative as a result of amended product charge assumptions and other experience items.

The contribution from shareholders' net worth of £127m (1999: £119m) reflects both the increased expected rate of return and a higher opening net worth.

Profit before tax includes the effect of variances in investment return from those assumed at the end of the previous year, together with economic assumption changes. There was a negative investment variance of £274m (1999: positive variance of £663m) in 2000. The investment return on the equity and property portfolio was 9.0% p.a. below the assumption for the period (1999: 15.4% p.a. above assumption).

The effect of economic assumption changes resulted in an increase of £10m, compared with a reduction of £26m in 1999.

Legal & General Group Plc

Supplementary financial statements on the Achieved Profits basis

For the year to 31 December 2000

Investment management

The operating profit from investment management was £85m compared with £99m in 1999.

The profit from the UK Managed Funds business was £75m (1999: £96m). The contribution from new business declined from £50m in 1999 to £35m as volumes of new funds under management reduced from the exceptional £12.8bn achieved in 1999 to £11.4bn in 2000. Incurred and assumed expenses have increased to provide enhanced levels of service to a customer base which has greatly enlarged over recent years.

The investment management operating profit also includes £3m (1999: £3m) from the Ventures operation and a profit of £2m (1999: £4m loss) from the unit trust and ISA/PEP business.

International life and pensions

Operating profit from international business was £86m in 2000 (1999: £87m), including a strong new business contribution of £43m (1999: £29m).

USA

The largest contributor to international profits is the highly successful US operation where the contribution from new business increased by 37% (at constant exchange rates) to £34m. Its business environment has been complicated by the introduction of the Triple X regulations for establishing statutory solvency provisions for business written from 2000 onwards. Capital management and re-pricing measures continue to be taken as the market evolves. The embedded value model has been developed to reflect the complexity of this changing environment, resulting in a reduction of £26m in the reported in-force contribution.

Europe

The operating profits of the Dutch and French businesses were £17m (1999: £14m) and £24m (1999: £15m) respectively. The combined contribution from new business was £9m (1999: £6m).

Embedded values

During 2000, the embedded value of the UK life and pensions business (excluding operational investments) grew by 3% from £3,824m to £3,939m, before the transfer from the UK Long Term Fund (LTF) of £218m. The increased new business contribution and good operating performance more than offset the underperformance of equity markets.

The embedded value of the UK Managed Funds, as a subsidiary activity of the LTF, is the value of the in-force business in excess of the net assets included in the MSS accounts. This value grew strongly from £130m at the end of 1999 to £171m at the end of 2000, before the distribution of £37m included in the profit reported on the MSS basis. A corresponding embedded value for the unit trust and ISA/PEP operations is not included.

The embedded value of the international businesses grew from £489m to £578m, after net capital movements of £30m.

Consolidated Profit and Loss Account - Achieved Profits basis

Year ended 31 December 2000

	2000 £m	1999 £m
UK life and pensions (Note 1)	454	412
International life and pensions (Note 1)		
- USA	45	58
- Netherlands	17	14
- France	24	15
	86	87
	540	499
Investment management	85	99
General insurance	20	25
Other income	33	29
Operating profit	678	652
Variation from longer term investment return	(306)	670
Change in equalisation provision	(6)	(5)
Effect of economic assumption changes	26	(23)
Profit on ordinary activities before tax	392	1,294
Tax on profit on ordinary activities	(149)	(295)
Profit for the financial period	243	999
Dividends payable	243	212
<i>Earnings per share</i>		
- based on operating profit	9.49p	9.56p
- based on profit for the financial period	4.74p	19.57p
<i>Diluted earnings per share</i>		
- based on operating profit	9.47p	9.52p
- based on profit for the financial period	4.73p	19.47p
<i>Dividend per share</i>	4.71p	4.13p

Consolidated Balance Sheet - Achieved Profits basis

As at 31 December 2000

	2000 £m	1999 £m
<i>Assets</i>		
Investments	35,077	34,143
Assets held to cover linked liabilities	70,678	65,928
Long term in-force business	2,135	2,216
Other assets	2,491	2,084
	110,381	104,371
<i>Liabilities</i>		
Shareholders' funds (Note 4)	5,274	5,250
Fund for future appropriations	4,331	5,814
<i>Technical provisions</i>		
Technical provisions for linked liabilities	70,566	65,742
Other long term business provisions	26,692	24,538
General insurance provisions	350	365
	97,608	90,645
Borrowings	571	426
Bank customer deposits	1,307	1,031
Other creditors	1,290	1,205
	110,381	104,371

Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2000

1. Contribution from long term business

	2000		1999	
	UK Life and Pensions £m	UK Managed Funds + £m	UK Life and Pensions £m	UK Managed Funds + £m
Contribution from new business	118	35	99	50
Contribution from in-force business	209	40	194	46
Contribution from shareholders' net worth	127	-	119	-
Operating profit	454	75	412	96
Variation from longer term investment return*	(274)	(18)	663	17
Effect of economic assumption changes	10	2	(26)	3
Profit before tax	190	59	1,049	116
Tax	(75)	(18)	(243)	(35)
Profit after tax	115	41	806	81
	International £m	Total £m	International £m	Total £m
Contribution from new business	43	196	29	178
Contribution from in-force business	25	274	49	289
Contribution from shareholders' net worth	18	145	9	128
Operating profit	86	615	87	595
Variation from longer term investment return*	(9)	(301)	(13)	667
Effect of economic assumption changes	14	26	0	(23)
Profit before tax	91	340	74	1,239
Tax	(32)	(125)	(26)	(304)
Profit after tax	59	215	48	935

+ Included in the Investment management result of £85m (1999: £99m).

* The variation from longer term investment return represents the effect of the investment performance in respect of shareholders' net worth and in-force business, compared with embedded value assumptions at the beginning of the period.

Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2000

2. Embedded value

	As at 31.12.00		As at 31.12.99	
	UK Life and Pensions £m	UK Managed Funds £m	UK Life and Pensions £m	UK Managed Funds £m
Shareholders' net worth	1,387	-	1,457	-
Value of in-force business	2,334	134	2,367	130
Embedded value	3,721	134	3,824	130
	International £m	Total £m	International £m	Total £m
Shareholders' net worth	222	1,609	135	1,592
Value of in-force business	356	2,824	326	2,823
Embedded value	578	4,433	461	4,415

For the UK life and pensions business, shareholders' net worth comprises the Shareholders' Retained Capital (SRC) on the MSS basis, adjusted for deferred acquisition costs, and the sub-fund, both net of allowance for tax; but excludes net assets of £201m (1999: £163m) of long term fund operational subsidiaries.

3. Movement in embedded value

	2000		1999	
	UK Life and Pensions £m	UK Managed Funds £m	UK Life and Pensions £m	UK Managed Funds £m
At 1 January	3,824	130	3,237	77
Profit after tax	115	41	806	81
Capital movements	-	-	(21)	-
Distributions	(218)	(37)	(198)	(28)
At 31 December	3,721	134	3,824	130
	International £m	Total £m	International £m	Total £m
At 1 January	461	4,415	376	3,690
Exchange rate movement	28	28	(4)	(4)
	489	4,443	372	3,686
Profit after tax	59	215	48	935
Capital movements	34	34	45	24
Distributions	(4)	(259)	(4)	(230)
At 31 December	578	4,433	461	4,415

Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2000

4. Segmental analysis of shareholders' funds

	2000	1999
	£m	£m
Embedded value of life and pensions businesses:		
- UK	3,721	3,824
- USA	443	344
- Netherlands	67	62
- France	68	55
	<hr/>	<hr/>
	4,299	4,285
Investment management*	268	222
General insurance	76	69
Banking	92	96
Corporate funds	539	578
	<hr/>	<hr/>
	5,274	5,250
	<hr/>	<hr/>

* Including £134m (1999: £130m) embedded value of UK Managed Funds business.

All Investment management subsidiaries are included at net asset value except for the UK Managed Funds business of Legal & General Assurance (Pensions Management) Ltd, a long term insurance company, which includes the value of its in-force business on the Achieved Profits basis. The net assets of these UK long term fund subsidiaries and the value of the in-force UK Managed Funds business, are attributed to the investment management business. The net assets of the other UK long term fund operating subsidiaries are included in Banking and Corporate funds.

Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2000

5. Embedded value assumptions

UK life and pensions

i) 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. The corresponding return on equities and property is set by reference to the gilt assumption.

<i>Type of investment</i>	As at 31.12.00	As at 31.12.99
	% p.a.	% p.a.
Gilts: Fixed interest	4.7	5.1
: RPI linked	4.7	5.1
Non-gilts: Fixed interest	5.3 - 6.5	6.4
: RPI linked	5.0 - 6.0	5.1
Equities and property	7.3	7.7
<i>Risk discount rate (after tax)</i>	7.2	7.6
<i>Inflation</i>		
Expenses/earnings	3.6	4.2
Indexation	2.6	3.2

The assumed returns on non-gilt securities are net of an allowance for default risk of 0.05% p.a..

ii) Assets are attributed to the with-profits fund, the statutory long term business provision for contracts not written in the with-profits fund, the SRC and the sub-fund.

iii) The risk discount rate is set by reference to the assumed future investment returns and is net of tax. Potential transfers are discounted from the time at which they are assumed to become available for distribution to shareholders. Assets retained in the long term fund (including those attributed to the SRC) to support the business are assumed not to be immediately available for distribution; and their value is the discounted value of future assumed distributions.

iv) The value of the in-force business is calculated after allowing for the additional cost, if any, of holding solvency capital. No such additional cost exists for business written within the with-profits fund whilst the solvency capital for that business is met by that fund; nor is there any additional cost to shareholders in respect of business not written in the with-profits fund whilst the solvency capital is provided by the SRC.

v) Assets are valued at their market value. For the projection of fixed interest and RPI linked investment returns, asset values are adjusted to reflect the assumed interest and inflation rates.

vi) The value of the sub-fund is the discounted value of projected investment returns for a period of 20 years.

vii) The contribution from new business is calculated using actual acquisition costs. It reflects the profit arising at the time of sale and differences between actual and expected experience (except for investment return variance) on these policies during the year accumulated to the year end.

viii) The cost of investment in the development of certain strategic systems is charged against in-force business at the beginning of the year.

Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2000

5. Embedded value assumptions (continued)

ix) Future bonus rates are set at levels which would fully utilise the assets supporting with-profits business. The proportion of profits derived from with-profits business allocated to shareholders is assumed to be 10% throughout.

x) The value of the in-force business reflects a prudent allowance for compensation and administration expenses in relation to pension transfers, opt-outs and FSAVCs.

xi) Other actuarial assumptions are set at levels which have regard to recent operating performance and experience, including those for mortality, persistency and maintenance expenses (excluding non-recurring costs). These are reviewed annually. An allowance is made for secular trends in annuitant mortality by taking into account the improvement factors contained in CMI Report No.17.

xii) Business in force comprises previously written single premium, regular premium and recurrent single premium contracts. For this purpose, DSS rebates are not treated as recurrent and the value arising therefrom is included in the value of new business as the premiums are received.

xiii) Projected tax is determined assuming current tax legislation and rates, except where future changes have been announced.

xiv) Achieved Profits are computed on an after tax basis and are grossed up to the pre-tax level for presentation in the profit and loss account. The profit before tax is calculated by grossing up the after-tax profit by the corporation tax rate of 30% (1999: 30.25%), except for the contribution from shareholders' net worth. The grossing up rate for this contribution is derived from the tax attributed to the corresponding contribution on the MSS basis. To arrive at the operating profit, the contribution from shareholders' net worth is grossed up at a rate of 10% (1999: 10%) to reflect the tax associated with a longer term investment return.

UK Managed Funds

The value of the Managed Funds in-force business is based on a cashflow projection limited to 10 years. Where appropriate, the UK life & pensions assumptions are used. Fees are projected on rates which reflect current charges and, if less, anticipated trends. New business consists of monies received from new clients and incremental receipts from existing clients, but excludes the roll up of the investment returns.

Notes to Financial Statements - Achieved Profits basis

Year ended 31 December 2000

5. Embedded value assumptions (continued)

International

Key assumptions for the USA are:

	As at 31.12.00	As at 31.12.99
	% p.a.	% p.a.
Reinvestment rate	7.0	7.6
Risk discount rate (after tax)	7.7	9.0

The assumed pre-tax return is projected from the actual investment portfolio less specific margins for the risks associated with the investments.

6. Alternative assumptions

The discount rate appropriate to any investor will depend on the investor's own circumstances, tax and perception of the risks associated with the anticipated cash flows to shareholders.

The table below shows the effect on the UK life and pensions embedded value of calculations at alternative discount rates and equities and property yields.

	As published	1% lower risk discount rate	1% higher risk discount rate	1% higher equities/property yields
Effect on embedded value at 31 December 2000	£3,721m	+£310m	-£270m	+£300m

It should be noted that in calculating the alternative values all other assumptions are left unchanged.