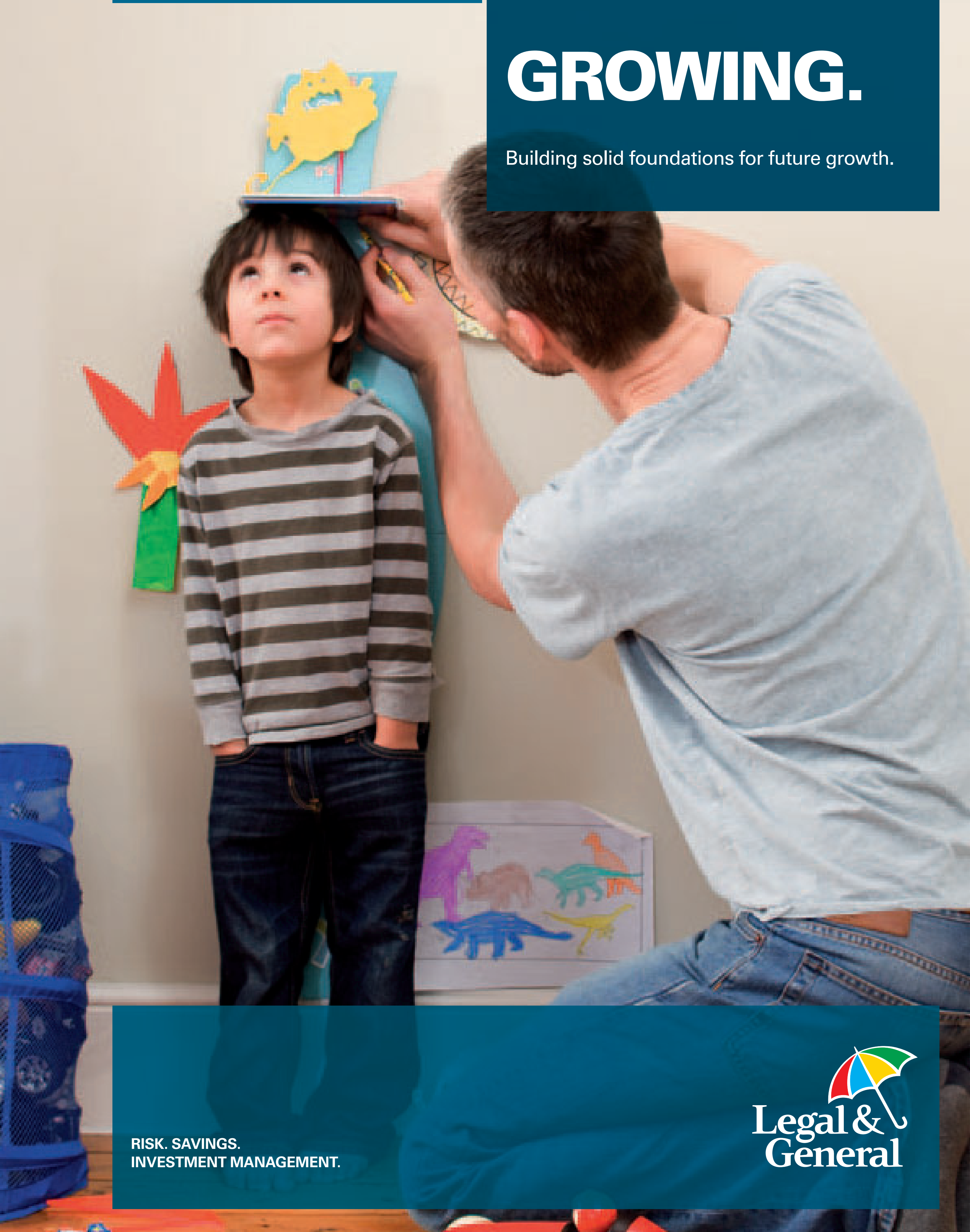
LEGAL & GENERAL GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2011

GROWING.

Building solid foundations for future growth.



RISK. SAVINGS.
INVESTMENT MANAGEMENT.

Legal & General

WELCOME.

WE COMBINE STRATEGIC CLARITY, OPERATIONAL EXCELLENCE AND FINANCIAL STRENGTH TO DELIVER SUSTAINABLE BENEFITS FOR CUSTOMERS, BUSINESS PARTNERS, SHAREHOLDERS AND EMPLOYEES.

For more information visit our website:
legalandgeneralgroup.com

KEY PERFORMANCE INDICATORS

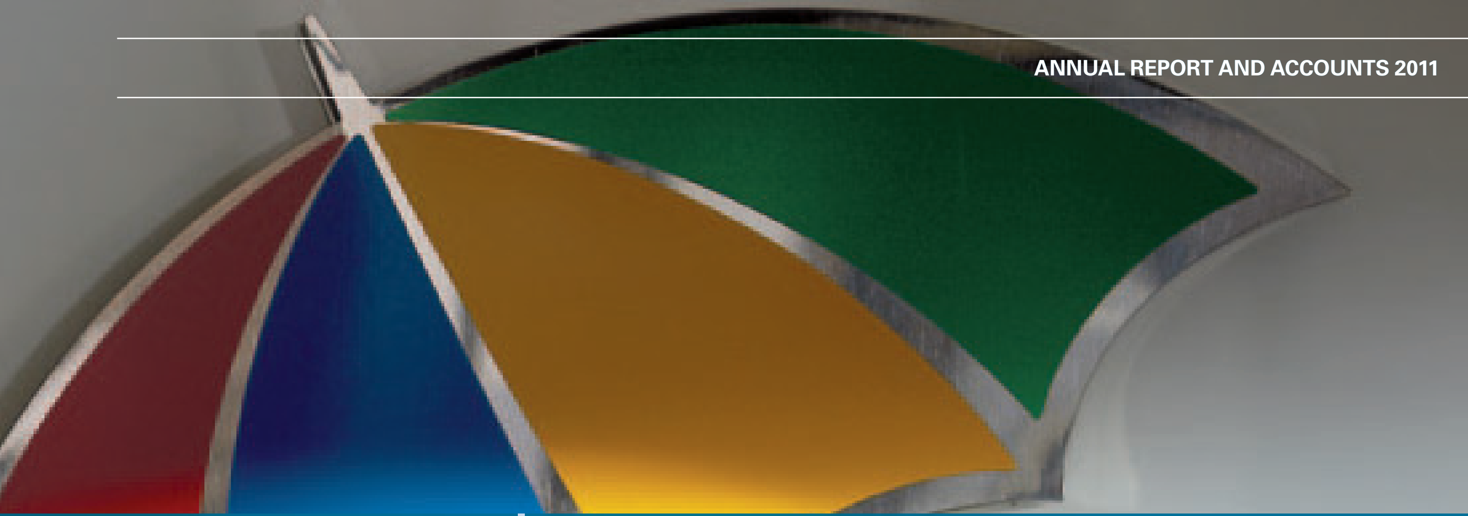
RETURN ON EQUITY
14.5%
(2010: 18.2%)

OPERATING PROFIT BEFORE TAX
£1,056m
(2010: £1,002m)

EEV OPERATING PROFIT BEFORE TAX
£1,469m
(2010: £1,224m)

INSURANCE GROUPS DIRECTIVE (IGD) CAPITAL SURPLUS[1]
£3.8bn
(2010: £3.7bn)

CONTENTS



HIGHLIGHTS

TOTAL SHAREHOLDER RETURN (TSR)

11%

(2010: 25%)

NET CASH GENERATION[2]

£846m

(2010: £760m)

WORLDWIDE SALES UP 7% TO £1.9BN APE (2010: £1.8bn)

FULL YEAR DIVIDEND INCREASED BY 35% TO 6.40P PER SHARE (2010: 4.75p per share)

EUROPEAN EMBEDDED VALUE (EEV) PER SHARE UP 11%

EARNINGS PER SHARE 12.46P (2010: 14.07p)

FINANCIAL STRENGTH[4] AA-

TOTAL IFRS PROFIT AFTER TAX £723M (2010: £820m)

EUROPEAN EMBEDDED VALUE (EEV) PER SHARE

147p

(2010: 132p)

IFRS PROFIT BEFORE TAX[3]

£956m

(2010: £1,092m)

FINAL DIVIDEND

4.74p

(2010: 3.42p)

To be paid on 23 May 2012

FULL YEAR DIVIDEND

6.40p

(2010: 4.75p)

[1] Figures after accrual of proposed dividend, based on draft unaudited regulatory returns.
[2] See page 13 for a full breakdown of net cash generation.
[3] IFRS Profit before tax attributed to shareholders.
[4] Standard & Poor's Financial Strength rating for Legal & General Assurance Society Limited. As at 13 March 2012.

i Key terms are defined within the glossary on **pages 234 and 235**

* 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 417 Companies Act 2006.

OUR GROUP PAGES 1 TO 9
OUR PERFORMANCE PAGES 10 TO 31
OUR APPROACH PAGES 32 TO 49
GOVERNANCE PAGES 50 TO 86
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OUR BUSINESSES

WHAT WE DO.

Our purpose is to help make financial security easier to achieve.

Our risk products help protect individuals and businesses against the financial consequences of a wide range of risks. By reducing the financial impact of these events, we allow people to bear risks with greater peace of mind and potentially reduce their reliance on the state.

Our savings and investment products provide individuals and businesses with access to a broad range of good value investment solutions. By helping our customers grow their assets we are helping them to become more financially secure.

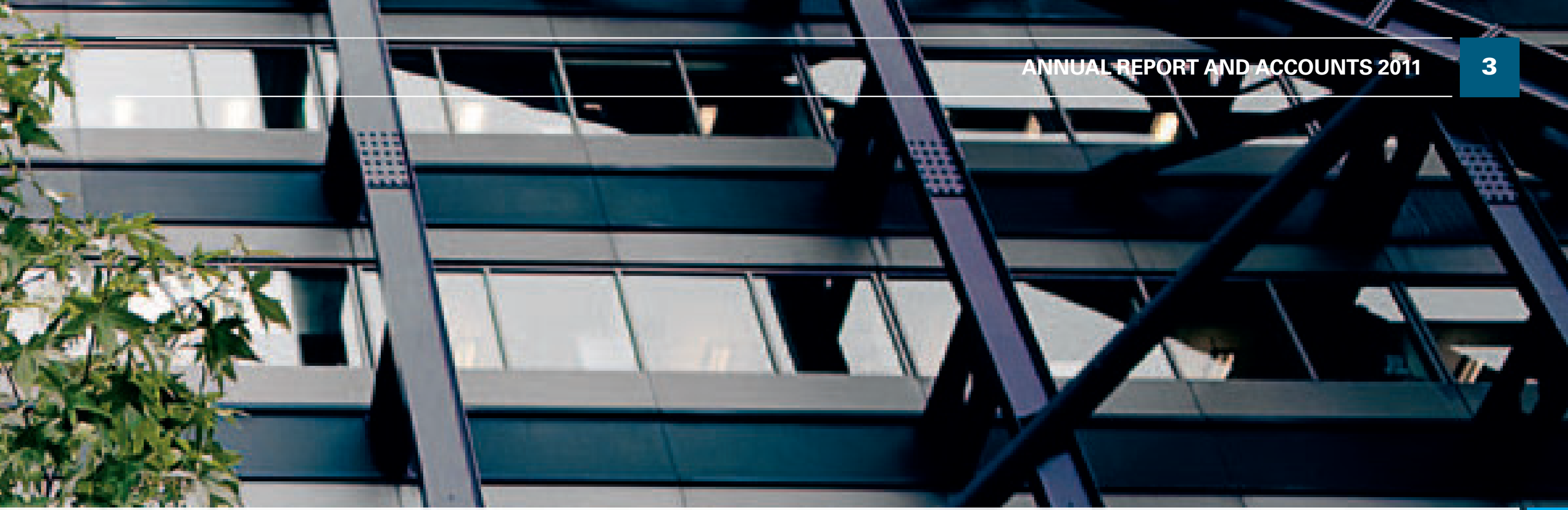
WE AIM TO PROVIDE GOOD VALUE, HIGH QUALITY PRODUCTS FOR OUR CUSTOMERS

INDIVIDUAL CUSTOMERS
We provide products to individuals that:

- Protect against the financial consequences of death, disability, sickness or household loss.
- Provide savings for retirement.
- Convert savings into regular retirement income.
- Invest for growth or income.

CORPORATE BUSINESSES
We help companies protect and save for their employees by:

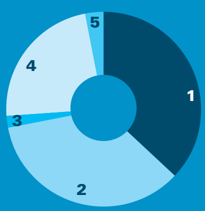
- Providing their employees with pensions.
- Helping companies manage the cost of paying pensions.
- Providing pension fund investment management.
- Protecting their staff against the financial consequences of death, sickness and disability.



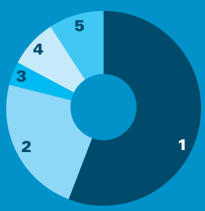
CUSTOMERS BUY PRODUCTS THROUGH THEIR CHOSEN DISTRIBUTION CHANNEL

DISTRIBUTION MIX 2011
Individual and corporate customers can buy our products through a variety of channels:

Legal & General



UK market



KEY	L&G	UK
1 Retail IFA	37%	56%
2 Employee benefit consultants	35%	23%
3 Tied agents	2%	4%
4 Bancassurance	23%	8%
5 Direct	3%	9%

We have distribution arrangements with over 20 banks and building societies in the UK, including:
Barclays
HSBC
Lloyds Banking Group
Nationwide Building Society
Northern Rock
RBS
Sainsbury's Bank
Skipton Building Society
Yorkshire Building Society

Our other partners include:
Zurich
Saga
Openwork
Cofunds

WE MANAGE OUR CUSTOMERS' RISKS AND THEIR INVESTMENTS

INVESTMENT EXPERTS
Our ability to make investments for our customers, including pension funds, private investors, companies, charities, life companies, friendly societies and subsidiaries within the Group, is a core part of what we do.

£371bn
LGIM ASSETS UNDER MANAGEMENT
(2010: £354bn)

50% OF FTSE 100
COMPANIES WITH PENSION FUNDS MANAGED BY LGIM

LONGEVITY AND MORTALITY EXPERTS
We are recognised as an industry expert in the understanding and underwriting of protection and annuity products and services. We are pleased to be associated with a number of external longevity science initiatives, including being a founder member of the Life & Longevity Markets Association (LLMA), as well as supporting an independent panel of leading authorities who are experts on longevity issues, the Longevity Science Advisory Panel.

WE ARE GOOD STEWARDS FOR OUR CUSTOMERS AND SHAREHOLDERS

For more information on our balance sheet strength please see page 14.

£3.8bn
IGD CAPITAL SURPLUS
(2010: £3.7bn)

REWARDING OUR SHAREHOLDERS

£376m
FULL YEAR DIVIDEND PAYABLE TO SHAREHOLDERS
(2010: £279m)

OUR BUSINESSES

HOW WE ARE STRUCTURED.

We are a leading provider of risk, savings and investment management products in the UK, with more than seven million customers and over 8,000 employees worldwide.

The Group's primary focus today is on the UK, but we continue to expand internationally in attractive new markets.

RISK

SAVINGS

INVESTMENT MANAGEMENT

INTERNATIONAL

For more information see pages 16 to 19

SAFEGUARDS CUSTOMERS AGAINST FINANCIAL RISKS

Our Risk businesses assume customers' financial risks arising from defined events such as death, injury, unemployment, illness or household damage, while our annuities business protects individuals from the risk of outliving their savings in retirement.

PRODUCTS AND SERVICES

- Individual protection
- Group protection
- Legal & General Housing Network
- Corporate annuities
- Individual annuities
- General insurance

£561m
Operating profit
(2010: £560m)

85
Number of bulk annuity schemes written in the year (2010: 115)

For more information see pages 20 to 23

FINANCIAL PLANNING, SAVINGS AND INVESTMENTS

Our Savings business is a manufacturer and assembler of modern, flexible investment products, allowing individuals to save to meet the costs of specific future events or to give a planned income in retirement.

PRODUCTS AND SERVICES

- Unit trusts
- Individual savings accounts (ISAs)
- Investment bonds
- Pensions
- Structured products
- With-profits
- Platforms

£128m
Operating profit
(2010: £115m)

£65bn
Total savings assets under administration
(2010: £64bn)

For more information see pages 24 to 27

INVESTING ON BEHALF OF INSTITUTIONAL AND RETAIL CUSTOMERS

LGIM is the largest manager of UK sourced pension assets and one of the largest investors in the UK stock market with responsibility for approximately 4% of all London-listed equities on behalf of its customers.

PRODUCTS AND SERVICES

- Index funds
- Fixed income
- Actively-managed equity funds
- Private equity
- Property
- Risk management solutions

£234m
Operating profit
(2010: £206m)

£371bn
Total funds under management (FUM)
(2010: £354bn)

For more information see pages 28 to 31

OUR OVERSEAS PRESENCE

Our international businesses combine our mature, existing international businesses in the US, France and the Netherlands, with selective participation in fast-growing emerging markets.

PRODUCTS AND SERVICES

- Individual protection
- Group protection
- Savings
- Investment management

£137m
Operating profit
(2010: £102m)

£154m
International APE
(2010: £146m)

CHAIRMAN'S STATEMENT

GROWING OUR BUSINESS.

"Legal & General's clear strategy, and its strong ability to execute that strategy, enabled your Company to deliver another strong set of results for the year."

A STRONG 2011

While the UK economy essentially flatlined, and the market suffered repeated uncertainties about the eurozone, Legal & General's sales, operational cash generation and operating profits rose across all four of our business divisions: Risk, Savings, Investment management and International.

In the UK, the Company has retained its clear leadership in the protection and annuities segments, as well as in institutional investment management and transformed the savings business to achieve significant successes in workplace pensions and retail savings. At the same time, our international businesses are delivering improved returns and operating much more efficiently.

TSR AND DIVIDEND

This robust performance marked us out as one of a limited number of success stories in the global insurance sector, generating a total shareholder return of 11% for the year.

The Board is recommending a final dividend of 4.74p per share, payable on 23 May 2012. This is an increase of 39% on the prior year, and returns dividend to the pre-credit crisis level of 2008. The full year dividend is 2.25 times covered by cash. Given the improved underlying strength of the Company, the Board has every confidence that this is a further positive step in our progressive dividend policy.

FULL YEAR DIVIDEND

6.40p
(2010: 4.75p)

TOTAL SHAREHOLDER RETURN

11%
(2010: 25%)

RETIREMENT OF CHIEF EXECUTIVE

In September, Tim Breedon, Group Chief Executive, informed the Board of his intention to retire by the end of 2012, by which time he will have served the Company for 25 years, of which he has spent ten years on the Board and seven as Group Chief Executive. The whole Board would like to thank him for his outstanding contribution to Legal & General, both in his current role and previously as one of the main architects of the growth of LGIM to its current position as the UK's leading pension fund manager and one of the largest asset management groups in Europe. The long notice he has given us has enabled a process to be put in place to identify his successor and ensure an orderly transition.

BOARD CHANGES

During the year Sir David Walker and James Strachan, respectively Senior Independent Director and independent non-executive director, stood down from the Board, having served for nine and eight years respectively. We would like to thank them for their contributions and wise counsel over many years. During 2011 we appointed three new independent non-executive directors: Mike Fairey, formerly Deputy Chief Executive of Lloyds TSB; Stuart Popham, formerly senior partner of Clifford Chance, and Julia Wilson, who is Group Finance Director of 3i. We look forward to working with them. There have been consequential changes to committee memberships which are outlined in each of the Committees' reports.

SHAREHOLDER COMMUNICATIONS AND ANNUAL GENERAL MEETING

This year's AGM will be held at 11.00am on Wednesday 16 May 2012 at The Honourable Artillery Company, City Road, London EC1Y 2BQ.

We continue to encourage shareholders to view information online. Almost 90% of our shareholders no longer receive printed versions of our Annual Report. This has allowed us to improve shareholder communications and add options such as an iPad app which we introduced last year and was well received.

OUR STAFF

I would like to thank all Legal & General's employees for their contribution during 2011. In every area of the Company that I visit, I am hugely impressed – often amazed – by employees' enthusiasm and by the pride our people take in providing the best possible service to our customers and the communities in which they operate. This is one of the characteristics which sets Legal & General apart as a customer-focused company.

OUTLOOK

The insurance sector faces a continuing period of low economic growth combined with regulatory uncertainty in our sector, principally as a result of the EU's Solvency II Directive and the upcoming Retail Distribution Review (RDR) in the UK. However, the clear strategy we have outlined for Legal & General, the strength of our balance sheet and the quality of our distribution across a variety of channels, mean we are well positioned for this period of change.

JOHN STEWART
CHAIRMAN

OUR STRATEGY CONTINUES TO DELIVER.

"We remain confident in our business model and strategy. Our leading market positions in UK savings, annuities, protection and asset management are delivering healthy returns for shareholders."

Our results for 2011 show continued progress in growing and reshaping Legal & General. At the same time, we are generating a healthy return for shareholders, and contributing in a variety of ways to broader economic growth and wellbeing, whilst looking after more than seven million individual, corporate and institutional customers.

The macroeconomic and market background in 2011 remained uncertain: the effects of the credit crisis continued to work through the system, while both the economic data and a period of market volatility underlined concerns about the potential for a second stage of the credit crunch, with instability in the eurozone a particular concern.

STRONG PERFORMANCE

Legal & General, however, performed well, with growth in sales, operational cash generation and operating profits. With a Total Shareholder Return of 11%, we outperformed our sector in terms of returns for investors in 2011, and on a longer-term view, we rank amongst the leading life assurance companies in the world in terms of returns to shareholders.

The Company's strategy remains clear, and focused. Legal & General's strong operational cash generation continues to be a key metric, and through our four profitable business divisions we seek to ensure that we deliver balanced, high quality earnings. In 2011 each of these divisions performed well, with significant progress across many product areas including large bulk purchase annuities, workplace pensions, and the increasing internationalisation of our investment management and pension fund de-risking capability.

WORLDWIDE SALES (APE)

£1.9bn
(2010: £1.8bn)

FULL YEAR DIVIDEND PAYABLE

£376m
(2010: £279m)

A common feature of these successes was our operational efficiency and effectiveness: characteristics which we also emphasise strongly at a Group-wide level, especially in the increasingly efficient use of capital and the containment of costs as we upgrade operational systems.

Last year, this Report gave greater emphasis than usual to risk management. In an uncertain environment this is still very important. Legal & General's overall capital position remains strong, with £3.8bn of surplus regulatory (IGD) capital, and our investment portfolio is actively managed with very minimal exposures to areas of concern including sovereign and bank debt in the peripheral eurozone countries.

REGULATORY CHANGE

This capital strength and operational capability also enables us to prepare with confidence for the sweeping regulatory changes in prospect over the next few years. I have often said publicly that regulatory uncertainty, and the associated risk of an ill-judged and indiscriminate regulatory over-correction, is among the largest challenges our industry faces. During 2011 we worked hard to secure outcomes to the EU's Solvency II process which properly reflect the interests of UK savers and pensioners, and which would enable the insurance sector in the UK to continue to make a positive contribution to the broader economy. While the EU's timetable for implementing the new capital rules has slipped back, and much of the detail has still to be finalised, I am pleased that the long-term nature of many insurance products is now a proper focus of debate within the EU institutions.

Among the long list of other regulatory changes we face, the most significant is the Retail Distribution Review (RDR), which comes into effect at the end of 2012. Here I am pleased to report that Legal & General's multi-channel distribution, with its network of strong partnerships, is likely to stand us in good stead. We intend, however, to further augment our already strong service levels for our customers over the next few years. Ultimately, we are only as good as the service we provide to our customers, and a radical improvement in customer engagement has been set as one of our top five strategic objectives between now and 2014.

PEOPLE

Last September, I notified the Board of my intention to retire from Legal & General by the end of 2012. I would like to thank my colleagues and all of Legal & General's employees for their support and commitment since my appointment as Group Chief Executive on 1 January 2006. It has been very much a collective effort, but I believe that today's Legal & General has the right skills, attitudes and strategies, and the financial strength, to serve its customers and shareholders well in the years to come.

OUTLOOK

The macroeconomic, regulatory and social policy environment continues to be unstable and challenging for the life assurance industry. However, your Company has a future rich in opportunity as a result. And a change in post-credit crisis attitudes will create a premium for those companies, such as ours, which do business responsibly, paying due regard to their broader social purpose and putting the customer at the heart of their business model.

Your role as shareholders is vital in securing this future, as is the return we are able to deliver back to you. I am pleased therefore that this year's higher recommended final dividend of 4.74p, and the capacity we have outlined for further growth, are indicative of our continued confidence in the outlook for the business.

Thank you for your support,

TIM BREEDON
GROUP CHIEF EXECUTIVE

OUR PERFORMANCE

GROUP RESULTS. OVERVIEW.

HIGHLIGHTS

IFRS[1] basis

	2011	2010
Profit before tax	**£956m**	£1,092m
Profit after tax	**£723m**	£820m
Ordinary shareholders' equity	**£5,200m**	£4,827m
Return on Equity (ROE)	**14.5%**	18.2%
Dividend per share	**6.40p**	4.75p
Worldwide new business APE[2]	**£1,907m**	£1,781m
Worldwide FUM[3]	**£379bn**	£365bn

EEV[4] basis

	2011	2010
Profit from continuing operations before tax	**£1,334m**	£1,677m
Profit after tax	**£1,234m**	£1,264m
Contribution from new business	**£441m**	£377m
Ordinary shareholders' equity	**£8,608m**	£7,730m
EEV per share	**147p**	132p

[1] International Financial Reporting Standards.
[2] 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 Investment management new business.
[3] Funds Under Management.
[4] European Embedded Value.

FULL YEAR DIVIDEND

6.40p

(2010: 4.75p)

- Full year dividend increased by 35% to 6.40p per share (2010: 4.75p) at a cost of £376m (2010: £279m).
- Underlying strong cash generation at 2.25 times cover and the Board's confidence in prospects for further growth.
- Final dividend up 39% (2010: 3.42p) to 4.74p.

OPERATIONAL CASH GENERATION

£940m

(2010: £840m)

- Operational cash generation up 12% to £940m (2010: £840m).
- All business units increased on 2010 by between 10% and 26%.
- Includes prudent short-term smoothing adjustment as a result of economic conditions.

NET CASH GENERATION

£846m

(2010: £760m)

- Net cash generation up 11% to £846m (2010: £760m).
- Demonstrable cash flow through to Group with Group Capital and Financing (GCF) assets up 19%.
- Annuity new business surplus £35m in 2011 (2010: £60m).

OPERATING PROFIT

£1,056m

(2010: £1,002m)

- Operating profit up 5% to £1,056m (2010: £1,002m).
- LGIM, Savings and International now at 47% (2010: 42%) providing increased diversification.

EEV OPERATING PROFIT

£1,469m

(2010: £1,224m)

- EEV operating profit up 20% at £1,469m (2010: £1,224m).
- New Business value add up 17% at £441m (2010: £377m).
- EEV per share up 11% at 147p (2010: 132p).

IFRS PROFIT BEFORE TAX

£956m

(2010: £1,092m)

- Strong IFRS profit before tax despite volatile investment markets.

IGD SURPLUS

£3.8bn

(2010: £3.7bn)

- IGD surplus remains robust despite volatile markets.
- IGD at £3.8bn and coverage ratio of 220% (2010: £3.7bn and 226%).

RETURN ON EQUITY

14.5%

(2010: 18.2%)

- Strong return on equity, anchored on growing operating profit.
- Effective tax rate 24.4% (2010: 24.9%).

WORLDWIDE ANNUAL PREMIUM EQUIVALENT

£1,907m

(2010: £1,781m)

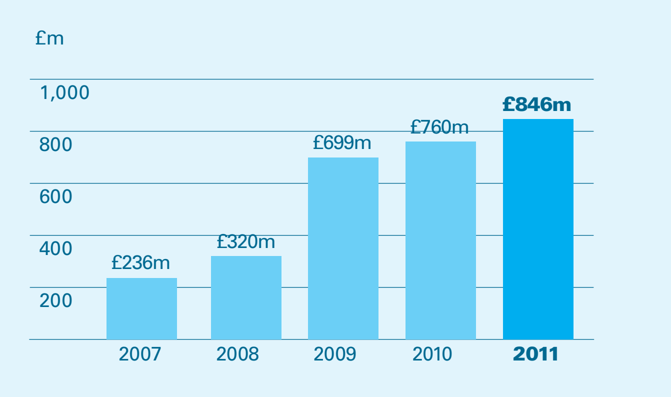
- Worldwide APE up 7% in 2011.
- Announced Legal & General's largest Bulk Annuity transaction at £1.1bn.
- £1bn Longevity Insurance announced broadening our de-risking product offering.

GROUP RESULTS.

"The Group has a strong balance sheet, and the Board deploys its capital strength across our businesses in accordance with our risk appetite. We believe these results position us well in the current macroeconomic climate to exploit opportunities to grow our diversified cash and profit generation in markets we understand and in which we can demonstrate expertise."

NIGEL WILSON
GROUP CHIEF FINANCIAL OFFICER

NET CASH GENERATION



CASH GENERATION

The Group has delivered excellent results for cash metrics in 2011. This underlines the diversification and sustainability of the Group's cash generation. In 2011 we have ensured that cash generation is translated into cash in the balance sheet, and that the legal entities that generate the net cash pay dividends to the Group. This clearly demonstrates the tangible nature of the Group's cash metric.

Operational cash generation in the year was up 12% to £940m (2010: £840m) with all business units delivering higher operational cash than in 2010. There has been a steady growth of 13% per annum in the last five years.

Net cash generation was up 11% to £846m (2010: £760m) with the proportion backed by dividends to the Group of 83% (2010: 63%). Cash generation is diversified and we expect to achieve further increases to net cash generation over the coming years.

Alongside this diversification the Group has grown its core businesses with worldwide APE up 7% to £1,907m (2010: £1,781m) and worldwide assets under management increased to £379bn (2010: £365bn), demonstrating that we can successfully deliver both growth and improved cash generation.

We have also taken steps to demonstrate that cash can be extracted from the businesses for the benefit of shareholders. During 2011, Legal and General Assurance Society has approved an annual dividend of £500m (2010: £300m) payable to the Group which relates to the net cash generated from its Risk and Savings business units, and Legal & General Investment Management has approved an annual dividend of £150m (2010: £132m).

Despite the difficult macroeconomic environment, asset related investment variance has only fallen back to slightly below our long-term investment return targets. This has led to a reduction in IFRS profit before tax.

The Group Capital and financing assets have also received special dividends from our operations in the Netherlands of €35m (2010: nil) and also settlement of intra Group debtors. After the payment of the external dividend, the Group Capital and Financing assets have grown by £0.7bn in the year to £4.3bn.

EXPANDING OUR GLOBAL FOOTPRINT IN RESPONSE TO CUSTOMER DEMAND

In 2011, global companies increasingly looked at their pension arrangements on a holistic rather than a purely regional basis. Having established LGIMA in 2007 and LGIM International in 2011, Legal & General is in a prime position to market our world class de-risking product capability worldwide and specifically in North America, the Gulf and Asia.

North America is the largest pension fund market in the world, and the largest for passive strategies. Almost half of the world's top 300 pension schemes are based in the region, providing a strong opportunity to leverage our existing UK client base. 2011 also saw us build on our relationships. Currently we are seeing strong customer demand for our index, active credit and property products.

In 2011 we also announced our intention to offer our product set to significant institutional clients in Asia.

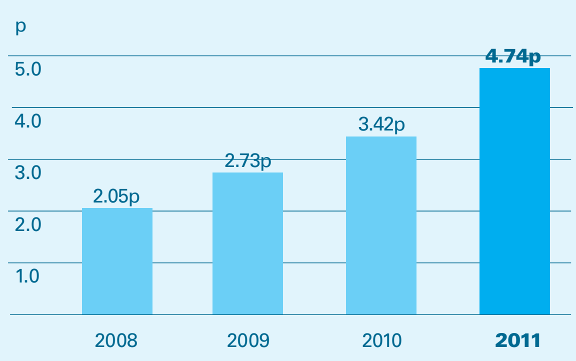
DIVIDEND POLICY

Double digit growth in operational cash and net cash generation, coupled with the high visibility of future cash flows, has led the Board to recommended a 39% increase in the final dividend to 4.74p (2010: 3.42p), bringing the full year dividend to 6.40p (2010: 4.75p) an increase of 35%. The dividend is at the highest level in the history of the Group.

The cost of the full year dividend is £376m (2010: £279m) with a net cash generation coverage ratio of 2.25 times (2010: 2.72 times).

Reductions in the net cash generation coverage ratio are possible, depending on prevailing economic and regulatory conditions.

FINAL DIVIDEND PER SHARE PAYABLE TO SHAREHOLDERS



RECONCILIATION OF OPERATIONAL CASH GENERATION TO IFRS PROFIT

Year ended 31 December 2011	Operational cash generation £m	New business strain £m	Net cash generation[1] £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other[2] £m	IFRS profit/(loss) after tax £m	Tax expense/ (credit) £m	IFRS profit/(loss) before tax £m
Total Risk operating profit	**482**	(31)	**451**	22	24	(86)	–	**411**	150	**561**
Total Savings operating profit	**174**	(63)	**111**	(12)	(5)	6	(6)	**94**	34	**128**
Investment management operating profit	**189**	–	**189**	–	–	–	–	**189**	45	**234**
International	**51**	–	**51**	–	–	–	39	**90**	47	**137**
Group capital and financing	**44**	–	**44**	–	–	–	–	**44**	8	**52**
Investment projects	**–**	–	**–**	–	–	–	(41)	**(41)**	(15)	**(56)**
Operating profit	**940**	(94)	**846**	**10**	19	(80)	(8)	**787**	269	**1,056**
Investment variance	**–**	–	**–**	–	–	–	(55)	**(55)**	(42)	**(97)**
Impact of change in UK tax rates and other	**–**	–	**–**	–	–	–	(9)	**(9)**	6	**(3)**
Total	**940**	(94)	**846**	10	19	(80)	(72)	**723**	233	**956**

[1] Net cash generation and Operational cash generation are defined in the Glossary on pages 234 and 235. Operational cash generation comprises, for Risk, the post-tax expected release for the Annuity (£227m) and Protection (£224m) businesses and the post-tax IFRS result for General Insurance (£31m); for Savings, the post-tax expected release or profit from the Insured Savings (£101m) and Savings investments (£22m) businesses, and the shareholders' share of bonuses on With-profits business (£51m); for Investment management, the post-tax IFRS profit (£189m); for Group capital and financing the post-tax operating profit excluding expected gains/losses on equities (£44m), and dividends remitted from our International businesses from sustainable cash generation (£51m).

[2] Investment gains and losses, international and other.

GROUP RESULTS.

HOW WE ARE USING TECHNOLOGY TO IMPROVE SERVICE FOR OUR CUSTOMERS

We continue to work to improve our technology solutions to better meet our customers' needs.

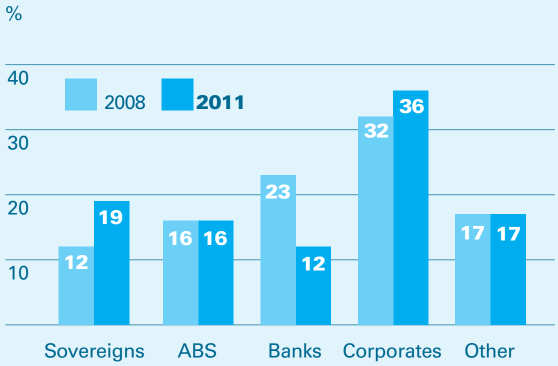
In a number of areas our customers can now obtain quotations, complete new business applications and check the valuation of their investments and select and carry out fund switching online. This has been achieved through enhancements to our e-commerce capabilities and improved integration with our policy administration systems, enabling straight-through processing. This has been recognised with top rating awards for our protection e-commerce solution.

We seek to provide various channels to enable our customers to interact with us in a consistent and flexible way through UK-based call centres, our websites and through iPhone and iPad applications. In 2011 we launched iPhone apps for protection quotes and mortgage comparisons.

Additionally, this year we have made improvements in our customer communication technology to ensure that statements and other communications provide the information that customers need, in a format that can be easily understood. This has included improvements to investment statements, providing advice for dealing with the winter and preventative steps that can be taken to reduce the likelihood of needing to make a claim.

The outsourcing of parts of our IT functionality has allowed us to partner with organisations whose service offerings have allowed us to improve the speed with which we can take products to market and grow our business more efficiently. This will ultimately benefit our customers and shareholders through lower costs and improved efficiencies.

CHANGING BALANCE SHEET PROFILE



- Increase in quality sovereigns, in particular UK and US sovereigns;
- Reduction in the Group's exposure to banks; and
- Increased diversity (>3000 instruments, >500 issuers, many sectors and geographies)

BALANCE SHEET STRENGTH

The Group's balance sheet, aided by strong risk controls and capital management policies, remains robust with an IGD surplus of £3.8bn (2010: £3.7bn) and a coverage ratio of 220% (2010: 226%). The LGPL credit default provision of equivalent 61bps or £1.6bn (2010: £1.5bn) remains in place to fund against the risk of default, and in the year has experienced no defaults (2010: £nil).

Our Standard & Poor's financial strength rating remained at AA- and all four rating agencies continue to have a stable outlook for the Group.

Worldwide assets under management at 31 December 2011 were £379bn of which shareholders have direct exposure to 10% or £39.4bn. The majority of this shareholder exposure relates to the £30bn of assets backing our UK annuity business which also represents the majority of the Group's fixed interest exposure. The Group's shareholder asset exposure to Portugal, Ireland, Italy, Greece and Spain (PIIGS) sovereigns and banks is low with £317m and £109m respectively.

OUTLOOK

The Group's financial strength leaves it well positioned to weather economic and regulatory uncertainties. We see good growth opportunities for the Group in the UK and overseas going forward.

TAX

TAX POLICY

Legal & General's policy in respect of tax is to:

- act with integrity in all tax matters;
- work together with the tax authorities to build positive long-term relationships;
- where disputes occur, to address them promptly and openly;
- manage tax to maximise value for our customers and shareholders.

TAX GOVERNANCE FRAMEWORK

Responsibility for the tax policy and management of tax risk rests with the Group Chief Financial Officer and Group Tax Director who report the Group's tax position regularly to the Group Audit Committee. In addition, the Group's Tax Risk status is reported regularly to the Executive Risk Committee.

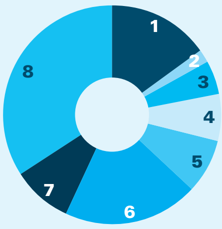
Good progress was made during 2011 towards achieving a Low Risk rating, and HMRC has confirmed that we are on track to be rated Low Risk during 2012. Progress has been achieved by resolving outstanding areas of disputes with HMRC, adopting a real time working approach, and improving mutual trust.

TOTAL UK TAX CONTRIBUTION

Our contribution to the UK Exchequer is significantly more than the UK corporation tax that we pay on profits. During 2011, through our operations and economic activity in the UK, we have paid and collected taxes in excess of £0.5bn. The composition of this is given below.

THE TOTAL TAXES BORNE AND COLLECTED IN 2011 WERE £535M (2010: £470M), AN INCREASE OF 14%.

Key	
1 Corporation tax	15%
2 Business rates	2%
3 Stamp duty	5%
4 Employer's NIC	7%
5 Irrecoverable VAT	8%
6 Employees' PAYE/NIC collected	20%
7 VAT and IPT collected	9%
8 PAYE deducted from annuities	34%



Pension payments

One of the biggest components relates to PAYE deducted from annuity payments which in 2011 was in excess of £180m (2010: £168m). The provision of products to help customers secure and enjoy a comfortable retirement is at the core of our business. It is vital that tax relief on pension contributions is retained to encourage saving for retirement.

TAX TRANSPARENCY

The combination of complex tax legislation and prescriptive accounting standards can make it difficult for larger groups to explain the relationship between their profits and the tax they pay. For an insurance group, a further complexity is introduced by the fact that the total tax charge shown in the accounts is made up of tax borne by equity holders (i.e. shareholders) and also tax which is attributable to policyholder returns.

The purpose of this note is to explain the relationship between the corporation tax charge in Legal & General's income statement and the corporation tax we paid in 2011, which is disclosed in our cash flow statement.

In 2011, Legal & General paid UK corporation tax of £80m (2010: £59m), an increase of 36%. The equity holder tax charge in the accounts is £233m (2010: £272m). The reconciliation between the two is summarised in the table below.

Reconciliation of tax charge per income statement to tax paid per cash flow statement	2011 £m	2010 £m
Tax attributable to equity holders (income statement)	**233**	272
Accounting adjustments, mainly relating to the use of tax losses from prior periods	**(147)**	(196)
Tax set aside in prior years for disputed tax issues, now resolved	**34**	26
UK tax payable in respect of 2011 profits	**120**	102
Tax instalments not payable until 2012 (2011)	**(85)**	(85)
Tax instalments from prior periods payable in 2011 (2010)	**45**	42
Tax paid (Consolidated cash flow statement)	**80**	59

The tax losses arose mainly in 2008, largely as a result of the Global Economic Crisis and have been used to reduce taxable income in subsequent years in accordance with the normal application of UK tax rules and HMRC practice.

HELPING OUR CUSTOMERS

We have started working with the charity Tax Help for Older People (TOP). TOP provides free, expert, caring and independent tax advice for older people (60 years+) who live in a household with a net income of less than £17,000 a year. TOP has already provided our Annuity operations with some insights into common tax questions they get about pensions. In 2012, we hope to build on the existing relationship and develop a partnership which will help us to improve the tax information we give to our customers.

RISK. OVERVIEW.

HIGHLIGHTS

- LEADING POSITION IN KEY MARKETS UNDERLINED WITH APE SALES OF £498M UP 30% ON PREVIOUS YEAR (2010: £382M).
- FIRST £1BN PENSION BULK ANNUITY SCHEME AND FIRST LONGEVITY INSURANCE TRANSACTION COMPLETED IN 2011.
- GROWTH IN BOTH OPERATIONAL CASH GENERATION AND NET CASH GENERATION.
- REDUCED NEW BUSINESS STRAIN ON INCREASED VOLUMES OF PROTECTION SALES.

PERFORMANCE

	2011			2010		
	PVNBP[1] £m	Contribution[2] £m	Margin %	PVNBP[1] £m	Contribution[2] £m	Margin %
Protection	**931**	**86**	**9.3**	860	55	6.4
Annuities	**2,515**	**252**	**10.0**	2,065	245	11.9
Longevity	**n/a**	**7**	**n/a**	n/a	n/a	n/a
Total	**3,446**	**345**	**9.8**	2,925	300	10.3

[1] The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contributions from the new business but determined as at the point of sale.
[2] From new business on an EEV basis.

OPERATING PROFIT

£561m

(2010: £560m)

- Strong operating profit performance exceeding that achieved in the previous year.

NET CASH GENERATION

£451m

(2010: £429m)

- Net cash generation has increased by 5% on 2010 with reduced new business strain in protection on higher volumes of business.
- Lower new business surplus in annuities of £35m (2010: £60m).

IFRS PROFIT BEFORE TAX

£733m

(2010: £662m)

- IFRS profit before tax up £71m on 2010 with a contribution from investment variances of £172m (2010: £102m).

INDIVIDUAL PROTECTION

£131m

NEW BUSINESS APE
(2010: £118m)

- We continue to grow sales of non-mortgage related protection products and sales of protection for business needs and large sum policies.
- Sales in all distribution channels have been strong in 2011, reflecting our competitive position, the increasing focus of distributors on protection and improved awareness amongst consumers of the need for these products.
- In 2011 we signed an agreement with Barclays to be their sole supplier of advised sales of family protection for five years.
- £401m paid out for individual protection claims in 2011.

GROUP PROTECTION

£46m

NEW BUSINESS APE
(2010: £57m)

- Sales down 19% as traditional corporate markets continue to be adversely impacted by the uncertain economic environment.
- Our group protection business paid out £268m in claims to help relieve the financial suffering of over 2,000 policyholders and dependants in 2011.

ANNUITIES

£251m

NEW BUSINESS APE
(2010: £207m)

- 2011 was a very strong year for annuity new business.
- Bulk Annuities (pension scheme insurance solutions) grew premium income by 62%, including successful completion of the bulk annuity scheme with the trustees of the Turner & Newall Pension Scheme for over £1bn.
- An additional £70m of APE was generated by the first pure longevity insurance transaction with a pension scheme, Pilkington Superannuation Scheme. Legal & General insures the pension scheme against adverse change in the longevity experience of its pensioners.
- Annuity payments of £1.4bn made in 2011.

GENERAL INSURANCE

£304m

GROSS WRITTEN PREMIUMS (GWP)
(2010: £281m)

- Gross written premiums are up 8% on 2010, the growth coming from our household book whilst Mortgage Payment Protection volumes remained broadly flat.
- Total new business at £110m was 38% ahead of the prior year (2010: £80m). Operating expenses have been controlled in line with business growth.
- Operating profit of £42m (2010: loss of £8m) reflects generally favourable weather experience during the year.
- £168m paid out for general insurance claims in 2011.

RISK.

"We have maintained our leading positions in our key markets and delivered strong results and growth in 2011."

JOHN POLLOCK
GROUP EXECUTIVE DIRECTOR (RISK)

Risk products are distributed through bank and building society partners, IFAs and consultants, direct sales and the Legal & General Network.

STRATEGY

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

* For further information please see page 35.

IMPERATIVE	ACTIVITY
CUSTOMER AND BRAND	Raise profile and reputation in terms of social purpose and responsibility.
CAPITAL MANAGEMENT	Develop and implement plans to optimise use of capital.
ORGANISATIONAL CAPABILITY	Build greater management capability and maintain employee engagement and leadership scores.
DIVERSIFICATION	Work with Government and Industry to develop products that can support welfare change.
UK GROWTH	Develop opportunities to help build growth in protection and annuity markets.

INDIVIDUAL PROTECTION

Legal & General continues to be the leading provider of death and illness insurance products in the UK. In 2011 we delivered improvements to make it easier for individuals to access cover, launching simplified underwriting in the first quarter of the year, enabling us to provide certainty of cover to three quarters of applicants at the point of sale. This system can also now be used for third-party consumer online websites.

Customer service and retention of policies have both improved and we have cut the time taken to process claims. We work continuously on initiatives to reduce claims payout turnaround times. Investment in process development has enabled costs to be significantly lowered allowing reductions in premiums for customers, retention of competitive pricing positions and improved returns for the business.

GROUP PROTECTION

We continue to adapt and improve the products we offer to help employers protect the wellbeing of their staff. In 2011 we launched Workplace Recovery: an integrated healthcare solution that works with an employer's other arrangements to avoid unnecessary duplication and the associated extra costs. The Telegraph Group Ltd, as pilot of the scheme, has seen the number of employee sickness absence days decrease from an average 5.3 in 2009, to 3.0 in 2011.

In the Group Income Protection market we were the first provider to release our declinature rates and we continue to see improvements in the number of people we help return to work through our early intervention and rehabilitation policies.

ANNUITIES

We continue to be a leading provider for both annuities to individuals who have saved for their retirement and bulk annuities or other de-risking solutions to defined benefit pensions schemes.

Individual annuities had another successful year receiving over £1 billion in single premium income and further broadened our range of distribution. As a source of business in the long term, we were pleased to secure a place on the Annuities panel for NEST (National Employment Savings Trust).

Bulk annuities (pension scheme insurance solutions business) had a groundbreaking year, growing premium income materially and completing a bulk annuity scheme with the Trustees of Turner & Newall Pension Scheme. We also completed our first pure longevity insurance transaction with the Pilkington Superannuation Scheme. The business also acted to manage its overall longevity exposure by completing two bulk longevity reinsurance transactions during the year.

GENERAL INSURANCE

During the year we have expanded our online capability by establishing our presence on all of the major third-party consumer websites as well as benefiting from the enhancements to our own website which went live in late 2010. The broker channel has also shown continued growth with new deals signed in the period as well as increased activity with existing partners. We have established a dedicated sales force to increase our penetration of the regional broker and IFA markets. Although this has not significantly impacted on the 2011 result, we feel that this provides a platform for future growth.

DISTRIBUTION

Legal & General Network (the Network), our in-house mortgage and protection-led distribution business, was successful despite difficult market conditions. The Network encompasses the full range of capabilities and services needed to support intermediary firms who operate in the mortgage market. The provision of expert and compliant advice continues to be very important to UK consumers, and we anticipate that the new regulations for mortgage sales will increase this.

Within the Network, sales of protection products have continued to grow, and the Mortgage Club increased its share of intermediated mortgage lending to 20.3%, (2010: 16.3%).

During the year, the Network established several new trading relationships with large distribution firms, ensuring that scale has been maintained in a rapidly consolidating market.

OUTLOOK

We anticipate that growth in newer types of bulk annuity deals will continue and that in the individual market consumers will continue to delay their retirement in the uncertain economic climate. We believe there is potential to increase our share of the protection market due to consolidation.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	WHAT WE ARE DOING
REGULATORY CHANGE	The suite of regulatory changes impacting the Risk business includes Solvency II, Gender directive, I-E tax regime, RDR and MMR. We shall build on our considerable expertise in managing capital, flexible pricing capabilities and distribution strengths. We will continue to engage with regulators to ensure compliance whilst minimising risks and capitalising on any opportunities.
BOND MARKETS	Although we continue to broaden the range of investment assets backing our annuities business, fixed interest securities remain a significant proportion of the overall investment portfolio, potentially exposing us to volatility in returns and the risk of default. We have developed considerable expertise in the management of credit risks associated with our bond portfolio, and continue to ensure it remains high quality. Despite market volatility in 2011, the asset portfolio backing the annuity business experienced no credit defaults.
WEATHER EVENTS	As a significant writer of household insurance, our general insurance business is exposed to adverse weather events and the effects of changing weather patterns. Our flood and weather models together with our catastrophe reinsurance programme seek to limit our exposure to loss from adverse weather events. As an active participant in ClimateWise we are at the centre of shaping the insurance sector's global approach to environmental risk.

SAVINGS. OVERVIEW.

HIGHLIGHTS

- TRANSFORMATION STORY CONTINUES IN SAVINGS DIVISION WITH IMPROVED PROFITABILITY AND OPERATIONAL EFFICIENCY.
- WELL PLACED FOR THE CHANGES THAT RDR AND AUTO ENROLMENT WILL BRING TO THE MARKETPLACE.
- WORKPLACE SAVINGS HAS SIGNED UP 133 SCHEMES IN 2011 GENERATING AN EXPECTED TRANSFER OF OVER 94,000 ACTIVE SCHEME MEMBERS.
- OUR OWN INVESTMENT PLATFORM, INVESTOR PORTFOLIO SERVICE (IPS), HAS SIGNIFICANTLY GROWN IN SCALE OVER THE LAST YEAR, WITH £6.8BN OF MUTUAL FUNDS AND INSURED ASSETS AND OVER 420,000 CUSTOMERS.

£65bn

TOTAL ASSETS UNDER ADMINISTRATION (AUA)
(2010: £64bn)

OPERATING PROFIT

£128m
(2010: £115m)

- Savings delivered an 11% increase in operating profit as the business continues the transformation required to maximise the opportunity of the Retail Distribution Review (RDR) and pensions auto enrolment.

NET CASH GENERATION

£111m
(2010: £68m)

- Net cash generation increased 63% in 2011 as focus remains on asset accumulation, sales of capital light products and improving operational efficiency.

IFRS PROFIT BEFORE TAX

£94m
(2010: £61m)

- IFRS profit before tax up 54% on 2010. New business strain as a percentage of PVNBP improved to 2.7% (2010: 2.8%).

SAVINGS INVESTMENTS

£688m

NEW BUSINESS APE
(2010: £643m)

- New business APE increased by 7%. Sales of mutual funds on our platform, IPS, continue to perform well increasing by 58% to £204m (2010: £129m).
- Unit Trusts and ISAs grew by 13% to £294m (2010: £261m).
- Uninsured SIPP new business grew by 26% to £88m (2010: £70m) as we extend our distribution and reach. Our Suffolk Life proposition is now available on eight third-party platforms representing nearly 80% coverage of the SIPP market.
- Savings Investments operating profit up 10% to £23m (2010: £21m).

INSURED SAVINGS

£445m

NEW BUSINESS APE
(2010: £478m)

- Substantial increase in operating profits to £36m (2010: £31m) and net cash generation to £38m (2010: £1m) driven by our strategic shift towards fee-based products such as workplace pensions and focus on cost management.
- Continued strong momentum in workplace savings, with a 30% year-on-year growth in schemes secured, although APE is lower for 2011 at £269m (2010: £311m) as a number of schemes have deferred completion into 2012 and 2013 to align with auto enrolment staging dates.
- Despite market volatility in the second half of 2011, Insured bonds APE grew by 14% to £119m (2010: £104m), primarily driven by the success of our International Bonds proposition.

WITH-PROFITS

£69m

IFRS OPERATING PROFIT
(2010: £63m)

- Operating profit, representing the shareholders' share of the With-profits bonus, for all products sold in the With-profits fund, including With-profits pensions and With-profits bonds, was up 10% in 2011.
- Net cash generation increased by 11% to £51m (2010: £46m).
- New business APE reduced by 8% to £122m (2010: £132m).

SAVINGS.

"The continued transformation of our savings business has delivered strong results in 2011 and leaves us well positioned for the changes facing our industry."

MARK GREGORY
GROUP EXECUTIVE DIRECTOR (SAVINGS)

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Savings products are distributed through bank and building society partners, IFAs, employee benefits consultants and direct sales.

STRATEGY

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

* For further information please see page 35.

IMPERATIVE	ACTIVITY
CUSTOMER AND BRAND	Deliver improvements to customer communications, digital capability and servicing.
CAPITAL MANAGEMENT	Develop and implement plans to optimise use of capital.
ORGANISATIONAL CAPABILITY	Build greater management capability and maintain employee engagement and leadership scores.
DIVERSIFICATION	Maximise the opportunities created by the introduction of auto enrolment.
UK GROWTH	Deliver the RDR programme, implement the platform strategy and maximise the auto enrolment opportunity.

RETAIL SAVINGS

Ensuring that our products are RDR ready has been a key priority and focus of our resources in 2011.

We have seen significant growth in sales of International bonds and strengthened relationships with private banks and discretionary asset managers.

The administration of the Unit Trust business we acquired from Nationwide Building Society in 2007 has now been brought in-house and has significantly increased the number of customers we are responsible for. This has contributed to the increase in size of our investment platform, IPS, which is now the third largest in the UK as measured by number of customers.

WORKPLACE SAVINGS

During 2011 our Workplace Savings division achieved success in the emerging auto enrolment market as large employers readied themselves for the Government's pension reforms. Our Mastertrust proposition has been selected by a large number of employers, including Marks & Spencer as their auto enrolment vehicle and will be used by several more large companies with over 5,000 employees.

Our proposition is designed to help employers comply with their new statutory duties. We have created two new tools for employers: 'Select', which identifies which workers an employer must auto enrol and 'Choice', which provides communication materials for the employer to manage the process of enrolling or the opting out of their employees. The combination of these services has enabled us to secure mandates that will see over 350,000 potential new customers auto enrol during the period October 2012 to March 2013.

The Government's reforms are also a catalyst for employers to review their existing employee benefits and we have won mandates to take over existing pension arrangements that will see asset transfers and redirected contributions for over 40,000 existing contributors.

DISTRIBUTION

We continue to consolidate and re-affirm our distribution relationships with UK banking partners and enjoy retail savings relationships with the majority of major brands in the UK. The ability to react to market circumstances and deliver timely solutions that meet customers needs, has been key to our success.

We believe that investment platforms will benefit from the changes that RDR will bring, with key IFAs expected to align with a platform of choice. We retain our 25% shareholding in Cofunds. However, we have moved to exploit the opportunity that exists in the wider market and have secured distribution arrangements for our Suffolk Life SIPP products and Legal & General international offshore bonds across a number of platforms. Our data suggests that we now have access to 59% of all on-platform life and pension sales in the UK market.

RETAIL DISTRIBUTION REVIEW (RDR)

RDR presents an opportunity for Legal & General to continue as one of the leading providers of financial expertise in the financial services marketplace. We continue to invest in developing the infrastructure and capabilities to support an effective restricted advice proposition.

Our strategic partnerships with Nationwide Building Society and Yorkshire Building Society are a strong catalyst for this and we intend to leverage this investment across all channels, including our own tied distribution.

We will provide a range of RDR ready products from January 2013 that meet the needs of our customers in Workplace Savings, Retail Savings and Annuities. Where the customer seeks advice we will facilitate adviser charging.

OUTLOOK

We will continue to deepen our relationships with our tied partners whilst taking IPS into targeted new markets. This is aligned to our strategy of continuing to increase customer numbers and build asset growth by deepening relationships with customers. Our WorkSave platform will continue to benefit from the emerging trend towards holistic workplace savings propositions.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	WHAT WE ARE DOING
RETAIL DISTRIBUTION REVIEW (RDR)	RDR will significantly change the way in which retail investment products will be sold and the relationships between advisers and the manufacturers of those products. We are required to make significant changes to our products and distribution processes. A successful transition to a post-RDR world requires execution of a large and complex project against a backdrop of late publication of the final rules. Leveraging business benefits in a post-RDR world will be a key challenge for the providers of investment products. Delivery of an integrated operating model for a post-RDR environment is central to the Savings strategy. Our platform proposition and cost effective customer services will support advisers in adding value to their customers whilst maintaining profitability. We have made continuing investment in ensuring our business processes will comply with the new regulatory requirements and to help our customers and business partners transition to the new regime.
THE UK PENSION REVOLUTION	The UK Corporate Pensions market is in the midst of massive change. An area already impacted by major economic and demographic forces, will, in 2012, see the implementation of auto enrolment. Our Workplace Savings franchise is well positioned to respond to the evolving market. Significant changes that we have not anticipated may require us to review and realign elements of our business strategy. We are delivering an integrated employer and employee solution that will position Legal & General as a leader in auto enrolment alongside a flexible savings platform. We have developed innovative solutions aligned to our customers' needs to enable us to respond to evolving change.
WITH-PROFITS	The With-profits business faces challenges in the perception of its opacity and complexity, influencing a continuing decline in its significance in the savings market and uncertainty around the future regulatory regime. We are focused on ensuring customers and intermediaries understand the role that With-profits products may play with investment portfolios. We continue to assess opportunities in With-profits products, investing where there is a clear customer appetite for the product.

INVESTMENT MANAGEMENT. OVERVIEW.

HIGHLIGHTS

- GROWTH IN LGIM PROFITS AGAINST A CHALLENGING MARKET BACKDROP.
- SIGNIFICANT INCREASES IN REVENUE ACROSS LDI, FIXED INCOME AND INDEX FUND BUSINESSES.
- KEY STEPS TAKEN TO POSITION FOR GROWTH IN DEFINED CONTRIBUTION (DC) MARKET. INCREASED FOCUS ON CREATING SOLUTIONS TO SUPPORT THE LONG-TERM INVESTMENT NEEDS OF THIS CLIENT BASE.
- INTERNATIONAL EXPANSION CONTINUES WITH AN INCREASINGLY GEOGRAPHICALLY DIVERSE CLIENT BASE AND SIGNIFICANT GROWTH IN NEW BUSINESS.

PERFORMANCE

	2011	2010
Total assets under management (AUM)	**£371bn**	£354bn
Gross new funds	**£32.8bn**	£32.6bn
Net new funds	**£3.0bn**	£6.6bn

OPERATING PROFIT

£234m

(2010: £206m)

- Another strong year for LGIM with an increase of 14% in operating profit in a challenging market and an increase of 5% in assets under management to £371bn (2010: £354bn).

NET CASH GENERATION

£189m

(2010: £162m)

- 17% increase in net cash generation as LGIM continues to grow its global footprint and expand the range of products and solutions available to clients.

IFRS PROFITS BEFORE TAX

£227m

(2010: £198m)

- 15% increase in profits before tax, highlighting LGIM's continued focus on the provision of investment products which continue to meet clients' evolving needs.

INDEX

£224bn

ASSETS UNDER MANAGEMENT (AUM)
(2010: £229bn)

- The initiative to extend the index franchise into selected international markets built up momentum during 2011; we now have a presence in a number of Middle Eastern and European markets. Firm plans were also drawn up for expansion into the North American and Asian markets; whilst the execution of the plan for North America started in the latter part of 2011, the implementation of the plan for Asia is on the agenda for 2012.
- The index business has maintained strong performance seeing new business inflows of £22bn. This includes DC index inflows of £3.5bn, an increase of 39%, resulting in total DC assets of £21.3bn (2010: £19.2bn).

LDI SOLUTIONS AND ACTIVE FUNDS

£147bn

ASSETS UNDER MANAGEMENT (AUM)
(2010: £125bn)

- The de-risking of defined benefit pension schemes continues at a great pace in both the UK and US. Our UK and US LDI mandate AUM total £58.4bn (2010: £40.8bn), has delivered a 36% growth in revenue year-on-year. One highlight was the work done with the annuity team to provide an innovative joint de-risking solution for the Turner & Newall Pension Scheme culminating in successful completion of the bulk annuity scheme.
- 2011 was a challenging year for bond markets and LGIM has been able to continue to deliver strong performance for its clients. Active Fixed interest assets under management have increased 9% in the year to £72.4bn (2010: £66.6bn).

INTERNATIONAL ASSETS UNDER MANAGEMENT

£18.3bn[1]

(2010: £14.1bn)

[1] Included in Index and LDI Solutions and Active funds.

- LGIM's geographic diversification continues with an increasing number of new international clients. We continue to see new mandates won in the US, Middle East and Europe. International AUM increased by 30% to £18.3bn (FY 2010: £14.1bn), with gross new business of £6.5bn. LGIM America has strong fund performance and continues to be recommended by an increasing number of pension consultants in the US.

INVESTMENT MANAGEMENT.

"In 2011 we continued to expand our global footprint and range of products. Our focus in 2012 remains firmly on continuing to deliver the types of strategies and solutions that best meet our clients' evolving needs."

MARK ZINKULA
CHIEF EXECUTIVE OFFICER (LGIM)

LGIM clients include pension funds, institutional investors, corporates, charities and life companies

STRATEGY

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

* For further information please see page 35.

IMPERATIVE	ACTIVITY
CUSTOMER AND BRAND	Continue to deliver innovative investment solutions and strategies to meet clients' changing needs.
CAPITAL MANAGEMENT	Complete activities to meet Solvency II requirements.
ORGANISATIONAL CAPABILITY	Evolve our organisation, reflecting an increasingly diverse business profile and reinforcing a culture focused on delivering outstanding results for our clients.
DIVERSIFICATION	Generate assets under management (AUM), revenues and profits from a more geographically diverse client base and broader product set.
UK GROWTH	Support the de-risking of DB schemes, by building on synergies with Group's annuity business and continue to work with Workplace Savings to create joined-up solutions for DC schemes.

INDEX FUNDS

LGIM continues to focus on the provision of value-for-money solutions which meet clients' requirements. Today, we provide index fund management in developed and emerging equity markets, we manage funds against major government bond and global corporate credit indices. In addition, we manage index funds against ethical strategies and in alternative asset types such as global real estate, infrastructure and private equity.

In 2011 the range of alternatively weighted passive equity funds was extended, covering additional fundamentally weighted indices as well as a carbon-efficient index for UK equities. In the fixed income area, the available range of index funds now includes emerging markets debt funds.

In 2011 we responded to the significant increase in client demand for other core competencies, namely transition management, currency hedging, and particularly our dynamic asset allocation services. Plans are in progress to extend our capabilities and reach in these areas.

ACTIVE EQUITIES

In 2011 we focused on expanding both our fund management teams and product offerings. The UK and Asia Pacific teams were expanded, including a new head for the latter. A new UK Equity Income Unit Trust was launched, filling an important gap in the retail product suite.

FIXED INCOME

2011 was a challenging year for bond markets and LGIM has been able to continue to deliver strong performance for its clients across the major credit asset classes despite these volatile times. Good progress has been made in developing a product range and skilled team capable of meeting the needs of an increasingly sophisticated and internationally diverse client base. During the year the Fixed Income team deepened its expertise and resources in investment strategy, global investment grade and high yield credit and global rates.

LGIM's focus has shifted towards developing products which embrace global diversification, as we continue to respond to client demand. This has also led us to increase our focus on non-market benchmarked products.

SOLUTIONS GROUP

As the nature of the pension market changes we look to continue to provide innovative investment solutions to meet changing client needs in both the DB and DC sectors. We have taken steps to expand our range of fund offerings for the DC sector with the first of a new range of multi-asset funds made available in 2011, both directly to LGIM clients and via Legal & General's Workplace Savings division.

PROPERTY

LGP's success has been built on its track record of investment outperformance, which was extended in 2011. LGP experienced strong demand for existing products and launched innovative new vehicles to meet the requirements of our client base, which is becoming increasingly international. LGP continues to lead in Sustainable Property Investment as shown by the appointment of Bill Hughes, Managing Director LGP, as Chairman of the Green Property Alliance.

CORPORATE GOVERNANCE

LGIM remains committed to creating and protecting long-term shareholder value. We expanded our Corporate Governance capability and added additional resource to the team. Voting coverage was extended to all major developed markets. LGIM met directly with over 230 investee companies on a range of topics, including executive remuneration, strategy delivery and diversity of boards, as well as environmental and social topics. The push for positive change was also undertaken collaboratively with other investors to maximise impact. The team responded to numerous industry consultations, such as the Kay Review, to articulate LGIM's position and help shape future market practices.

OUTLOOK

We expect 2012 to continue to be challenging for markets and therefore for our clients, and we will remain very focused on delivering strong performance for our clients regardless of market conditions.

LGIM's geographic diversification will continue with an expanded international product offering, including North America, continental Europe and the Gulf. Plans are also in place to enter Asia in 2012.

We will continue to focus on creating high quality solutions for clients through leveraging on our full range of passive, active and LDI capabilities.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	WHAT WE ARE DOING
EUROZONE AND COUNTERPARTY RISK	During recent years, investor confidence in a number of financial services institutions has been severely impacted following the collapse of Lehman Brothers, the nationalisation of many global banks and the ongoing concerns over sovereign debt primarily in the eurozone. Although the controls framework within LGIM Holdings has allowed the uncertainty in markets to be managed, a lack of confidence remains in the sector which may result in increased downgrade or default of counterparties. LGIM Holdings seeks to limit the potential exposure to loss from counterparty and third-party failure through financial strength based pre-selection criteria for those counterparties with which the Group will do business and the setting of pre-defined risk based limits on concentrations. This includes a number of defined policies and procedures covering different types of counterparty exposure and ongoing contingency strategies in place relating to eurozone failure.
REGULATION AND LEGISLATION	The markets in which the Group operates are highly regulated, with regulation and legislation 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. Current areas of significant regulatory change include, the changes within, and to, the FSA, Solvency II and Development in OTC market infrastructure, MiFID II and the US FATCA legislation. Dedicated control functions exist in LGIM and Group to review and assess these changes and to ensure that actions are taken to maintain compliance.
REPUTATIONAL AND CONTAGION RISK	In order to continue to develop and grow the LGIM business the current strategy is to maintain market share and to access new markets and sources of funds. As a result, changes are required to internal processes and client service capabilities. These processes, while carefully controlled and managed, may fail or be impacted by, for example, fraud or IT systems failure, giving rise to loss, adverse client reaction and a resultant loss of existing clients or inability to write new business. LGIM Holdings has a well-established and embedded risk framework that ensures that as business continues to change the associated risks are identified and managed. LGIM Holdings maintains a strong capital position which is kept under regular review.

INTERNATIONAL. OVERVIEW.

HIGHLIGHTS

- 34% INCREASE IN OPERATING PROFIT.
- 16% GROWTH IN NET CASH GENERATION.
- 5% GROWTH IN NEW BUSINESS.
- ONE-OFF CAPITAL RETURNS OF £81M.
- CONTINUED PROGRESS IN US CAPITAL PROGRAMME.

OPERATING PROFIT

£137m

(2010: £102m)

- US operating profits grew by 22%, from £85m to £104m.
- French results benefited from higher realised investment gains.

NET CASH GENERATION

£51m

(2010: £44m)

- Dividends from US grew by 9%, from $53m to $58m.
- Our Dutch dividend increased from €10m to €15m.
- A further £81m of one-off capital was returned to the Group from US and Dutch businesses.

IFRS PROFIT BEFORE TAX

£116m

(2010: £137m)

- 2010 included £28m one-off profit on redemption of Potomac bonds, as part of capital restructuring programme.
- 2011 included £(20m) investment fluctuations in the Netherlands due to movements in bond markets (2010: £7m).

USA

£69m

NEW BUSINESS APE
(2010: £52m)

- New business increase of 39% to a high of $111m APE. This is a result of a new distribution strategy targeted at LGA's core Broker General Agent market.
- We maintained our competitive, low-cost operating model with further expense efficiencies, whilst growing new business volume.
- The capital programme is on track with £52m of capital returned to the Group in early 2011.
- $100m of additional capital was generated by the second phase of the capital programme.

NETHERLANDS

£15m

NEW BUSINESS APE
(2010: £18m)

- Operating profits were steady in a shrinking retail savings market.
- New product launches have led to strongly improved protection sales at the end of 2011.
- Meanwhile, our strong solvency position has permitted a return of capital in addition to the increased dividend.

FRANCE

£52m

NEW BUSINESS APE
(2010: £52m)

- Individual retail sales fell by 3%, outperforming the market by 11%.
- Group risk sales increased by 6% on 2010.
- Profits benefited from higher investment gains, which offset increased Group risk claims experience.

EMERGING MARKETS

£18m

NEW BUSINESS APE
(2010: £24m)

- While APE in India was lower than in 2010, a market shift to single premiums led to an 89% increase in premium income.
- Egypt sales are recovering well post the revolution and core retail savings reached record levels in the second half of 2011.
- Legal & General Gulf continues its planned regional expansion, opening in Kuwait during the year and achieving APE of $8m.

INTERNATIONAL.

"We have continued to strengthen our international businesses in 2011 whilst also increasing the dividends paid back to the Group."

GARETH HOSKIN
CHIEF EXECUTIVE OFFICER (GROUP INTERNATIONAL)

Our international businesses contribute to Group cash flow through the return of dividends.

STRATEGY

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

* For further information please see page 35.

IMPERATIVE	ACTIVITY
CUSTOMER AND BRAND	Extending our reach to new customers in emerging markets.
CAPITAL MANAGEMENT	Progressing the capital management plan in America and realising further synergies in the Netherlands.
ORGANISATIONAL CAPABILITY	Increasing our international bancassurance capabilities.
DIVERSIFICATION	Leverage our existing scale and expertise to grow in our chosen markets.
UK GROWTH	Objective not applicable to international division.

LEGAL & GENERAL AMERICA (LGA)

LGA aims to be a consistent top ten provider of ordinary life assurance in the US as measured by sums assured. In 2011, LGA recorded its best ever year for new business placing us comfortably within this target group. Our core market consists of higher net worth customers serviced through the Broker General Agent distribution channel, where we are actively building a strong reputation for delivering value-for-money products backed by expert underwriting and high quality service. This strategy is working, with sales increasing by 39% to $111m in 2011, beating the previous record.

In addition to growing the new business franchise, we continue to be a low-cost provider and during 2011 our strong control over expenses resulted in unit cost reductions, improved new business margins and higher profits.

Meanwhile, our capital restructuring plan continues to deliver synergies for the Group and competitive pricing advantages through reduced financing costs to LGA. Additionally, LGA was upgraded by Standard and Poor's in December, from A+ to AA-, in recognition that it is a core part of the Legal & General Group.

LEGAL & GENERAL NETHERLANDS (LGN)

LGN has responded to the challenging regulatory, economic and competitive environment by successfully relaunching its life assurance product and widening its reach to the much wider mass market for term assurance. The initial results have been encouraging, with an increase in sales of 90% between the first and second halves of 2011. LGN has also recently launched new wealth management and corporate pensions products. LGN remains strongly capitalised and was able to deliver an increased 2011 dividend.

JOINT VENTURES

	INDIA	EGYPT	GULF
STRUCTURE	We own 26% of IndiaFirst Life Insurance Company, a joint venture with Bank of Baroda and Andhra Bank.	We own 55% of Commercial International Life Company SAE, a joint venture with Commercial International Bank.	We own 50% of Legal and General Gulf BSCC, a joint venture with Ahli United Bank that targets the entire Gulf region.
BUSINESS	We sell a variety of savings products to individual clients and have recently complemented this with the development of Group risk and pension products.	We sell regular premium savings products to individual clients.	We operate in Bahrain and now also in Kuwait, selling individual savings and protection products.
SCALE	We have access to approximately 6,000 bank branches. In 2011 we generated net premium income of over INR 10bn. In only the second year of operation we achieved a 2.1% share of the private new business market.	We are the number one private life insurer in Egypt, and have successfully weathered the recent turbulence, with 2011 sales recovering to those of the previous year.	Our Kuwait operation made a strong start following launch in July, and we are looking for operations to expand into other markets in the Gulf.

LEGAL & GENERAL FRANCE (LGF)

LGF continues to grow its Group protection business where it targets medium sized corporate schemes through corporate advisers. Recent public policy changes resulted in a reduction in government support for medical expenses. This led to a slight deterioration in our claims ratio prior to price increases being implemented during the year. Meanwhile, the French retail savings market continues to shrink under the weight of the eurozone troubles. Our retail new business sales fell slightly but still outperformed the market.

The eurozone crisis presents challenges to the French insurance sector which require us to continue our careful asset and liability management of LGF.

JOINT VENTURES

Our joint ventures are all based on a high productivity bancassurance model, principally selling unit-linked savings products to the emerging middle class in faster growing economies. We prefer to operate in close partnership with local banks to deliver effective, value-for-money products that meet genuine customer needs.

OUTLOOK

In our existing markets we will work to diversify our product offerings and widen the appeal of our products, including the life assurance markets in LGA and more products for the French and Dutch mass markets.
We continue to search for further opportunities to deliver our value-for-money bancassurance model in close partnership with local banks in new, fast growing markets.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	WHAT WE ARE DOING
US MORTALITY AND LAPSES	US mortality experience impacts returns and we manage these risks through extensive, expert underwriting at the point of sale. We have strong underwriting capabilities, appropriate re-insurance strategies and high levels of customer service to increase customer retention.
EUROPEAN AUSTERITY	The crisis within the eurozone is likely to drive a sustained period of austerity across mainland Europe and subdue European investment markets, changing the attitude of consumers to long-term savings. We are actively managing our businesses in France and the Netherlands to minimise adverse impacts of the evolving eurozone crisis, developing our portfolio of products for the changing markets.
POLITICAL RISKS	2011 saw dramatic changes in the North African political landscape, providing both uncertainty and opportunities to our Middle Eastern and North African businesses. We supported our local management and staff throughout this difficult period and continued to build our international operations with due regard to political developments.

HEALTH OF THE INDUSTRY.

Our industry continues to face high levels of change. While some of these changes offer opportunities, others present challenges to the way we structure and finance the Group.

We have grouped these changes into four areas:

- **MARKET AND COMPETITIVE ENVIRONMENT**
- **ECONOMIC**
- **SOCIAL AND ENVIRONMENTAL FACTORS**
- **POLITICAL AND REGULATORY ENVIRONMENT**

MARKET AND COMPETITIVE ENVIRONMENT

The UK remains relatively strong globally and is the world's third largest insurance market. It will only be overtaken by China in the next ten years according to the most recent Swiss Re report. Bancassurance is a growing global trend.

UK insurance providers have remained relatively unscathed by the global financial crisis and have seen a recovery in capital bases and share prices across the sector. Our industry continues to be a major contributor to the UK economy.

There has been further consolidation in the sector in 2011, with the departure of some European insurers from the UK life industry which now consists of just a few major players. The top ten insurers are now responsible for 75% of sales in the UK Life market. This does not apply across other segments such as the Unit Trust market which remains more fragmented.

ECONOMIC

The global economic recovery has faced some significant challenges during the past 12 months. Consumer sentiment, particularly in the major economies, has been weak as high levels of unemployment, rising food and energy costs and credit constraints have curtailed spending. Significantly, the emerging economies have remained the principal driving force of global economic growth, as countries such as China, India and Brazil continue to grow far more rapidly than the major developed economies.

SOCIAL AND ENVIRONMENTAL FACTORS

Building consumer self-reliance for savings and protection

Over reliance upon the state for pensions and disability benefits has meant that a large part of the UK population has inadequate pensions and savings and is unprepared in the event of long-term sickness or disability. The State is finding itself increasingly unable to finance social benefits from taxation raised from the working population. At the same time, many consumers, especially those in lower income and younger age groups, appear alienated from the insurance industry. This has led to around 50% of the UK population having no life cover and another 50% not being members of a pension scheme.

Financial education

A lack of understanding of how financial services work and can benefit consumers is a contributory factor in leaving many people disengaged from the insurance industry. Many people struggle to understand financial terminology and find it difficult to understand the cost and benefits of saving for the future and protecting themselves against financial hardship.

The Money Advice Service

The Money Advice Service was launched in April 2011 to help to address some of these issues and to help people to manage their money better, including offering a financial health check tool. Its role is to give clear, unbiased money advice to help people make informed choices. This is a free, independent service set up by government and funded by a levy on the financial services industry. Advice and information is available online, over the telephone and face-to-face and includes information relating to issues such as the forthcoming auto enrolment pension changes.

POLITICAL AND REGULATORY ENVIRONMENT

Regulation and legislation continue to be major transformational factors for insurers.

EU's Solvency II regime

The implementation of the EU's Solvency II regime is now likely to be delayed until January 2014 at the earliest, with the FSA running its triennial adequacy test in advance of Solvency II implementation. Although some uncertainties remain, debate continues in Europe and we are heavily engaged to help to secure recognition that countercyclical dampeners should form a part of the final package. However, the impact of Solvency II is still likely to mean that the cost of providing financial products for consumers will increase.

EU's Gender Directive

The implementation of the European Court of Justice's judgment, which requires gender neutral pricing, is also expected to take place on 21 December 2012 and will lead to significant price changes for motor insurance, life insurance and to a lesser extent, annuities.

Retail Distribution Review (RDR)

RDR is scheduled to be implemented from January 2013. The movement from commission to adviser charging, which will often involve end customers paying fees rather commissions on sales of savings products, is likely to have a profound effect on the market. Taken together with the introduction of higher professional qualifications, it may well mean a reduction in the number of IFAs, many of whom may choose to focus only on affluent consumers. Some banks have also moved away from giving advice on investments to mass affluent customers.

KEY GOVERNMENT POLICY INITIATIVES AFFECTING OUR SECTOR

CONSULTATION TOPIC	OUR RESPONSE	
PENSION REFORM	• We broadly supported the principle of a flat rate pension for all as we believe the clarity this would give individuals would encourage increased engagement in retirement planning. • We were closely involved in the Government's review of auto enrolment and are encouraged by the increased coverage of workplace pensions this will deliver.	**£25,874** Average size of pension fund used to buy an annuity in 2010. ABI figures 2011.
LONG-TERM CARE	• We believe that change is needed in this area and that any settlement must be clear. People need to understand what the State will provide and what their own responsibilities are. • The Dilnot Commission's recommendations for a partnership model have the potential to deliver this through an extended means-test and a cap on care costs.	**£26,000 per year** Current average long-term care bill. From "Who cares? The implications of a new partnership to fund long-term care CII, September 2011".
SIMPLE FINANCIAL PRODUCTS	• We believe it would be possible to develop a simple products brand. Success in reaching the consumer, however, will depend on education, on tapping into life-events and existing distribution channels, and on clear and simple communication without the complications and costs which arise from excessive and unpredictable regulation. • Many simple products already exist, such as ISAs and term assurance, and we feel that distribution channels and mechanisms are in many ways more important than the development of the underlying products.	**43%** Percentage of UK adults with life cover. Mintel, July 2011.

MARKET ENVIRONMENT

This should mean that there will be greater opportunities to offer products through non-advised distribution, including online. Greater direct engagement with customers by product providers is likely to be required. The changes will also mean that fewer retail customers and employers may be prepared to pay a fee to switch providers, leading to higher persistency on savings products.

TAX ENVIRONMENT

We support the Chancellor's aims to make the UK the most competitive tax system in the G20 and the best location for corporate headquarters in Europe. Whilst the Government's proposals for reform of the Controlled Foreign Companies (CFC) regime should play a significant part towards achieving this policy objective, the current draft rules require further work to ensure the new regime achieves the desired outcome.

We also welcome the reductions in headline corporation tax rates which will bring down the rate of corporation tax to 23% by 2014. We believe that in the medium term this step will also help to boost investment and growth in the UK. We have taken the step of recognising the tax rate reductions in our 2011 EEV figures. The effect of this on shareholders' equity is disclosed at Note 13 on page 212 of the financial statements.

We observe that there have recently been a number of highly publicised cases regarding whether or not companies have been paying a fair level of tax in the UK. We aim to be transparent about the tax we pay and have set our specific information on page 15 of this report.

EMPLOYEE WELFARE

In November, the Frost/ Black Report, which looked into long-term sickness and the cost to employers, taxpayers and the economy, was presented to the Government. One of its recommendations was tax relief for basic rate taxpayers on any expenditure incurred by an employer specifically targeted at helping long-term absent employees back into the workplace through medical treatments or vocational rehabilitation. Whilst the estimated cost to the Exchequer would be some £150m, it is expected that this will be more than offset by additional tax revenue from more people in work and the savings it will bring to businesses. We are fully supportive of this proposal which is aimed at protecting the wellbeing of employees.

RESTRUCTURING OF THE UK REGULATORY REGIME

In May and June 2011 the Bank of England and the FSA published their approach documents for the new Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).

Under the new arrangements, the FCA will be equipped with a variety of powers to support its statutory duty to protect consumers from detriment. Among others, it will have powers to ban the sale of particular products from a given financial institution for up to 12 months, take action over misleading adverts or promotions, and disclose consequent disciplinary actions against individuals or firms. It will also be able to initiate referrals to the Office of Fair Trading.

The primary focus of the PRA will be on financial stability issues and the resolvability of firms that pose a threat to the financial system at large. Acting under the instructions of the Bank of England's Financial Policy Committee to tackle issues of micro-prudential concern, it is intended that the PRA will bring about a proactive intervention regime to deal with firms that get into difficulties.

These changes are profound and likely to have a significant impact on the regulatory environment for financial services companies in the UK.

LAUNCH OF THE GOVERNMENT'S PENSION AUTO ENROLMENT RULES

From October 2012, the phased implementation of the Government's auto enrolment pension scheme will provide a large stimulus to the workplace pensions market. Every employer will be obliged to provide group pension arrangements for its full workforce, with employees who do not currently have workplace arrangements, being auto enrolled into a new or existing scheme or the default NEST scheme. Implementation has been delayed for smaller firms, but all employers must act by September 2016.

PRESSURES ON THE PROVISION OF FINANCIAL BENEFITS BY THE STATE

The desire to reduce the UK's budget deficit has accelerated the Government's intent to look at the balance between financial services provision from the private sector and the state. This is a complex area and changes may not be realised in the lifetime of this parliament. Areas where the state could look towards the insurance industry to replace state benefits include long-term care, disability benefits and private sector pensions. Legal & General is currently involved in consultations and working parties in all these areas.

STRATEGY

OUR THREE-YEAR STRATEGIC PLAN.

During 2011 we have undertaken a strategic review to develop our three-year strategic plan for 2012 to 2014.

Our overall aim remains unchanged.

To build a company which every single day, becomes even better at serving customers and rewarding shareholders.

OUR STRATEGIC OBJECTIVES	We are pursuing a strategy based around:
CUSTOMER AND BRAND	Cultivating deeper customer relationships and building a highly recommended brand with a strong social purpose. Developing our capabilities to benefit from digital technology.
CAPITAL MANAGEMENT	Developing new capital plans to meet Solvency II requirements and our cash flow and return on equity targets.
ORGANISATIONAL CAPABILITY	Building a more productive, engaged and efficiently managed organisation.
DIVERSIFICATION	Diversifying our mix of business by growing our international footprint and developing new markets in established businesses.
UK GROWTH	Growing our market-leading savings, risk and investment management businesses in our core market.

STRATEGIC OVERVIEW

STRATEGIC OBJECTIVES	OUR AIMS
CUSTOMER AND BRAND	Develop a two-way dialogue with all customers (individuals, intermediaries and institutions).
	Build a strong social purpose and relevance to society.
	Cultivate deeper customer relationships.
	Be recognised as a brand that people proudly recommend.
	Broaden distribution channels.
CAPITAL MANAGEMENT	Continue our proven track record in enhancing shareholder value.
	Increase the cash generation and the certainty of that cash generation whilst optimising our capital structure.
	Execute our capital allocation plans, including asset liability management, capital restructuring and project expenditure.
	Deliver a positive Solvency II outcome that protects consumer interests and establishes realistic capital bases.
	Deliver strong return on equity.
ORGANISATIONAL CAPABILITY	Build a more responsive organisation.
	Create a more productive organisation.
	Develop a recognised management capability in driving the organisation towards its goals.
	Foster an engaged and committed workforce who actively contribute to increasing Company value.
DIVERSIFICATION	Develop a more diversified business.
	Reduce our dependence on traditional markets.
	Increase our international footprint.
UK GROWTH	Grow number of customers, in-force premiums, assets under management and net fund flow.
	Identify new markets.
	Create new products that respond to changing customer needs.

HOW WE WILL ACHIEVE THIS AND MEASURE OUR SUCCESS

Improve customer communications and upgrade our Group-wide customer relationship management system.

Differentiate ourselves through market leadership in social responsibility, achieving an improvement in the number of people who view our brand as relevant to their needs.

Focus on understanding our customers' needs and foster lifetime relationships. Achieve an improvement in the number of people who prefer our brand to those of our competitors.

Build a brand that our customers value highly, by improving customer outcomes. Achieve an improvement in the number of customers who would recommend us to others.

Complement our existing advice distribution channels with an improved ability to meet the needs of customers who want to deal direct.

Achieve at least a second quartile position among FTSE 100 companies for total shareholder return.

Develop plans to increase cash generation and maximise the efficient use of capital.

Amend our risk appetite strategies and economic capital development plans.

Work with industry bodies to help regulators and government achieve a positive Solvency II outcome.

Achieve a market-leading Group return on equity.

Modify the shape of our organisation so that it maximises efficiencies while encouraging the development of talented people.

Foster greater staff engagement and motivation levels. Improve the efficiency of administrative processes.

Develop the capabilities of our management and improve its effectiveness.

Ensure that our people remain engaged and committed. Maintain the staff engagement index from our current level.

Achieve a more balanced use of capital in developing our four businesses.

Diversify our offerings in all of our businesses through developing new products and widening our customer reach.

Where our scale and expertise offer us an advantage, we will work to expand our LGIM and International businesses.

Deliver UK growth through entering new markets and extending our customer reach.

Identify those markets where we can launch new products or target a much wider range of customer groups.

Maximise opportunities arising from reform of the welfare state and workplace pensions.

OUR PEOPLE.

"At Legal & General, we recognise the power of having employees engaged in their work. A key part of this is people feeling they have a voice."

ELAINE MACLEAN
GROUP HUMAN RESOURCES (HR) DIRECTOR

EMPLOYEE ENGAGEMENT

In 2011 we continued to make progress on the gains we made with respect to our employee surveys in 2009 and 2010. We have worked to maintain the high levels of engagement we have achieved, by continuing to explain the Company's strategy and vision and linking this to local business area activities.

In the 2011 employee survey, we achieved our highest ever response rate at 87% (2010: 85%) and the employee engagement index increased by two points to 76% (2010: 74%). This is the highest score achieved since we have measured employee engagement.

There has been a high level of activity across the business to embed our brand organising thought, Every Day Matters. This was measured for the first time in 2011 and levels of understanding of how Every Day Matters affects our employees and customers on a day-to-day basis achieved a very encouraging 72%.

In addition to the internal recognition of these improvements we have, for the first time, been ranked in *The Sunday Times'* 'Best Big Companies to Work For'. We achieved increases in all of the eight factors that the survey investigates and accreditation as a 'Ones to Watch' company.

This year we defined a set of six management behaviours to encourage managers across the business to focus on some key areas for improvement. These include 'Take a Wider Interest', 'Connect with Customers' and 'Take Ownership'. These behaviours will be adopted by all employees in 2012.

The second major initiative in 2011 was the implementation of a new grading structure in the UK. The simplicity and clarity of an eight-grade structure was essential to allow us to develop and implement improved career paths and mobility around the business.

We ran a number of insight activities, in the UK, US and, for the first time, in 2011 in France.

Employee development has been a key theme in 2011 and will continue to be so in 2012. All areas of the business have contributed to a process of identifying and managing talent across the business.

Our approach to people development and learning builds on our success in 2010. We have introduced a programme for new line managers, Everyday Leadership, to enable our people to realise their full potential and maximise their contribution. This fresh, structured and measurable approach to management development will set clear expectations and help managers start on the path to engage with their people, listen, communicate and drive performance.

EMPLOYEE ENGAGEMENT INDEX

76%

(2010: 74%)

EMPLOYEES WORLDWIDE

8,058

Average number of employees during the year excluding employees of consolidated private equity investment vehicles (2010: 8,071)

EMPLOYEE WELLBEING

In September 2010 we launched a pilot wellbeing initiative in our Cardiff and Hove offices. This made use of an online health and wellbeing service called Health Manager provided by GetWell Fitness, which monitors health issues, behaviour and participation amongst its participants. The initiative also provided an extensive training programme for line managers, free health checks and a workplace scheme aimed at combating low levels of physical activity.

By identifying over 200 employees in need of early intervention, we were able to offer specialist advice at an early stage. The impact of the pilot scheme was dramatic. Workplace absence in the pilot areas was reduced by 15% on the previous year and productivity was improved.

The success of the initiative has enabled us to implement further measures which can lead to a healthier, more effective workforce. We have been able to identify the five most significant health issues which impact our workforce, allowing us to develop tailored programmes to address the concerns of employees. The success of the wellbeing initiative was such that the programme is now being rolled out to other Legal & General locations.

SUPPLY CHAIN

Management of our supply chain is an important aspect of running our business efficiently and in a sustainable way. Terms and conditions for business transactions are agreed with suppliers and payment is made in accordance with these terms provided the suppliers' obligations are met. The Company has no trade creditors. As at 31 December 2011, the average number of days of payments outstanding for the Legal & General Group of companies was 36 (2010: 34).

Suppliers are regularly assessed to ensure that they comply with our environmental, social and ethical policies.

COMMUNITY INVOLVEMENT

As a large employer we encourage our staff to be involved in their communities, either through financial contribution or with their time and expertise.

We also support local communities through volunteering. This gives our staff the opportunity to develop new skills while helping their community. Our employees undertook over 1,000 days of volunteering in 2011 on community projects and fund-raising activities (2010: 893 days).

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 all persons; to continue, wherever possible, the employment of staff who become disabled and to provide equal opportunities for the training and career development of all employees.

OUTLOOK

In 2012 we aim to continue to improve our employees' opportunities and access to training and career development whilst embedding the new behaviours fully into our culture.

RISK MANAGEMENT

HOW WE MANAGE RISK.

"Our risk management culture is embedded across all of our businesses. As Group Chief Risk Officer my role is to ensure that we clearly define our appetite for risk, with an effective framework in place to control risks in line with appetite."

ANDREA BLANCE
GROUP CHIEF RISK OFFICER

Understanding the risks implicit in our business and the markets in which we operate provides us with real competitive advantage.

By selecting those risks that can give us sustainable returns, and closely managing unrewarded risks, we aim to optimise how we use our capital and make commercially effective decisions that help deliver our strategy.

Our risk appetite framework expresses the types of risk we are prepared to be exposed to in pursuit of our business strategy, the minimum capital requirements that we wish to maintain and the degree of volatility in earnings that we are prepared to accept.

We have well established strategies for managing market, insurance, credit, liquidity and operational risk. Formal policies define our approaches to risk management and the minimum control standards to ensure that risks are managed in line with appetite.

We set limits for our material risk exposures, which we monitor on a continuous basis. We also deploy a range of risk management techniques to manage and mitigate risks, thereby controlling our risk exposures in line with these limits. For example, we use derivative instruments to hedge unrewarded risks as part of our asset liability management activity and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures.

Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our

OUR RISK APPETITE PRINCIPLES

STRATEGY	We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk based capital in excess of our cost of capital. We have an appetite for the risks we understand and are rewarded for and which are consistent with the delivery of our strategic objectives.
CAPITAL	We aim to maintain an appropriate buffer of capital resources over the minimum regulatory capital requirements.
LIQUIDITY	We expect to be able to meet our payment and collateral obligations under extreme, but plausible liquidity stress scenarios.
VOLATILITY	We have low appetite for unexpected volatility in excess of our disclosed sensitivities.
CUSTOMER AND REPUTATION	We aim to protect our reputation to ensure that there is no material damage to the Group's franchise.

RISK MANAGEMENT AT A GLANCE

The effective management of risk is essential to delivery of the Group's strategy and the generation of shareholder value.

RISK GOVERNANCE:

- Responsibility for risk management is embedded within the Group's business divisions.
- Challenge and oversight of the effectiveness of risk management is provided by Group functions and formal Group level risk committees.
- Independent assurance on the effectiveness of both business risk management, and the Group level oversight and challenge processes, is provided by Internal Audit.

GROUP OVERSIGHT FUNCTIONS:

- Group Chief Risk Officer.
- Group Actuarial.
- Group Regulatory Risk & Compliance.
- Group Legal & Governance.

COMMITTEE OVERSIGHT:

- Key indicators monitor actual risk exposures to target positions.
- Risk mitigation programmes are established where risk exposures are outside tolerance or more effective use of capital can be achieved.

liabilities, guarantees and other embedded options given to policyholders.

We operate a continuous risk identification and assessment process under which all our businesses consider changes in the profile of existing and emerging risks. We record the risks we have identified and allocate responsibility to an owner to assess and manage them within agreed tolerances. Risk mitigation plans are developed and implemented to manage or respond to these risks. As the nature, probability or impact of risks may change over time, these plans are kept under regular review to ensure that they remain robust and appropriate. Our risk identification and assessment process is underpinned by a Group-wide programme of stress and scenario tests. These tests aim to demonstrate the resilience of our balance sheet to a range of market conditions and external events and to ensure that we maintain our target levels of capital.

During 2011 extreme stresses included evaluation of the impact of a return to recession, factors resulting in market illiquidity and a range of possible Euro break-up scenarios.

The overall operation of the Group's risk management framework is overseen by the Group Risk Committee, whose membership comprises non-executive directors of the Board. Key review activities of the Committee during 2011 are set out at page 63.

Note 48 on page 178 describes the risks to which our core product lines are exposed and our approach to managing those risks, together with sensitivity analysis setting out how changes in a range of risk factors may impact our results.

We set out an analysis of the Group's principal risks and uncertainties on pages 42 and 43.

OUR RISK LANDSCAPE

MARKET RISK	We have an appetite for market risk within our annuities and With Profits businesses, and our shareholder funds, where we are rewarded for it.	We have limited appetite for significant losses or volatility from market risk and so we set clear risk limits which must be adhered to by Group businesses.
CREDIT RISK	We have appetite for credit risk to the extent that accepting this risk enables us to optimise policyholder and Group risk adjusted returns.	We have limited appetite for significant losses from counterparty failures and we therefore establish clear risk limits which must be adhered to by Group businesses.
INSURANCE RISK	We have an appetite for longevity, mortality and morbidity risk as we expect to add value by accepting such risks.	We have a low appetite for persistency and expense risks. We manage these risks by investigations and monitoring experience and reflecting the conclusions in our product design and reserving strategies.
LIQUIDITY RISK	We have no appetite to fail to meet our obligations when they fall due or to incur material losses on forced asset sales to meet obligations.	We maintain at Group level sufficient liquid assets and standby facilities to meet a prudent estimate of the Group's cash outflows over a period of two years, as identified through annual planning processes.
OPERATIONAL RISK	We have very limited appetite for large operational losses due to the likely customer impact, reputational damage and opportunity costs.	We aim to implement effective controls to reduce operational risk exposures except where the costs of such controls exceed the expected benefits.

RISK MANAGEMENT

PRINCIPAL RISKS AND UNCERTAINTIES

KEY RISK	PRINCIPAL UNCERTAINTIES	POTENTIAL IMPACT ON LEGAL & GENERAL	MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy or profitability Legislation and government fiscal policy can influence our product design, the retention of existing business and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products, and the prudential capital that we hold. The nature of long-term business can result in certain regulatory changes having a retrospective effect.	The Retail Distribution Review (RDR), the rules for which come into force on 31 December 2012, will change the regulations for the provision of sales advice for retail investment products and the relationship between advisers and manufacturers of these products.	RDR has required us to make significant changes to our products and distribution processes, particularly for our Savings business. While the majority of required change has been executed, factors that could still hinder successful transition include late publication of the final rules, consumers failing to understand the change and financial advisers exiting the market, all of which may adversely impact the earnings of our Savings business.	As set out on page 23 we have continued to invest in ensuring that our business processes comply with the new regulatory requirements and that our business partners are positioned to distribute our products under the new regime. We remain committed to helping our customers and business partners transition to the new framework.
	Solvency II (SII), the implementation of which has moved back 12 months to 1 January 2014, will lead to a fundamental change in the way that insurance companies are required to calculate prudential capital. While the high level regulation is defined, detailed rules governing the approaches to determining the quantum of capital and the transition from the current regime are still to be finalised.	Proposed rules have reduced the potential for firms writing long-term business, such as annuities, to hold a disproportionate amount of capital relative to the risk exposure. However, until detailed calibration rules for capital models are finalised, there remains a range of capital outcomes. The scope and duration of transitional arrangements remain undecided.	We continue to actively participate with Government and regulatory bodies in the UK and Europe to ensure capital requirements accurately reflect the risks implicit in insurance products. Further details are set out at page 33. Our SII programme is on track to deliver required capabilities in advance of the SII implementation date.
	The International Accounting Standards Board's (IASB's) project on accounting for insurance contracts, which seeks to improve and ensure consistency in accounting, is targeted to be either re-exposed or issued in near final form in late 2012, with possible implementation between 2014 and 2016.	We support the need for clear and consistent financial reporting; however, the proposals of the latest exposure draft may result in a significant change in the timing of profit recognition, inconsistencies with capital measurement under SII and could result in increased complexity for users of accounts.	We are working with the IASB, the European Insurance CFO forum and the ABI to ensure that the IASB proposals are appropriate to the insurance sector and meet the needs of investors.
	The FSA's With-Profits Consultation (CP11/5) proposed changes to the rules and guidance over the operation of with-profits funds, which may have a significant impact on the future operation, governance and strategy for with-profits business. The FSA published a Policy Statement (PS 12/4) on 7 March 2012 and we are currently reviewing the impact of the rule changes.	Effective governance of with-profits business and the fair treatment of policyholders is sound business practice. However, the differing interpretation and application of regulation over time may have a detrimental effect on our strategy and profitability.	We have worked with the FSA and industry bodies to ensure that proposed rule changes reflect the needs of all stakeholders in those with-profit funds that remain open to business.
	During 2012 the FSA will begin to transition into the Prudential Regulatory Authority and Financial Conduct Authority, two distinct and separate regulatory bodies. Each body will establish its own regulatory framework from 2013.	We support a robust regulatory regime for the financial services sector. However, there is a risk that the new regimes will not reflect differences between insurance and banking business models, resulting in additional capital requirements or lead to duplication of activities and increased costs of regulation.	We are engaged with our regulators to understand the impact of the new regimes on our business. As set out on page 41, the establishment of a CRO team and a separate Regulatory Compliance team will enable us to deploy resource and manage regulatory relationships in line with the new regime.
	Changes in the corporation tax regime for life insurance companies will come into effect on 1 January 2013. Reform is made necessary by Solvency II which will replace the existing reporting framework upon which life company taxation is currently based.	Whilst, draft rules were published for industry consultation in December 2011, final rules are not anticipated until the publication of the 2012 Finance Act. The financial and operational impact of the proposals therefore remains uncertain.	We are actively participating in the consultation process with HM Treasury and HM Customs & Revenue and have commissioned an internal project to ensure that our business processes will be fully compliant with the new rules in time for 1 January 2013.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of investment assets we hold to meet the obligations arising from insurance business as well as the value of the obligations themselves, resulting in mismatches in the profile of cash flows of our assets and liabilities. Significant falls in investment values can also impact the fee income of our investment management business. Broader economic conditions can impact the timing of the purchase and retention of retail financial services products.	The outlook for the UK economy remains uncertain. Recent economic growth has been subdued with no sign of a sustained recovery. As well as impacting domestic economic conditions, ongoing concerns for the stability of the eurozone have resulted in volatile investment markets.	Continuing economic uncertainty may increase propensity for consumer saving benefiting our retail savings business. However, other product segments such as protection may experience reduced demand, impacting our new business volumes and our earnings.	We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. As part of our medium-term plan we have sought to ensure focus upon those market segments that will be resilient in projected conditions. Details of our business strategy are set out on pages 35 to 37.
	Although European governments have taken action to stabilise the economies of weaker members of the eurozone, there is a risk that the euro will continue to be inherently unsustainable unless some countries default and leave the euro, or there is movement towards closer fiscal integration.	Market disruption from a major sovereign debt event may impact our ability to execute hedging strategies that ensure the profile of our assets and liability / cash flows are appropriately matched. An exit from the euro may result in the temporary closure of markets, uncertainty over the operation of financial instruments and imposition of capital controls, particularly impacting our investment management and European businesses.	We are actively monitoring the impact of the eurozone crisis on our businesses and the adequacy of our contingency plans. As set out on page 63, the Group Risk Committee has given specific consideration to the risks and how they may be mitigated. Sensitivities to interest rate mismatches, exposures to worldwide equity markets and currencies, are set out on pages 189 to 191.

PRINCIPAL RISKS AND UNCERTAINITIES

KEY RISK	PRINCIPAL UNCERTAINTIES	POTENTIAL IMPACT ON LEGAL & GENERAL	MITIGATION
In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of default As part of our strategy to match long-term assets and liabilities, exposures arise to the issuers of sovereign and corporate debt, and other financial instruments. We also have exposures to banking, money market and reinsurance counterparties, and the providers of settlement, custody and IT services.	A default event within the banking sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and in extreme conditions contagion may result in default by strongly rated issuers of debt.	Market reaction to significant credit rating downgrades or a default event could result in the short-term diminution in the market value of corporate bond assets held in respect of our annuities business and in extreme circumstances may require an increase in default provisions for potential or actual defaults. A failure by a key service provider may result in short-term operational disruption of our business processes.	We actively manage our exposure to default risk, setting robust counterparty selection criteria and exposure limits. We continue to broaden asset classes backing our annuities business, including the use of property lending, and sale and leaseback assets. Details of our default provisions are set out at page 14. Exposures to credit risk are set out on page 192 and changes in credit spreads on page 196. Our service providers are also subject to rigorous selection criteria.
As a UK-based Group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole Investment market performance, actions by regulators against organisations operating in the financial services sector and shock events can impact the confidence of customers in the sector as a whole. Such events may also result in changes to the regulatory and legislative environment in which we operate.	The financial crisis, subsequent investment performance and low interest rate environment together with consumers' perceptions of the robustness of financial institutions may impact consumer attitudes to long-term savings. Recent regulatory action in the banking sector with regard to Payment Protection Insurance (PPI), may adversely impact consumers' perception of the value of insurance products.	As a significant participant in the long-term savings markets, we are inherently exposed to downturns in new business volumes and persistency levels as a consequence of changes in consumer sentiment.	We actively manage our brand and seek to differentiate our business model from that of our competitors, focusing on our customers' needs through a diversified portfolio of risk, savings and investment management businesses. In addition, as set out on pages 28 to 31 we continue to focus on developing our international businesses. As set out on page 63 the Group Risk Committee has given specific consideration to how we manage reputation risk.
	Regulatory and legislative responses to events in the banking sector continue. Within Europe, EIOPA has been established as an EU-wide policy setting body for the regulators of European insurers and, as outlined above, within the UK the FSA is to be split into separate prudential and conduct regulators. Separately the US Foreign Account Tax Compliance Act will introduce new customer disclosure obligations on UK insurers from July 2013.	We support a robust regulatory regime for the financial services sector. However, there is a risk that regulatory responses to market events lead to excessively prudent regulation; capital inefficiencies as a result of regulation aimed at banks being read across to insurers without reference to the different business models; and a more aggressive supervision and enforcement regime resulting in additional capital requirements and increased costs of regulation.	We seek to engage with regulators and legislators at a UK and European level to assist in the evaluation of change and influence the development of outcomes that meet the needs of all stakeholders. We encourage our executive and senior management to actively participate in a broad range of industry, regulatory and intra-governmental forums, including the ABI, FSA and EU bodies.
Reserves for long-term business may require revision as a result of changes in experience, regulation or legislation The writing of long-term insurance business necessarily requires the setting of assumptions for long-term trends in factors such as mortality, persistency, valuation interest rates, expenses and credit defaults. Extreme events may require recalibration of these assumptions. Forced changes in reserves can also be required as a result of changes in regulation or legislation.	In writing annuity business, pricing requires assumptions to be made for factors such as improvements in the general health of the population and advances in medical science. For protection business, assumptions are made for the expected level of mortality, taking account of factors such as pandemics.	We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. However, extreme events, such as a rapid advance in medical science leading to significantly enhanced annuitant longevity or an event causing widespread mortality/morbidity, coupled with a reinsurer default, may require assumptions to be recalibrated impacting profitability and capital.	We remain focused on developing a comprehensive understanding of annuitant mortality, including the development of 'cause of death' models using UK population data and engaging directly with the medical profession and scientific community. For our protection and general insurance businesses we continue to evolve and develop our underwriting capabilities. The sensitivities of our UK long-term business to annuitant mortality and reinsurer default are set out on page 196.
	There is an increasing trend for legislative intervention in the pricing of products irrespective of differing risk factors such as age or gender. There is a risk that European or national legislators interpret the application of legislation in a way that has unforeseen adverse consequences for insurance businesses and their customers or introduce a retrospection to requirements.	Our product pricing assumptions for annuities, protection and other insurance business reflect the risks we assess as being exposed to. A requirement to price products irrespective of differing risk factors, such as age or gender, will potentially increase the costs of insurance to certain consumers, reducing their propensity to purchase. Any retrospection of legislation would impact required reserves.	We continue to highlight to legislators the benefits to consumers of being able to price insurance products on the risks implicit in that business. We are supporting the UK legislator on the implementation approach for the 2011 ruling by the European Court of Justice (ECJ) that insurance product pricing must be gender neutral from 21 December 2012, without retrospective application to existing business.
The Group may not maximise opportunities from structural and other changes within the financial services sector The financial services sector continues to go through a period of change. This presents a range of challenges as well as opportunities to providers of sufficient scale such as Legal & General.	The UK Government is consulting on a broad range of changes to the provision of state benefits, with increased focus on self provision. Such changes will affect the way consumers approach protecting their income and planning for retirement. Separately, the implementation of RDR and Solvency II will change the competitive landscape in which we operate.	Significant changes in the markets in which we operate may require the review and realignment of elements of our business strategy. A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives.	We seek to ensure we have market leading expertise in the core fields in which we operate, and actively focus on retaining the best personnel with the knowledge to design and support our products, and manage their evolution as market and consumer requirements change. We believe we have a strong record on responding to change.
A material failure in our business processes may result in unanticipated loss or reputation damage Our business processes can be complex, with significant reliance placed upon IT systems and processes to support the administration of our products; the modelling of liabilities and capital requirements; and the reporting of our financial performance.	Our product manufacturing, distribution and administration activities, together with the management of a substantial portfolio of investment assets, necessarily requires significant investment in IT systems, people and processes to ensure that we meet the expectations of our customers, as well as complying with regulatory, legal and financial reporting requirements. The complexity of activities can increase our exposure to operational and reputation risks.	We have constructed our framework of internal controls to minimise the risk of unanticipated loss or damage to our reputation. We seek to continually review and improve the framework. Our internal audit function also provides independent assurance on the adequacy and effectiveness of our controls. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.	As highlighted on page 14, in October 2011 we completed the relocation of our UK data centre. The migration will further mitigate the IT system risks to which we are exposed. We also continue to invest in new systems, including those to support our Annuities, Group Protection General and Investment Management businesses. The report of the Audit Committee on page 59 outlines its work during the year in reviewing our internal control system.

OUR PURPOSE

MAKING A POSITIVE ECONOMIC IMPACT.

In addition to delivering returns for our shareholders and fair outcomes for our customers we believe that as a business, we have a responsibility to take a position of leadership in broader society.

OUR SOCIAL ROLE

We aim to ensure that we relate to the day-to-day lives and concerns of our customers, and as a shareholder we aim to set new and higher standards of stewardship and engagement with the businesses in which we invest.

Insurance products help to protect individuals and businesses against the financial consequences of a wide range of risks – everything from poor health and natural disasters to the risk of outliving savings in old age. By reducing the impact of these problems, the insurance industry allows people to bear risks with greater peace of mind and reduces potential reliance on the state when individuals with these products find themselves in times of financial difficulty.

Our products can also help to facilitate household budgeting and long-term saving, enable people to get through the financial consequences of unfortunate or catastrophic events and also to plan and prepare for the more enjoyable things in life.

Our core purpose as an industry is to provide our customers with 'safety in numbers', enabling the pooling of premiums and sharing of risks to spread the financial impact of the negative events that will inevitably happen to some of them.

Without our industry each of those individuals would have to provide for their own future independently, without the benefits of sharing the burden of the risk with others. For the majority, this just would not be possible.

Not enough people in Britain are privately insured against accidents, ill health or loss of income. People expect the Government to provide them with some level of financial protection against these events and

this is wholly appropriate. The private sector can, however, provide advanced welfare services that can help families to better protect themselves.

The Government held a large number of consultations in 2011 that were relevant to our industry and the products and services we offer. In total we responded to over 55 consultations in 2011, including pension reforms, regulatory changes, social care and welfare reform.

We have a great deal of expertise across Legal & General, which we have been able to share with Government as they look to improve the pensions and social care systems in the UK and reduce the costs of welfare provision. We contributed to the debates around auto enrolment, early access to pensions, long-term care, simple financial products and several other areas that have an impact on the majority of the population.

The insurance industry has the expertise and the capacity to help the state increase the quality of welfare provision and save money by growing a complementary private sector safety net with well-designed tax incentives and simpler regulations. One example would be to focus on the potential to maximise the benefits of Group Protection. This is an area where we have been able to share our experience and expertise with Government in the debates around early intervention and rehabilitation and our success in helping individuals back into the workplace.

Legal & General has been providing income replacement and other social protection products since 1836. We believe that our skills in rehabilitation and enabling individuals to return to work could help the Department of Work and Pensions (DWP) to provide more effective services at reduced expense. Put simply, if we can help a family keep most of their income when times are hard, they are less likely to need to rely on the welfare system.

The broader principles of risk-sharing also apply to pensions and potentially long-term care. Our industry already assists people in planning for their retirement. This is another area that has seen much focus from Government.

OUTLOOK

We will continue to contribute to these discussions in 2012, and endeavour to provide accessible and stable ways for individuals to protect themselves and their families and prepare for the future.

OUR PURPOSE

Our product range is designed to reflect the risk, savings and investment needs of our customers at various key stages of their lives. In return, we provide benefits to our customers and wider society as a whole. Our third-party relationships reflect our business needs and objectives.

CUSTOMERS	BUSINESSES	PRODUCTS	BENEFITS TO CUSTOMERS	PUBLIC POLICY BENEFIT
INDIVIDUALS AND CORPORATES	**RISK** – SAFEGUARDING CUSTOMERS AGAINST FINANCIAL RISKS	Customers pay up front premiums in return for insurance, individual protection and annuities.	Deliver on our promise to customers and pay all valid claims that enable individuals to cope with the financial consequences of unforeseen events, such as bereavement, illness, damage to property and running out of savings in old age.	**The provision of these benefits reduces the likelihood of people having to fall back on the state as a result of loss of income, homelessness or poverty in retirement. This in turn benefits society by reducing pressure on strained public finances.** **As a large investor we are significant contributors to UK Plc.**
	SAVINGS – FINANCIAL PLANNING, SAVINGS AND INVESTMENTS **INVESTMENT MANAGEMENT** – INVESTING ON BEHALF OF INSTITUTIONAL AND RETAIL CUSTOMERS	Customers invest funds through unit trusts, ISAs, investment funds, pensions, index funds and other savings products.	Our products enable people to save for the medium and long term, either individually or through employer schemes, and to build funds to provide a secure income in retirement. We act as a steward of our customers' money.	

A RESPONSIBLE BUSINESS.

Corporate social responsibility (CSR) is about how we behave as a business, whether we trade ethically, how we influence the way other organisations manage themselves and the efforts we make to reduce our own and the industry's environmental impacts.

For more information visit our CSR website:
www.legalandgeneralgroupcsr.com/

We work to make a difference by campaigning on the issues that relate to our business, and where we have expertise.

We believe that we have a responsibility to help strengthen the communities and the environment in which we live and work. We do this by becoming involved in local projects and lending our support to initiatives where we can help to enrich the quality of life and increase opportunities for all.

We have been leading the way in working with experts from the third sector about the changing needs of society, which increasingly impact our business. This can also help the third sector to operate in a more sustainable and commercially viable way, as traditional routes of funding become harder to source in the current economic climate.

OUR CAMPAIGNS

We have a programme of six CSR campaigns which are closely linked to our business objectives. Full details of these campaigns can be found in our CSR report (www.legalandgeneral.com/csr), but below is some information on two of the key campaigns we have focused on in 2011.

FINANCIAL EDUCATION

This year there has been a strong focus on education initiatives and programmes that work to improve life skills and the financial awareness of young people. As part of our commitment to offer our skills to benefit local communities we are helping to improve the employability of students through various initiatives.

This includes employees volunteering to spend time in schools providing background on the skills we look for in

an employee, interview hints and tips and the sort of opportunities available to the right candidate. Other tasks identify how candidates demonstrate skills such as teamworking, negotiation, staying calm under pressure and a focus on results.

There are many benefits for the students. It provides a chance to visit a major local employer, experience how recruitment days are run, have an interview and receive feedback to help them in an increasingly competitive job market.

For Legal & General employees it was an opportunity to hone and practise their own interview techniques and communication skills.

Additionally we have worked with other members of our industry to deliver a one-day interactive course called 'Money, money, money' which helps students understand more about:

- the financial demands they will face as young adults;
- how they can manage these financial demands; and
- how to recognise the importance of planning their own personal finances.

In 2010 to 2011 over 3,100 Year 9, 10 and 11 pupils at schools across the country took part in this programme and 95% of them agreed that they understood more about the demands they will face as adults after attending the event.

FIGHTING PENSIONER POVERTY

As part of our commitment to tackle pensioner poverty and better understand our customers we have been working with AGE UK. In 2011 they undertook research to help staff in our annuities call centre to improve their understanding and empathy with our customers.

Following the research, a practical programme was delivered which specifically aimed to:

- improve understanding of the medical and emotional challenges that people face as they get older;
- help employees recognise issues and ask the right questions to determine if the customer has needs that should be taken into account during the call;
- provide signposting to Age UK services and other support networks enhancing the service provided by Legal & General;
- provide guidance on what can and should be done if a customer's wellbeing is in question; and
- be aware of sight and hearing issues that may require adaptation of print size on documents or alternative methods of communication.

EXTERNAL RECOGNITION

Business in the Community (BITC) Corporate Responsibility Index 2011
We became Global Sector Leader in 2011 and are rated at Platinum status with a score of 96%.

SIG Watch
We achieved a score of 28 in 2011 in the Corporate Reputation Index with NGOs. This has enabled us to focus upon working more effectively with NGOs on the issues that matter to them.

OEKOM/ECPI
We are held by these two SRI Houses as Prime Ethical Stocks.

FTSE4Good
We achieved a score of 94% in 2011, up from 93% in 2010, based upon research by SRI House Eiris.

Climatewise
We have improved our Climatewise rating to 99%, an increase of 5% from 2010, we are now second in the insurance sector globally.

Dow Jones Sustainability Index
We scored 71% in 2011 up from 70% in 2010. The Sector Leader scored 80% down from 81% in 2010.

CSR/SUSTAINABILITY

OTHER AWARDS

Various parts of Legal & General have been recognised for their CSR work in 2011. The Legal & General Network was shortlisted at the Business Charity Awards for their work with Shelter, and the Savings Business was shortlisted at the Drum Marketing Awards for their work with the Credit Unions.

We were awarded the Arts, Business and the Community Award, at the Arts & Business Cymru Awards, for our "innovative and strategically targeted community engagement". We were also the winner of the BITC South East Team Leader of the year.

OUR ENVIRONMENT

We have made a lot of good progress this year. As well as improving our own green credentials and influencing those of our suppliers, LGIM and LGI have recently launched new funds which are aligned to activities generated through climate change:

- UK Equity Carbon Optimised Index Fund, which was created to enable clients to invest in companies identified for proactively and effectively managing their carbon output and energy consumption.
- Global Environmental Enterprises Fund, which aims to provide capital growth through investment in companies that are profiting from the global response to declining natural resources and the shift to a lower carbon world economy.

Legal & General has been working in collaboration with ClimateWise since 2008. ClimateWise, which is supported by Cambridge University, operates across the global insurance sector. Our performance as a business is rated annually against six of the ClimateWise principles. In 2011 we scored 99% against these principles, a 5% improvement over our 2009 scores.

Launched in 2007 by HRH The Prince of Wales, ClimateWise is a collaborative insurance initiative. We work with some of the largest global insurance companies to respond to the risks and opportunities of climate change. Climate change impacts us all – personally and as a business. In the same way that you may have adapted your behaviour at home or when travelling, we adapt how we run our business.

UK DONATIONS

During 2011, charitable donations totalling over £3.4m (2010: £3.2m) were made by the Company and by employees through approved schemes. No political donations were made during the year.

In 2011, 948 of our employees gave money to charity via our tax-efficient, Company-assisted scheme, Give As You Earn. A total of £580,869 (including Legal & General matching) was donated to 357 charities for 2011.

CORPORATE GOVERNANCE OF CSR

Legal & General's CSR Committee is chaired by Tim Breedon, Group Chief Executive. The CSR Committee is supported by the following sub-committees:

- Group Environment Committee
- Group Health and Safety Committee
- Group Charity Committee
- Group Ethics Committee
- Group Equalities Committee
- Sustainable Property Investment Committee.

The CSR Committee governs the strategy and implementation of our public targets and meets at least three times a year as a governing body. The responsibilities of the Committee are:

- to develop and review the Group CSR strategy and policies in relation to Group-wide Environmental, Social and Governance (ESG) risks and opportunities identified through engaging with the Company's stakeholders;
- to manage the Group stakeholder engagement process and ensure that results are incorporated into the decision-making process;
- to monitor progress of the CSR sub-committees;
- to monitor results of external benchmarking surveys; and
- to ensure the CSR programme is communicated appropriately to internal and external stakeholders and in particular to review and approve the annual CSR Report.

GUIDING PRINCIPLES AND TARGETS

WE COMMIT	AREA OF FOCUS FOR 2012–2014	GOVERNED BY
OUR CUSTOMERS To ensure customers do not receive inappropriate advice from our appointed representatives.	In 2012 reduce the number of customer complaints as a percentage of our customer base (0.54% complained in 2011 or 1 in 200 customers).	Group Ethics Committee
• To ensure policies and procedures are in place to protect customer information from misuse or financial crime. • To listen to and act upon customer feedback about our products and services. • To make it easier for our customers to do business with us. • To develop a dialogue with all customers. • To build a strong social purpose and relevance to society with a focus on a broader demographic.	• In 2012 develop a formal NGO engagement and monitoring process to help the Group to recognise the increasingly important role that Legal & General plays in the global economy through operating and through its investments. • As part of our UK growth strategy and to support our six group-wide campaigns: Turn at least five innovative partnerships with Third Sector organisations into more socially inclusive products and/or adjustments to service Legal & General's customers by the end of 2013.	Group CSR Committee
OUR PEOPLE • To adopt policies and practices which encourage an appropriate work/life balance. • Work in close partnership with our recognised trades union Unite and Management Consultative Forum, when making decisions that affect our employees. • To apply open and fair processes in major decisions affecting recruitment, promotions, outsourcing and downsizing. • To ensure our employees understand and implement correct ethical behaviours. • To promote and implement our Company values. • To provide a flexible, supportive, healthy and safe working environment.	In 2012 improve the diversity of talent within the organisation (i.e. female talent, disabilities, sexual orientation, etc) so that it better reflects UK customer base and regional employee demographics within our own business. Encourage other companies to do the same through our ownership as an investor.	Group Equalities Committee
OUR INVESTORS To promote responsible ESG (Environmental, Social and Governance) business practices in the companies in which we invest to create long-term value for investors.	• In 2012 we will hold 300 ESG meetings with investee companies on a global basis, of which 25% will be covering environmental and/or social topics. This recognises the value of the repeated engagement we carry out with companies. • Campaign and lead the development of new long-term infrastructure assets available to pension funds and investment companies, which will provide much needed capital for UK economic growth.	Group CSR Committee
We commit to promote the sustainable management of our investment property portfolio, whatever our mandate, in the belief that enhanced investor returns will be delivered.	• To promote positive social impact where LGP advocates significant development projects. In particular to assess the social and environmental impacts as part of the analysis of the viability of such schemes. • As part of a three-year plan to 2013, in 2012 develop further building-by-building strategies for improved sustainability performance across the whole of the investment property portfolio. • In 2012 continue at the forefront of the property sector, developing thinking and promoting improved industry performance, leading by example as recognised by the industry. To chair a leading sustainability organisation and to contribute or publish articles in the property press.	Sustainable Property Investment Committee
OUR SUPPLIERS To ensure our key suppliers comply with our sustainable procurement policy at all times. To support suppliers who do not comply with our 'CSR standards for suppliers' to facilitate improvements.	• In 2012 work collaboratively with our key suppliers to identify categories of sub-optimal supply chain. Undertake opportunity analysis and establish action plans per category of supply by end of Q1 2012. Implementation of category action plans with demonstrable results by the end 2012. • In 2012 establish awareness amongst Legal & General Procurement Teams to the availability of products and services from the emerging Social Enterprise sector resulting in a defined policy, process required for integration into existing supply chain selection processes for the Group. • In 2012 ensure that 100% of key suppliers are compliant with Legal & General's CSR standards for suppliers.	Group CSR Committee
OUR ENVIRONMENT To reduce rather than offset our impact on the environment.	• With an expected business growth in customer policies of 4% over the period 2012–2014 reduce waste per contract across the UK Business by 10% on 2011 volumes. • With an expected business growth in customer policies of 4% over the period 2012–2014 reduce direct carbon dioxide emissions across the Group (UK and Overseas) by 6% on 2010 volumes. • With an expected business growth in customer policies of 4% over the period 2012–2014 reduce paper consumption across the Group by 10% on 2011 volumes for the UK Business whilst increasing the online servicing levels (2.7%) of our customers.	Group Environment Committee
To integrate environmental legislation across our business.	Continue to improve data collection, management, interpretation and build expertise to reduce further energy use and landfill waste to run our portfolio of commercial properties. Specifically to reduce the energy used in the top 20% of buildings by 3%. In the year to April 2011 properties that LGP was responsible for generated 15,000 tonnes of CO_2.	Sustainable Property Investment Committee
OUR COMMUNITIES Manage appropriate international CSR programmes to address the ESG (Environmental, Social and Governance) risks and reputation in those marketplaces.	• In 2012 following private benchmarking of Legal & General America, Netherlands and France by BITC where a 30% average performance level was achieved we will a) improve our disclosure of these businesses in our yearly reporting cycle and b) significantly improve BITC Ratings for these businesses. • In 2012 benchmark our joint venture companies using the BITC CR index to establish their natural level of CSR performance.	Group CSR Committee
• To support the community as a whole, especially on grass-roots issues where we feel we can make a difference in key programmes. • To partner with Third Sector organisations to campaign for the issues that matter to our markets and businesses. To support and encourage employee involvement in charitable giving, volunteering and in utilising the resources available to them.	• By 2013 create a 'Gearing up for Work' programme which will provide 200 people looking to access work with a chance to be given valuable mentoring and employment experience within Legal & General Group Plc. • In 2012 continue to provide at least 1,000 working days of volunteering across the Group from our employees and business partners that also helps employees to evidence the 'Taking a Wider Interest' behaviour. • Continue to invest at least £2.5m into the Third Sector as a result of employees, business and community activities.	Group Charity Committee

GOVERNANCE

BOARD OF DIRECTORS.

1 JOHN STEWART
CHAIRMAN
Skills and experience: John was appointed Chairman of the Company on 1 March 2010. He has extensive experience of financial services. He was a director of the Telstra Corporation, a member of the Australian Federal Attorney General's Business Government Advisory Group on National Security and a Member of the Australian Prime Minister's Task Group on Emissions Trading. Other former roles include: Chief Executive of Woolwich (1996-2000), Deputy CEO of Barclays (2000-2003) and Chief Executive of National Australia Bank (2004-2008).

External appointments:
- The Court of the Bank of England
- Southern Cross Stud LLP

Committee membership:
- Nominations Committee (Chair)

2 TIM BREEDON
GROUP CHIEF EXECUTIVE
Skills and experience: Tim was appointed to the Board in January 2002 as Group Director (Investments) and became Group Chief Executive in January 2006. He joined Legal & General in 1987. Tim is the Chairman of the Association of British Insurers and was recently appointed as chair of the BIS Taskforce on non-bank lending. Former directorships include: the Investment Management Association and the Financial Reporting Council. Tim is Chair of the Corporate Social Responsibility Committee.

External appointments:
- Association of British Insurers

3 NIGEL WILSON
GROUP CHIEF FINANCIAL OFFICER
Skills and experience: Nigel was appointed to the Board in September 2009. Prior to joining Legal & General, Nigel was Chief Financial Officer of United Business Media Limited (from 2001) and appointed Deputy Chief Executive in 2008. Previous appointments include non-executive director of Halfords Group Plc, Group Finance Director at Waste Management International Plc, Chief Executive, Corporate, Guinness Peat Aviation (G.P.A.), Head of Corporate Finance and Group Commercial Director of Dixons Group Plc, Managing Director of Stanhope Properties Plc and a consultant at McKinsey & Co.

External appointments:
- Capita plc.

4 MARK GREGORY
GROUP EXECUTIVE DIRECTOR (SAVINGS)
Skills and experience: Mark was appointed to the Board in January 2009. He joined Legal & General in 1998 and has held a variety of divisional finance director roles and served as Group Financial Controller, Communications and Resources Director, Resources and International Director and UK Service Operations Director. From 2006, he was 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. Mark is a qualified chartered accountant.

External appointments:
- Westdown Park Management Company Limited

5 JOHN POLLOCK
GROUP EXECUTIVE DIRECTOR (RISK)
Skills and experience: John was appointed to the Board in December 2003, having joined Legal & General in 1980. John's former roles include: Director, UK Operations; Managing Director, Legal & General Asia and various posts in Customer Services and IT.

External appointments:
The Financial Services Practitioner Panel

6 HENRY STAUNTON
VICE CHAIRMAN AND SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
Skills and experience: Henry was appointed to the Board in May 2004. Henry is an experienced finance professional and well regarded dealmaker with a long history of large corporate transactions. Former roles include: Finance Director of ITV Plc and Granada Group Plc, Chairman of Ashtead Group Plc and non-executive director of EMAP Plc, New Look Retail Group Ltd, Independent Television News Limited, Vector Hospitality Plc and Ladbrokes Plc.

External appointments:
- Standard Bank Plc
- Merchants Trust Plc (The)
- WH Smith Plc
- Capital & Counties Properties Plc

Committee membership:
- Audit Committee (Chair)
- Nominations Committee
- Group Risk Committee

7 RUDY MARKHAM
INDEPENDENT NON-EXECUTIVE DIRECTOR
Skills and experience: Rudy was appointed to the Board in October 2006. Rudy is a Fellow of the Chartered Institute of Management Accountants and the Association of Corporate Treasurers. He was awarded the CIMA Lifetime Contribution to Management Accounting Award in 2005. Former roles include: Chief Financial Officer, Director of Strategy and Technology and Treasurer of Unilever Plc, Chair and CEO of Unilever Japan and Chair of Unilever Australia.

External appointments:
- Standard Chartered Plc
- AstraZeneca Plc
- United Parcel Service Inc
- CSM NV

Committee membership:
- Nominations Committee
- Remuneration Committee (Chair)

8 DAME CLARA FURSE
INDEPENDENT NON-EXECUTIVE DIRECTOR
Skills and experience: Clara was appointed to the Board in June 2009. She is Chairman of the Lead Expert Group for the UK Government Office for Science's Foresight project on the future of computer trading in financial markets. Former roles and directorships include: non-executive director of LCH Clearnet Group Limited, Euroclear Plc, Fortis and a member of the Shanghai International Financial Advisory Committee. Clara was the Chief Executive of the London Stock Exchange between 2001 and 2009. Her career has spanned a broad range of global financial markets during 32 years in financial services.

External appointments:
- Nomura Holdings Inc
- Amadeus IT Holdings S.A.
- UK Department for Work and Pensions

Committee membership:
- Nominations Committee
- Group Risk Committee

9 NICK PRETTEJOHN
INDEPENDENT
NON-EXECUTIVE DIRECTOR
Skills and experience: Nick was appointed to the Board in November 2010. He has extensive knowledge and experience of the UK and international insurance industry. Former roles include: Chief Executive of Lloyd's of London, Chief Executive Officer of Prudential UK & Europe, and Executive Director of Prudential Plc. Nick is a Trustee of the Royal Opera House, Chairman of the Britten- Pears Foundation and Chairman of the Board of Governors of the Royal Northern College of Music.

External appointments:
- Brit Insurance Holdings B.V.

Committee membership:
- Audit Committee
- Nominations Committee
- Remuneration Committee
- Group Risk Committee (Chair)

10 MIKE FAIREY
INDEPENDENT
NON-EXECUTIVE DIRECTOR
Skills and experience: Mike was appointed to the Board in May 2011. He has significant experience in the UK financial services sector. He was previously Deputy Group Chief Executive, Lloyds TSB Group Plc from 1998-2008 and a non-executive director of Northern Rock plc. He is a trustee of the Consumer Credit Counselling Service, a registered charity.

External appointments:
- Vertex Group Limited
- ARP Energy Plc
- Danske Bank A/S
- The Energy Saving Trust Limited
- Lloyds TSB Group Pension Trust Ltd

Committee membership:
- Audit Committee
- Nominations Committee
- Remuneration Committee

11 STUART POPHAM
INDEPENDENT
NON-EXECUTIVE DIRECTOR
Skills and experience: Stuart was appointed to the Board in July 2011. Stuart has extensive legal knowledge and business acumen. He was previously the Senior Partner of Clifford Chance LLP from 2003-2011. Stuart is Chairman of TheCityUK, the body created to promote financial services. He is an International Envoy for London. Stuart is also a member of the Business Advisory Forum of the Saïd Business School, Oxford University. Stuart is on the Council of Birkbeck College, University of London, the Royal National Lifeboat Institution and the Barbican Trust.

External appointments:
- Citigroup, Vice Chair of EMEA Banking

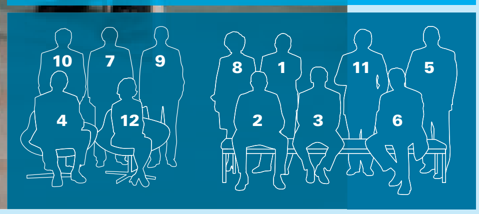
Committee membership:
- Nominations Committee
- Remuneration Committee
- Group Risk Committee

12 JULIA WILSON
INDEPENDENT
NON-EXECUTIVE DIRECTOR
Skills and experience: Julia was appointed to the Board in November 2011. She has significant corporate finance, tax and accounting experience. She is the Group Finance Director of 3i Group Plc and a member of its Board since 2008. Previously, she was the Group Director of Corporate Finance at Cable & Wireless plc. At Cable & Wireless plc she held a number of finance roles and was responsible for the Finance, Treasury, and Tax functions. Julia is a member of the ICAEW (ACA) and the Chartered Institute of Taxation.

External appointments:
- 3i Group Plc

Committee membership:
- Audit Committee
- Nominations Committee

KEY



LETTER FROM THE CHAIRMAN.

"In 2011 the Board was pleased to appoint Mike Fairey, Stuart Popham and Julia Wilson as non-executive directors bringing further diversity of skills and experience to the Board… Tim Breedon notified the Board of his intention to retire from the Company at the end of 2012. Tim has been a first class Group Chief Executive."

JOHN STEWART
CHAIRMAN

This year was a year of progress and evolution for the Board of Legal & General, particularly in relation to the Board's composition and diversity. The Board has dedicated time to considering emerging corporate governance practice in line with our belief that good corporate governance underpins the long-term success of the Company. Tim Breedon notified the Board of his intention to retire from the Company at the end of 2012. Tim has been a first class Group Chief Executive. The Company is in great shape and we are very appreciative of his excellent stewardship over the last six years. The process for identifying Tim's successor is outlined below.

BOARD

The success of the Board depends on the right balance of skills and experience around the boardroom table. During 2011, the Board was pleased to appoint Mike Fairey, Stuart Popham and Julia Wilson as non-executive directors bringing a great diversity of skills and experience to the Board. Sir David Walker and James Strachan retired after the AGM in 2011 having served nine and eight years on the Board respectively and I thank them both for their wisdom and great contribution to the Board.

SUCCESSION

Following the Company's announcement that Tim Breedon intends to retire from the Company at the end of 2012, the Nominations Committee has met regularly to put in place and oversee the process for identifying an appropriate successor. This process is ongoing.

BOARD DIVERSITY

The Board welcomes the recommendations made by Lord Davies, and believes that they mark a series of practical and achievable steps towards addressing the important issue of a stronger contribution by women in the UK's boardrooms. It is our intention to incorporate the recommendations into our thinking on the composition of the Board. We will in addition be working at strengthening the representation of women among the non-Board senior management cadre – the Board directors of tomorrow.

For more information visit our website:
investor.legalandgeneral.com/corporate-governance.cfm

We also welcome the Davies recommendations in our capacity as one of the UK's largest institutional shareholders. Our fund management arm, Legal & General Investment Management ("LGIM"), engages actively with investee companies on a wide variety of environmental, social and governance issues, and the new recommendations concerning boardroom diversity, and greater associated disclosure, provide useful additional information for evaluation of the boards of investee companies.

REVIEW OF CORPORATE GOVERNANCE FRAMEWORK

Each year we review the Company's corporate governance framework. This includes the annual review of a number of corporate governance policies such as the Matters Reserved for the Board and Terms of Reference for each of the Board's committees. As well as assisting the Board in being able to confirm compliance with the principles and provisions of the UK Code of Corporate Governance for 2011, I believe this reflects the commitment of the Board to good corporate governance and to ensuring that good corporate governance practice underpins the day to day activities of the Board.

BOARD EVALUATION

The Board is committed to continually improving its effectiveness and each year the Board participates in a formal evaluation of its performance. An update on progress made against the observations from the Board evaluation undertaken in 2010 can be found on page 54. The Board has evaluated its performance during 2011 and I am satisfied that the Board is effective and operates well. As a result of this year's evaluation, the Board intends to consider refreshing the format of reports to the Board and the Board agenda in order to facilitate further discussion; continue to focus on succession planning and talent management and further enhance the Board's role in monitoring the Group's strategic performance during 2012.

SHAREHOLDER ENGAGEMENT

It is of great importance to the Board that the direction of the Company is aligned with the interests of its shareholders. In order for engagement to be effective it is vital for the performance of the Company to be clearly understood by shareholders, as well as other stakeholders, and for the Board to be well informed of stakeholder opinion in response. We have continued our work in promoting greater and more effective engagement with both our retail and institutional shareholders. On behalf of the Board, the Group Chief Executive and Group Chief Financial Officer, supported by the Investor Relations department, regularly met with institutional investors and analysts throughout the year. The Board received regular reports from the Investor Relations department on its activities, and in particular feedback being received from investors, analysts and advisers. Separately, LGIM has made significant progress in engaging with investee companies and encouraging high standards of corporate governance from the companies that LGIM invests in.

ANNUAL GENERAL MEETING

I look forward to sharing with you in person the successes of the Company during 2011 at the Annual General Meeting on 16 May 2012. The AGM is an important forum for engagement with all shareholders and gives shareholders an opportunity to raise questions on this report and any other questions they may have on the resolutions to be put to the meeting. At the 2012 AGM all Board directors who are able to attend will be available, as usual, to meet with investors after the meeting to discuss issues on a face-to-face basis. We would like our investors to find attending our AGM an interesting and rewarding experience, to hear about the performance of the Company over the last year and have the opportunity to meet members of the Board and I would encourage as many shareholders as possible to attend on 16 May 2012.

JOHN STEWART
CHAIRMAN

CORPORATE GOVERNANCE.

SUMMARY OF OBSERVATIONS AS A RESULT OF BOARD EFFECTIVENESS REVIEWS

Each year the Board participates in a formal evaluation of its performance. In 2010 the Board evaluation was undertaken by an external facilitator, Tracy Long, of Boardroom Review. Tracy is an experienced consultant whose only interest with Legal & General is her work with the Board. During 2011, the Board considered the recommendations arising from the 2010 Board evaluation in order to further improve its effectiveness. An update on progress made against the recommendations is set out on the right. The Board has evaluated its performance during 2011. As a result, the Board intends to consider refreshing the Board agenda and format of reports to the Board in order to facilitate further discussion, to continue to focus on succession planning and talent management and to further enhance the Board's role in monitoring the Group's strategic performance during 2012.

RECOMMENDATION FROM 2010 BOARD EVALUATION	ACTION TAKEN IN 2011
Further enhance strategy and market review discussions.	The Board received internal and external presentations on the economic outlook and market and sector topical issues.
Increase informal interaction between Board members and senior management outside of formal Board and Committee meetings.	Attendance of senior management at Board meetings, training sessions and director induction meetings has increased. All presenters meet with Board members informally following Board meetings.
Further leverage non-executive directors' breadth of experience.	The Chairman liaises with non-executive directors on relevant agenda items. Specialist focused briefings on topical macro issues are prepared for individual non-executive directors.

BOARD AGENDA: KEY AREAS OF FOCUS IN 2011

STRATEGIC OBJECTIVES	REGULATORY CHANGE	TALENT MANAGEMENT	CORPORATE AND SOCIAL PURPOSE
The Board constantly reviews the Company's strategic objectives and in 2011 focused on developing deeper relationships with customers and promoting a brand that customers would recommend. There was also increased focus on capital management and building the Company's organisational capability and productivity.	In light of the evolving regulatory framework and in particular, Solvency II and the FSA's Retail Distribution Review, the Board is regularly updated on regulatory changes. The Board closely monitors the Company's plans and responses to regulatory changes in order to ensure the Company is fully prepared to respond to, and comply with, regulatory change including the opportunities change presents.	The Board is committed to enhancing talent in the Company and recognises the importance of identifying, retaining and developing talent to grow leaders for the future. The Board has considered the Company's talent management strategy at various Board meetings this year.	The Board has a strong focus on the corporate and social responsibility of the Company. It has closely followed debate on welfare reform and regularly considers propositions to develop products and services that deliver the right benefits to the right people in the right way. For more information on the Company's view on corporate social responsibility please see pages 46 to 49.

TYPICAL NON-EXECUTIVE DIRECTOR INDUCTION PROGRAMME

Upon appointment non-executive directors receive a comprehensive induction pack including business information, investor reports and the Group's governance policies. The length of the initial induction programme ranges from two to four days depending on the needs of the appointee. Non-executive directors have meetings with the Chairman to discuss their personal development plan and have a series of induction meetings with executive directors and senior management, examples of which are set out in the table below.

INDUCTION MEETINGS WITH EXECUTIVES AND SENIOR MANAGEMENT TEAMS

MATTERS COVERED	FACILITATED BY
Overview of the Group's business areas and the strategic objectives of the Group.	Group Chief Executive
The Group financial plan, targets and projections.	Group Chief Financial Officer
Group and Individual Protection, Annuities, General Insurance.	Executive Director (Risk)
Workplace and Retail Savings, the Savings team's response to the Retail Distribution Review.	Executive Director (Savings)
An overview of the LGIM structure and its current business plan.	CEO LGIM
An explanation of the Group's international businesses and the strategic plans for the international division.	CEO International
An overview of the Group's attitude to and management of risk.	CRO
A briefing on the regulatory framework and the Group's compliance, including Retail Distribution Review, and Treating Customers Fairly.	Group Compliance
Informative training on Solvency II and details of the Company's contingency plans.	Solvency II Team
The Group's remuneration policies and talent management strategy.	Human Resources and Remuneration
An explanation of Group policies on brand, customers and investor relations.	Communications and Investor Relations
An overview of financial control processes and audit and accounting matters.	Finance
Relationships with Banks and Building Societies, IFAs, appointed representatives and customers.	Distribution

BOARD AND COMMITTEE MEETINGS ATTENDANCE

Director	Appointment Date	Board (9)	Audit Committee (5)	Nominations Committee (7)	Remuneration Committee (3)	Group Risk Committee (4)
J Stewart	1 January 2010	9 (9)		7 (7)		1 (1)
T J Breedon	1 January 2002	9 (9)				
M Fairey	1 May 2011	6 (6)	2 (2)	5 (5)	2 (2)	
Dame C Furse	1 June 2009	9 (9)		6 (7)		3 (4)
M J Gregory	28 January 2009	9 (9)				
R Markham	4 October 2006	9 (9)		7 (7)	3 (3)	1 (1)
J B Pollock	11 December 2003	9 (9)				
S Popham	1 July 2011	4 (4)		4 (4)	2 (2)	3 (3)
N Prettejohn	2 November 2010	9 (9)	4 (4)	6 (7)	3 (3)	4 (4)
H S Staunton	1 May 2004	9 (9)	5 (5)	7 (7)		4 (4)
J Strachan[1]	1 December 2003	4 (4)	3 (3)	2 (2)		1 (1)
Sir D Walker[1]	1 March 2002	4 (4)	1 (1)	2 (2)	1 (1)	
J Wilson	9 November 2011	2 (2)	1 (1)	2 (2)		
N D Wilson	1 September 2009	9 (9)				

[1] Retired at AGM on 25 May 2011.

CORPORATE GOVERNANCE.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

For the year ended 31 December 2011, the Board believes that the Company has complied with the principles and provisions of the UK Corporate Governance Code.

A. LEADERSHIP

A1. "an effective board... collectively responsible for the long-term success of the company."

- The Board sets the Company's strategy and reviews performance against the objectives.
- The Board is responsible for ensuring the necessary resources are in place for the Company to achieve its objectives.
- The Board is accountable to shareholders, employees, customers and other stakeholders for the performance of the Company through engagement with institutional investors, the annual re-election of the Board, and employee and customer satisfaction surveys.
- There is a clear schedule of matters reserved for the Board. The Board has overall responsibility for the Group's internal control system. Implementation of the internal control system is the responsibility of the executive directors and senior management.
- The Board delegates operational responsibilities to the Group Chief Executive who in turn delegates authority to members of the executive management team.

A2. "...clear division of responsibilities..."

- Defined roles for each of the Chairman, Group Chief Executive and Senior Independent Director ensure a clear division of responsibilities between them.
- The Chairman is responsible for the leadership and effectiveness of the Board.
- The Senior Independent Director is responsible for facilitating the relationship between the Board and shareholders.
- The Group Chief Executive is responsible for leading the day to day management of the Company within the strategy set by the Board.

A3. "The chairman is responsible for leadership of the board and ensuring its effectiveness...."

- The Chairman sets the agendas for meetings, manages the meeting timetable and facilitates the contribution of non-executive directors for agenda items and training topics.
- Meetings are chaired to ensure that all Board members have the opportunity to contribute to the discussion and debate.
- The Chairman facilitates opportunities for Board members to engage outside of the boardroom to promote the development and strengthening of director relationships.
- The non-executive directors formally appraise the Chairman's performance. This is facilitated by the Senior Independent Director.

A4. "...non-executive directors should constructively challenge and help develop proposals for strategy."

- Short presentations on key issues at Board meetings ensure time and opportunity for discussion, debate and the sharing of non-executive directors' views.
- The Chairman seeks to achieve an environment in the boardroom for constructive challenge by non-executive directors by actively inviting non-executive directors' views and encouraging these views to be delivered in a supportive and positive manner.
- All directors participate in an off-site strategy event where the strategic objectives for the last year are reviewed and performance against the objectives evaluated. Together with externally facilitated discussion on macroenvironment matters, this forms the foundation for all Board members to debate and develop proposals for the Company's strategy.
- The non-executive directors regularly meet in the absence of the executive directors providing an opportunity for any concerns to be discussed. Non-executive directors also meet with the Senior Independent Director in the absence of the Chairman.
- The Senior Independent Director meets regularly with the Chairman to discuss the effectiveness of the Board.

B. EFFECTIVENESS

B1. "The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company..."

- Board member biographies on pages 50 to 51 identify the skills and experience each director brings to the Board.
- All directors bring experience and qualities from other industries and other aspects of commercial and public life to the Board.
- The Board is committed to achieving greater diversity of thought in the boardroom, including through stronger representation of women on the Board.
- The Board considers each of the non-executives to be independent in accordance with the UK Corporate Governance Code.

B2. "...a formal, rigorous and transparent procedure for the appointment of new directors to the board."

- The appointment of new directors to the Board is led by the Nominations Committee. The procedure for new appointments is described in more detail in the Nominations Committee Report on page 58.
- Succession planning is regularly considered for both Board members and senior management. How the Company identifies and retains talent was an area of focus for the Board during 2011, see the table on page 54 for further detail.

B3. "All directors should be able to allocate sufficient time to the company..."

- The time commitments of non-executive directors are defined on appointment and regularly evaluated. Non-executive directors are expected to dedicate time to the preparation for and attendance at meetings, the annual strategy event, Board dinners and training and development sessions.
- The Chairman's agreement to a new directorship is required where this may affect the time a director can dedicate to the Company.
- Attendance at meetings during 2011 is set out in the table on page 55.

B4. "All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge."

- The induction process is described in detail on page 55.
- There are regular training sessions for non-executive directors.
- The Chairman regularly meets with each director to agree training and development needs.

B5. "The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties."

- Board and committee papers are generally issued a week in advance of meetings.
- During 2011, the Board was 'e-enabled' to facilitate the supply of information.
- The Company Secretary assists the Chairman in ensuring the timely supply of quality information to the Board and updates the Board on governance matters at each Board meeting.
- All Board members have access to the advice and services of the Company Secretary as and when required, as well as to independent professional advice at the expense of the Company.

B6. "The board should undertake a formal and rigorous annual evaluation..."

- The Board evaluation is described in detail on page 54.

B7. "All directors should be submitted for re-election..."

- All directors were subject to shareholder re-election at the AGM in 2011.
- All current directors will stand for either election or re-election at the 2012 AGM.

C. ACCOUNTABILITY

C1. "The board should present a balanced and understandable assessment of the company's position and prospects."

- The Directors' Report can be located at pages 1 to 43, and this sets out the performance of the Company, the business model, strategy and the risks and uncertainties relating to the Company's future prospects.

C2. "The board is responsible for determining the nature and extent of significant risks it is willing to take in achieving its strategic objectives..."

- The Board sets the Company's risk appetite and annually reviews the effectiveness of the Company's risk management and internal control system.
- The Group Risk Committee provides guidance to the Board on risk management policies and procedures and advice on what constitutes acceptable risk taking. This assists the Board in setting the risk appetite for the Company. The activities of the Group Risk Committee are explained in more detail on pages 62 and 63.

C3. "The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor."

- There is a risk management framework in place comprising policies and procedures. These policies and procedures are published on a dedicated intranet site which is regularly updated and reviewed.
- The Audit Committee and the Group Risk Committee assist the Board by undertaking the day to day oversight of the risk management framework and seeking assurance on the effectiveness of the internal controls in accordance with Turnbull Guidance.
- The Board has delegated management of the relationship with the Company's auditor to the Audit Committee. Further details of the activities of the Audit Committee are set out on pages 59 to 61.

D. REMUNERATION

D1. "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance."

- The levels of remuneration of directors and how the Company promotes an alignment of interest between directors and shareholders by linking reward to performance are explained in the Directors' Remuneration Report on pages 64 to 82.

D2. "...a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors."

- The activities of the Remuneration Committee and the way in which it sets executive remuneration policy are set out in the Directors' Remuneration Report on page 64.

E. RELATIONS WITH SHAREHOLDERS

E1. "The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place."

- The Board actively seeks the views of shareholders, including through meetings between shareholders and the Chairman, Group Chief Executive or Group Chief Financial Officer, bi-annual discussions with the Company's corporate brokers and regular reports on investor relations activities. The Board values open interaction with shareholders and is committed to ensuring that the direction of the Company is aligned with shareholders' interests.

E2. "The board should use the AGM to communicate with investors and to encourage their participation."

- The Board values the AGM as an important opportunity to engage with investors. Attendees at the AGM have the opportunity to ask questions of the Board and to speak to individual directors.

NOMINATIONS COMMITTEE REPORT.

THE COMMITTEE

The Nominations Committee leads the process for the appointment of new directors to the Board and reviews on a regular basis the succession plans in place for executive directors and key senior management, board composition, the suitability of the directors standing for re-election at the Annual General Meeting and whether the Chairman and the non-executive directors continue to be able to meet their commitments to the Company.

Members	
John Stewart	Nick Prettejohn
Dame Clara Furse	Henry Staunton
Mike Fairey (from 1 May)	Julia Wilson (from 9 November)
Rudy Markham	James Strachan (until 25 May)
Stuart Popham (from 1 July)	Sir David Walker (until 25 May)

The Committee is chaired by the Chairman, and all non-executive directors are members of the Committee. Both Sir David Walker and James Strachan were members of the Committee prior to their retirement. Mike Fairey, Stuart Popham and Julia Wilson all joined the Committee on the respective dates of their appointments. The executive directors, as well as the Group General Counsel and Group HR Director, may attend meetings by invitation. The Committee is chaired by Henry Staunton, the Senior Independent Director, when it is considering matters relating to the Chairman. The Nominations Committee met formally seven times in 2011.

GROUP CHIEF EXECUTIVE SUCCESSION

Following the Company's announcement that the Group Chief Executive intends to retire at the end of 2012, the Committee has met regularly to consider the plans for succession. This process is ongoing.

BOARD COMPOSITION IN 2011

During 2011, the Committee was active in the appointment of three new non-executive directors following the decision of Sir David Walker and James Strachan to stand down from the Board after serving nine and eight years on the Board respectively. Therefore, based on an assessment of the size of the Board and the balance of its composition, the Committee decided to seek three additional non-executive directors. The balance of skills, knowledge and experience on the Board was evaluated, and the Committee developed appointment specifications for the three positions. The Committee decided that the Board's diversity of skills would be strengthened by the addition of Board members with knowledge of the insurance market, financial services, legal and accounting, tax or audit issues.

When developing the specifications, the Nominations Committee considered the importance of a diverse Board both in terms of thought, skills and experience and gender. The Committee instructed external advisers to assist in the identification and shortlisting of potential candidates. All Committee members, the Group Chief Executive and other executive directors met the shortlisted candidates and unanimously resolved to recommend to the Board the appointments of Mike Fairey, Stuart Popham and Julia Wilson, who each formally joined the Board as a non-executive director on 1 May, 1 July and 9 November respectively.

DIVERSITY

The Nominations Committee welcomes the recommendations made by Lord Davies, and believes that they mark a series of practical and achievable steps towards addressing the important issue of a stronger contribution by women in the UK's boardrooms. The Nominations Committee considers the recommendations when contemplating the composition of the Board and the Company is working to further strengthen the representation of women among the non-Board senior management who may be the Board directors of tomorrow.

DIRECTORS' TIME COMMITMENT

All directors may serve on a number of other Boards, provided they can demonstrate that any such appointment will not interfere with their time commitment to the Company and that they obtain the agreement of the Chairman to the appointment before accepting. Executive directors must also obtain the permission of the Group Chief Executive. This ensures that any potential conflicts of interest or any other concerns around the proposed appointment are considered and addressed. The major commitments of our non-executive directors are outlined in their biographies on pages 50 and 51. Currently, non-executive directors are contractually obliged to commit circa 25 days per year. However, in practice their time commitment is significantly in excess of 25 days. The Chairman's time commitment is two to two and a half days a week. The Committee remains satisfied that all non-executive directors have sufficient time to meet their commitments to the Company. The Committee evaluates the independence of any non-executive director serving over six years. All of the non-executive directors are considered to be independent and the Chairman was considered independent on appointment. The Committee was also satisfied that during 2011 the Chairman's other commitments did not interfere with the day to day performance of his duties for the Company.

The Committee's terms of reference can be viewed on our website.

AUDIT COMMITTEE REPORT.

"The Committee's principal responsibilities for 2011 were oversight over financial reporting, the internal control framework and monitoring auditor independence."

HENRY STAUNTON
CHAIRMAN OF THE AUDIT COMMITTEE

THE COMMITTEE

Members	
Henry Staunton	Committee member since 1 May 2004, Chair since 27 April 2005
Dame Clara Furse	Stood down as a Committee member on 2 January 2011
Mike Fairey	Committee member since 1 May 2011
Nick Prettejohn	Committee member since 15 March 2011
James Strachan	Committee member since 23 February 2004, retired 25 May 2011
Sir David Walker	15 February 2011 meeting only, retired 25 May 2011
Julia Wilson	Committee member since 9 November 2011

MEMBERSHIP
Membership of the Audit Committee comprises four independent non-executive directors. In accordance with the UK Corporate Governance Code and the Committee's terms of reference, at least one member must have recent and relevant financial experience and competence in accounting or auditing. The Chair of the Committee is a fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). Julia Wilson is the current Group Finance Director of 3i Group Plc and is a member of ICAEW and the Chartered Institute of Taxation.

INDUCTION
On appointment to the Board, directors participate in a detailed induction programme which is outlined in more detail on page 55. This induction covers the role of the Committee, its terms of reference, and current and upcoming material issues to be considered by the Committee. Where a new director joins the Committee, their induction extends to include more detailed briefing sessions with the external auditor and Group Chief Internal Auditor as well as the Group Chief Financial Officer, Group Financial Controller and UK Actuary on topical issues for the Committee, for example, significant areas of accounting judgement for the last financial report, the internal control environment and the relationship with the external auditor.

MEETINGS
The Group Chairman, Group Chief Executive, Group Chief Financial Officer, Group Chief Risk Officer, Group Financial Controller, Group Chief Internal Auditor, UK Actuary and representatives of the external auditor, PricewaterhouseCoopers LLP, regularly attend all Committee meetings, although the Committee reserves the right to request that they withdraw at any time. Business representatives are invited to present individual reports, and the Committee values these opportunities to directly question those closest to the relevant business area.

The Committee met five times during 2011. The areas of focus during 2011 are summarised in the table on page 60. The Committee holds private meetings with the Group Chief Internal Auditor and representatives of the external auditor at least once during the year. The Committee operates under formal terms of reference and these are reviewed annually. The current terms of reference for the Committee are available on our website.

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

AUDIT COMMITTEE REPORT.

AREAS OF FOCUS DURING 2011

INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK	AREAS OF ACCOUNTING JUDGEMENT	FINANCIAL REPORTING	EXTERNAL AUDITOR	INTERNAL AUDIT
Reviewing in depth the processes and controls around the Group's annuities business and the pensions financial reporting processes.	Methodology for the calculation of the credit default provision.	Evaluating the consistency of Stock Exchange announcements and the Annual Report with the financial statements.	Receiving the external auditor's views on areas of accounting judgement and the internal control environment.	Quarterly reports on internal audits undertaken, with detailed findings presented on areas assessed as high risk. Detailed presentations from individual business areas by way of follow up to internal audits reporting on management's responses to internal audit actions.
Examination of the responsibilities, team composition and segregation of duties within the Group Treasury function.	Mortality and longevity assumptions.	Review of the Group's contingent liabilities. Approval of the contingent liabilities note to the accounts.	Evaluating and approving the external audit plan for the year.	Quarterly reports on financial crime activity.
Assessing the processes and controls around projects, including the controls around establishment, definition and delivery.	EEV economic assumptions.	Consideration of matters relating to the adoption of the Group's accounts on a going concern basis. Approval of the going concern statement.	Approving the terms of engagement and fees for the external auditor.	Evaluating and approving the annual internal audit plan. During 2011, the Committee considered and approved revisions to the internal audit plan as it identified a need to reallocate internal audit resource to regulatory change programmes.
Evaluating the controls on the use of spreadsheets.	Experience variances.		Monitoring the independence of the external auditor, including overseeing the amount and nature of non-audit work undertaken by the external auditor and evaluating the balance of non-audit to audit work. The Group's policy on the provision of non-audit services to the Group underpins the Committee's work. The Committee must approve the engagement of the external auditor for non-audit work.	
Analysis of the internal control and risk management processes, in conjunction with the review by the Group Risk Committee of the Group's principal risks and uncertainties.	Tax matters: – the announcement of the reduction in corporate tax rates. – the treatment of deferred tax assets.			

RELATIONSHIP BETWEEN THE AUDIT COMMITTEE AND GROUP RISK COMMITTEE

- The Audit Committee, in conjunction with the Group Risk Committee, assists the Board in ensuring the Group operates within a framework of prudent and effective controls that allows risk to be identified, assessed and managed.
- The Chairman of the Audit Committee is a member of the Group Risk Committee. The Chairman of the Group Risk Committee is a member of the Audit Committee.
- The areas of responsibility of each of the Audit Committee and the Group Risk Committee are defined. The Group Risk Committee provides guidance to the Board on risk management policies and procedures and what constitutes acceptable risk taking, while the Audit Committee looks at the adequacy and effectiveness of the internal control framework encapsulated within those policies and procedures, including financial control.
- There is active consideration of areas of potential overlap between the Committees and where it would be helpful for an issue considered by one committee to also be considered by the other. The Audit Committee receives input from the Group Risk Committee in the preparation of the internal audit programme and external audit plan.
- The work of the Audit Committee and the Group Risk Committee assists the Board in discharging its overall responsibility for the Group's internal control system and for monitoring its effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management. Where failings or weaknesses have been identified, actions have been taken to remedy those failings or weaknesses. The Group's control policies and procedures, which are in accordance with Turnbull Guidance, have been in place during 2011 and up to the date this report was approved.
- The UK Corporate Governance Code requires directors to review and report to shareholders on the Group's internal control system, which includes financial, operational and compliance control, and risk management. The system of internal control is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material loss. The internal control and risk management systems cover the Company's financial reporting process and the Group's process for preparation of consolidated financial statements.
- For 2011, the Board was able to conclude, with reasonable assurance, that appropriate internal control and risk management systems were maintained throughout the year.

GROUP RISK COMMITTEE REPORT.

"The Committee's primary role is to provide guidance to the Board in relation to the Group's risk management policies and procedures and to provide advice on what constitutes acceptable risk taking."

NICK PRETTEJOHN
CHAIRMAN OF THE GROUP RISK COMMITTEE

THE COMMITTEE

Members	
Nick Prettejohn	Committee member since 2 November 2010, Chair of the Committee since 6 April 2011
Dame Clara Furse	Committee member since 14 April 2010
Rudy Markham	Committee member from 14 April 2010 to 1 July 2011
Henry Staunton	Committee member since 14 April 2010, Chair of the Audit Committee
John Stewart	Chair and member of the Committee from 14 April 2010 to 6 April 2011
James Strachan	Committee member from 14 April 2010, retired 25 May 2011
Stuart Popham	Committee member since 1 July 2011

MEMBERSHIP AND INDUCTION

Membership of the Group Risk Committee comprises four non-executive directors.

On appointment to the Board, directors participate in a detailed induction programme which is outlined in more detail on page 55. This induction covers the role of the Committee and its terms of reference. Where a new director joins the Committee, their induction extends to include a more detailed briefing session with the Group Chief Risk Officer on topical issues for the Committee, for example, key areas of current focus and emerging risks.

GROUP CHIEF RISK OFFICER

The Committee's primary role is to provide guidance to the Board in relation to the Group's risk management policies and procedures, and to provide advice on what constitutes acceptable risk taking. This assists the Board in setting the risk appetite for the Group. The Group Chief Risk Officer performs an important role in the Group's risk management framework, which is described in more detail on page 41. The Group Chief Risk Officer reports to, and has unfettered access to, the Committee. The Committee must approve the appointment or removal of the Group Chief Risk Officer.

MEETINGS

The Group Chairman, Group Chief Executive, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Internal Auditor and the lead partner of the external auditor, PricewaterhouseCoopers LLP, regularly attend all meetings, although the Committee reserves the right to request that they withdraw at any time. Business representatives are invited to present individual reports, and the Committee values these opportunities to directly question those closest to the relevant business area.

The Committee met four times during 2011. The areas of focus during 2011 are summarised in the table on page 63. The Committee operates under formal terms of reference and these are reviewed annually. The current terms of reference for the Committee are available on our website.

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

REGULAR AGENDA AND AREAS OF FOCUS DURING 2011

GROUP CHIEF RISK OFFICER REPORT Each meeting of the Committee receives a formal report from the Group Chief Risk Officer (CRO) providing an assessment of the environment in which the Group is operating, the risks that this may present and potential mitigation. The report provides the Committee with an opportunity to debate key issues and review mitigating actions proposed by management.	Matters considered by the Committee as part of its review of the CRO's report included: – The economic outlook, developing events within the eurozone, and the implications for sovereign debt, bond markets and banking counterparties; – Changes in the legal and regulatory environment including the implications of the Test-Achats judgment, Legal & General's implementation of the Retail Distribution Review (RDR) and Solvency II requirements and our response to the FSA's With-Profits consultation; and – Proposed changes to the UK financial services regulatory framework and their implications for the Group. The CRO report includes a management information pack providing analysis of the Group's exposures to market, insurance, liquidity, counterparty, operational and conduct risks together with the top risk issues to the Group.
FOCUSED BUSINESS REVIEWS A cycle of focused business reviews enables the Committee to consider the risk profile of Legal & General's core business lines, typically presented by its managing director. The Committee also receives ad-hoc reviews, either at the request of the Committee or in response to developing risks.	Key reviews during the year included the risk profile of our: – Investment Management business; – Insurance businesses in America; – Retail Savings business; and – UK Group Protection business. The Committee undertook reviews of the profile of risks within our annuity business in 2010, with specific consideration of investment and insurance risks. During 2011 consideration was given to the impact of inflation on the annuity book.
FOCUSED RISK MANAGEMENT REVIEWS Focused risk management reviews provide the Committee with an opportunity to challenge the robustness of frameworks in place to manage the different types of risk to which the Group may be exposed.	During the year the Committee has overseen the development of the Group's Risk Appetite Statement. The Committee has also undertaken specific reviews of the frameworks for the management of: – Liquidity risk; – Reputation risk; and – Operational risk. The Group's overall risk taxonomy and assessment framework was also reviewed.
STRESS & SCENARIO TESTING AND CAPITAL MANAGEMENT A programme of stress and scenario tests is in place to enable assessment of the impact of extreme but plausible events on the Group's capital position. The Committee contributes to the scenarios to be evaluated and considers the completed analysis. The Committee also invites senior business personnel to discuss emerging risks and the impact of extreme outcomes.	In addition to contributing to the assumptions of the Group's stress and scenario test programme at its March meeting, and reviewing the results at its September meeting, the Committee considered analysis of: – Key reverse stress tests performed by each of the Group's core business lines; – Potential stresses arising as a result of a "double dip" recession; – Contingency options in the event of a prolonged period of market stress and illiquidity; – Possible Euro break-up scenarios, the implications for the macroeconomic environment and the Group; and – Exposures to banking counterparties and how those exposures are managed. At each Committee meeting there is a formal agenda item to enable members to raise and discuss emerging risks. As well as providing a feedback loop into the programme of stress and scenario tests, discussions provide an opportunity to shape future meeting agenda of the Committee. The November meeting of the Committee included an externally facilitated review of the macroeconomic environment and the financial risks that may present to the Group.

DIRECTORS' REPORT ON REMUNERATION.

RUDY MARKHAM
CHAIRMAN OF THE REMUNERATION COMMITTEE

We have organised our report into two main sections:

Our remuneration polices section is further broken down into:

I am pleased to present the Directors' Report on Remuneration for 2011.

THANK YOU TO SIR DAVID WALKER

In starting my first report to shareholders, I would like to recognise my predecessor, Sir David Walker, and his very valued contribution to the Remuneration Committee over the past years. Sir David's vast experience, ethics and attention to the highest levels of good governance have set a leading example. The Committee will work hard to maintain this standard.

OUR APPROACH TO REMUNERATION

Our core remuneration structure applies throughout the organisation and aims to fairly reward employees and recognise achievements. We define core remuneration as base salary, a bonus that is closely aligned to performance and other benefits such as pension, car allowance, health cover and life assurance. In addition, for the executive directors and Leadership Team (approximately 30 people) there is a long-term incentive plan based on TSR.

CLEAR AND TRANSPARENT REPORTING

The Remuneration Committee contributed its views to the BIS consultation on Narrative Reporting and Executive Remuneration. We believe that our own remuneration structure is both transparent and straightforward and we continue to try and enhance the reporting within this Directors' Remuneration Report which, we hope, will highlight our reward philosophy and summarise the key remuneration issues for 2011. The Committee will continue to contribute to the wider debate on defining best practice and will clearly have due regard to all developments during 2012 and beyond.

The Committee welcomes engagement with shareholders in order to share thoughts and clarify its remuneration approach. It is looking at ways to improve its interaction with shareholders in 2012.

LINK OF PERFORMANCE AND REWARD

The Company strongly believes in the relationship of performance to reward. Performance is measured both on achievement of objectives and on the way in which those objectives have been attained. This latter element has been introduced in 2011.

REVIEW OF EXECUTIVE DIRECTOR REMUNERATION STRUCTURE

During 2011, a full review was undertaken of the executive directors' remuneration structure. We concluded that the overall structure remained sound but it was recognised that some elements were below mid-market ranges in relation to other FTSE 100 companies. However, given the uncertain economic environment and ongoing changes in regulatory requirements, it was felt inappropriate to make changes at this time, so the current structure will continue into 2012. However, the Committee will review the position again in 2012. The Group's Performance Share Plan will expire in 2014 on its tenth anniversary, and shareholder consent will be sought for any replacement.

THE 2012 PAY REVIEW

This year has continued to see a challenging economic environment and volatile market conditions. However, the Company has succeeded in meeting or exceeding many areas of its plans. In setting its pay review budgets, the Company takes into consideration both the external market and Company performance. For 2012, UK core pay review budgets have been set at 2.25% for managers (2.6% in LGIM) and 3.0% for staff grades (3.2% in LGIM).

The Remuneration Committee takes into consideration the remuneration – base pay and bonus budgets – for employees below Board level when determining the remuneration for the executive directors.

The executive directors' salaries have, therefore, been increased within the budget agreed for employees throughout the Company. An exception is Mark Gregory who joined the Board at a salary well below the mid-market range. As seen from the results in Savings on pages 20 to 23, Mark is making a significant contribution to the business and therefore, in recognition of this, his salary has risen in line with our policy of progression towards the mid-market range. Total pay increases for the executive directors, including Mark Gregory, total 2.16% (against a non LGIM management budget of 2.25%).

The annual executive directors' bonus awards are assessed by a combination of financial results against key Group performance indicators and the achievement of personal and strategic objectives. Under the annual bonus plans, bonuses of between 61.69% and 91.69% of the maximum potential (125%) were awarded to executive directors (compared to 73% to 90% in 2010). Further details of how these awards were determined are set out on page 71. The Committee considers this level of bonus to be appropriate in light of the strong results, for example increases over 2010 in operating profit, net cash generation and EEV per share. The Group's KPI results are shown on pages 10 and 11.

After due consideration of Company performance and other factors, it was concluded that the appropriate level for awards under the Performance Share Plan (PSP) was 200% of salary for 2012.

ANNOUNCED PLANNED RETIREMENT OF GROUP CHIEF EXECUTIVE OFFICER TIM BREEDON

During 2011, Tim Breedon announced his intention to retire at or by the end of 2012. He will continue to be paid in line with our current remuneration policy and his existing contractual terms. The Company does not foresee any additions to this.

CODE STAFF

The Remuneration Committee extended its remit in 2011 to review individual pay and bonus decisions for those employees deemed to be Code staff or Control Functions under the FSA's response to the Capital Requirements Directive (CRD3). Legal & General falls under the requirements of Tier 4. The aggregate remuneration for Code staff in relation to 2010 was reported on our internet website during the year and will again be published on the internet for 2011.

NON-EXECUTIVE DIRECTORS' (NEDS) FEES

The role and responsibilities of the NEDs were reviewed by the Board during 2011. Fees were last increased in 2008. The 2011 review maintains the base fee at £65,000. However, for those NEDs who sit on two or more committees, excluding the Nominations Committee, an additional fee of £10,000 pa will be paid. The fees of Committee Chairmen and the Senior Independent Director (SID) were also reviewed. The new fee structure is outlined in detail on page 74. A further change was to require the NEDs to hold the equivalent of one year's base fee in Legal & General shares to be retained until the end of office.

I sincerely hope you find this report of the Committee's work comprehensive and understandable. I hope you will support the resolution to vote for this Directors' Remuneration Report (pages [64] to [81]) at the AGM.

RUDY MARKHAM
CHAIRMAN OF THE REMUNERATION COMMITTEE

DIRECTORS' REPORT ON REMUNERATION.

THE REMUNERATION COMMITTEE'S GOVERNANCE AND APPROACH

GENERAL GOVERNANCE

The Directors' Report on Remuneration has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008. It also describes the Group's compliance with the UK Corporate Governance Code 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 issued by the ABI and shareholder bodies (such as the NAPF) when setting the 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.

The Remuneration Committee's remit extends beyond the executive directors. It reviews the ongoing pay and bonus decisions on an individual basis for any employees who earn a base salary of £100,000 pa or more. It also reviews the overall pay and bonus decisions in relation to the Control functions (Risk, Regulatory Compliance and Internal Audit), and also the 'oversight' departments of Finance and Human Resources to ensure that decisions are not biased depending on reporting lines to either the business or functional head.

TERMS OF REFERENCE

The Committee's terms of reference are available on our website or on request. The terms of reference were reviewed during 2011 to ensure they continued to accurately reflect the remit of the Committee which embraces the remuneration strategy and policy for the whole Company as well as the executive directors. The Committee retained Hewitt New Bridge Street (HNBS) as its independent adviser until August 2011. The lead consultant adviser to the Committee, John Lee, left to become managing partner of a new firm, FIT Remuneration Consultants LLP (FIT), and the Committee decided to appoint this firm. The terms of agreement between the Company and HNBS and FIT are available on request. Both HNBS and FIT are signatories to the Remuneration Consultants Group Code of Conduct in relation to Executive Remuneration Consulting in the UK.

Remuneration Committee members and attendees (the Committee met four times during 2011)

Remuneration Committee members	Position	Comments
Rudy Markham	Chairman of Remuneration Committee (from 26 May 2011)	Independent
John Stewart	Member of the Committee until 25 May 2011, now a standing attendee by invitation	Independent upon appointment on 1 March 2010
Nick Prettejohn	Member from 2 November 2010	Independent
Mike Fairey	Member from 1 May 2011	Independent
Stuart Popham	Member from 1 July 2011	Independent
James Strachan	Member of the Committee until 25 May 2011	Independent
Sir David Walker	Chairman of the Committee until 25 May 2011	Independent
Remuneration Committee attendees	**Position**	**Comments**
Tim Breedon	Group Chief Executive	Attends by invitation
Elaine MacLean	Group HR Director	Attends as an executive responsible for advising on the remuneration policy
Rosemary Lemon	Group Head of Reward and Executive Remuneration	Attends as an executive responsible for advising on the remuneration policy
Kaye Maguire	Secretariat	Attends as secretary to the Committee
John Lee	Hewitt New Bridge Street (HNBS) / FIT Remuneration Consultants (FIT)	Attends by invitation as the Committee's independent adviser

No person is present during any discussion relating to their own remuneration.

OUR REMUNERATION POLICIES

1) GENERAL REMUNERATION POLICY

The Group's remuneration policy is applied broadly consistently for all employees and is designed to support recruitment, motivation and retention as well as to reward high performance in a framework of approved 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 range 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 seeks to ensure that our pay policies and practices are free from unfair bias. Part of the pay review process is an annual equal pay audit that reviews pay and bonus decisions by gender, ethnicity, age and full-time versus part-time working. In addition, it considers the pay of the Control Function departments (Risk, Compliance and Internal Audit) as well as the 'oversight departments' of Finance and Human Resources and looks at decisions for employees who report directly to the business versus those who report to the function head. The review extends to all employees, including those in LGIM.

The principles of our Remuneration Policy are summarised below:

- supports recruitment, motivation and retention;
- rewards high performance and behaviours in the context of appropriate risk management;
- takes into account market sector, economic environment, job size, function, individual skills and experience and individual and Company performance;
- seeks to align internal interests to those of shareholders through a long-term incentive scheme linked to total shareholder return (TSR), deferral of bonus held in shares, formal shareholding requirements and employee share plans;
- is broadly consistent for all employees and seeks to ensure that our pay policies and practices are free from unfair bias; and
- aims to be clear and transparent.

We define core remuneration as base salary, a bonus that is closely aligned to performance and other benefits such as pension. There is also a Long Term Incentive Plan that measures TSR.

Our remuneration principles and policy are also applied broadly across our overseas entities, with local interpretation in line with market and regulatory requirements.

The policy for directors is described in more detail on the following pages.

Executive Directors' remuneration for financial year ended 31 December 2011

	Salary £'000	Benefits[1] £'000	Cash in lieu of pension[2] £'000	Annual bonus Cash £'000	Annual bonus Deferred £'000	Total **2011 £'000**	Total 2010 £'000
Tim Breedon	808	20	178	502	302	**1,810**	1,861
Nigel Wilson	550	20	34	285	171	**1,060**	1,141
John Pollock	412	20	91	295	177	**995**	874
Mark Gregory	400	20	19	193	115	**747**	746
	2,170	**80**	**322**	**1,275**	**765**	**4,612**	4,622

[1] Benefits include car allowances and medical insurance.
[2] Explained on page 80.

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

DIRECTORS' REPORT ON REMUNERATION.

2) 'SINGLE FIGURE' OF REMUNERATION

The Committee notes that BIS has proposed introducing an additional disclosure of a 'single figure' of remuneration received in the year. This is complicated because the periodic vesting of the PSP and bonus deferral affects the exact cash received each year. In addition, no simple definition of how these figures should be calculated to ensure consistency of approach has yet been agreed.

The final formula set in future years may change but the table below represents the Committee's best attempt at providing shareholders with the total earnings of each executive in the year. It is hoped that this will help shareholders' understanding and demonstrate the Committee's commitment to transparent reporting.

Components and changes to remuneration in order to calculate the 'single figure'

Footnote	Explanation
1	Earnings reported on page 67 (salary, benefits, cash in lieu of pension and total bonus).
2	Value of any registered pension using the HMRC formula for assessing the annual and lifetime limits (ie 16 times the post inflation benefit for defined benefit pensions or for defined contribution pensions the employer defined contributions as set out on page 80) It does not necessarily represent the economic value of the pension accrual and is not money immediately available to the person. Where the accrued value (net of inflation) is negative, we have used a value of zero. For reasons explained in previous reports, this figure can be volatile.
3	The 2011 deferred bonus which is awarded as shares under the Share Bonus Plan (SBP) as, although awarded in 2011, they do not vest in the year. 37.5% of any bonus awarded is deferred for three years.
4	Value of matching shares as at date of purchase and Group Performance Shares awarded in the year valued at the date of award (does not include the amounts that vested).
5	Value of the SBP awards that vested (as of date of vest) during the year and the value of all dividends received in 2011 in respect of outstanding SBP awards.
6	Value of PSP awards that vested in the year (as of date of vest). The vesting of awards is dependent on TSR outcomes as set out on page 78.
7	Any gain on SAYE vesting in the year – nothing vested in either 2010 or 2011 for the directors.
8	Total 'single figure' of remuneration including vesting of prior years' awards.

Executive Directors' 'single figure' for financial year ended 31 December 2011

		Changes to reflect in year earnings				Changes to reflect vesting of prior years' awards			
	Total remuneration earned in 2011[1] £'000	Pension[2] £'000	Deferred bonus[3] £'000	Matching shares[4] £'000	'Single figure' remuneration in 2011 year £'000	SBP and dividends[5] £'000	PSP[6] £'000	Gain on SAYE[7] £'000	Total 'single figure'[8] remuneration including vested awards in 2011 £'000
Tim Breedon	1,810	192	(302)	1	**1,701**	246	245	0	**2,192**
Nigel Wilson	1,060	53	(171)	1	**943**	267	0	0	**1,210**
John Pollock	995	128	(177)	1	**947**	91	118	0	**1,156**
Mark Gregory	747	71	(115)	1	**704**	49	55	0	**808**

Executive Directors' 'single figure' for financial year ended 31 December 2010

		Changes to reflect in year earnings				Changes to reflect vesting of prior years' awards			
	Total remuneration earned in 2010[1] £'000	Pension[2] £'000	Deferred bonus[3] £'000	Matching shares[4] £'000	'Single figure' remuneration in 2010 year £'000	SBP and dividends[5] £'000	PSP[6] £'000	Gain on SAYE[7] £'000	Total 'single figure'[8] remuneration including vested awards in 2010 £'000
Tim Breedon	1,861	0	(331)	1	1,531	133	0	0	1,664
Nigel Wilson	1,141	84	(219)	1	1,007	1	0	0	1,008
John Pollock	874	0	(137)	1	738	53	0	0	791
Mark Gregory	746	48	(137)	1	658	31	0	0	689

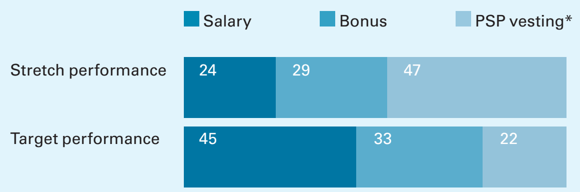
3) REMUNERATION PACKAGE FOR EXECUTIVE DIRECTORS

The remuneration of the Group's executive directors comprises salary, participation in an annual bonus plan (paid partly in cash and partly deferred via the Share Bonus Plan (SBP)) and the Group's Performance Share Plan (PSP), which is a long-term incentive plan, plus pension and ancillary benefits.

When setting remuneration for the executive directors, the Committee takes into account the market sector, function, job size, and individual and Company performance. In addition, the pay, employment conditions and salary budgets set for other employees in the Company are taken into consideration. Data is obtained from a variety of independent sources (including FIT, Hewitt New Bridge Street, HAY Group and Towers Watson). Where possible, the practice is to use at least two independent sources of information for each individual role.

The chart illustrates that a significant proportion of both target and stretch pay is performance-related and paid in shares. The proportion is the same for each director and will remain the same for 2012.

Relative split of salary, bonus and PSP for executive directors at target and stretch performance (%) in line with current policy and for 2012



* Share price growth is ignored.

2011 strategic objectives

Executive directors' bonuses were based on a number of targets. For 2011 these were weighted as follows:

Name	Group KPIs	Other financial targets	Other strategic targets
Tim Breedon	50%	20%	30%
Nigel Wilson	50%	20%	30%
John Pollock	40%	30%	30%
Mark Gregory	40%	30%	30%

These weightings will continue for 2012.

Broad explanation of targets

Group Key Performance Indicators (KPIs)

– Common to all executive directors, as set out on page 71
– The TSR KPI is addressed through the Performance Share Plan (PSP).

Other financial targets

– Key divisional metrics
– Managing capital requirements.

Other strategic targets

– Building a diversified business
– Delivering a positive customer experience
– Building a high expectation culture
– Risk management
– Improving products and services.

The results for the 2010 and 2011 Group KPIs are shown on page 71 and in more detail on pages 10 and 11.

Further details on the other specific targets are commercially sensitive. The Committee will continue to monitor best practice disclosures and any changes to disclosure requirements that result from the Department for Business Innovation and Skills' (BIS) consultation papers.

The tables on pages 70 to 75 set out the key features of executive directors' remuneration, including each element's purpose, related policy, explanation of how it operates and decisions made.

4) REMUNERATION POLICY FOR OTHER SENIOR MANAGERS

The remuneration policy for senior managers below Board level is broadly consistent with that followed at executive director level. At 31 December 2011 there were 240 senior managers in the UK whose actual salaries equated to or exceeded £100,000, or 246 if full-time equivalent (FTE) salaries are counted.

	Number of executives	
Salary range	Actual salary	FTE
£100,000 – £124,999	139	143
£125,000 – £149,999	49	50
£150,000 – £174,999	33	33
£175,000 – £199,999	6	6
£200,000 – £224,999	6	7
£225,000 – £249,999	6	6
£250,000+	1	1
Total	240	246

DIRECTORS’ REPORT ON REMUNERATION.

Key features of executive directors’ remuneration

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 range 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 range, with a view to reaching mid-market range within two to three years provided the individual progresses into the role. • Increases in salary for executive directors broadly follow the salary budgets for the rest of the organisation, unless, for example, salary progression to mid-market range is agreed as referred to above or there is significant movement in the mid-market ranges. **HOW THIS APPLIES TO OTHER EMPLOYEES** • The same principles apply to all employees.	• Paid monthly in cash. • Normally reviewed by the Committee annually and fixed for the 12 months commencing 1 March.
ANNUAL BONUS • Incentivise executives to achieve specific, predetermined goals during a one-year period. • Reward ongoing stewardship and contribution to core values. • Deferred proportion of bonus, 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 of 125% of base salary) for all executive directors. • Percentage of bonus deferred and awarded in shares. • For 2012 there is no change to the target or maximum bonus potential. **HOW THIS APPLIES TO OTHER EMPLOYEES** • The majority of employees have a discretionary bonus scheme based on individual performance against objectives. For the management populations and above, 35% of this bonus is deferred into shares. There are some bespoke bonus schemes, where business appropriate, but the Remuneration Committee has ultimate discretion over all bonus plans. • Separate plans operate within LGIM consistent with industry practice.	• 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. All executive directors have objectives related to Group key performance indicators (KPIs), plus individual (where relevant) divisional and strategic targets. The objectives also embrace the importance of customer care, employee engagement and Company culture and values. • Bonus result is determined by the Committee after the year end, based on performance against targets. • Normally, 62.5% of the bonus is paid in cash and 37.5% is paid in deferred shares, subject to continued employment, under the Share Bonus Plan (SBP) to be held for three years. • The deferred element may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect or in the event of personal misconduct. • As the shares have been earned prior to award, any dividends occurring on these shares are paid to the executives during the vesting period. The value of the shares awarded to directors is reported in the year of performance and shown in the directors’ remuneration table on page 67.

What did we do?

- For 2012, increases for the executive directors are within with the budget set for the general management pay review below Board level (2.25%) and our policy of salary progression towards mid-market range for Mark Gregory.

- The base salaries for the executive directors with effect from 1 March 2012 will be as follows:

Name	Salary for 2012	% Increase 2012 over 2011	% Increase 2011 over 2010
Tim Breedon	£820,000	1.5%	2.9%
Nigel Wilson	£558,500	1.6%	2.6%
John Pollock	£420,000	2.0%	2.9%
Mark Gregory	£418,000	4.5%	11.1%

Total increases over 2011 equate to 2.16%.

- The breakdown of the executive directors' targets are shown on page 69.

- For 2011, bonuses of between 77.1% and 114.6% of base salary were awarded.

- This reflected superior performance against the common financial targets consistent with the overall assessment of the Company's performance as shown below.

Group KPIs	**2011**	2010
Operating profit before tax	**£1,056m**	£1,002m
Return on Equity	**14.5%**	18.2%
IGD surplus	**£3.8bn**	£3.7bn
EEV operating profit	**£1,469m**	£1,224m
Net cash generation	**£846m**	£760m
EEV per share	**147p**	132p

The Committee carefully assessed the performance against other financial and strategic targets to determine the associated bonus.

- The total bonus that resulted from the delivery of these objectives was reviewed by the Committee based on its view of the executive's overall performance and regulatory compliance. In reviewing results, approach to risk (including environmental, social or governance ('ESG') risks) is monitored.

- For 2012 there is no change to the measures or the weighting between them.

The Bonus Steering Committee (BSC), the Chief Risk Officer and the Group Director of Regulatory Risk and Compliance play key roles in the process of both setting reward structures and evaluating whether achievement of objectives and any payment from bonus plans have taken into account the overall risk profile of the Company. Their roles are set out in more detail below.

BONUS STEERING COMMITTEE

Reporting to the Remuneration Committee, the BSC has continued to review and 'challenge' all bonus schemes on a regular basis to ensure they support business strategy and do not encourage any inappropriate risk taking and it has now become embedded in our governance procedures. Its terms of reference are reviewed and agreed by the Remuneration Committee and its members include the Group HR Director and Group Head of Reward and Executive Remuneration as well as the Group Remuneration Team, Business Heads of HR, the Chief Risk Officer and Group Director of Regulatory Risk and Compliance. Members of the businesses also attend as necessary to provide support or provide context for any remuneration proposals. Bonus schemes must be agreed by the BSC prior to submission to the Remuneration Committee which retains overall discretion and approval.

ROLE OF THE CHIEF RISK OFFICER AND GROUP DIRECTOR OF REGULATORY RISK AND COMPLIANCE

The Remuneration Committee also works closely with the Chief Risk Officer (CRO) and Group Director of Regulatory Risk and Compliance in relation to remuneration proposals. In particular, the Group Director of Regulatory Risk and Compliance reports to the Committee on an annual basis regarding payment of bonus schemes for the year and provides input into how those schemes operate for the following year. She confirms whether any risks have been taken outside of pre-agreed parameters that may lead the Committee to consider whether it should impact the payment of bonus schemes and confirms that all plans for the following year meet business objectives without encouraging undue risk. The CRO specifically looks at the overall risk profile of the Company and whether executive directors have achieved objectives within the Company's accepted risk appetite. She also reviews the executive directors' objectives for the forthcoming year to ensure they are in line with the risk parameters.

DIRECTORS' REPORT ON REMUNERATION.

Key features of executive directors' remuneration

Purpose	Policy	Summary of how it operates
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 a three-year performance period.	• Awards of conditional shares/nil cost options made annually, with vesting dependent on relative total shareholder return (TSR) measured over the three subsequent years. • Executive directors receive annual grants of up to 200% of salary. • The Committee reviews the quantum of awards made each year to ensure that it is in line with the market. • When making awards, the Committee will also consider wider factors such as Company performance in determining whether to grant at this normal policy level. • The PSP was approved by shareholders in 2004. 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. **HOW THIS APPLIES TO OTHER EMPLOYEES** • The PSP is awarded to approximately 30 employees, mainly comprising the Leadership Team.	• The number of shares that vest is dependent on Legal & General's relative TSR performance over a three-year period as follows: Legal & General's TSR relative to the comparator group – Percentage of award which vests: Below median – 0% Median – 25% Between median and 20th percentile – 25%-100% 20th percentile or above – 100% • 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 in the FTSEurofirst 300 plus any FTSE 350 Life Insurance companies not in the FTSEurofirst 300. • The two conditions are measured independently. • Performance against TSR conditions is independently reviewed by FIT Remuneration Consultants LLP. • The Committee reviews the measures prior to each award. It continues to believe that the current measures and targets remain appropriate. They endorse consistency in the remuneration policy and provide a clear alignment of interests with shareholders. In addition they ensure 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 Remuneration Committee will also assess whether the TSR out-turn is reflective of the underlying financial performance of the Company and may scale back vesting. The Committee only has discretion to reduce the level of award and may not increase it. The parameters which the Committee uses in making this assessment include, but are not limited to, market share, partnerships entered into and maintained, cost constraint, capital management, risk and shareholder perception.
PENSIONS AND BENEFITS • Reward sustained contribution.	• Provide competitive post-retirement benefits. • No compensation for public policy or tax changes. • Salary is the only element of pensionable remuneration. **HOW THIS APPLIES TO OTHER EMPLOYEES** • There are no special terms for executive directors and they follow the same policies as for all employees.	• Participation in a Group pension scheme. • Accrue benefits according to length of service up to retirement. • From 2009, increases in pensionable salary for the defined benefit pension plan have been limited to a maximum of 2.5% each year. • New executive directors receive 15% of base salary into the defined contribution pension plan (they contribute 5%). • Cash alternative in line with the defined contribution levels for executive directors opting for enhanced or fixed protection above the lifetime allowance or for benefits in excess of the £50,000 annual limit. • Normal benefits available to 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.

What did we do?

- In the year, the 2008 award vested as to 16.6% of the maximum award. This reflected the TSR outcome against the FTSE100 and bespoke comparator group shown on pages 78 and 79.
- During 2011 outstanding (non-vested) awards were restructured to nil cost options to permit exercise of the option at any point between vesting and the fifth anniversary of grant. There has been no amendment to the original performance conditions or performance period as a result of this change. All future awards will be granted as conditional nil cost options.
- After due consideration of business performance and share price, the Remuneration Committee decided that for 2012 executive directors should be granted awards of performance shares equivalent to 200% of 2012 salaries. The maximum award value is shown below:

  Tim Breedon: £1,640,000
  Nigel Wilson: £1,117,000
  John Pollock: £840,000
  Mark Gregory: £836,000
- In addition, the Committee approved grants of performance shares to the Leadership Group (approximately 30 employees). These grants ranged from 80% to 160% of salary.

- No changes.

DIRECTORS' REPORT ON REMUNERATION.

Key features of executive directors' remuneration

Purpose	Policy	Summary of how it operates
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. **HOW THIS APPLIES TO OTHER EMPLOYEES** • Members of the broader Leadership Team are encouraged to hold 50% of their salary as shares. • There is an Employee Share Plan and Savings-Related Share Option Scheme both approved by HMRC. Depending on Group performance, Group Performance Shares (Free shares) may be awarded once per year.	• 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. • Although share ownership guidelines are not contractually binding, the Committee retains the discretion to withhold future grants under the PSP if executives do not comply with the guidelines.

5) REMUNERATION OF NON-EXECUTIVE DIRECTORS (NEDS)

During 2011, the Chairman, John Stewart, continued to review the role of the members of the Board committees. This review included consideration of whether the roles and responsibilities of the NEDs have broadened in scope and whether their time commitment had changed given the added emphasis being placed on corporate governance and risk oversight. The last fee increase was 1 January 2008. The 2011 review concluded that the base fee should continue to remain unchanged but recognition should be given to the additional responsibilities and time commitments incurred by those NEDs who sit on two or more committees (excluding the Nominations Committee), the committee chairmen and the role of the Senior Independent Director (SID). The table below outlines the new fee structure and the revised fees for the NEDs with effect from 1 July 2011. These fees will continue for 2012.

New fees with effect from 1 July 2011

	Henry Staunton	Rudy Markham	Nick Prettejohn	Mike Fairey	Dame Clara Furse	Stuart Popham	Julia Wilson	John Stewart
	Chairman of Audit Committee; SID; Member of Nominations and Risk Committees	Chairman of Remuneration Committee; Member of Nominations Committee	Chairman of Risk Committee; Member of Nominations Remuneration and Audit Committees	Member of Nominations, Remuneration and Audit Committees	Member of Nominations and Risk Committees	Member of Nominations, Risk and Remuneration Committees	Member of Nominations and Audit Committees	Chairman
Base	£65,000	£65,000	£65,000	£65,000	£65,000	£65,000	£65,000	£340,000
Committee fee if sit on two or more committees excluding Nominations Committee	£10,000		£10,000	£10,000		£10,000		
Committee Chairman[1]	£30,000	£30,000	£30,000					
SID	£20,000							
Total new fee	**£125,000**	**£95,000**	**£105,000**	**£75,000**	**£65,000**	**£75,000**	**£65,000**	**£340,000**[2]
Previous equivalent fee	£110,000	£90,000	£90,000	£65,000	£65,000	£65,000	£65,000	£325,000
Comments	Assumed role of SID wef 26 May 2011	Assumed role of Chair of RemCo wef 26 May 2011	Assumed role of Chair of Risk wef 26 May 2011	Sits on two committees excluding Nominations		Sits on two committees excluding Nominations		

[1] Fee for Chairman of Committee has risen from £25,000 to £30,000.
[2] Fee for the Chairman has risen from £325,000 to £340,000.

Fees paid to non-executive directors are non-pensionable. In addition to their fees, directors are entitled to be reimbursed for expenses properly and reasonably incurred in respect of their office. No further remuneration is payable.

What did we do?

- As at 31 December 2011, the executive directors' share ownership against the guidelines were:

Director	Actual share ownership as a % of salary: vested shares	Actual share ownership as a % of salary: vested and unvested shares	Guideline on share ownership as a % of salary	Guideline met
Tim Breedon	238.0%	317.7%	200%	Yes
Nigel Wilson	190.0%	333.3%	100%	Yes
John Pollock	144.9%	207.5%	100%	Yes
Mark Gregory	122.2%	194.8%	100%	Yes

Excludes conditional shares.

Share price used at 30 December 2011 of 102.8p.

Taking into account the new fee structure effective from 1 July 2011, the total remuneration for non-executive directors for 2011 is shown below.

Non-executive remuneration for financial year ended 31 December 2011

	Fees £'000	Benefits[8] £'000	Total 2011 £'000	2010 £'000
John Stewart	333	–	**333**	325
Sir David Walker[1]	46	–	**46**	110
Henry Staunton[2]	108	–	**108**	90
James Strachan	27	1	**28**	65
Rudy Markham[3]	80	–	**80**	65
Dame Clara Furse	65	2	**67**	38
Nick Prettejohn[4]	85	–	**85**	11
Mike Fairey[5]	48	–	**48**	–
Stuart Popham[6]	38	–	**38**	–
Julia Wilson[7]	9	–	**9**	–
Total	**839**	**3**	**842**	**704**

[1] Sir David Walker retired from the Board on 25 May 2011 and his fee reflects the period 1 January 2011 to 25 May 2011.
[2] Henry Staunton became Senior Independent Director (SID) on 26 May 2011 and his fee reflects this from 26 May 2011 to 31 December 2011.
[3] Rudy Markham became Chairman of the Remuneration Committee on 26 May 2011 and his fee reflects this from 26 May 2011 to 31 December 2011.
[4] Nick Prettejohn became Chairman of the Risk Committee on 26 May 2011 and his fee reflects this from 26 May to 31 December 2011.
[5] Mike Fairey was appointed to the Board and Remuneration Committee on 1 May 2011 and his fee reflects this from 1 May 2011 to 31 December 2011.
[6] Stuart Popham was appointed to the Board and Remuneration Committee on 1 July 2011 and his fee reflects this from 1 July 2011 to 31 December 2011.
[7] Julia Wilson was appointed to the Board on 9 November 2011 and her fee represents the period from 9 November to 31 December 2011.
[8] Benefits include travel costs.

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

Appointment letters are currently for three years but all directors are 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 (but NEDs do not vote on the resolution), based on a range of external information and advice set within the aggregate limits contained in the Articles of Association. The current aggregate limit for fees paid to NEDs is £1,500,000 per annum.

NED	Date of initial appointment	Current letter of appointment start date	Current letter of appointment end date
John Stewart	January 2010	January 2010	AGM 2013
Henry Staunton	May 2004	May 2010	AGM 2013
Rudy Markham	October 2006	October 2009	AGM 2013
Nick Prettejohn	November 2010	November 2010	November 2013
Mike Fairey	May 2011	May 2011	May 2014
Dame Clara Furse	June 2009	June 2009	May 2012
Stuart Popham	July 2011	July 2011	July 2014
Julia Wilson	November 2011	November 2011	November 2014

DIRECTORS' REPORT ON REMUNERATION.

6) SHAREHOLDING REQUIREMENTS

The tables shown below show the shareholdings for the executive directors and the non-executive directors at the end of 2011.

Directors' share interests

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

Name	31 December 2011	1 January 2011
Tim Breedon	**2,497,216**	**2,206,988**
Nigel Wilson	**1,783,303**	**1,593,014**
Mark Gregory	**758,045**	**631,878**
John Pollock	**830,912**	**698,171**
John Stewart	**161,133**	**88,827**
Henry Staunton	**309,574**	**264,267**
Rudy Markham	**172,228**	**147,284**
Nick Prettejohn	**23,164**	**1,625**
Dame Clara Furse	**52,012**	**35,028**
Mike Fairey	**11,181**	**–**
Stuart Popham	**8,699**	**–**
Julia Wilson	**–**	**–**
Sir David Walker	**–**	**489,059**
James Strachan	**–**	**181,715**

Includes Employee Share Plan, Share Bonus Plan, Nigel Wilson Recruitment Award, Corporate Sponsored Nominee, Ordinary Share Holdings and Spouse Holdings.

New NED Shareholding requirement

In addition to the review of fees, it was also felt appropriate to introduce a minimum shareholding requirement for NEDs. NEDs are now required to hold the equivalent of one year's base fee in Legal & General shares to be retained until the end of office. NEDs will continue to have a proportion of their fees (normally 50%) paid in Legal & General shares until this level is reached. Once the level is reached, they may take all their fee in cash. The following table shows the current level of holdings:

NED's Shareholdings as at 31 December 2011 (including shares purchased with December fees on 3 January)

	Share price (30/12/11)	102.8				
Director	Holding	Value of holding	Total Fee with effect from 1 July 2011	Base fee	Holding as % of base fee	Met criteria of 1 x base fee
John Stewart	167,618	£172,311	£340,000	£340,000	50.7	No
Henry Staunton	314,069	£322,863	£125,000	£65,000	496.7	Yes
Rudy Markham	174,153	£179,029	£95,000	£65,000	275.4	Yes
Nicholas Prettejohn	25,574	£26,290	£105,000	£65,000	40.4	No
Michael Fairey	12,899	£13,260	£75,000	£65,000	20.4	No
Dame Clara Furse	53,499	£54,997	£65,000	£65,000	84.6	No
Stuart Popham	10,417	£10,709	£75,000	£65,000	16.5	No
Julia Wilson	2,579	£2,651	£65,000	£65,000	4.08	No

7) OTHER SHAREHOLDING INFORMATION

The following pages detail other share movements and share information for 2011.

Share options

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

Movements in year

Name		**Share options 1 Jan 2011**	Options (lapsed)/ granted	**Share options 31 Dec 2011**	Exercise price (p)	Earliest exercise date	Latest exercise date
Tim Breedon	SAYE	**–**	–	**–**	0.00		
	CSOP	**35,149**	–	**35,149**	85.35	24/05/2013	23/06/2013
	ESOS	**–**	–	**–**	0.00		
Nigel Wilson	CSOP	**35,149**	–	**35,149**	85.35	24/05/2013	23/06/2013
Mark Gregory	SAYE	**27,767**	–	**27,767**	56.00	01/10/2014	31/03/2015
	CSOP	**35,149**	–	**35,149**	85.35	24/05/2013	23/06/2013
	ESOS	**–**	–	**–**	0.00		
John Pollock	SAYE	**17,038**	–	**17,038**	98.60	01/05/2013	31/10/2013
	CSOP	**35,149**	–	**35,149**	85.35	24/05/2013	23/06/2013
	ESOS	**–**	–	**–**	0.00		

The SAYE scheme is approved by HMRC and, in accordance with the relevant legislation, has no performance conditions.

The CSOP options are linked to SBP and do not represent additional value to the participant.

No share options lapsed or were exercised in 2011. The Company's register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and share options.

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

Share bonus plan – outstanding awards

	Awards outstanding at 1 January 2011	**Awards granted in 2011**	**Awards vesting in 2011**	**Awards outstanding at 31 December 2011**
Tim Breedon	**517,557**	**283,827**	**179,245**	**622,139**
Nigel Wilson	**829,456**	**188,052**	**253,649**	**763,859**
John Pollock	**194,870**	**117,585**	**66,037**	**246,418**
Mark Gregory	**192,542**	**117,585**	**31,446**	**278,681**

The above table contains outstanding SBP awards which includes the Company's bonus deferral arrangements and Nigel Wilson's outstanding recruitment award. Participants receive dividends on outstanding awards.

Nigel Wilson's recruitment award

Date of award	Number of shares	Date of vesting
16 October 2009	253,649	16 October 2011
16 October 2009	253,649	16 October 2012
16 October 2009	253,650	16 October 2013

[1] The awards are generally contingent on Nigel Wilson retaining the 760,948 shares he bought on 16 October 2009.
[2] The awards were made when the share price was 88p.
[3] Full details of the rationale for these awards are set out on page 64 of the 2009 Report.
[4] The shares that vested on 16 October 2011 vested at a price of 1.0265p. On vesting, Nigel Wilson retained the shares.

DIRECTORS' REPORT ON REMUNERATION.

Performance share plan

Name	Awards granted	Maximum award receivable for stretch performance	Awards vesting	Awards lapsing	**Maximum outstanding awards as at 31 December 2011**
Tim Breedon	29-Apr-2008	1,210,688	200,974	1,009,714	**–**
	06-May-2009	1,984,536	–	–	**1,984,536**
	04-May-2010	1,839,484	–	–	**1,839,484**
	27-Apr-2011	1,385,934	–	–	**1,385,934**
Nigel Wilson	16-Oct-2009	1,194,539	–	–	**1,194,539**
	04-May-2010	1,256,004	–	–	**1,256,004**
	27-Apr-2011	943,396	–	–	**943,396**
Mark Gregory	29-Apr-2008	274,212	45,519	228,693	**–**
	06-May-2009	798,969	–	–	**798,969**
	04-May-2010	843,585	–	–	**843,585**
	27-Apr-2011	686,106	–	–	**686,106**
John Pollock	29-Apr-2008	581,760	96,572	485,188	**–**
	06-May-2009	953,608	–	–	**953,608**
	04-May-2010	937,316	–	–	**937,316**
	27-Apr-2011	706,003	–	–	**706,003**

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

The share price on the date of grant for the 2011 awards was 116.6p. These awards vest on the third anniversary of the award date, subject to the satisfaction of performance conditions.

The awards granted in 2009, 2010 and 2011 were restructured as nil cost options during 2011 to permit exercise of the options at any point between the vesting date and the fifth anniversary of grant. There has been no amendment to the original performance conditions or performance period as a result of this change.

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

Details of how awards vested and latest position for outstanding awards

Performance share plan (PSP)

The 2008 PSP vested in April 2011 at 16.6% of the total award (200%). The TSR conditions were not met for the half of the award that was based on the FTSE 100 and vested only to the extent of 16.6% in relation to the bespoke benchmark.

For information, the 2009 award of PSP is forecast to vest in full in May 2012. However, in line with the ABI guidelines, the 2009 award was reduced from the maximum award of 200% to 150% to reflect the economic environment and the fall in share price at the time. In line with policy, the Committee has also carefully reviewed the Company's underlying performance over the performance period to March 2012. This has included considerations of partnerships entered into and maintained, cost management, capital management and risk. The Committee feels the Company performance has been strong over the period and currently sees no reason not to allow the PSP to vest in accordance with the TSR out-turn. However, the Committee will review the final vesting again once the performance period has ended.

Grant date	Performance period	TSR ranking versus FTSE 100	Final Results FTSE 100	Bespoke	Percentage of total award vesting
29 April 2008	29/04/2008-28/04/2011	55.68	0%	16.6%	16.6%

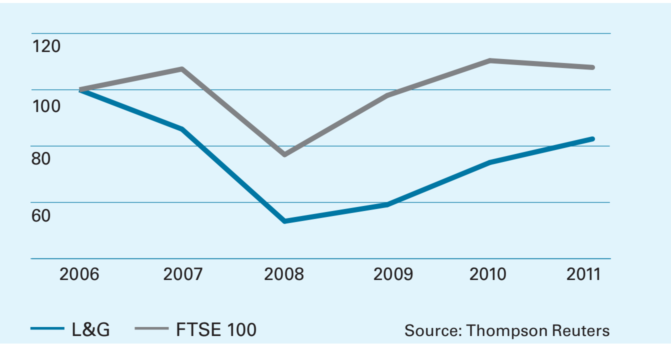
Grant date	Forecasted Results FTSE 100	Bespoke	Percentage of total award vesting
6 May 2009-Performance to 31 December 2011	50%	50%	100%
16 October 2009-performance to 31 December 2011[1]	50%	50%	100%
4 May 2010-performance to 31 December 2011	45.20%	50%	95.20%
27 April 2011-performance to 31 December 2011	0%	45.30%	45.30%

[1] In relation to Nigel Wilson's recruitment award; it follows the same performance period as the award granted on 6 May 2009.

Five-year total shareholder return

The chart shows the value, as at 31 December 2011, of a £100 investment in Legal & General shares on 31 December 2006, 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 (at 31 December 2011)



Other share purchases

The changes in the directors' share interests between 31 December 2011 and 13 March 2012, being the date of approval of this report. The executive directors' share purchases were made pursuant to their participation in the Employee Share Plan:

2012 Name	3 January	1 February	1 March
Tim Breedon	139	124	118
Nigel Wilson	139	124	118
Mark Gregory	139	124	118
John Pollock	139	124	118

The following non-executive directors acquired shares pursuant to the regular monthly purchase of shares as part of their remuneration:

2012 Name	3 January	1 February	1 March
John Stewart	6,485	5,785	5,538
Henry Staunton	4,495	–	–
Rudy Markham	1,925	1,717	1,644
Nick Prettejohn	2,410	2,150	2,058
Mike Fairey	1,718	1,532	1,467
Dame Clara Furse	1,487	1,326	1,269
Stuart Popham	1,718	1,532	1,467
Julia Wilson	2,579	1,326	1,269

DIRECTORS' REPORT ON REMUNERATION.

All employee share schemes

There are share schemes for all UK employees. Executive directors are entitled to participate on the same terms as all UK employees in the Savings-Related Share Option Scheme and the Employee Share Plan, both of which are approved by HMRC. Each year the Committee considers a grant of Group Performance Shares (Freeshares) after the annual results are known to tie any award more closely to company performance. For performance in relation to 2011, the Committee has agreed a grant of 410 shares to each employee (for 2010 performance this was 475 shares).

Dilution limits

The Company's all-employee plans and the now-closed ESOS operate within the ABI's dilution limit of 5% in ten years for executive schemes and all its plans will operate within the 10% in ten years limit for all schemes.

As at 31 December 2011, the Company had 4.69% share capital available under the 5% in ten years limit, and 8.49% share capital under the 10% in ten years limit.

As 31 December 2011, 37,352,912 shares were held by the Employee Benefit Trust to hedge outstanding awards of 66,089,897 shares for the PSP and SBP. This means that the Trust holds 56.5% of outstanding awards.

8) OTHER BENEFITS

Pensions

On retirement from Legal & General at age 60 and subject to statutory limits, executive directors have pension entitlement as follows:

Mark Gregory: one-sixtieth of his eligible pensionable salary (which is lower than actual base salary as only the lower of actual salary increases and 2.5% has been credited since January 2009) for each year of eligible service subject to him continuing his 5% of pensionable salary contribution. Mark left these defined benefit arrangements at the end of April 2011 and joined the defined contribution scheme. He is entitled to a Company contribution of 15% of his pensionable salary if he also contributes 5%. Any balance over and above the Annual Allowance limit is paid in cash and is subject to normal payroll deductions of income tax and National Insurance. This cash allowance is shown in the table on page 67.

Tim Breedon and John Pollock: one-sixtieth of eligible pensionable salary for each year of service through to the date they opted for enhanced protection in 2006.

Nigel Wilson: Nigel is a member of the Group's defined contribution arrangements. He is entitled to a Company contribution of 15% of his pensionable salary if he also contributes 5%. Any balance over and above the Annual Allowance limit is paid in cash and is subject to normal payroll deductions of income tax and National Insurance. This cash allowance is shown in the table on page 67.

Bonus sacrifice into pension

Executive directors, like all managers, may elect, before its award, to sacrifice all or part of their cash bonus into pension. The opportunity for bonus sacrifice is at the discretion of the Company and is reviewed each year.

Death in service

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 member leaving service.

Pension entitlements

Name	Age at 31 December 2011	Increase (decrease) in accrued pension in 2011 £'000	Accumulated accrued pension at 31 December 2011 £'000	Transfer value of accrued benefits at 31 December 2011 £'000	Transfer value of accrued benefits at 31 December 2010 £'000	Increase/ (decrease) net of employee contributions in 2011 £'000
Tim Breedon	53	12	287	6,407	5,553	567
John Pollock	53	8	179	3,954	3,412	364
Mark Gregory[1]	48	3	36	641	543	35
Nigel Wilson[2]	55	–	–	–	–	–

The increase in accrued pension during the year excludes any increase for inflation.

[1] Mark Gregory left the defined benefit plan on 30 April and joined the defined contribution plan. The Company contributed £36,186 into his fund from May to December 2011 (includes his 5% contribution).
[2] Nigel Wilson is a member of the defined contribution arrangement. The Company contributed £70,071 into his fund in 2011 (includes his 5% contribution). The contribution in 2010 was £110,879.

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

9) OTHER GENERAL INFORMATION

Directors' loans

At 31 December 2011 there were no loans outstanding to directors; (2010 was also nil).

Service contracts

Executive Director	Contract commencement date	Continuous employment date
Tim Breedon	January 2002	September 1987
Nigel Wilson	September 2009	September 2009
John Pollock	November 2003	September 1980
Mark Gregory	January 2009	August 1998

Tim Breedon and John Pollock have a notice period of six months on either side and on termination they would be entitled to an additional six months' salary, pension and car allowance entitlement.

Mark Gregory and Nigel Wilson have notice periods of 12 months. However, they have 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.

Copies of the executive directors' service contracts are available for inspection at the Company's registered office.

DIRECTORS' REPORT ON REMUNERATION.

External appointments

The Company considers that certain external appointments can help to broaden the experience and contribution to the Board of the executive directors. Any such appointments are subject to annual agreement by the Company and must not be with competing companies. Subject to the Company's agreement, any fees may be retained by the individual.

Tim Breedon is chairman and an unpaid Board member of the ABI. He is also an ex officio (ABI) member of the Takeover Panel. During 2011 he was appointed Chairman of a UK Government Taskforce set up to examine structural and behavioural barriers to raising non-bank finance.

Nigel Wilson is the Senior Independent Director (SID) at Capita with a fee of £70,000 pa. Mark Gregory is an unpaid Director of Westdown Park Management Company Ltd. John Pollock is on the Financial Services Practitioner Panel.

The Directors' Report on Remuneration was approved by the directors on 13 March 2012.

RUDY MARKHAM
CHAIRMAN OF THE REMUNERATION COMMITTEE

INDEPENDENT VERIFICATION REVIEW

FIT Remuneration Consultants LLP (FIT) act as advisers to the Remuneration Committee. FIT has no other business relationship with Legal & General other than it has its stakeholder pension arrangements with the Company. During 2011, FIT's work with the Committee included assisting with the review of the executive remuneration structure, benchmarking and lending an external perspective.

FIT were asked to verify that the 2011 remuneration practice for executive directors followed the Remuneration Policy put to the 2011 AGM.

In conducting this work, FIT reviewed the elements of executive director remuneration during 2011, as detailed in the policy statements of the Directors' Report on Remuneration 2010 (DRR 2010). They confirmed that they were satisfied that the remuneration practice during 2011 had been in line with the stated policy set out in the DRR 2010.

OTHER STATUTORY AND REGULATORY INFORMATION.

ARTICLES OF ASSOCIATION

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Articles of Association are available on the Company's website.

CONFLICTS OF INTEREST

In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2011.

POWERS OF DIRECTORS

The directors may exercise all powers of the Company subject to applicable legislation and regulation and the Company's Articles of Association.

SHARE CAPITAL

As at 31 December 2011, the Company's issued share capital comprised 5,872,166,893 Ordinary shares each with a nominal value of 2.5p. Details of the Ordinary share capital can be found in Note 28 to the Financial Statements on page 141.

At the 2011 AGM, the Company was granted authority by shareholders to purchase up to 586,956,997 Ordinary shares, being 10% of the issued share capital of the Company as at 7 April 2011. In the year to 31 December 2011, no shares were purchased by the Company. This authority will expire at this year's AGM. As such, a special resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2011 AGM, the directors were given the power to allot shares up to an amount of £48,913,083, being 33% of the issued share capital of the Company as at 7 April 2011. This authority will also expire at this year's AGM. As such, a special resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

A further resolution is proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 5% of the Company's issued share capital as at 23 March 2012 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

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 shareholders in a general meeting.

INTERESTS IN VOTING RIGHTS

As at 1 March 2012, the Company had been advised of the following significant direct and indirect interests in the issued share capital of the Company:

	Number of ordinary shares of 2.5p	% of capital*	Nature of holding
Schroders Plc	295,651,535	5.03%	Indirect interest
Blackrock Inc.	297,086,901	5.06%	Indirect interest
AXA S.A. and its group of companies	252,871,605	4.31%	Direct & indirect interest
Swiss Reinsurance Company Ltd	230,838,770	3.93%	Direct interest

* Using the voting rights figure announced to the London Stock Exchange on 1 March 2012 of 5,872,569,987.

DIVIDEND

The Company may, by ordinary resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. The directors propose a final dividend for the year ended 31 December 2011 of 4.74p per Ordinary share which, together with the interim dividend of 1.66p per share paid to shareholders on 3 October 2011, will make a total dividend for the year of 6.40p (2010: 4.75p). Subject to shareholder approval at the AGM, the final dividend will be paid on 23 May 2012 to shareholders on the share register on 20 April 2012.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 40 to the Financial Statements on page 163.

OTHER STATUTORY AND REGULATORY INFORMATION.

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 of the Articles of Association can be requested from the Company Secretary at the Company's registered office.

Holders of Ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will 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 Companies Act 2006 and 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 Board can decline to register a 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.

Subject to the provisions of 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 0.64% of the issued share capital of the Company as at 1 March 2012 in trust for the benefit of the executive directors, senior executives and managers of the Group. This includes shares held as nominee on behalf of Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust, which is in the process of being wound up. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, 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.

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 Capita IRG Trustees Limited, which holds 0.46% of the issued share capital of the Company as at 1 March 2012. 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 on 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. The rules of the Company's share plans contain provisions under 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 following a change of control. As at 13 March 2012, 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 is set out on pages 40 and 41. More details on risk management and the financial instruments used are set out in Note 48 of the Financial Statements on page 178.

INDEMNITIES

The Company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. Qualifying pension scheme indemnities (as defined in section 235 of the Companies Act 2006) have been granted, to the extent permitted by law, to certain trustees of the Company's pension schemes. The indemnities were in force throughout 2011 and remain so. Copies of the deeds of indemnity are available for inspection at the Company's registered office and will also be available at the AGM.

CHARITABLE DONATIONS

During the period, the Group made charitable donations amounting to £3.4 million. Details of the Company's charitable activities are set out on pages 46 to 49.

POLITICAL DONATIONS

No political donations were made during 2011.

FORWARD-LOOKING STATEMENTS

The Directors' Report is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the Directors' Report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

INSURANCE

The Company has arranged appropriate Directors' and Officers' Liability insurance for directors. This is reviewed annually.

INDEPENDENT AUDITORS

The Company's auditors have expressed their willingness to continue in office and the Audit Committee has recommended their reappointment to the Board. Resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the directors to determine their remuneration are proposed for the forthcoming AGM.

DIRECTORS' INTERESTS

The Directors' Report on Remuneration on pages 64 to 82 provides details of the interests of each director, including details of current incentive schemes and long-term incentive schemes, the interests of directors in the share capital of the Company and details of their share options, as at 31 December 2011 and the changes in those interests that have occurred between 1 January 2012 and 13 March 2012 (being the date of approval of the Directors' Report on Remuneration).

OTHER STATUTORY AND REGULATORY INFORMATION.

DISCLOSURE OF INFORMATION TO THE COMPANY'S AUDITORS

In accordance with section 418(2) of the Companies Act 2006 each of the directors who held office at the date of approval of this Directors' Report confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each of the directors has taken all reasonable steps they ought to have taken as directors to ascertain any relevant audit information and to ensure that the Company's auditors are aware of such information.

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in the Directors' Report on pages 1 to 43 and 50 to 87. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results on page 10. Principal risks are detailed on pages 42 and 43. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and processes for managing its capital Note 46 (page 170), its financial risk management objectives (Note 48 page 178), details of its financial instruments and hedging activities (Notes 22 and 23 pages 125 to 136) and its exposures to credit risk (Note 48 page 192) and liquidity risk (Note 48 page 182).

The 2012 economic climate remains uncertain. However, based on the available information on the future, 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.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for the foreseeable future. For that reason, they continue to adopt the going concern basis in preparing the accounts.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at 11:00am on Wednesday 16 May 2012 at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the Group financial statements, the directors have also elected to comply with IFRS issued by the International Accounting Standards Board (IASB).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these 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 whether IFRS as adopted by the European Union and IFRS issued by IASB, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 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 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

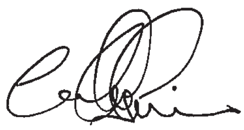
RESPONSIBILITY STATEMENT

Each of the directors listed in the Board of Directors section confirms that to the best of their knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group as a whole; and
(b) the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and Group as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the directors who held office at the date of approval of this Directors' Report confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and each of the directors has taken all reasonable steps they ought to have taken as directors to ascertain any relevant audit information and to ensure that the Company's auditors are aware of such information. This confirmation is given in accordance with section 418(2) of the Companies Act 2006.

By order of the Board



G J TIMMS
COMPANY SECRETARY
13 March 2012

GROUP CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY FINANCIAL STATEMENTS – EUROPEAN EMBEDDED VALUE BASIS

COMPANY FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Members of Legal & General Group Plc

We have audited the group financial statements of Legal & General Group Plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibility, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of Legal & General Group Plc (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement in relation to going concern included in the Corporate Governance Statement;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of Legal & General Group Plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Richard Keers (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 March 2012

Notes:

(a) The financial statements are published on the website of Legal & General Group Plc, 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 2011	Notes	2011 £m	2010 £m
Revenue			
Gross written premiums	3(iv)	**5,719**	5,348
Outward reinsurance premiums		**(620)**	(590)
Net change in provision for unearned premiums		**(18)**	(14)
Net premiums earned		**5,081**	4,744
Fees from fund management and investment contracts	5	**897**	900
Investment return	6	**12,143**	32,671
Operational income	8	**196**	125
Total revenue	3(ii)	**18,317**	38,440
Expenses			
Claims and change in insurance liabilities		**7,173**	7,567
Reinsurance recoveries		**(493)**	(621)
Net claims and change in insurance liabilities	7	**6,680**	6,946
Change in provisions for investment contract liabilities		**9,306**	28,154
Acquisition costs		**780**	770
Finance costs		**165**	168
Other expenses		**1,010**	905
Transfers (from)/to unallocated divisible surplus	32	**(402)**	190
Total expenses		**17,539**	37,133
Profit before tax		**778**	1,307
Tax income/(expense) attributable to policyholder returns	12	**178**	(215)
Profit before tax attributable to equity holders of the Company		**956**	1,092
Total tax expense	12	**(55)**	(487)
Tax (income)/expense attributable to policyholder returns	12	**(178)**	215
Tax expense attributable to equity holders	12	**(233)**	(272)
Profit for the year		**723**	820
Attributable to:			
Non-controlling interests		**(3)**	–
Equity holders of the Company		**726**	820
Dividend distributions to equity holders of the Company during the year	13	**298**	238
Dividend distributions to equity holders of the Company proposed after the year end	13	**279**	201
Earnings per share		**p**	p
Based on profit attributable to equity holders of the Company	14	**12.46**	14.07
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	14	**12.25**	13.88

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011	Notes	2011 £m	2010 £m
Profit for the year		**723**	820
Other comprehensive income after tax			
Exchange differences on translation of overseas operations		**1**	8
Actuarial (losses) on defined benefit pension schemes	36(ii)	**(121)**	(9)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	32	**48**	4
Net change in financial investments designated as available-for-sale		**10**	27
Total comprehensive income for the year		**661**	850
Total comprehensive income/(expense) attributable to:			
Non-controlling interests		**(3)**	–
Equity holders of the Company		**664**	850

CONSOLIDATED BALANCE SHEET

As at 31 December 2011	Notes	2011 £m	2010 £m
Assets			
Purchased interest in long term businesses and other intangible assets	18	**148**	157
Deferred acquisition costs	19	**2,053**	2,000
Investment in associates	44	**60**	57
Plant and equipment	20	**78**	64
Investment property	21	**4,894**	4,571
Financial investments	22	**300,604**	299,570
Reinsurers' share of contract liabilities		**2,289**	2,336
Deferred tax asset	24	**493**	495
Current tax recoverable	25	**94**	–
Other assets	26	**1,893**	1,587
Cash and cash equivalents	27	**14,113**	13,036
Total assets	3(iii)	**326,719**	323,873
Equity			
Share capital	28	**147**	147
Share premium	28	**941**	938
Employee scheme treasury shares	28	**(48)**	(41)
Capital redemption and other reserves		**101**	79
Retained earnings		**4,059**	3,704
Shareholders' equity		**5,200**	4,827
Non-controlling interests	29	**66**	47
Total equity	3(iii)	**5,266**	4,874
Liabilities			
Subordinated borrowings	35	**1,921**	1,897
Participating insurance contracts	30	**8,750**	9,383
Participating investment contracts	31	**7,276**	7,323
Unallocated divisible surplus	32	**1,038**	1,469
Value of in-force non-participating contracts	33	**(242)**	(377)
Participating contract liabilities		**16,822**	17,798
Non-participating insurance contracts	30	**34,006**	31,325
Non-participating investment contracts	31	**251,345**	253,426
Non-participating contract liabilities		**285,351**	284,751
Senior borrowings	35	**1,329**	1,435
Provisions	36	**891**	761
Deferred tax liabilities	24	**403**	356
Current tax liabilities	25	**1**	111
Payables and other financial liabilities	37	**7,643**	5,473
Other liabilities	38	**933**	954
Net asset value attributable to unit holders	39	**6,159**	5,463
Total liabilities	3(iii)	**321,453**	318,999
Total equity and liabilities		**326,719**	323,873

The notes on pages 97 to 196 form an integral part of these financial statements.

The financial statements on pages 91 to 196 and the supplementary financial statements on pages 197 to 220 were approved by the board of directors on 13 March 2012 and were signed on their behalf by:

John Stewart
Chairman

Tim Breedon
Group Chief Executive

Nigel Wilson
Group Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January	147	938	(41)	79	3,704	4,827	47	4,874
Profit for the year	–	–	–	–	726	726	(3)	723
Exchange differences on translation of overseas operations	–	–	–	1	–	1	–	1
Actuarial (losses) on defined benefit pension schemes	–	–	–	–	(121)	(121)	–	(121)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	48	48	–	48
Net change in financial investments designated as available-for-sale	–	–	–	10	–	10	–	10
Total comprehensive income/(expense) for the year	–	–	–	11	653	664	(3)	661
Options exercised under share option schemes:								
– Executive share option schemes	–	1	–	–	–	1	–	1
– Savings related share option scheme	–	2	–	–	–	2	–	2
Shares purchased	–	–	(15)	–	–	(15)	–	(15)
Shares vested	–	–	8	(19)	–	(11)	–	(11)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	27	–	27	–	27
Share scheme transfers to retained earnings	–	–	–	–	3	3	–	3
Dividends	–	–	–	–	(298)	(298)	–	(298)
Movement in third party interests	–	–	–	–	–	–	22	22
Currency translation differences	–	–	–	3	(3)	–	–	–
As at 31 December	147	941	(48)	101	4,059	5,200	66	5,266

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2010	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January	147	936	(38)	41	3,110	4,196	2	4,198
Profit for the year	–	–	–	–	820	820	–	820
Exchange differences on translation of overseas operations	–	–	–	8	–	8	–	8
Actuarial (losses) on defined benefit pension schemes	–	–	–	–	(9)	(9)	–	(9)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	4	4	–	4
Net change in financial investments designated as available-for-sale	–	–	–	27	–	27	–	27
Total comprehensive income for the year	–	–	–	35	815	850	–	850
Options exercised under share option schemes:								
– Executive share option schemes	–	–	–	–	–	–	–	–
– Savings related share option scheme	–	2	–	–	–	2	–	2
Shares purchased	–	–	(11)	–	–	(11)	–	(11)
Shares vested	–	–	8	(18)	–	(10)	–	(10)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	30	–	30	–	30
Share scheme transfers to retained earnings	–	–	–	–	8	8	–	8
Dividends	–	–	–	–	(238)	(238)	–	(238)
Movement in third party interests	–	–	–	–	–	–	45	45
Currency translation differences	–	–	–	(9)	9	–	–	–
As at 31 December	147	938	(41)	79	3,704	4,827	47	4,874

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Profit for the year		**723**	820
Adjustments for non-cash movements in net profit for the year			
Realised and unrealised gains on financial investments and investment properties		**(3,014)**	(23,673)
Investment income		**(8,971)**	(8,787)
Interest expense		**165**	168
Tax expense		**55**	487
Other adjustments		**65**	59
Net decrease/(increase) in operational assets			
Investments held for trading or designated as fair value through profit or loss		**3,736**	(2,958)
Investments designated as available-for-sale		**(29)**	(39)
Other assets		**(1,678)**	(479)
Net increase in operational liabilities			
Insurance contracts		**2,075**	2,746
Transfer (from)/to unallocated divisible surplus		**(431)**	186
Investment contracts		**(2,068)**	20,702
Value of in-force non-participating contracts		**135**	(10)
Other liabilities		**2,243**	4,968
Cash used in operations		**(6,994)**	(5,810)
Interest paid		**(164)**	(167)
Interest received		**5,021**	5,030
Tax paid[1]		**(193)**	(164)
Dividends received		**3,872**	3,818
Net cash flows from operating activities		**1,542**	2,707
Cash flows from investing activities			
Net acquisition of plant and equipment		**(26)**	(17)
Acquisitions (net of cash acquired)[2]	17	**(11)**	(44)
Capital injection into overseas joint ventures	44	**(5)**	(8)
Net cash flows from investing activities		**(42)**	(69)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(298)**	(238)
Proceeds from issue of ordinary share capital		**3**	2
Purchase of employee scheme shares		**(15)**	(11)
Proceeds from borrowings		**1,327**	750
Repayment of borrowings		**(1,428)**	(758)
Net cash flows from financing activities		**(411)**	(255)
Net increase in cash and cash equivalents		**1,089**	2,383
Exchange (losses)/gains on cash and cash equivalents		**(12)**	3
Cash and cash equivalents at 1 January		**13,036**	10,650
Cash and cash equivalents at 31 December	27	**14,113**	13,036

1. Tax comprises UK corporation tax paid of £80m (2010: £59m) and overseas withholding tax of £113m (2010: £105m).
2. Net cash flows from acquisitions include total net identifiable assets acquired of £15m (2010: £52m) less cash and cash equivalents acquired of £4m (2010: £8m).

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 BASIS OF PREPARATION

The presentation of the financial statements has been reformatted in 2011 to enable greater understanding of the financial results and position of the Group. Accounting policies that relate specifically to a balance or transaction are now presented above the relevant numerical disclosure.

Significant Accounting Policies

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 2006 applicable to companies reporting under IFRS. The Group's financial statements also comply with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the IASB. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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

The Group presents its balance sheet in order of liquidity. This is considered to be more relevant than a before and 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 IFRIC interpretation, as detailed in the applicable accounting policies of the Group.

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 the entity operates. 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.

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

Certain 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 2012 or later periods but which the Group has not adopted early. Details of these are contained within Note 19 (Deferred acquisition costs), Note 22 (Financial investments) and Note 43 (Subsidiaries).

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 for the determination of fair values of investment property (Note 21) and unquoted and illiquid financial investments (Note 22); the estimation of deferred acquisition costs (Note 19); tax balances (Notes 12, 24 and 25); and the estimation of insurance and investment contract liabilities (Notes 30 and 31). The basis of accounting for these areas is outlined in the respective notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 BASIS OF PREPARATION (CONTINUED)

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 43). 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. The interests of parties, other than the Group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as ‘Net asset value attributable to unit holders’ (Note 39) in the consolidated balance sheet.

Associates and joint ventures

The Group has interests in associates and joint ventures (Note 44) 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, ‘Investments in associates’, 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.

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). The basis of accounting for these products is outlined in Notes 30 and 31 respectively.

Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION

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

	Notes	2011 £m	2010 £m
From continuing operations			
Risk	(ii)(a)	**561**	560
Savings	(iii)(a)	**128**	115
Investment management	(iv)	**234**	206
International	(v)	**137**	102
Group capital and financing	(vi)	**52**	58
Investment projects[1]		**(56)**	(39)
Operating profit		**1,056**	1,002
Asset related investment variances		**(2)**	185
Other investment variances		**(95)**	(95)
Variation from longer term investment return	(vii)	**(97)**	90
Property losses attributable to non-controlling interests		**(3)**	–
Profit before income tax attributable to equity holders of the Company		**956**	1,092
Tax expense attributable to equity holders of the Company	12	**(233)**	(272)
Profit for the year		**723**	820

1. Investment projects predominantly relates to Solvency II and other strategic investments.

This supplementary operating profit information (one of the Group's key performance indicators) provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

Operating profit for the Risk segment represents the profit from the annuities business (individual and bulk purchase annuities and longevity insurance) and the profit from the housing and protection businesses (general insurance, and individual and group protection business). Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business and on shareholder funds retained within our general insurance business.

Operating profit for the Savings segment represents the profit from the insured Savings businesses (non profit investment bonds and non profit pensions (including SIPPs)), the with-profits transfer and the profit of our Savings investments business. Operating profit for the insured savings business reflects the investment returns that the business expects to make on the financial investments that back this business.

Operating profit for the Investment management and International segments includes a longer term expected investment return on the shareholders' funds within the Investment management and LGN 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 monthly basis. Profits or losses arising from actuarial movements on annuities held by the Group's defined benefit pension schemes are excluded from operating profit. Profits or losses arising on the elimination of own debt holdings are also excluded from operating profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION (CONTINUED)
(ii) Risk
(a) Risk operating profit

	Notes	2011 £m	2010 £m
Annuities[1]		**287**	364
Protection[2]		**242**	207
General insurance[3]	(ii)(f)	**42**	(8)
Other		**(10)**	(3)
Total Housing and Protection		**274**	196
Total Risk operating profit	(ii)(b)	**561**	560

1. The prior year annuities result includes a one-off benefit of £72m resulting from inflation modelling enhancements (see Note (ii)(d)) and an additional £25m in positive new business strain.
2. The protection result includes a £23m positive expense assumption change (see Note (ii)(d)) reflecting lower unit costs due to efficiency improvements.
3. The current year result reflects the benign weather experienced during the year, with actual experience being below the long term expectations. The prior year general insurance result was impacted by two severe cold weather events, which resulted in approximately £30m of additional weather related claims (see Note (ii)(f)).

(b) Analysis of Risk operating profit

	Notes	Annuities 2011 £m	Housing and Protection 2011 £m	Total 2011 £m	Annuities 2010 £m	Housing and Protection 2010 £m	Total 2010 £m
Risk business segment operating profit comprises:							
Operational cash generation		**227**	**255**	**482**	229	210	439
New business strain		**35**	**(66)**	**(31)**	60	(70)	(10)
Net cash generation		**262**	**189**	**451**	289	140	429
Experience variances	(ii)(c)			**22**			67
Changes to valuation assumptions	(ii)(d)			**24**			30
Movements in non-cash items	(ii)(e)			**(86)**			(122)
Other				**–**			(1)
				411			403
Tax gross up				**150**			157
Total Risk operating profit				**561**			560

The annuities and protection (non profit business) operational cash generation represents the expected surplus to be generated in the period from the in-force non profit business which is broadly equivalent to the expected release of profit from the non profit Risk business using best estimate assumptions. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and operational cash generation exclude required solvency margin from the liability calculation as required by the ABI SORP.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

An analysis of the experience variances, valuation assumption changes and non-cash items, all net of tax, is provided below:

(c) Experience variances

	2011 £m	2010 £m
Persistency	(4)	(3)
Mortality/morbidity[1]	(32)	(8)
Expenses	(2)	(1)
Bulk purchase annuity data loading	42	59
Project and development costs	(7)	(9)
Tax[2]	33	37
Other	(8)	(8)
	22	67

1. Mortality/morbidity in 2011 primarily relates to the group protection experience in H1 2011, driven by a number of high value claims. This has trended back to assumptions in H2 2011, and the total impact for the year was £35m.
2. This principally relates to the utilisation of brought forward tax losses.

(d) Changes to valuation assumptions

	2011 £m	2010 £m
Persistency	(1)	(5)
Mortality/morbidity	(1)	(19)
Expenses[1]	28	(9)
Other[2]	(2)	63
	24	30

1. Expenses in 2011 relates to efficiency improvements in protection and annuities leading to lower unit costs. 2010 related to a change in the reserving basis for custodian fees.
2. Prior year Other reflects the £72m benefit from inflation modelling enhancement on the annuity business.

(e) Movements in non-cash items

	2011 £m	2010 £m
Deferred tax	(77)	(125)
Other	(9)	3
	(86)	(122)

(f) General insurance operating profit/(loss)

	Net cash generation 2011 £m	Tax 2011 £m	Operating profit 2011 £m	Net cash generation 2010 £m	Tax 2010 £m	Operating profit 2010 £m
Household[1]	27	10	37	(10)	(4)	(14)
Other business	4	1	5	4	2	6
	31	11	42	(6)	(2)	(8)

1. The current year result reflects the benign weather experienced during the year, with actual experience being below long term expectations. The prior year general insurance result was impacted by two severe cold weather events, which resulted in approximately £30m of additional weather related claims.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION (CONTINUED)

(ii) Risk (continued)

(g) General insurance underwriting result

	2011 £m	2010 £m
Household[1]	23	(27)
Other business	4	5
	27	(22)

1. The current year result reflects the benign weather experienced during the year, with actual experience being below long term expectations. The prior year general insurance result was impacted by two severe cold weather events, which resulted in approximately £30m of additional weather related claims.

(h) General insurance combined operating ratio

	2011 %	2010 %
Household[1]	90	109
Other business	75	77
	88	106

1. The current year result reflects the benign weather experienced during the year, with actual experience being below long term expectations. The prior year general insurance result was impacted by two severe cold weather events, which resulted in approximately £30m of additional weather related claims.

(iii) Savings

(a) Savings operating profit

	Note	2011 £m	2010 £m
Savings investments[1]		23	21
Insured savings[2]		36	31
With-profits[3]		69	63
Total Savings operating profit	(iii)(b)	**128**	115

1. Savings investments operating profit includes £34m (2010: £29m) from our mutual funds business and the results from our structured SIPPs and platform businesses.
2. Insured savings includes non profit investment bonds and pensions (including workplace savings and SIPPs), Nationwide Life Savings business and International (Ireland).
3. With-profits business operating profit is the shareholders' share of total with-profits bonuses.

(b) Analysis of Savings operating profit

	Notes	Insured savings 2011 £m	With-profits 2011 £m	Savings investments 2011 £m	Total 2011 £m
Savings business segment operating profit comprises:					
Operational cash generation		101	51	22	174
New business strain		(63)	–	–	(63)
Net cash generation[1]		38	51	22	111
Insured savings					
Experience variances	(iii)(c)				(12)
Changes to valuation assumptions	(iii)(d)				(5)
Movements in non-cash items	(iii)(e)				6
Other					–
Savings investments					
Movements in non-cash items and other					(6)
					94
Tax gross up					34
Total Savings operating profit					**128**

1. Insured savings net cash generation of £38m (2010: £1m) reflects the benefit of higher fees on higher opening asset values coupled with continued expense savings and commission savings resulting in a lower new business strain.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Notes	Insured savings 2010 £m	With-profits 2010 £m	Savings investments 2010 £m	Total 2010 £m
Savings business segment operating profit comprises:					
Operational cash generation		71	46	21	138
New business strain		(70)	–	–	(70)
Net cash generation		1	46	21	68
Insured savings					
Experience variances	(iii)(c)				10
Changes to valuation assumptions	(iii)(d)				28
Movements in non-cash items	(iii)(e)				(21)
Other					4
Savings investments					
Movements in non-cash items and other					(9)
					80
Tax gross up					35
Total Savings operating profit					115

The insured savings operational cash generation represents the expected surplus generated in the period from the in-force investment bonds and pensions business (non profit Savings) which is broadly equivalent to the expected release of profit from non profit savings business using best estimate assumptions and the IFRS profit after tax of the Nationwide Life Savings business and International (Ireland). The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and operational cash generation exclude required solvency margin from the liability calculation as required by the ABI SORP.

An analysis of the experience variances, valuation assumption changes and non-cash items, all net of tax, is provided below:

(c) Experience variances

	2011 £m	2010 £m
Persistency	**(1)**	(3)
Mortality/morbidity	**2**	1
Expenses	**1**	3
Project and development costs[1]	**(12)**	(4)
Tax	**(4)**	14
Other	**2**	(1)
	(12)	10

1. The 2011 project and development costs related to auto-enrolment £7m, expenditure on distribution channel enhancements of £2m and other costs of £3m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION (CONTINUED)

(iii) Savings (continued)

(d) Changes to valuation assumptions

	2011 £m	2010 £m
Persistency	**(2)**	–
Mortality/morbidity	**1**	2
Expenses	**(2)**	3
Other[1]	**(2)**	23
	(5)	28

1. In 2010, Other assumption changes includes £12m from the recognition of the benefit of tax exempt UK dividend income.

(e) Movements in non-cash items

	Note	2011 £m	2010 £m
Deferred tax		**(6)**	(39)
Deferred acquisition costs (DAC)	(iii)(f)	**(20)**	(16)
Deferred income liabilities (DIL)		**27**	33
Other		**5**	1
		6	(21)

(f) Deferred acquisition cost movement, net of associated deferred tax

	2011 £m	2010 £m
As at 1 January	**612**	628
Amortisation through income	**(74)**	(66)
Acquisition costs deferred	**54**	50
As at 31 December	**592**	612

The Group's balance sheet deferred acquisition costs of £2.1bn (2010: £2.0bn) is presented gross of associated deferred tax. The main contributors to the balance are LGA £1.0bn (2010: £1.0bn), non profit savings of £0.7bn (2010: £0.7bn), retail investments £0.1bn (2010: £0.1bn), savings with-profit £0.1bn (2010: £0.1bn) and other business totalling £0.2bn (2010: £0.1bn).

Expected amortisation profile:	2011 £m	2010 £m
Expected to be amortised within one year	**65**	69
Expected to be amortised between one year and five years	**271**	276
Expected to be amortised in over five years	**256**	267
	592	612

(iv) Investment management

	2011 £m	2010 £m
Pension funds (managed and segregated)	**172**	148
Other non-pension[1]	**25**	20
Investment management services for internal funds	**37**	38
Total Investment management operating profit	**234**	206

1. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £9m (2010: £11m) on an average asset balance of £0.40 bn (2010: £0.37bn) has been included within other non-pension operating profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(v) International

	2011 £m	2010 £m
USA (LGA)	**104**	85
Netherlands (LGN)	**21**	20
France (LGF)	**20**	6
Total Europe operating profit	**41**	26
Other[1]	**(8)**	(9)
Total International operating profit[2]	**137**	102

1. Other includes our joint venture operations in Egypt, the Gulf, India and divisional overhead costs of £5m (2010: £5m).
2. In the year, the International division paid £51m (2010: £44m) of sustainable dividends to the Group, which has been included in net cash generation. In addition, the LGN business paid a special dividend of £29m and the LGA business remitted a further £52m of capital representing the repatriation of profits in 2010 from the redemption of external debt during the first quarter of 2011. These amounts have been excluded from the Group's net cash generation.

Exchange rates are provided in Note 11.

(vi) Group capital and financing

	2011 £m	2010 £m
Investment return[1]	**191**	187
Interest expense[2]	**(123)**	(121)
Investment expenses	**(5)**	(3)
Unallocated corporate expenses	**(11)**	(5)
Total Group capital and financing operating profit	**52**	58

1. The increase in the average Group capital and financing assets has resulted in an increase in the smoothed investment return to £191m (2010: £187m). The smoothed investment return is calculated asset class by asset class and equates to an average smoothed investment return of 4.7% (2010: 5.8%) on the average balance of invested assets of £4.0bn (2010: £3.2bn). In GCF, the rate used to calculate the smoothed return on cash and LIBOR benchmarked bonds has been reduced. The cash rate previously used of 4% has been replaced with a 1 year LIBOR of 1%. This ensures our operating profit and cash metric maintains relevance in current macroeconomic conditions. This change has reduced operating profit by £52m, with an opposite impact on investment variance, and operational cash generations by £38m. It is our intention to continue with this prudent view in 2012.
2. Interest expense excludes interest on non recourse financing (see Note 35).

(vii) Variation from longer term investment return

	2011 £m	2010 £m
Risk[1]	**172**	102
Savings[2]	**13**	4
Investment management	**(7)**	(8)
International[3]	**(21)**	35
GCF asset related[4]	**(159)**	52
Asset related investment variances	**(2)**	185
Savings other investment variance[5]	**(47)**	(58)
Treasury related[6]	**(68)**	(72)
Defined benefit pension scheme[7]	**20**	35
Other investment variances	**(95)**	(95)
Total variation from longer term investment return	**(97)**	90

1. The positive investment variance has increased to £172m (2010: £102m). The contributing factors are: improved asset diversity which increased the risk adjusted yield, for example, sale and leaseback; no defaults in the portfolio; improved asset liability matching, for example, reinvestment into longer duration bonds; more efficient cash management and small one-off benefits from tax and interest rate movements.
2. The positive Savings asset related investment variance was driven by movements in the gilt portfolio backing non-linked reserves.
3. The International investment variance has arisen in LGN. The variance is caused by temporary timing differences in the valuation of the assets against the liabilities on the index linked margin business. The variance should be broadly neutral over the longer term.
4. The GCF asset related investment variance was primarily driven by a fall in equity markets which contributed £(139)m to the adverse investment variance. In GCF, the rate used to calculate the smoothed return on cash and LIBOR benchmarked bonds has been reduced. The cash rate previously used of 4% has been replaced with a 1 year LIBOR of 1%. This ensures our operating profit and cash metric maintains relevance in current macroeconomic conditions. This change has reduced operating profit by £52m, with an opposite impact on investment variance, and operational cash generation by £38m. It is our intention to continue with this prudent view in 2012.
5. Savings business other investment variance is primarily the difference between IFRS deferred policyholder tax and the amount included within the unit linked life funds.
6. Treasury related investment variance relates to derivative contracts which have not been designated within hedge accounting relationships resulting in short term income statement volatility which, in 2011, resulted in a decrease in the relevant long term interest rates.
7. The defined benefit pension scheme investment variance includes the actuarial gains and losses and valuation difference arising on annuity assets held by the defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENTAL ANALYSIS

The Group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating segments', 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.

Reportable 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, longevity 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, retail platform businesses, and all with-profits products.

The Investment management segment comprises institutional fund management and LGIM America (LGIMA).

The International segment comprises Legal & General America (LGA), Legal & General France (LGF), Legal & General Netherlands (LGN) as well as our joint ventures in 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.

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 supplementary operating profit before tax. Segmental IFRS supplementary 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(i) Operating profit/(loss)

For the year ended 31 December 2011	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing[1] £m	Total £m
Operating profit/(loss)	**561**	**128**	**234**	**137**	**(4)**	**1,056**
Variation from longer term investment return[2]	**172**	**(34)**	**(7)**	**(21)**	**(207)**	**(97)**
Property losses attributable to non-controlling interests	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Profit/(loss) from continuing operations before tax	**733**	**94**	**227**	**116**	**(214)**	**956**
Tax (expense)/credit attributable to equity holders of the Company	**(193)**	**(22)**	**(44)**	**(41)**	**67**	**(233)**
Profit/(loss) for the year after tax	**540**	**72**	**183**	**75**	**(147)**	**723**

For the year ended 31 December 2010	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing[1] £m	Total £m
Operating profit	560	115	206	102	19	1,002
Variation from longer term investment return[2]	102	(54)	(8)	35	15	90
Property losses attributable to non-controlling interests	–	–	–	–	–	–
Profit from continuing operations before tax	662	61	198	137	34	1,092
Tax (expense)/credit attributable to equity holders of the Company	(184)	(18)	(41)	(37)	8	(272)
Profit for the year after tax	478	43	157	100	42	820

1. For segmental purposes, Investment projects of £56m (2010: £39m) have been included in Group capital and financing.
2. Additional information concerning the Variation from longer term investment return is provided in Note 2(vii).

(ii) Revenue

For the year ended 31 December 2011	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Internal revenue	**–**	**49**	**145**	**18**	**(212)**	**–**
External revenue	**5,967**	**1,569**	**9,447**	**1,079**	**255**	**18,317**
Total revenue	**5,967**	**1,618**	**9,592**	**1,097**	**43**	**18,317**

For the year ended 31 December 2010	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Internal revenue	–	46	128	–	(174)	–
External revenue	5,547	6,403	24,922	1,236	332	38,440
Total revenue	5,547	6,449	25,050	1,236	158	38,440

Total revenue includes investment return of £12,143m (2010: £32,671m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENTAL ANALYSIS (CONTINUED)
(iii) Consolidated balance sheet

As at 31 December 2011	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing[2] £m	Total £m
Assets						
Deferred acquisition costs	52	908	–	1,093	–	2,053
Investment in associates	4	22	–	34	–	60
Investment property	486	2,146	1,077	5	1,180	4,894
Financial investments	29,591	41,059	223,135	6,463	356	300,604
Reinsurers' share of contract liabilities	1,726	1,717	–	312	(1,466)	2,289
Other assets	1,333	638	1,115	1,682	(2,062)	2,706
Cash and cash equivalents	432	2,378	2,024	377	8,902	14,113
Total assets	33,624	48,868	227,351	9,966	6,910	326,719
Shareholders' equity	154	155	351	1,407	3,133	5,200
Non-controlling interests	–	–	–	–	66	66
Total equity	154	155	351	1,407	3,199	5,266
Liabilities						
Subordinated borrowings	–	–	–	–	1,921	1,921
Participating contract liabilities	–	14,402	–	2,421	–	16,823
Non-participating contract liabilities	27,892	32,311	222,342	3,548	(742)	285,351
Senior borrowings[1]	–	240	–	286	803	1,329
Other liabilities	5,578	1,760	4,658	2,304	1,729	16,029
Total liabilities	33,470	48,713	227,000	8,559	3,711	321,453
Total equity and liabilities	33,624	48,868	227,351	9,966	6,910	326,719

1. Includes non recourse financing.
2. Group capital and financing includes inter-segmental eliminations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2010	Risk £m	Savings £m	Investment management £m	International £m	Group capital and financing[2] £m	Total £m
Assets						
Deferred acquisition costs	44	920	–	1,036	–	2,000
Investment in associates	4	21	–	32	–	57
Investment property	130	2,246	832	6	1,357	4,571
Financial investments	25,194	43,216	223,657	6,733	770	299,570
Reinsurers' share of contract liabilities	1,733	1,178	–	299	(874)	2,336
Other assets	903	750	821	1,822	(1,993)	2,303
Cash and cash equivalents	259	2,450	2,599	477	7,251	13,036
Total assets	28,267	50,781	227,909	10,405	6,511	323,873
Shareholders' equity	123	142	324	1,664	2,574	4,827
Non-controlling interests	–	–	–	–	47	47
Total equity	123	142	324	1,664	2,621	4,874
Liabilities						
Subordinated borrowings	–	–	–	–	1,897	1,897
Participating contract liabilities	–	15,351	–	2,447	–	17,798
Non-participating contract liabilities	24,868	32,963	223,940	3,625	(645)	284,751
Senior borrowings[1]	–	248	1	344	842	1,435
Other liabilities	3,276	2,077	3,644	2,325	1,796	13,118
Total liabilities	28,144	50,639	227,585	8,741	3,890	318,999
Total equity and liabilities	28,267	50,781	227,909	10,405	6,511	323,873

1. Includes non recourse financing.
2. Group capital and financing includes inter-segmental eliminations.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SEGMENTAL ANALYSIS (CONTINUED)

(iv) Gross written premiums on insurance contracts

Gross written premium is the total written by the Group before deductions for reinsurance.

Long term insurance premiums are recognised as revenue when due for payment. General insurance 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.

Premiums received relating to investment contracts are not recognised as revenue, but are included in the balance sheet investment contract liability.

	2011 £m	2010 £m
From continuing operations		
Risk		
Non-participating Risk business	**3,778**	3,309
General insurance		
– Household	**283**	259
– Other business	**21**	22
Total Risk	**4,082**	3,590
Savings		
Non-participating Savings business	**40**	41
Participating business	**488**	609
Total Savings	**528**	650
International		
USA (LGA)	**522**	502
Netherlands (LGN)	**194**	227
France (LGF)	**393**	379
Total International	**1,109**	1,108
Total gross written premiums	**5,719**	5,348

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 NEW BUSINESS (GROSS OF REINSURANCE)

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. This 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 2011 £m	Single 2011 £m	Annual 2010 £m	Single 2010 £m
Protection	**177**	**–**	175	–
Annuities[1]	**–**	**2,515**	–	2,065
Longevity insurance	**70**	**–**	–	–
Total Risk	**247**	**2,515**	175	2,065
Investments[2]	**68**	**6,200**	26	6,169
Insured	**244**	**2,015**	299	1,795
With-profits	**69**	**525**	71	608
Total Savings	**381**	**8,740**	396	8,572
International				
USA (LGA)	**69**	**–**	52	–
Netherlands (LGN)	**5**	**95**	6	124
France (LGF)	**24**	**278**	22	297
India (26% share)	**5**	**22**	13	7
Egypt (55% share)	**9**	**–**	10	–
Gulf (50% share)	**2**	**5**	–	–
	742	**11,655**	674	11,065
Investment management				
UK managed pension funds[3]				
– Pooled funds		**22,094**		19,898
– Segregated funds		**4,676**		5,756
		26,770		25,654
Limited partnerships		**128**		229
Other funds[4]	**–**	**6,583**	1	8,210
	–	**33,481**	1	34,093
Total new business	**742**	**45,136**	675	45,158
Comprising:				
Insurance contracts				
– Participating	**3**	**1,072**	1	1,236
– Non-participating	**359**	**1,872**	276	1,372
Investment contracts				
– Participating	**2**	**280**	2	281
– Non-participating	**310**	**3,062**	369	2,658
Savings – investments (including France retail investment business)	**68**	**5,369**	26	5,518
Investment management	**–**	**33,481**	1	34,093
Total new business	**742**	**45,136**	675	45,158

1. Risk annuity new business includes those premiums written in the with-profits fund of £24m (2010: £26m). For segmental profit reporting these contracts are incorporated with all other with-profits business in the Savings segment on the basis of materiality.
2. Savings investments excludes institutional investments which are disclosed in Other funds.
3. Excludes £4.1bn (2010: £5.9bn) which is held on a temporary basis, generally as part of portfolio reconstructions.
4. Other funds comprises Legal & General Investment Management (segregated property, property partnerships, private equity partnerships), of £5,946m (2010: £6,759m) and Legal & General Retail Investments (institutional funds) of £637m (2010: £1,452m). Due to the expected volatility of gross new business inflows into the sterling/euro liquidity funds, these are now excluded. This resulted in a reduction of £492m in 2010.

The UK pooled managed funds of £22.1bn (2010: £19.9bn) reported above are classified as fund management contracts. The increase in the fair value of the investment contract liabilities is shown in the income statement. There are three classes of new business for conventional individual protection where there is a material difference between gross and net of reinsurance annualised new business premiums: term assurance, which is 26.8% reinsured (2010: 36.6%); whole of life assurance, which is 21.5% reinsured (2010: 18.1%); and income protection, which is 62.0% reinsured (2010: 63.1%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 FEES FROM FUND MANAGEMENT AND 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.

The Group earns fees from the provision of investment management services, typically based on the level of assets under management.

6 INVESTMENT RETURN

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. 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 fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The Group earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders, and as Group capital.

	2011 £m	2010 £m
Dividend income	**3,945**	3,816
Interest income on financial investments at fair value through profit or loss	**4,833**	4,913
Other investment income/(expense)	**49**	(50)
Gains on financial investments at fair value through profit or loss	**1,685**	23,039
Gains on derivative instruments (designated as held for trading)	**1,221**	427
Realised gains on available-for-sale financial assets	**43**	19
Losses on loans and receivables	**(7)**	(4)
Financial investment return[1]	**11,769**	32,160
Rental income	**334**	327
Fair value gains on properties	**40**	184
Property investment return	**374**	511
Investment return	**12,143**	32,671

1. Interest income of £71m (2010: £87m) arose on financial investments designated as AFS. There were no impairments on assets classified as AFS during the year (2010: £nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 NET CLAIMS AND CHANGE IN INSURANCE LIABILITIES

Insurance claims are paid in accordance with the individual policy terms typically arising from an insured event.

Long term insurance

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 long term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

General insurance

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, 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.

	Long term insurance 2011 £m	**General insurance 2011 £m**	**Total 2011 £m**	Long term insurance 2010 £m	General insurance 2010 £m	Total 2010 £m
Claims paid						
– gross	**4,823**	**179**	**5,002**	4,552	161	4,713
– reinsurance recoveries	**(485)**	**(1)**	**(486)**	(444)	(3)	(447)
	4,338	**178**	**4,516**	4,108	158	4,266
Change in insurance liabilities						
– gross	**2,205**	**(34)**	**2,171**	2,837	17	2,854
– reinsurance recoveries	**(7)**	**–**	**(7)**	(176)	2	(174)
Net claims and change in insurance liabilities	**6,536**	**144**	**6,680**	6,769	177	6,946

The roll-forward of the insurance contract liabilities is provided in Note 30.

8 OTHER OPERATIONAL INCOME AND EXPENSE

Operational income comprises fee income from estate agency operations, agency fee income relating to distribution services and revenue of £164m (2010: £89m) from consolidated private equity investments. Operational income is accounted for when due.

Other expenses comprise:	Notes	**2011 £m**	2010 £m
Staff costs (including pensions and share-based payments)	10	**479**	459
Redundancy costs		**6**	3
Operating lease rentals[1]		**24**	23
Auditors' remuneration	9	**6**	5
Depreciation of plant and equipment	20	**13**	16
Amortisation of purchased interest in long term businesses and other intangibles	18	**26**	27
Reinsurance commissions		**(7)**	(10)
Direct operating expenses arising from investment properties which generate rental income		**35**	38
Expenses attributable to consolidated private equity investment vehicles[2]		**174**	90
Other administrative expenses		**254**	254
Total other expenses		**1,010**	905

1. 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.
2. Expenses attributable to consolidated private equity investment vehicles has increased due to the acquisition of Snow + Rock Sports Limited and Amber Taverns Limited in September and October 2010 respectively and the acquisition of ABI (UK) Group Limited in November 2011.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 AUDITORS' REMUNERATION

The Company has adopted statutory instrument 2011/2198 pertaining to the disclosure of auditors' remuneration. This has resulted in a change in segmental presentation for 2010 and 2011 total remuneration.

	2011 £m	2010 £m
Remuneration receivable by the Company's auditor for the audit of the consolidated and Company financial statements	**1.0**	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:		
The audit of the Company's subsidiaries	**2.2**	2.1
Audit related assurance services	**0.9**	0.8
Other assurance services	**0.1**	–
Tax compliance services	**0.1**	0.1
Other tax services	**0.5**	0.6
Other services not covered above	**1.6**	0.5
Total remuneration	**6.4**	5.2

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 £32k (2010: £53k).

10 EMPLOYEE INFORMATION

	2011	2010
Average number of staff employed during the year:		
UK	**7,231**	7,275
Europe	**405**	395
USA	**422**	401
Total excluding consolidated private equity investment vehicles	**8,058**	8,071
Consolidated private equity investment vehicles[1]	**1,080**	591
Worldwide employees	**9,138**	8,662

	Notes	2011 £m	2010 £m
Salaries		**332**	316
Social security costs		**41**	38
Share-based incentive awards	16	**22**	20
Defined benefit pension costs	36	**47**	50
Defined contribution pension costs	36	**37**	35
Total excluding consolidated private equity investment vehicles		**479**	459
Consolidated private equity investment vehicles[1]		**24**	12
		503	471

1. The private equity investment vehicles are controlled by virtue of majority holdings owned by the with-profits part of the LTF. The increase in average employees during the year was driven by the acquisition of Snow + Rock Sports Limited and Amber Taverns Limited in September 2010 and October 2010 respectively. The £24m (2010: £12m) costs of employment for private equity investment subsidiaries primarily comprise salaries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 FOREIGN EXCHANGE AND EXCHANGE RATES

Foreign exchange gains and losses are recognised in the income statement, except when recognised in equity as qualifying cash flow or net investment hedges.

Profit for the year includes foreign exchange losses of £3m (2010: loss of £8m) arising on the conversion of monetary assets and liabilities to these functional currencies.

Principal rates of exchange used for translation are:

Year end exchange rates	2011	2010
United States Dollar	**1.55**	1.57
Euro	**1.20**	1.17

Average exchange rates	01.01.11 – 31.12.11	01.01.10 – 31.12.10
United States Dollar	**1.60**	1.55
Euro	**1.15**	1.17

12 TAX

The tax shown in the income statement comprises current and deferred tax.

Current Tax

Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

Deferred Tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items recognised in other comprehensive income.

For presentation, the tax shown in the income statement has been apportioned between that attributable to policyholders' returns and equity holders' profits.

For this apportionment, the equity holders' tax on certain long term business is estimated using equity holders' profit after tax, which is grossed up at the statutory tax rate. For the remaining long term business, the effective tax rate for that entity is used. The balance of income tax associated with UK long term business is classified as income tax attributable to policyholders' returns.

The judgements made in arriving at tax balances in the financial statements are discussed in Notes 24 and 25 where relevant.

Tax Rates

Following the 2010 Budget announcement, the rate of UK corporation tax is expected to reduce progressively to 23% by 1 April 2014. To calculate the current tax on UK profits, the rate of tax used is 26.5% (2010: 28%), which is the UK average rate of corporation tax applicable for the year.

The UK rate of tax used for the calculation of deferred tax is 25% (2010: 27%), which is the rate of corporation tax that is expected to apply when the differences as mentioned above reverse. This rate will apply from 1 April 2012 (2010: 1 April 2011) onwards.

To calculate current and deferred tax on overseas profits, the relevant tax rates applicable in those countries have been applied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 TAX (CONTINUED)

	Note	2011 £m	2010 £m
Current tax		**89**	167
Deferred tax			
– Movement in temporary differences		**(6)**	341
– Reduction in UK corporate tax rate to 25% (2010: 27%)		**6**	5
Total deferred tax[1]	24	**–**	346
Adjustment to equity holders' tax in respect of prior years		**(34)**	(26)
Total tax		**55**	487
Less tax attributable to policyholder returns		**178**	(215)
Tax attributable to equity holders		**233**	272

1. £60m deferred tax charge is included within 'Adjustment to equity holders' tax in respect of prior years' as a deferred tax prior year adjustment.

The tax attributable to equity holders differs from the tax calculated at the standard UK corporation tax rate as follows:

	2011 £m	2010 £m
Profit before tax attributable to equity holders	**956**	1,092
Tax calculated at 26.5% (2010: 28%)	**253**	306
Effects of:		
Adjustments in respect of prior years, mainly relating to resolution of tax issues with HMRC	**(34)**	(26)
Differences between taxable and accounting investment gains, e.g. RPI relief	**–**	(16)
Lower tax on Shareholder Retained Capital	**(20)**	(7)
Capital allowances in excess of depreciation	**–**	(2)
Income not subject to tax, such as dividends	**(5)**	(3)
Net write off of prior period tax losses	**15**	–
Higher rate of tax on profits taxed overseas	**12**	10
Expenses not deductible for tax purposes	**5**	8
Impact of reduction in UK corporate tax rate to 25% (2010: 27%) on deferred tax balances	**6**	5
Other	**1**	(3)
Tax attributable to equity holders	**233**	272

Tax calculated on profit before tax at 26.5% (2010: 28%) would amount to £206m (2010: £366m). The difference between this number and the total tax of £55m (2010: £487m) is made up of the reconciling items above, which total £(20)m (2010: £(34)m), and the effect of the apportionment methodology on tax applicable to policyholder returns of £(131)m (2010: £155m).

Equity holders' effective tax rate	2011 %	2010 %
UK	**23.1**	24.3
Overseas	**33.6**	28.7
Total	**24.4**	24.9

Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

Deferred tax recognised directly in equity	2011 £m	2010 £m
Relating to net gains or losses recognised directly in equity	**(16)**	2
Exchange gains	**5**	7
Deferred tax recognised directly in equity	**(11)**	9

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 DIVIDENDS

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.

	Per share 2011 p	**Total 2011 £m**	Per share 2010 p	Total 2010 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**3.42**	**201**	2.73	160
– Current year interim dividend	**1.66**	**97**	1.33	78
	5.08	**298**	4.06	238
Ordinary share dividend proposed[1]	**4.74**	**279**	3.42	201

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

14 EARNINGS PER SHARE

Earnings per share is a measure of the portion of the Group's profit allocated to each outstanding share. It 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 treasury shares. For this purpose, net income is defined as the profit after tax derived from continuing operations.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury 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.

A reconciliation of the earnings and weighted average number of shares used in the calculations is provided below:

(i) Earnings per share

	Profit before tax 2011 £m	**Tax expense 2011 £m**	**Profit after tax 2011 £m**	**Earnings per share 2011 p**	Profit before tax 2010 £m	Tax expense 2010 £m	Profit after tax 2010 £m	Earnings per share 2010 p
Operating profit	**1,056**	**(269)**	**787**	**13.50**	1,002	(251)	751	12.89
Variation from longer term investment return	**(97)**	**42**	**(55)**	**(0.94)**	90	(16)	74	1.27
Impact of change in UK tax rates	**–**	**(6)**	**(6)**	**(0.10)**	–	(5)	(5)	(0.09)
Earnings per share based on profit attributable to equity holders	**959**	**(233)**	**726**	**12.46**	1,092	(272)	820	14.07

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 EARNINGS PER SHARE (CONTINUED)

(ii) Diluted earnings per share

(a) Based on operating profit after tax

	Profit after tax 2011 £m	Number of shares[1] 2011 m	Earnings per share 2011 p	Profit after tax 2010 £m	Number of shares[1] 2010 m	Earnings per share 2010 p
Operating profit after tax	**787**	**5,828**	**13.50**	751	5,827	12.89
Net shares under options allocable for no further consideration	**–**	**97**	**(0.22)**	–	79	(0.17)
Diluted earnings per share	**787**	**5,925**	**13.28**	751	5,906	12.72

(b) Based on profit attributable to equity holders

	Profit after tax 2011 £m	Number of shares[1] 2011 m	Earnings per share 2011 p	Profit after tax 2010 £m	Number of shares[1] 2010 m	Earnings per share 2010 p
Profit attributable to equity holders of the Company	**726**	**5,828**	**12.46**	820	5,827	14.07
Net shares under options allocable for no further consideration	**–**	**97**	**(0.21)**	–	79	(0.19)
Diluted earnings per share	**726**	**5,925**	**12.25**	820	5,906	13.88

1. Weighted average number of shares.

The number of shares in issue at 31 December 2011 was 5,872,166,893 (31 December 2010: 5,866,669,323).

15 DISCLOSURE OF TAX EFFECTS RELATING TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME

	Before tax 2011 £m	Tax credited/ (charged) 2011 £m	After tax 2011 £m	Before tax 2010 £m	Tax credited/ (charged) 2010 £m	After tax 2010 £m
Exchange differences on translation of overseas operations	**1**	**–**	**1**	8	–	8
Actuarial (losses)/gains on defined benefit pension schemes	**(136)**	**15**	**(121)**	(12)	3	(9)
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**54**	**(6)**	**48**	5	(1)	4
Net change in financial investments designated as available-for-sale	**16**	**(6)**	**10**	42	(15)	27
Other comprehensive income	**(65)**	**3**	**(62)**	43	(13)	30

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 SHARE-BASED PAYMENTS

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.

(i) Description of schemes

The Group provides a number of equity settled share-based long term incentive plans for directors and eligible employees. Options are normally forfeited if the employee leaves the Group.

The Savings related share option scheme (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. Fair value is calculated using the Black-Scholes model.

Conditional shares can be granted to top managers under the Performance share plan (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 Total Shareholder Return (TSR).

The Company share option scheme (CSOP), approved by HMRC, and unapproved Executive share option scheme (ESOS) are 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 grade, salary and performance. In order for the options to be exercisable, Legal & General's 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. Fair value is calculated using a binomial model, reflecting the historic exercise patterns.

The Share bonus plan (SBP) awards restricted shares and nil-paid options. Recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments.

Under the Employee share plan (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. The fair value of granted shares is equal to the market value at grant date.

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

	SAYE	SAYE	PSP	PSP
Award date	15-Apr-11	1-Sep-11	13-Jan-11	27-Apr-11
Weighted average share price	120p	105p	110p	119p
Weighted average exercise price	88p	79p	n/a	n/a
Expected volatility	45%	45%	n/a	n/a
Expected life	3 – 7 years	3 – 7 years	3 years	3 years
Risk free investment rate	1.8% – 3.2%	0.9% – 2.1%	n/a	n/a
Dividend yield	4.1%	4.5%	n/a	n/a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 SHARE-BASED PAYMENTS (CONTINUED)

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2011 was £22m (2010: £20m) before tax, all of which related to equity settled share schemes. This is broken down between the Group's plans as detailed below.

	2011 £m	2010 £m
Share bonus plan (SBP)	9	8
Performance share plan (PSP)	5	4
Employee share plan (ESP)	4	4
Savings related share option scheme (SAYE)	4	4
Total share-based payment expense	**22**	20

(iii) Outstanding share options

	SAYE Options 2011	Weighted average exercise price 2011 p	CSOP/ESOS Options 2011	Weighted average exercise price 2011 p	SBP Options 2011	Weighted average exercise price 2011 p
Outstanding at 1 January	79,030,152	39	23,678,393	115	325,787	–
Granted during the year	5,116,868	83	3,937,136	116	79,907	–
Forfeited during the year	(1,704,792)	56	(643,719)	114	–	–
Exercised during the year	(3,760,680)	44	(2,006,892)	83	(16,109)	–
Expired during the year	(4,905,894)	43	(6,809,432)	143	(13,371)	–
Outstanding at 31 December	73,775,654	41	18,155,486	107	376,214	–
Exercisable at 31 December	96,201	89	8,139,062	119	–	–
Weighted average remaining contractual life (years)	2		2		9	

Exercised during the year includes 270,002 of options, which are predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2010	Weighted average exercise price 2010 p	CSOP/ESOS Options 2010	Weighted average exercise price 2010 p	SBP Options 2010	Weighted average exercise price 2010 p
Outstanding at 1 January	90,241,779	39	25,531,039	134	–	–
Granted during the year	3,761,470	70	6,967,792	85	330,625	–
Forfeited during the year	(8,434,683)	40	(3,545,279)	136	(4,838)	–
Exercised during the year	(4,157,478)	49	(304,628)	78	–	–
Expired during the year	(2,380,936)	64	(4,970,531)	157	–	–
Outstanding at 31 December	79,030,152	39	23,678,393	115	325,787	–
Exercisable at 31 December	195,033	104	16,911,286	126	–	–
Weighted average remaining contractual life (years)	3		2		10	

Exercised during the year includes 9,563 of CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 92,307,354 shares (2010: 103,034,332 shares) are outstanding under CSOP, ESOS, SAYE and SBP as at 31 December 2011. These options have a range of exercise prices between 0p and 150p (2010: 0p and 150p) and maximum remaining contractual life up to 2021 (2010: 2020).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 ACQUISITIONS BY PRIVATE EQUITY INVESTMENT VEHICLES

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Purchased goodwill is recognised as an asset on the balance sheet and is carried at cost less any accumulated impairment losses in accordance with IAS 36, 'Impairment of Assets'.

Private equity investment vehicles classified as subsidiaries are those entities over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or the date of gaining control.

On 9 November 2011, the Group acquired 60% of the ordinary share capital and £14m of loan notes issued by ABI (UK) Group Limited, a manufacturer of caravans and leisure homes. No goodwill has arisen in respect of this transaction. Investment property is stated at fair value on the acquisition date. Since 9 November 2011, ABI (UK) Group Limited has contributed £1m to Group consolidated profit before tax, before the offsetting change in the unallocated divisible surplus (UDS), due to the Company being owned by the UK with-profits fund. ABI (UK) Group Limited would have contributed £6m to Group consolidated profit before tax (excluding the impact on UDS) if the acquisition had occurred on 1 January 2011.

In 2010 the Group acquired Snow + Rock Limited and Amber Taverns Limited, with no goodwill arising on acquisition.

Acquisition related costs of £3m (2010: £5m) have been recognised within Other expenses in the Consolidated Income Statement.

	2011 £m	2010 £m
Consideration at date of acquisition		
Cash	15	52
Total consideration	15	52
Consideration attributable to purchase of debt instruments	14	47
Consideration attributable to net assets	1	5
	15	52
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value		
Intangibles – brand value	19	39
Property, plant and equipment	–	6
Investment property	3	50
Other assets	26	25
Cash and cash equivalents	4	8
Other liabilities	(14)	(23)
Senior borrowings	(16)	(49)
Other long term liabilities	(7)	(4)
Total identifiable net assets	15	52
Debt instruments issued to consolidated investment vehicles	(14)	(47)
Net assets attributable to equity holders of the Company	1	5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 PURCHASED INTEREST IN LONG TERM BUSINESSES (PILTB) 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.

Intangible assets acquired via business combinations, such as the value of customer relationships, are recognised at fair value and are subsequently amortised over their useful life in line with the expected emergence of profit from the business. Where software costs are separately identifiable and measurable they are capitalised at cost and amortised over their expected useful life.

Purchased interest in long term businesses and other intangible assets 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.

	PILTB insurance contracts 2011 £m	PILTB investment contracts 2011 £m	Other intangible assets 2011 £m	Total 2011 £m	PILTB insurance contracts 2010 £m	PILTB investment contracts 2010 £m	Other intangible assets 2010 £m	Total 2010 £m
Cost								
As at 1 January	**339**	**77**	**54**	**470**	335	77	15	427
Acquisition of subsidiaries	**–**	**–**	**19**	**19**	–	–	39	39
Additions	**–**	**–**	**15**	**15**	–	–	–	–
Net exchange difference	**1**	**–**	**–**	**1**	4	–	–	4
As at 31 December	**340**	**77**	**88**	**505**	339	77	54	470
Amortisation and impairment								
As at 1 January	**(286)**	**(25)**	**(2)**	**(313)**	(263)	(17)	(1)	(281)
Amortisation for the year	**(13)**	**(7)**	**(6)**	**(26)**	(18)	(8)	(1)	(27)
Impairment loss[1]	**–**	**–**	**(15)**	**(15)**	–	–	–	–
Net exchange difference	**(3)**	**–**	**–**	**(3)**	(5)	–	–	(5)
As at 31 December	**(302)**	**(32)**	**(23)**	**(357)**	(286)	(25)	(2)	(313)
Net book value as at 31 December	**38**	**45**	**65**	**148**	53	52	52	157
To be amortised within 12 months				**28**				21
To be amortised after 12 months				**120**				136

1. The impairment loss of £15m (2010: £nil) for the year represents the diminution of the value in use of the Snow + Rock Sports Limited brand arising from the deterioration in the retail sales environment. The impairment charge is presented on the face of the Consolidated Income Statement within Other expenses and is largely offset by transfers to the unallocated divisible surplus as the Group's control of the vehicle arises from holdings within the with-profits part of the UK LTF. The value in use has been estimated using a discounted cash flow model using a discount rate of 12%.

19 DEFERRED ACQUISITION COSTS

The Group incurs costs to obtain and process new business. These are accounted for in line with the appropriate accounting standards as follows:

Long term insurance business

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.

General insurance

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment contracts

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 attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised 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.

Future developments

In October 2010, the FASB issued ASU 2010-26 regarding accounting for Deferred Acquisition Costs (DAC) under US GAAP, effective for financial periods beginning after 15 December 2011. This specifies that only costs directly relating to successful acquisition of new or renewal contracts can be capitalised as DAC. All other acquisition-related costs must be expensed as incurred.

Legal & General applies US GAAP to report the insurance contract business of its US subsidiaries. As permitted under IFRS 4, 'Insurance Contracts', the Group will adopt the new guidance as an improvement in accounting policy from 1 January 2012, applying it retrospectively.

It is estimated that retrospective adoption will reduce DAC reported within the US business by approximately $340m (£220m) and reduce equity by approximately $220m (£140m). There is no impact to DAC held outside of the US business.

(i) Analysis of deferred acquisition costs

	Notes	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
Insurance contract deferred acquisition costs	(ii)	**1,095**	**(78)**	1,032	(81)
Investment contract deferred acquisition costs	(iii)	**958**	**–**	968	–
Deferred acquisition costs		**2,053**	**(78)**	2,000	(81)

(ii) Insurance contract deferred acquisition costs

	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January	**1,032**	**(81)**	983	(80)
Acquisition costs deferred	**177**	**–**	150	(1)
Amortisation charged to income	**(158)**	**7**	(164)	8
Increase/(decrease) due to currency translation	**14**	**(1)**	27	(3)
Other	**30**	**(3)**	36	(5)
As at 31 December	**1,095**	**(78)**	1,032	(81)
To be amortised within 12 months	**86**	**(4)**	106	(4)
To be amortised after 12 months	**1,009**	**(74)**	926	(77)

Of the total gross deferred acquisition costs £1,028m (2010: £965m) relates to the LGA insurance business.

(iii) Investment contract deferred acquisition costs

	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January	**968**	**–**	974	–
Acquisition costs deferred	**123**	**–**	109	–
Amortisation charged to income	**(122)**	**–**	(108)	–
Decrease due to currency translation	**(1)**	**–**	(1)	–
Other	**(10)**	**–**	(6)	–
As at 31 December	**958**	**–**	968	–
To be amortised within 12 months	**198**	**–**	193	–
To be amortised after 12 months	**760**	**–**	775	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 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.

	2011 £m	2010 £m
Cost		
As at 1 January	159	147
Additions	27	20
Disposals	(10)	(8)
As at 31 December	176	159
Depreciation		
As at 1 January	95	86
Provided during the year	13	16
Disposals	(10)	(7)
As at 31 December	98	95
Net book value at 31 December	78	64

21 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 or using internal valuations and estimates during the intervening period. 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.

	Shareholder 2011 £m	Non profit non-unit linked 2011 £m	With-profits 2011 £m	Unit linked 2011 £m	Total 2011 £m
Fair value at 1 January	145	130	1,383	2,913	4,571
Additions	1	356	11	430	798
Improvements	–	–	–	5	5
Disposals	(25)	–	(169)	(327)	(521)
Fair value (loss)/gain	(1)	–	(2)	44	41
Fair value at 31 December	120	486	1,223	3,065	4,894

	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Unit linked 2010 £m	Total 2010 £m
Fair value at 1 January	138	–	1,337	2,364	3,839
Additions	9	134	43	536	722
Improvements	2	–	20	2	24
Disposals	(28)	–	(201)	(181)	(410)
Fair value gain/(loss)	24	(4)	184	192	396
Fair value at 31 December	145	130	1,383	2,913	4,571

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 FINANCIAL INVESTMENTS

The Group holds financial investments to back insurance contracts on behalf of policyholders and as Group capital.

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 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. Transaction costs are expensed as incurred.

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. Directly attributable transaction costs are included in the initial measurement of the investment.

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

Future developments

IFRS 9, 'Financial Instruments' issued in November 2009 (effective for annual periods commencing on or after 1 January 2015) is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it must be measured at fair value through profit or loss. Further amendments to IFRS 9, dealing with financial liabilities, were published in October 2010. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change in the amendment is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group does not intend to early adopt this standard.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 FINANCIAL INVESTMENTS (CONTINUED)

	Notes	Shareholder 2011 £m	Non profit non-unit linked 2011 £m	With-profits 2011 £m	Unit linked 2011 £m	Total 2011 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,692	26,406	16,406	243,920	291,424
Available-for-sale		2,068	–	–	5	2,073
Held for trading		308	3,107	167	3,174	6,756
Financial investments at fair value	(i)	7,068	29,513	16,573	247,099	300,253
Loans and receivables	(ii)	85	–	1	265	351
Total financial investments		7,153	29,513	16,574	247,364	300,604
Expected to be received within 12 months						33,770
Expected to be received after 12 months						266,834

	Notes	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Unit linked 2010 £m	Total 2010 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,191	23,679	17,106	248,144	293,120
Available-for-sale		2,021	–	–	5	2,026
Held for trading		288	1,425	84	2,217	4,014
Financial investments at fair value	(i)	6,500	25,104	17,190	250,366	299,160
Loans and receivables	(ii)	93	–	88	229	410
Total financial investments		6,593	25,104	17,278	250,595	299,570
Expected to be received within 12 months						44,307
Expected to be received after 12 months						255,263

Investment risks on unit linked assets are borne by the policyholders. The remaining risks are outlined in the risk management note (see Note 48).

Financial investments include £616m (2010: £435m) of debt securities pledged as collateral against derivative liabilities. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA Supranational Bonds and AAA Corporate Bonds (2010: Treasury Gilts, Foreign Government Bonds, AAA Supranational Bonds and AAA Corporate Bonds) having a residual maturity of over 44 years (2010: over 45 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(i) Financial investments at fair value

	Note	Shareholder 2011 £m	Non profit non-unit linked 2011 £m	With-profits 2011 £m	Unit linked 2011 £m	Total 2011 £m
Equity securities		**913**	**–**	**4,264**	**136,904**	**142,081**
Debt securities		**5,771**	**26,018**	**11,924**	**105,998**	**149,711**
Accrued interest		**76**	**388**	**218**	**1,023**	**1,705**
Derivative assets	23	**308**	**3,107**	**167**	**3,174**	**6,756**
Total investments at fair value		**7,068**	**29,513**	**16,573**	**247,099**	**300,253**

	Note	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Unit linked 2010 £m	Total 2010 £m
Equity securities		976	–	4,995	150,635	156,606
Debt securities		5,167	23,323	11,887	96,481	136,858
Accrued interest		69	356	224	1,033	1,682
Derivative assets	23	288	1,425	84	2,217	4,014
Total investments at fair value		6,500	25,104	17,190	250,366	299,160

Non-consolidated private equity investments are included within equity securities. A loss of £2m (2010: gain of £14m) has been recognised in the income statement in respect of the movement in fair value of these investments.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A loss of £nil (2010: loss of £nil) 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 £182m (2010: £183m) of debt instruments which incorporate an embedded derivative linked to the value of the Group's share price.

CDOs

The Group holds collateralised debt obligations (CDO) with a market value of £998m at 31 December 2011 (2010: £1,022m).

These holdings include £846m (2010: £875m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The Group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The Group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk, although no substitutions were made in 2010 and substitutions in 2011 were limited. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	At 31.12.11 %	At 31.12.10 %
Banks	**14**	14
Utilities	**10**	10
Consumer Services & Goods	**25**	26
Financial Services	**6**	6
Technology & Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil & Gas	**6**	6
Health Care	**4**	3
	100	100

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 FINANCIAL INVESTMENTS (CONTINUED)

(i) Financial investments at fair value (continued)

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% 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. For illustration a £200m loss could be incurred if default losses to the reference portfolios exceeded 31% or if 44% of the names in the diversified global investment grade portfolio defaulted, with an average 30% recovery rate. (All figures are averages across the four CDOs.)

The underlying reference portfolio has had no reference entity defaults in 2010 or 2011.

Losses are limited under the terms of the CDOs to assets and collateral invested.

These CDOs also incorporate features under which, in certain circumstances, the Group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependant on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs for the year ended 31 December 2011 (2010: £nil). During the year the Group received £nil (2010: £155m) of previously posted collateral.

These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation.

For the purposes of valuing the non profit annuity regulatory and IFRS liabilities, the yield on the CDOs is 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. For EEV purposes, the yield on the CDOs, reduced by the realistic default assumption, is similarly included in assumed future investment returns.

The balance of £152m (2010: £147m) of CDO holdings includes a £26m (2010: £37m) exposure to an equity tranche of a bespoke CDO.

(ii) Loans and receivables

	Shareholder 2011 £m	**Non profit non-unit linked 2011 £m**	**With-profits 2011 £m**	**Unit linked 2011 £m**	**Total 2011 £m**
Deposits with credit institutions	**9**	**–**	**–**	**265**	**274**
Policy loans	**71**	**–**	**–**	**–**	**71**
Other loans	**5**	**–**	**1**	**–**	**6**
Total loans and receivables	**85**	**–**	**1**	**265**	**351**

	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Unit linked 2010 £m	Total 2010 £m
Deposits with credit institutions	16	–	87	229	332
Policy loans	73	–	–	–	73
Other loans	4	–	1	–	5
Total loans and receivables	93	–	88	229	410

There are no material differences between the carrying values reflected above and the fair value of these loans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(iii) Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's view of market assumptions in the absence of observable market information. The Group utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

The following table presents the Group's assets by IFRS 7 hierarchy levels:

For the year ended 31 December 2011	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	913	564	221	128	–
Debt securities	5,771	2,020	3,745	6	–
Accrued interest	76	38	38	–	–
Derivative assets	308	14	294	–	–
Loans and receivables	85	–	–	–	85
Non profit non-unit linked					
Debt securities	26,018	3,415	22,603	–	–
Accrued interest	388	25	363	–	–
Derivative assets	3,107	255	2,820	32	–
Loans and receivables	–	–	–	–	–
With-profits					
Equity securities	4,264	3,584	22	658	–
Debt securities	11,924	4,001	7,919	4	–
Accrued interest	218	58	160	–	–
Derivative assets	167	21	143	3	–
Loans and receivables	1	–	–	–	1
Unit linked					
Equity securities	136,904	134,993	1,559	352	–
Debt securities	105,998	70,221	35,776	1	–
Accrued interest	1,023	315	708	–	–
Derivative assets	3,174	231	2,943	–	–
Loans and receivables	265	–	–	–	265
Total financial investments	300,604	219,755	79,314	1,184	351

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 FINANCIAL INVESTMENTS (CONTINUED)
(iii) Fair value hierarchy (continued)

For the year ended 31 December 2010	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	976	731	115	130	–
Debt securities	5,167	2,059	3,099	9	–
Accrued interest	69	35	34	–	–
Derivative assets	288	5	283	–	–
Loans and receivables	93	–	–	–	93
Non profit non-unit linked					
Debt securities	23,323	2,542	20,781	–	–
Accrued interest	356	20	336	–	–
Derivative assets	1,425	78	1,347	–	–
Loans and receivables	–	–	–	–	–
With-profits					
Equity securities	4,995	4,361	17	617	–
Debt securities	11,887	4,008	7,874	–	5
Accrued interest	224	61	163	–	–
Derivative assets	84	6	78	–	–
Loans and receivables	88	–	–	–	88
Unit linked					
Equity securities	150,635	149,692	693	250	–
Debt securities	96,481	63,531	32,949	1	–
Accrued interest	1,033	372	661	–	–
Derivative assets	2,217	259	1,958	–	–
Loans and receivables	229	–	–	–	229
Total financial investments	299,570	227,760	70,388	1,007	415

All of the Group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg except for bespoke CDO and swaps holdings (see below). Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have classified them as level 2.

These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

Level 3 assets, where internal models are used to represent a small proportion of assets to which shareholders are exposed, and reflect unquoted equities including investments in private equity, property vehicles and suspended securities.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Group has classified with level 3.

The Group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Group's credit standing, liquidity and risk margins on unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Group's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgements regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee.

(a) Significant transfers between level 1 and level 2

There have been no significant transfers between level 1 and level 2.

(b) Assets measured at fair value based on level 3

	Equity securities 2011 £m	**Other financial investments[1] 2011 £m**	**Total 2011 £m**	Equity securities 2010 £m	Other financial investments[1] 2010 £m	Total 2010 £m
As at 1 January	**997**	**10**	**1,007**	793	17	810
Total gains or (losses) for the period recognised:						
– in profit	**147**	**–**	**147**	119	2	121
– in other comprehensive (expense)/income	**–**	**(1)**	**(1)**	–	2	2
Purchases	**236**	**–**	**236**	176	1	177
Sales	**(256)**	**(2)**	**(258)**	(91)	(5)	(96)
Settlements	**–**	**–**	**–**	–	(7)	(7)
Transfers into level 3	**17**	**40**	**57**	–	–	–
Transfers out of level 3	**(3)**	**(1)**	**(4)**	–	–	–
As at 31 December	**1,138**	**46**	**1,184**	997	10	1,007

1. Other financial investments comprise debt securities and derivative assets.

There have been no significant transfers to or from level 3 during both 2010 and 2011.

As discussed above, the fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 FINANCIAL INVESTMENTS (CONTINUED)

(iii) Fair value hierarchy (continued)

(c) Effect on changes in significant unobservable inputs (level 3) to reasonably possible alternative assumptions

For the year ended 31 December 2011 Financial instruments	Main assumptions	Current fair value 2011 £m	Reasonably possible alternative assumptions Increase in fair value 2011 £m	 Decrease in fair value 2011 £m
Assets				
Shareholder				
– Private equity investment vehicles[1]	Price earnings multiple	**13**	**1**	**(1)**
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**115**	**8**	**(8)**
– Asset backed securities	Cash flows; expected defaults	**6**	**–**	**–**
Non profit non-linked				
– Derivative assets (interest rate contracts)	Cash flows	**32**	**2**	**(2)**
With-profits				
– Private equity investment vehicles[1]	Price earnings multiple	**146**	**7**	**(7)**
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**516**	**40**	**(40)**
– Derivative assets (equity/index derivatives)	Cash flows	**3**	**–**	**–**
Unit linked				
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**317**	**14**	**(14)**
– Suspended securities	Estimated recoverable amount	**8**	**6**	**(6)**
– Asset backed securities	Cash flows; expected defaults	**28**	**1**	**(1)**
Total		**1,184**	**79**	**(79)**

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

For the year ended 31 December 2010 Financial instruments	Main assumptions	Current fair value 2010 £m	Reasonably possible alternative assumptions Increase in fair value 2010 £m	 Decrease in fair value 2010 £m
Assets				
Shareholder				
– Private equity investment vehicles[1]	Price earnings multiple	13	1	(1)
– Unquoted investments in property vehicles[2]	Property yield; occupancy	118	5	(5)
– Asset backed securities	Cash flows; expected defaults	8	–	–
With-profits				
– Private equity investment vehicles[1]	Price earnings multiple	126	9	(9)
– Unquoted investments in property vehicles[2]	Property yield; occupancy	491	36	(36)
Unit linked				
– Unquoted investments in property vehicles[2]	Property yield; occupancy	248	31	(31)
– Suspended securities	Estimated recoverable amount	3	3	(3)
Total		1,007	85	(85)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 DERIVATIVE ASSETS AND LIABILITIES

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

	Contract/ notional amount 2011 £m	Fair values		Contract/ notional amount 2010 £m	Fair values	
		Assets 2011 £m	Liabilities[1] 2011 £m		Assets 2010 £m	Liabilities[1] 2010 £m
Shareholder derivatives:						
Interest rate contracts – fair value hedges	**600**	**123**	**–**	600	91	–
Interest rate contracts – held for trading	**3,040**	**50**	**207**	1,804	36	125
Forward foreign exchange contracts – net investment hedges	**884**	**–**	**9**	887	15	1
Forward foreign exchange contracts – held for trading	**578**	**118**	**11**	752	130	4
Equity/index derivatives – held for trading	**107**	**10**	**–**	(79)	12	1
Credit derivatives – held for trading	**185**	**7**	**3**	89	4	4
Total shareholder derivatives		**308**	**230**		288	135
Non profit non-unit linked derivatives:						
Interest rate contracts – held for trading	**27,702**	**2,750**	**2,910**	23,805	940	1,041
Forward foreign exchange contracts – held for trading	**–**	**88**	**71**	–	78	60
Equity/index derivatives – held for trading	**97**	**169**	**–**	112	296	–
Currency swap contracts – held for trading	**3,539**	**–**	**65**	–	–	–
Inflation swap contracts – held for trading	**6,402**	**83**	**211**	6,218	81	163
Credit derivatives – held for trading	**1,333**	**17**	**198**	1,343	30	178
Other derivatives – held for trading	**994**	**–**	**14**	996	–	13
Total non profit non-unit linked derivatives		**3,107**	**3,469**		1,425	1,455
With-profits derivatives:						
Interest rate contracts – held for trading	**1,426**	**110**	**102**	1,531	51	57
Forward foreign exchange contracts – held for trading	**–**	**18**	**7**	–	4	11
Equity/index derivatives – held for trading	**622**	**39**	**4**	472	28	16
Other derivatives – held for trading	**1**	**–**	**–**	1	1	–
Total with-profits derivatives		**167**	**113**		84	84
Unit linked derivatives:						
Interest rate contracts – held for trading	**22,542**	**2,692**	**1,141**	24,390	909	543
Forward foreign exchange contracts – held for trading	**–**	**190**	**205**	–	200	389
Credit derivatives – held for trading	**(774)**	**7**	**16**	(1,979)	5	12
Equity/index derivatives – held for trading	**4,219**	**207**	**739**	3,952	907	898
Other derivatives – held for trading	**5**	**–**	**–**	8	1	–
Inflation rate contracts – held for trading	**5,827**	**78**	**207**	7,781	195	253
Total unit linked derivatives		**3,174**	**2,308**		2,217	2,095
Total derivative assets and liabilities		**6,756**	**6,120**		4,014	3,769

1. Derivative liabilities are reported in the balance sheet within Payables and other financial liabilities (Note 37).

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)

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 2011	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	308	634	662	13	–	–	1,309
Derivative liabilities	(230)	1,253	10	6	3	–	1,272
Non profit non-unit linked derivatives							
Derivative assets	3,107	3,518	1,715	3,720	4,454	5,646	19,053
Derivative liabilities	(3,469)	4,925	4,330	2,782	3,375	3,676	19,088
With-profits derivatives							
Derivative assets	167	552	134	36	115	5	842
Derivative liabilities	(113)	360	30	20	58	2	470
Total	(230)	11,242	6,881	6,577	8,005	9,329	42,034
Cash outflows							
Shareholder derivatives							
Derivative assets	308	(570)	(441)	–	–	–	(1,011)
Derivative liabilities	(230)	(1,321)	(153)	(20)	(4)	(1)	(1,499)
Non profit non-unit linked derivatives							
Derivative assets	3,107	(2,894)	(724)	(3,027)	(3,462)	(4,326)	(14,433)
Derivative liabilities	(3,469)	(5,393)	(5,775)	(3,839)	(4,265)	(3,841)	(23,113)
With-profits derivatives							
Derivative assets	167	(512)	(38)	(30)	(83)	(4)	(667)
Derivative liabilities	(113)	(389)	(79)	(36)	(90)	(3)	(597)
Total	(230)	(11,079)	(7,210)	(6,952)	(7,904)	(8,175)	(41,320)
Net shareholder derivatives cash flows		(4)	78	(1)	(1)	(1)	71
Net non profit non-unit linked derivatives cash flows		156	(454)	(364)	102	1,155	595
Net with-profits derivatives cash flows		11	47	(10)	–	–	48

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

		Maturity profile of undiscounted cash flows					
As at 31 December 2010	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	288	1,240	725	65	17	5	2,052
Derivative liabilities	(135)	389	21	13	–	–	423
Non profit non-unit linked derivatives							
Derivative assets	1,425	5,518	1,680	4,293	3,169	5,095	19,755
Derivative liabilities	(1,455)	6,027	1,269	3,858	3,583	4,372	19,109
With-profits derivatives							
Derivative assets	84	223	131	103	30	4	491
Derivative liabilities	(84)	797	66	131	52	8	1,054
Total	123	14,194	3,892	8,463	6,851	9,484	42,844
Cash outflows							
Shareholder derivatives							
Derivative assets	288	(1,173)	(452)	(19)	(14)	(4)	(1,662)
Derivative liabilities	(135)	(444)	(178)	(48)	–	–	(670)
Non profit non-unit linked derivatives							
Derivative assets	1,425	(5,300)	(1,260)	(4,016)	(2,858)	(4,536)	(17,970)
Derivative liabilities	(1,455)	(6,327)	(1,948)	(3,970)	(3,665)	(3,944)	(19,854)
With-profits derivatives							
Derivative assets	84	(202)	(75)	(99)	(27)	(4)	(407)
Derivative liabilities	(84)	(845)	(91)	(144)	(58)	(9)	(1,147)
Total	123	(14,291)	(4,004)	(8,296)	(6,622)	(8,497)	(41,710)
Net shareholder derivatives cash flows		12	116	11	3	1	143
Net non profit non-unit linked derivatives cash flows		(82)	(259)	165	229	987	1,040
Net with-profits derivatives cash flows		(27)	31	(9)	(3)	(1)	(9)

Cash inflows and outflows are presented on a net basis where the Group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

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 translation 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 of £31m arose on hedging instruments (2010: gains of £23m);
Fair value losses of £31m arose on the hedged item attributable to the hedged risk (2010: losses of £24m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The total fair value gain on hedging instruments shown above excludes fair value gains arising from factors which are outside the designated hedging relationship of £nil (2010: £nil).

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.

24 DEFERRED TAX

Deferred tax assets and (liabilities) have been recognised/(provided) for the temporary differences and unused tax losses as detailed below. The recognition of a deferred tax asset in respect of tax losses is supported by management's best estimate of future taxable profits to absorb the losses in future years. These taxable profit projections are based on assumptions consistent with those used for EEV reporting purposes. Deferred tax assets and (liabilities) have been offset only to the extent the underlying income and expense items can be legally offset when the timing differences reverse. The net movement in deferred tax assets and liabilities during the year is as follows:

(i) UK deferred tax asset

	Net tax asset as at 1 January 2011 £m	**Tax (charged)/ credited to the income statement £m**	**Tax credited/ (charged) to equity £m**	**Net tax asset as at 31 December 2011 £m**
Realised and unrealised losses on investments	**31**	**116**	**–**	**147**
Excess of depreciation over capital allowances	**43**	**–**	**–**	**43**
Excess expenses	**284**	**(57)**	**6**	**233**
Deferred acquisition expenses	**(87)**	**7**	**–**	**(80)**
Difference between the tax and accounting value of insurance contracts	**(66)**	**(6)**	**–**	**(72)**
Accounting provisions	**8**	**1**	**–**	**9**
Trading losses	**239**	**(80)**	**–**	**159**
Pension fund deficit	**66**	**(9)**	**15**	**72**
Purchased interest in long term business	**(23)**	**5**	**–**	**(18)**
UK deferred tax asset	**495**	**(23)**	**21**	**493**

	Net tax asset as at 1 January 2010 £m	Tax (charged)/ credited to the income statement £m	Tax credited/ (charged) to equity £m	Net tax asset as at 31 December 2010 £m
Realised and unrealised losses on investments	145	(114)	–	31
Excess of depreciation over capital allowances	42	1	–	43
Excess expenses	311	(37)	10	284
Deferred acquisition expenses	(95)	8	–	(87)
Difference between the tax and accounting value of insurance contracts	(44)	(22)	–	(66)
Accounting provisions	8	–	–	8
Trading losses	378	(139)	–	239
Pension fund deficit	79	(16)	3	66
Purchased interest in long term business	(28)	5	–	(23)
UK deferred tax asset	796	(314)	13	495

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 DEFERRED TAX (CONTINUED)
(ii) Overseas deferred tax liabilities

	Net tax liability as at 1 January 2011 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Net tax liability as at 31 December 2011 £m
Realised and unrealised gains on investments	**(58)**	**5**	**(4)**	**(57)**
Deferred acquisition expenses	**(268)**	**(21)**	**(4)**	**(293)**
Difference between the tax and accounting value of insurance contracts	**(51)**	**(244)**	**(8)**	**(303)**
Trading losses	**15**	**225**	**6**	**246**
Pension fund deficit	**6**	**(2)**	**–**	**4**
Overseas deferred tax liabilities	**(356)**	**(37)**	**(10)**	**(403)**

	Net tax liability as at 1 January 2010 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Net tax liability as at 31 December 2010 £m
Realised and unrealised gains on investments	(45)	–	(13)	(58)
Deferred acquisition expenses	(244)	(16)	(8)	(268)
Difference between the tax and accounting value of insurance contracts	(133)	86	(4)	(51)
Trading losses	119	(108)	4	15
Pension fund deficit	–	6	–	6
Overseas deferred tax liabilities	(303)	(32)	(21)	(356)

Unrecognised deferred tax assets

The Group has the following unrelieved tax losses carried forward as at 31 December 2011. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2011 (or 31 December 2010), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. Relief for these tax losses will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2011 is £44m (2010: £58m).

	Gross 2011 £m	Tax 2011 £m	Gross 2010 £m	Tax 2010 £m
Trading losses	**–**	**–**	33	10
Realised and unrealised losses on investments	**154**	**34**	77	15
Post cessation losses	**19**	**5**	14	4
Unrelieved expenses	**5**	**1**	124	25
Unrelieved interest payments on debt instruments	**16**	**4**	14	4
Unrecognised deferred tax asset	**194**	**44**	262	58

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 CURRENT TAX

	2011 £m	2010 £m
Tax due within 12 months	12	–
Tax due after 12 months[1]	82	–
Current tax assets	**94**	–

1. £82m relates to tax recoverable from the UK and overseas governments. Of this amount, £73m relates to tax recoverable in respect of policyholders for which a reserve has been established accordingly.

	2011 £m	2010 £m
Tax due within 12 months	1	111
Tax due after 12 months	–	–
Current tax liabilities	**1**	111

26 OTHER ASSETS

	Note	Shareholder 2011 £m	Non profit non-unit linked 2011 £m	With-profits 2011 £m	Unit linked 2011 £m	Total 2011 £m
Reinsurance receivables		31	10	–	–	41
Receivables under finance leases	26(i)	–	93	–	–	93
Accrued interest and rent		1	3	40	107	151
Prepayments and accrued income		171	8	1	323	503
Other receivables		402	159	128	416	1,105
Other assets		**605**	**273**	**169**	**846**	**1,893**
Due within 12 months						1,785
Due after 12 months						108

	Note	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Unit linked 2010 £m	Total 2010 £m
Reinsurance receivables		33	13	–	–	46
Receivables under finance leases	26(i)	–	–	–	–	–
Accrued interest and rent		1	–	50	94	145
Prepayments and accrued income		141	5	1	260	407
Other receivables		323	99	140	427	989
Other assets		498	117	191	781	1,587
Due within 12 months						1,571
Due after 12 months						16

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 OTHER ASSETS (CONTINUED)

(i) Receivables under finance leases

On creation of a finance lease, the leased asset is derecognised from the balance sheet and replaced with a debtor equivalent to the present value of the minimum lease payments receivable at the balance sheet date. Finance income is recognised in the income statement on a straight line basis, reflecting the periodic rate of return on the Group's net investment in the lease.

The Group acts as a lessor of a single finance lease, which is of 45 years duration and relates to the provision of student accommodation. The other party, as lessee, is regarded to be the economic owner of the leased asset.

The future minimum lease payments under this arrangement, together with their present value, are disclosed below:

	Total future payments 2011 £m	**Unearned interest income 2011 £m**	**Present value 2011 £m**	Total future payments 2010 £m	Unearned interest income 2010 £m	Present value 2010 £m
Not later than 1 year	**4**	**–**	**4**	–	–	–
Between 1 and 5 years	**18**	**(3)**	**15**	–	–	–
Later than 5 years	**224**	**(150)**	**74**	–	–	–
Total	**246**	**(153)**	**93**	–	–	–

No allowance has been recognised for uncollectible future minimum lease payments in the period (2010: £nil).

Total contingent rents recognised in rental income under the arrangement amounted to £nil (2010: £nil).

27 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.

	Shareholder 2011 £m	**Non profit non-unit linked 2011 £m**	**With-profits 2011 £m**	**Unit linked 2011 £m**	**Total 2011 £m**
Cash at bank and in hand	**489**	**245**	**74**	**887**	**1,695**
Cash equivalents	**1,342**	**273**	**1,056**	**9,747**	**12,418**
Cash and cash equivalents	**1,831**	**518**	**1,130**	**10,634**	**14,113**

	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Unit linked 2010 £m	Total 2010 £m
Cash at bank and in hand	561	143	80	894	1,678
Cash equivalents	1,332	533	1,190	8,303	11,358
Cash and cash equivalents	1,893	676	1,270	9,197	13,036

Included within cash equivalents is £178m (2010: £119m) of collateral posted to CDOs which is not available for shareholder liquidity requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 SHARE CAPITAL, SHARE PREMIUM AND EMPLOYEE SCHEME TREASURY SHARES

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.

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.

(i) Share capital and share premium

Authorised share capital	2011 Number of shares	2011 £m	2010 Number of shares	2010 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Notes	Number of shares	Share capital £m	Share premium £m
As at 1 January 2011		**5,866,669,323**	**147**	**938**
Options exercised under share option schemes				
– Executive share option scheme	16	**1,736,890**	**–**	**1**
– Savings related share option scheme	16	**3,760,680**	**–**	**2**
As at 31 December 2011		**5,872,166,893**	**147**	**941**

Issued share capital, fully paid	Notes	Number of shares	Share capital £m	Share premium £m
As at 1 January 2010		5,862,216,780	147	936
Options exercised under share option schemes				
– Executive share option scheme	16	295,065	–	–
– Savings related share option scheme	16	4,157,478	–	2
As at 31 December 2010		5,866,669,323	147	938

There is one class of ordinary shares of 2.5p each. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 SHARE CAPITAL, SHARE PREMIUM AND EMPLOYEE SCHEME TREASURY SHARES (CONTINUED)

(ii) Employee scheme treasury 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 treasury 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.

	2011 Number of shares	2011 £m	2010 Number of shares	2010 £m
As at 1 January	**38,954,087**	**41**	33,854,368	38
Shares purchased	**13,349,285**	**15**	12,833,730	11
Shares vested	**(6,749,332)**	**(8)**	(7,734,011)	(8)
As at 31 December	**45,554,040**	**48**	38,954,087	41

29 NON-CONTROLLING INTERESTS

Non-controlling interests represent third party interests in private equity and property investment vehicles which are consolidated in the Group's results. The increase in the non-controlling interests in 2011 arises from investment by third party interests in the UK Property Ungeared Fund Limited Partnership. Group's ownership remains above 50%.

30 INSURANCE CONTRACT LIABILITIES

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

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 Garantie Long Terme contracts in France are classified as participating.

Long term insurance

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

UK

In the UK, insurance contract liabilities are determined following an annual investigation of the Long Term Funds (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Overseas
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 US, on the basis of US GAAP.

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

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

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

(i) Analysis of insurance contract liabilities

	Notes	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
Participating insurance contracts	30(iii)	**8,750**	**(1)**	9,383	(1)
Non-participating insurance contracts[1]	30(iv)	**33,761**	**(2,110)**	31,064	(2,096)
General insurance contracts	30(v)	**245**	**(6)**	261	(6)
Insurance contract liabilities		**42,756**	**(2,117)**	40,708	(2,103)

1. Excluding General insurance contracts.

During the year, the Group entered into prospective reinsurance arrangements which resulted in a profit of £173m (2010: £137m). This profit has been reflected in the consolidated income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(ii) Expected insurance contract liability cash flows

As at 31 December 2011	Date of undiscounted cash flow 0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	**5,387**	**2,954**	**841**	**377**	**9,559**	**8,750**
Non-participating insurance contracts	**7,413**	**14,992**	**13,046**	**16,260**	**51,711**	**21,939**
General insurance contracts[1]	**93**	**–**	**–**	**–**	**93**	**93**
Insurance contract liabilities	**12,893**	**17,946**	**13,887**	**16,637**	**61,363**	**30,782**

As at 31 December 2010	Date of undiscounted cash flow 0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	5,809	3,631	1,049	395	10,884	9,383
Non-participating insurance contracts	7,955	15,573	12,784	15,308	51,620	19,741
General insurance contracts[1]	127	–	–	–	127	127
Insurance contract liabilities	13,891	19,204	13,833	15,703	62,631	29,251

1. Excludes unearned premium reserve of £152m (2010: £134m) for which there are no cash flows.

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 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January		**9,383**	**(1)**	9,404	(1)
New liabilities in the year		**374**	**–**	483	–
Liabilities discharged in the year		**(1,435)**	**–**	(1,273)	–
Unwinding of discount rates		**85**	**–**	69	–
Effect of change in non-economic assumptions	34	**(26)**	**–**	45	–
Effect of change in economic assumptions	34	**357**	**–**	658	–
Other		**12**	**–**	(3)	–
As at 31 December		**8,750**	**(1)**	9,383	(1)
Expected to be settled within 12 months (net of reinsurance)		**1,551**		1,431	
Expected to be settled after 12 months (net of reinsurance)		**7,198**		7,951	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(iv) Movement in non-participating insurance contract liabilities

	Notes	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January		**31,064**	**(2,096)**	28,353	(1,902)
New liabilities in the year		**2,687**	**(309)**	2,122	(330)
Liabilities discharged in the year		**(2,018)**	**144**	(1,818)	163
Unwinding of discount rates		**1,321**	**(123)**	1,299	(125)
Effect of change in non-economic assumptions	34	**(403)**	**389**	(151)	108
Effect of change in economic assumptions[1]	34	**1,133**	**(111)**	1,277	(1)
Foreign exchange adjustments		**(23)**	**(4)**	(18)	(8)
Other		**–**	**–**	–	(1)
As at 31 December		**33,761**	**(2,110)**	31,064	(2,096)
Expected to be settled within 12 months (net of reinsurance)		**2,105**		1,857	
Expected to be settled after 12 months (net of reinsurance)		**29,546**		27,111	

1. The economic assumptions changes in 2011 principally reflect the reduction in risk free yields over the course of 2011.

(v) Analysis of General insurance contract liabilities

	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
Outstanding claims	**76**	**(1)**	99	(1)
Claims incurred but not reported	**17**	**–**	28	–
Unearned premiums	**152**	**(5)**	134	(5)
General insurance contract liabilities	**245**	**(6)**	261	(6)

(vi) Movement in General insurance claim liabilities

	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January	**127**	**(1)**	110	(3)
Claims arising	**172**	**–**	199	(1)
Claims paid	**(179)**	**–**	(161)	3
Adjustments to prior year liabilities	**(27)**	**–**	(21)	–
As at 31 December	**93**	**(1)**	127	(1)
Expected to be settled within 12 months (net of reinsurance)	**63**		104	
Expected to be settled after 12 months (net of reinsurance)	**29**		22	

(vii) Unearned premiums

	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January	**134**	**(5)**	120	(6)
Earned in the period	**(134)**	**6**	(120)	6
Gross written premiums in respect of future periods	**152**	**(6)**	134	(5)
As at 31 December	**152**	**(5)**	134	(5)
Expected to be earned within 12 months (net of reinsurance)	**147**		129	
Expected to be earned after 12 months (net of reinsurance)	**–**		–	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(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	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**294**	**191**	**164**	**174**	**124**	**947**
– One year later	**277**	**189**	**157**	**188**	**–**	**811**
– Two years later	**276**	**189**	**156**	**–**	**–**	**621**
– Three years later	**277**	**189**	**–**	**–**	**–**	**466**
– Four years later	**278**	**–**	**–**	**–**	**–**	**278**
Estimate of cumulative claims	**278**	**189**	**156**	**188**	**124**	**935**
Cumulative payments	**(275)**	**(184)**	**(150)**	**(165)**	**(75)**	**(849)**
Outstanding claims provision	**3**	**5**	**6**	**23**	**49**	**86**
Prior period outstanding claims						**3**
Claims handling provision						**4**
Total claims liabilities recognised in the balance sheet						**93**

Net of reinsurance

Accident year	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**280**	**189**	**162**	**173**	**123**	**927**
– One year later	**267**	**188**	**155**	**187**	**–**	**797**
– Two years later	**265**	**188**	**154**	**–**	**–**	**607**
– Three years later	**266**	**188**	**–**	**–**	**–**	**454**
– Four years later	**267**	**–**	**–**	**–**	**–**	**267**
Estimate of cumulative claims	**267**	**188**	**154**	**187**	**123**	**919**
Cumulative payments	**(266)**	**(184)**	**(148)**	**(163)**	**(75)**	**(836)**
Outstanding claims provision	**1**	**4**	**6**	**24**	**48**	**83**
Prior period outstanding claims						**6**
Claims handling provision						**3**
Total claims liabilities recognised in the balance sheet						**92**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 INVESTMENT CONTRACT LIABILITIES

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

Non-participating investment contracts are 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.

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.

(i) Analysis of investment contract liabilities

	Notes	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
Participating investment contracts		**7,276**	**–**	7,323	–
Non-participating investment contracts	(iii)	**251,345**	**(172)**	253,426	(233)
Investment contract liabilities	(ii)	**258,621**	**(172)**	260,749	(233)
Expected to be settled within 12 months (net of reinsurance)		**29,855**		40,745	
Expected to be settled after 12 months (net of reinsurance)		**228,594**		219,771	

(ii) Movement in investment contract liabilities

	Gross 2011 £m	Reinsurance 2011 £m	Gross 2010 £m	Reinsurance 2010 £m
As at 1 January	**260,749**	**(233)**	241,641	(181)
Reserves in respect of new business	**28,500**	**(1,431)**	30,088	(1,474)
Amounts paid on surrenders and maturities during the year	**(39,419)**	**744**	(38,647)	1,029
Investment return and related benefits	**9,168**	**748**	28,064	393
Management charges	**(315)**	**–**	(322)	–
Foreign exchange adjustments	**(59)**	**–**	(75)	–
Other	**(3)**	**–**	–	–
As at 31 December	**258,621**	**(172)**	260,749	(233)

Fair value movements of £(9,813)m (2010: £(27,604)m) are included within the income statement arising from movements in investment contract liabilities designated as FVTPL.

(iii) Non-participating investment contract liability fair value hierarchy

As at 31 December 2011	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Non-participating investment contracts	**251,345**	**250,446**	**886**	**13**	**–**

As at 31 December 2010	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	253,426	252,823	579	24	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 INVESTMENT CONTRACT LIABILITIES (CONTINUED)

The fair value of financial liabilities are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Non-participating unit linked investment contracts include £13m (2010: £24m) valued using significant unobservable inputs and have been classified as level 3. These liabilities have limited transactions and are backed by property investments.

There have been no significant transfers between any of the levels.

(iv) Expected investment contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2011	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	**2,970**	**3,699**	**1,531**	**520**	**8,720**	**7,276**

	Date of undiscounted cash flow					
As at 31 December 2010	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	3,037	4,116	1,933	774	9,860	7,323

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 reported cash flows.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 UNALLOCATED DIVISIBLE SURPLUS

The participating funds operate with an excess of assets over the amount required to meet the policyholder liabilities.

The nature of benefits for the contracts within these funds 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.

	2011 £m	2010 £m
As at 1 January	**1,469**	1,284
Transferred from the income statement	**(402)**	190
Actuarial (losses) on defined benefit pension schemes transferred from the statement of comprehensive income	**(48)**	(4)
Foreign exchange adjustments	**1**	(1)
Other	**18**	–
As at 31 December	**1,038**	1,469

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.

33 VALUE OF IN-FORCE NON-PARTICIPATING CONTRACTS

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

	2011 £m	2010 £m
As at 1 January	**377**	367
Unwinding of the discount rates	**19**	18
Investment return	**(79)**	16
Other	**(75)**	(24)
As at 31 December	**242**	377
Expected to be settled within 12 months	**63**	44
Expected to be settled after 12 months	**179**	333

(ii) Expected net cash flows

	Date of undiscounted cash flow					
As at 31 December 2011	**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	**143**	**127**	**56**	**34**	**360**	**242**

	Date of undiscounted cash flow					
As at 31 December 2010	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	231	242	103	53	629	377

Value of in-force (VIF) non-participating undiscounted net cash flows are based on the expected date of realisation. The VIF relates entirely to insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 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.

In 2011, the Group continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and also maintained the level of the long term default allowance at 40bps (2010: 40bps) per annum for unapproved securities backing non profit business, 35bps (2010: 35bps) per annum for unapproved securities backing with-profits business, 3bps (2010: 3bps) per annum for approved securities and swaps and 27.3bps (2010: 53.4bps) for property. For unapproved securities backing non profit annuity business, the credit default allowances equate to 61bps (2010: 64bps) per annum when experienced over the duration of the assets held, leading to an overall total default provision of £1.6bn (2010: £1.5bn). A similar methodology has been used for assets backing with-profits business.

The Group believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The FSA's realistic reporting regime 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 (PPFM).

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 business, with the addition of a liquidity premium in respect of assets backing non-participating annuity business. Non-economic assumptions represent best estimates of expected future experience on this business. An explicit allowance is made for non-market risk.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 LONG TERM INSURANCE VALUATION ASSUMPTIONS (CONTINUED)

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

	2011	2010
Rate of interest/discount rates		
Non-participating business		
Life assurances	**2.25% pa and 6.60% pa[1]**	2.25% pa and 7.60% pa[1]
Pension assurances	**2.25% pa and 6.60% pa[1]**	2.50% – 3.50% pa and 7.60% pa[1]
Annuities in deferment	**4.601% pa**	4.975% pa
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**0.86% pa**	1.040% pa
Vested annuities	**1.75% – 4.601% pa**	2% – 4.975% pa
Vested annuities (RPI-linked; net rate after allowance for inflation)	**-0.40% – 0.86% pa**	0.40% – 1.040% pa
Participating business		
Risk free rate (10 years)	**2.23% pa**	3.78% 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)	**27.2%**	26.2%
Property volatility	**15.0%**	15.0%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:		
Smokers	**78% TMS00/TFS00 Sel 5**	116% TMS00/TFS00 Sel 5
Non-smokers	**90% TMN00/TFN00 Sel 5**	136% TMN00/TFN00 Sel 5
Smoker status unknown	**83% TM00/TF00 Sel 5**	103% TM00/TF00 Sel 5
Non-linked individual term assurances with terminal illness		
Smokers	**90% – 112% TMS00/TFS00 Sel 5[2]**	96% TMS00/TFS00 Sel 5[2]
Non-smokers	**85% – 115% TMN00/TFN00 Sel 5[2]**	93% TMN00/TFN00 Sel 5[2]
Non-linked individual term assurances with critical illness		
Smokers	**91% – 101% CIBT93M/F Ult Comb[3]**	99% CIBT93M/F Ult Comb[3]
Non-smokers	**57% – 67% CIBT93M/F Ult Comb[3]**	68% CIBT93M/F Ult Comb[3]
Other non-linked non profit life assurances	**100% of A67/70 ultimate tables**	100% of A67/70 ultimate tables
Annuities in deferment	**82.5% – 89.4% PNMA00/PNFA00[4]**	88% – 92% PNMA00/PNFA00[4]
Vested annuities[5]		
Bulk purchase annuities	**84.3% – 90.4% PCMA00/PCFA00**	89% – 93% PCMA00/PCFA00
Other annuities	**62.2% – 115.4% PCMA00/PCFA00**	55% – 86% PCMA00/PCFA00

1. For product groups where liabilities are positive, the lower interest rate of 2.25% is used. However, for product groups where liabilities are negative, the higher rate of 6.60% is used.
2. For 2011, the percentage of the table varies with the duration that the policy has been in-force for the first five years. In 2010, a fixed percentage of the table was used for all years.
3. For 2011 the percentage of the table varies with the duration that the policy has been in-force for the first two years. In 2010 a fixed percentage of the table was used for all years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.5% p.a. for males and 0.75% p.a. for females (2010: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1% (2010: 1%) for guaranteed term contracts post policy duration 5.
4. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for BPA policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
5. For vested annuities, mortality rates are assumed to reduce according to CMIB's mortality improvement model; CMI 2009 with the following parameters:
   Males: Long Term Rate of 2% p.a. (2010: 2% p.a.) up to age 85 tapering to 0% at 120;
   Females: Long Term Rate of 1.5% p.a. (2010: 1.5% p.a.) up to age 85 tapering to 0% at 120.
   For certain annuities, a further allowance is made for the effect of initial selection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Lapse rates are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

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.

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:

	2011 Average lapse rate for the policy years			
Product	**1 – 5 %**	**6 – 10 %**	**11 – 15 %**	**16 – 20 %**
Level term	13.9	9.2	5.6	2.9
Decreasing term	14.0	9.3	6.0	5.5
Accelerated critical illness cover	21.7	11.1	5.3	5.0
Pensions term	13.0	8.5	5.6	5.1
Whole of Life (conventional non profit)	3.9	1.9	1.0	–
Savings endowment (unitised with-profits)	–	1.4	1.6	4.0
Target cash endowment (unitised with-profits)	–	3.6	3.0	2.4
Savings endowment (unit linked)	–	1.4	1.6	4.0
Target cash endowment (unit linked)	–	3.6	3.0	2.4
Bond (unitised with-profits)	1.0	2.0	2.3	1.8
Bond (unit linked)	2.6	5.9	3.6	3.3
Individual pension regular premium (unitised with-profits)	1.4	1.3	1.3	1.3
Individual pension regular premium (unit linked)	2.4	1.7	1.6	1.6
Group pension regular premium (unitised with-profits)	2.2	2.3	2.1	2.1
Group pension regular premium (unit linked)	2.6	2.3	1.4	1.4
Trustee Investment Plan regular premium (unitised with-profits)	1.3	1.3	1.3	1.3
Trustee Investment Plan regular premium (unit linked)	1.3	1.3	1.3	1.3
Individual pension single premium (unitised with-profits)	3.5	3.4	3.4	3.4
Individual pension single premium (unit linked)	4.4	3.8	2.9	2.9
Group pension single premium (unitised with-profits)	10.9	10.9	10.9	10.9
Group pension single premium (unit linked)	6.7	6.7	6.7	6.7
Trustee Investment Plan single premium (unitised with-profits)	6.8	5.6	3.8	3.8
Trustee Investment Plan single premium (unit linked)	6.8	5.6	3.7	3.7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 LONG TERM INSURANCE VALUATION ASSUMPTIONS (CONTINUED)

Product	2010 Average lapse rate for the policy years 1 – 5 %	6 – 10 %	11 – 15 %	16 – 20 %
Level term	13.9	9.4	6.0	3.1
Decreasing term	14.1	9.5	6.4	6.0
Accelerated critical illness cover	21.2	10.7	5.5	5.2
Pensions term	12.7	8.5	6.0	5.6
Whole of Life (conventional non profit)	4.1	1.9	0.9	–
Savings endowment (unitised with-profits)	–	1.7	2.2	4.4
Target cash endowment (unitised with-profits)	3.2	3.2	3.2	2.6
Savings endowment (unit linked)	–	1.7	2.2	4.4
Target cash endowment (unit linked)	3.2	3.2	3.2	2.6
Bond (unitised with-profits)	1.1	2.0	2.5	2.4
Bond (unit linked)	2.6	6.3	3.9	3.5
Individual pension regular premium (unitised with-profits)	1.2	1.1	1.1	1.1
Individual pension regular premium (unit linked)	2.2	1.6	1.4	1.4
Group pension regular premium (unitised with-profits)	2.1	2.1	2.0	2.0
Group pension regular premium (unit linked)	2.1	1.9	1.3	1.3
Trustee Investment Plan regular premium (unitised with-profits)	1.4	1.4	1.4	1.4
Trustee Investment Plan regular premium (unit linked)	1.3	1.3	1.3	1.3
Individual pension single premium (unitised with-profits)	3.4	3.3	3.2	3.2
Individual pension single premium (unit linked)	4.0	3.5	2.7	2.7
Group pension single premium (unitised with-profits)	11.2	11.2	11.2	11.2
Group pension single premium (unit linked)	7.6	7.6	7.6	7.6
Trustee Investment Plan single premium (unitised with-profits)	6.4	5.3	3.8	3.8
Trustee Investment Plan single premium (unit linked)	6.8	5.8	4.3	4.3

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 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 secured on specific assets/cash flows such as Triple X securitisations and private equity fund linked partnership assets are included as non recourse borrowings. Mortgage loans raised by SIPP clients secured on those properties invested in their portfolio of linked SIPP investments which we manage on their behalf are treated as unit linked borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2011 £m	Unit linked borrowings 2011 £m	Total 2011 £m	Borrowings excluding unit linked borrowings 2010 £m	Unit linked borrowings 2010 £m	Total 2010 £m
Subordinated borrowings	**1,934**	**–**	**1,934**	1,909	–	1,909
Senior borrowings	**1,244**	**136**	**1,380**	1,326	154	1,480
Client fund holdings of Group debt[1]	**(64)**	**–**	**(64)**	(57)	–	(57)
Total borrowings	**3,114**	**136**	**3,250**	3,178	154	3,332

1. £64m (2010: £57m) of the Group's subordinated and senior debt, £13m and £51m respectively, (2010: £12m and £45m) is currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total borrowings in the table above.

Unit linked borrowings are excluded from the analysis below as the risk is retained by the policyholders.

(ii) Borrowings excluding unit linked borrowings – Analysis by nature

	Carrying amount 2011 £m	Coupon rate 2011 %	Fair value 2011 £m	Carrying amount 2010 £m	Coupon rate 2010 %	Fair value 2010 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**721**	**6.39**	**487**	690	6.39	527
5.875% Sterling undated subordinated notes (Tier 2)	**421**	**5.88**	**329**	423	5.88	356
4.0% Euro subordinated notes 2025 (Tier 2)	**483**	**4.00**	**432**	488	4.00	476
10% Sterling subordinated notes 2041 (Tier 2)	**309**	**10.00**	**361**	308	10.00	381
Client fund holdings of Group debt	**(13)**	**–**	**(13)**	(12)	–	(12)
Total subordinated borrowings	**1,921**		**1,596**	1,897		1,728
Senior borrowings						
Sterling medium term notes 2031 – 2041	**608**	**5.87**	**642**	608	5.87	608
Euro Commercial paper	**246**	**1.46**	**246**	279	1.17	279
Bank loans/other	**8**	**1.75**	**8**	9	1.75	9
Non recourse						
– US Dollar Triple X securitisation 2025	**–**	**–**	**–**	61	2.35	61
– US Dollar Triple X securitisation 2037	**286**	**0.65**	**238**	283	0.64	240
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	**96**	**4.57**	**96**	86	4.24	86
Client fund holdings of Group debt	**(51)**	**–**	**(51)**	(45)	–	(45)
Total senior borrowings	**1,193**		**1,179**	1,281		1,238
Total borrowings excluding unit linked borrowings	**3,114**		**2,775**	3,178		2,966
Total borrowings (excluding unit linked borrowings and non recourse)	**2,732**		**2,441**	2,748		2,579

£123m of interest expense was incurred during the period (2010: £121m) on borrowings excluding non recourse and unit linked borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 BORROWINGS (CONTINUED)

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 1 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 2 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 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041

On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041 and are treated as lower tier 2 capital for regulatory purposes.

Non recourse financing

US Dollar Triple X securitisation 2025

In 2004, a subsidiary of LGA 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. As at 31 December 2011, all of the outstanding debt had been redeemed and cancelled.

US Dollar Triple X securitisation 2037

In 2006, a subsidiary of LGA 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.

LGV6/LGV7 Private Equity Fund Limited Partnerships

These borrowings are non recourse bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(iii) Borrowings excluding unit linked borrowings – Analysis by maturity

As at 31 December 2011	**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 (Tier 1)	**721**	**–**	**–**	**–**	**–**	**(600)**	**(600)**
5.875% Sterling undated subordinated notes (Tier 2)	**421**	**–**	**–**	**–**	**–**	**(400)**	**(400)**
4.0% Euro subordinated notes 2025 (Tier 2)	**483**	**–**	**–**	**(500)**	**–**	**–**	**(500)**
10% Sterling subordinated notes 2041 (Tier 2)	**309**	**–**	**–**	**–**	**–**	**(300)**	**(300)**
Senior borrowings							
Sterling medium term notes 2031 – 2041	**608**	**–**	**–**	**–**	**(590)**	**(10)**	**(600)**
Euro Commercial paper	**246**	**(246)**	**–**	**–**	**–**	**–**	**(246)**
Bank loans/other	**8**	**(8)**	**–**	**–**	**–**	**–**	**(8)**
Non recourse							
– US Dollar Triple X securitisation 2025	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– US Dollar Triple X securitisation 2037	**286**	**–**	**–**	**–**	**–**	**(290)**	**(290)**
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	**96**	**(6)**	**(49)**	**(41)**	**–**	**–**	**(96)**
Client fund holdings of Group debt	**(64)**	**–**	**–**	**–**	**–**	**–**	**–**
Total borrowings excluding unit linked borrowings	**3,114**	**(260)**	**(49)**	**(541)**	**(590)**	**(1,600)**	**(3,040)**
Contractual undiscounted interest payments		**(153)**	**(608)**	**(1,480)**	**(1,143)**	**(140)**	**(3,524)**
Total contractual undiscounted cash flows		**(413)**	**(657)**	**(2,021)**	**(1,733)**	**(1,740)**	**(6,564)**

As at 31 December 2010	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 (Tier 1)	690	–	–	–	–	(600)	(600)
5.875% Sterling undated subordinated notes (Tier 2)	423	–	–	–	–	(400)	(400)
4.0% Euro subordinated notes 2025 (Tier 2)	488	–	–	–	(513)	–	(513)
10% Sterling subordinated notes 2041 (Tier 2)	308	–	–	–	–	(300)	(300)
Senior borrowings							
Sterling medium term notes 2031 – 2041	608	–	–	–	(590)	(10)	(600)
Euro Commercial paper	279	(280)	–	–	–	–	(280)
Bank loans/other	9	(9)	–	–	–	–	(9)
Non recourse							
– US Dollar Triple X securitisation 2025	61	–	–	–	(62)	–	(62)
– US Dollar Triple X securitisation 2037	283	–	–	–	–	(287)	(287)
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	86	(5)	(38)	(43)	–	–	(86)
Client fund holdings of Group debt	(57)	–	–	–	–	–	–
Total borrowings excluding unit linked borrowings	3,178	(294)	(38)	(43)	(1,165)	(1,597)	(3,137)
Contractual undiscounted interest payments		(154)	(614)	(1,519)	(1,177)	(172)	(3,636)
Total contractual undiscounted cash flows		(448)	(652)	(1,562)	(2,342)	(1,769)	(6,773)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 BORROWINGS (CONTINUED)

(iii) Borrowings excluding unit linked borrowings – Analysis by maturity (continued)

As at 31 December 2011, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in October 2016. This facility which was entered into in October 2011 replaces syndicated and bilateral facilities totalling £1.02bn which had been due to expire in December 2012. No drawings were made under any of these facilities during 2011.

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 credit facilities 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.

Short term assets available at the holding company level exceeded the amount of non-unit linked short term borrowings of £254m (2010: £288m). They comprise Euro Commercial paper and bank loans.

36 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.

(i) Analysis of provisions

	Note	2011 £m	2010 £m
Retirement benefit obligations[1]	(ii)	**871**	748
Other provisions		**20**	13
		891	761

1. Retirement benefit obligations are presented gross of £583m of annuity obligations insured by Society (2010: £514m).

(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).
- Legal & General International (Ireland) Limited Retirement Solution Plan (Ireland).
- The Liberation Group Pension Scheme (UK). This scheme is operated by a consolidated private equity investment vehicle owned by the with-profits part of the UK LTF.

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.

Contributions of £37m (2010: £35m) were charged as expenses during the year in respect of defined contribution plans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2009.
- 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 2009.
- Legal & General America Inc. Cash Balance Plan (US); last full actuarial valuation as at 31 December 2010.
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); last full actuarial valuation as at 31 December 2011.
- Régime de Retraite à Prestations Définies de Legal & General (France); last full actuarial valuation as at 31 December 2011.

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 calculated actuarially 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 comprehensive income.

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 LGF (Indemnités de Fin de Carrière), which provides lump sum benefits on retirement. The Fund and Scheme account for all of the UK and over 97% of worldwide assets of the Group's defined benefit schemes.

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

	Fund and Scheme 2011 %	Fund and Scheme 2010 %
Rate used to discount liabilities	**4.70**	5.50
Expected return on plan assets	**5.60**	5.98
Rate of increase in salaries[1]	**2.20**	2.30
Rate of increase in pensions in payment	**3.20**	3.50
Rate of increase in deferred pensions	**3.50**	4.10
Rate of general inflation (RPI)	**2.80**	3.40
Rate of wage inflation	**2.20**	2.30

Post retirement mortality

– 2011: 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, with tapering of minimum improvement rate linearly down to nil between ages 90 and 120.

– 2010: 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, with tapering of minimum improvement rate linearly down to nil between ages 90 and 120.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 PROVISIONS (CONTINUED)

(ii) Retirement benefit obligations (continued)

Average life expectancy:

	Fund and Scheme 2011 years	Fund and Scheme 2010 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**88.3**	88.1
Female life expectancy at retirement age	**89.4**	89.3
Male life expectancy at 20 years younger than retirement age	**91.0**	90.9
Female life expectancy at 20 years younger than retirement age	**91.1**	91.0

	Fund and Scheme 2011 £m	Overseas 2011 £m	Fund and Scheme 2010 £m	Overseas 2010 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(1,497)**	**(30)**	(1,446)	(28)
Current service cost	**(10)**	**(1)**	(11)	(1)
Interest expense	**(81)**	**(2)**	(82)	(2)
Actuarial (loss) (recognised in statement of comprehensive income)	**(129)**	**–**	(20)	(1)
Benefits paid	**54**	**1**	62	1
Exchange differences	**–**	**–**	–	1
As at 31 December	**(1,663)**	**(32)**	(1,497)	(30)
Movement in fair value of plan assets				
As at 1 January	**748**	**31**	699	29
Expected return on plan assets	**45**	**2**	44	2
Actuarial (loss)/gain (recognised in statement of comprehensive income)	**(4)**	**(3)**	8	–
Employer contributions	**58**	**2**	59	1
Benefits paid	**(54)**	**(1)**	(62)	(1)
As at 31 December	**793**	**31**	748	31
Gross pension obligations included in provisions	**(870)**	**(1)**	(749)	1
Annuity obligations insured by Society	**583**	**–**	514	–
Gross defined benefit pension deficit	**(287)**	**(1)**	(235)	1
Deferred tax on defined benefit pension deficit	**72**	**–**	66	–
Net defined benefit pension deficit	**(215)**	**(1)**	(169)	1

The total amount of actuarial (losses) net of tax recognised in the statement of comprehensive income for the year was £(121)m; cumulative £(401)m (2010: £(9)m); cumulative £(280)m). Actuarial (losses) net of tax relating to with-profits policyholders of £(48)m (2010: £(4)m) have been allocated to the unallocated divisible surplus.

The mortality assumptions are aligned with those used by the scheme's trustees. The effect of assuming reasonable alternative assumptions in isolation to the gross defined benefit pension deficit are shown below. Opposite sensitivities are broadly symmetrical.

	2011 £m	2010 £m
1 year increase in longevity	**(32)**	(28)
0.1% decrease in the rate used to discount liabilities	**(24)**	(21)
0.1% increase in the rate of general inflation (RPI)	**(29)**	(26)
0.1% increase in the rate of wage inflation	**–**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The historic funding and experience adjustments are as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	**(1,695)**	(1,527)	(1,474)	(1,187)	(1,384)
Fair value of plan assets	**824**	779	728	636	789
Gross pension obligations	**(871)**	(748)	(746)	(551)	(595)
Experience adjustments on plan liabilities	**(17)**	(8)	18	3	(19)
Experience adjustments on plan assets	**(3)**	11	46	(222)	(32)

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 2011	**UK £m**	**Expected return %**	**Overseas £m**	**Expected return %**
Equities	**377**	**6.5**	**11**	**8.2**
Bonds	**371**	**4.7**	**16**	**3.7**
Properties	**45**	**5.5**	**–**	**–**
Other investments	**–**	**–**	**4**	**1.5**
	793		**31**	

As at 31 December 2010	UK £m	Expected return %	Overseas £m	Expected return %
Equities	357	6.5	10	8.0
Bonds	349	5.5	17	3.9
Properties	42	5.5	–	–
Other investments	–	–	4	2.1
	748		31	

The average credit rating of the bond portfolio is A (2010: 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. In 2011, the return on plan assets, excluding annuity obligations, was £43m (2010: £57m).

Employer contributions of £60m (2010: £60m) include a pension deficit reduction payment of £47m (2010: £47m). Employer contributions of £61m are expected to be paid to the plan during 2012.

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

	2011 £m	2010 £m
Current service costs	**11**	12
Interest expense	**83**	84
Expected return on plan assets	**(47)**	(46)
Total included in other expenses	**47**	50

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 PAYABLES AND OTHER FINANCIAL LIABILITIES

Trail commission

The Group operates distribution agreements with intermediaries where further commission costs are payable in each period in 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 re-measured 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.

	Note	2011 £m	2010 £m
Derivative liabilities	23	**6,120**	3,769
Collateral received from banks		**165**	288
Other		**1,358**	1,416
Payables and other financial liabilities		**7,643**	5,473
Settled within 12 months		**7,148**	5,190
Settled after 12 months		**495**	283

Other includes future commission payments which have contingent settlement provisions of £182m (2010: £178m). 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 £259m (2010: £248m).

Payables and other financial liabilities settled after 12 months are expected to be settled within five years with the exception of derivative liabilities, as disclosed in Note 23.

Fair value hierarchy

As at 31 December 2011	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities[1]	**6,120**	**309**	**5,608**	**203**	**–**
Collateral received from banks	**165**	**165**	**–**	**–**	**–**
Other	**1,358**	**132**	**116**	**182**	**928**
Payables and other financial liabilities	**7,643**	**606**	**5,724**	**385**	**928**

As at 31 December 2010	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities[1]	3,769	502	3,267	–	–
Collateral received from banks	288	288	–	–	–
Other	1,416	275	50	178	913
Payables and other financial liabilities	5,473	1,065	3,317	178	913

1. Level 3 derivative liabilities of £203m (2010: £nil) comprise non profit non-linked interest rate contracts, which have been transferred into Level 3 during the year due to the use of measurement inputs that are not based on observable market data. The pricing of these derivatives is dependant on interest rate assumptions. Using reasonably alternative assumptions would result in an increase or decrease in fair value of £10m. Following review, the prior year disclosure has been amended to more appropriately reflect the measurement basis used, resulting in a reclassification of £1,662m of derivative liabilities from Level 1 to Level 2.

Trail commissions are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the income statement during the year. A reasonably possible alternative persistency assumption would have the effect of increasing or decreasing the liability by £5m (2010: £5m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 OTHER LIABILITIES

	2011 £m	2010 £m
Accruals	**224**	223
Reinsurers' share of deferred acquisition costs	**78**	81
Deferred income liabilities	**385**	387
Other	**246**	263
Other liabilities	**933**	954
Settled within 12 months	**476**	482
Settled after 12 months	**457**	472

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

39 NET ASSET VALUE ATTRIBUTABLE TO UNIT HOLDERS

As at 31 December 2011	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Net asset value attributable to unit holders	**6,159**	**6,159**	**–**	**–**	**–**

As at 31 December 2010	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Net asset value attributable to unit holders	5,463	5,463	–	–	–

Amounts attributable to unit holders are repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

40 RELATED PARTY TRANSACTIONS

There were no material transactions between key management and the Legal & General group of companies. All transactions between the Group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £60m (2010: £60m), for all employees.

At 31 December 2011 and 31 December 2010 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:

	2011 £m	2010 £m
Salaries	**7**	7
Social security costs	**1**	1
Post-employment benefits	**1**	1
Share-based incentive awards	**4**	3
Key management personnel compensation	**13**	12
Number of key management personnel	**18**	18

The UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £58m (2010: £74m) during the period, 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 into associate investment vehicles totalled £1,286m during the period (2010: £1,266m). The Group has outstanding loans to these associates of £5m (2010: £3m) and received investment management fees of £29m during the year (2010: £36m). Distributions from these investment vehicles to the Group totalled £58m (2010: £97m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 CONTINGENT LIABILITIES, GUARANTEES AND INDEMNITIES

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the FSA, ombudsman rulings, industry compensation schemes and court judgements.

Various Group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the Group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

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 business and operating activities or in relation to capital market transactions. Legal & General Group Plc has provided indemnities and guarantees in respect of the liabilities of Group companies in support of their business activities, including Pension Protection Fund compliant guarantees in respect of certain Group companies' liabilities under the Group pension fund and scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42 COMMITMENTS
(i) Capital commitments

	2011 £m	2010 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December		
– Long term business	**13**	17

(ii) Operating lease commitments

	2011 £m	2010 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**26**	27
– Later than 1 year and not later than 5 years	**85**	83
– Later than 5 years	**190**	183
	301	293
Future aggregate minimum sublease payments expected to be received under operating subleases	**10**	11
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	**3**	3
– Later than 1 year and not later than 5 years	**6**	10
– Later than 5 years	**–**	1
	9	14

The Group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

43 SUBSIDIARIES

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the Group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the consolidated balance sheet. The basis by which subsidiaries are consolidated in the Group financial statements is outlined in the basis of preparation (Note 1).

Future Developments

IFRS 10, 'Consolidated Financial Statements', IFRS 11, 'Joint Arrangements', IFRS 12, 'Disclosure of Interests in Other Entities' and IFRS 13, 'Fair Value Measurement' (currently expected to come into force for periods beginning on or after 1 January 2013). This suite of standards:

- Provides enhanced guidance when determining whether an entity is controlled and is therefore included within the consolidated financial statements.
- Provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- Enhances the disclosure requirements around interests in other entities.
- Provides clarity over the definition and disclosure of fair value, which can then be applied across all accounting standards.

We are currently assessing the impact which these new standards will have on the Group's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 SUBSIDIARIES (CONTINUED)

(i) Operating subsidiaries

In the opinion of the directors, the following subsidiaries principally affected the Company's results as set out in the annual accounts and are consolidated in these financial statements. The information required to be provided under section 409 of the Companies Act 2006 is provided only in relation to these undertakings and the undertakings listed under Notes 43(ii) and 44. A complete list of undertakings will be annexed to the Company's annual return which will be available from Companies House.

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 Risques Divers (France) SA	Insurance company	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
Legal & General Investment Management America Inc	Institutional fund management	USA
First British American Reinsurance Company II	Reinsurance	USA
First British Vermont Reinsurance Company	Reinsurance	USA
First British Vermont Reinsurance Company II	Reinsurance	USA
First British Bermudan Reinsurance Company II Limited	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 operating subsidiaries have a 31 December year end reporting date and are 100% owned.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(ii) Investment vehicles

The following mutual funds and partnerships have been consolidated as a result of the Group's ability to exert control over the financial and operating activities of the investment vehicle so as to obtain economic benefits.

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the Group
Chineham Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2011	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2011	100.0
Gresham Street Limited Partnership	Limited partnership	England and Wales	31/12/2011	100.0
Legal & General City Offices Limited Partnership	Limited partnership	England and Wales	31/12/2011	100.0
Legal & General Investment Management Global Opportunities Fixed Income Fund Plc	Open ended investment company	Ireland	31/12/2011	100.0
Legal & General Investment Management (Ireland) Risk Management Solutions Plc	Open ended variable capital investment company	Ireland	31/12/2011	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	England and Wales	31/12/2011	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2011	100.0
Legal & General Investment Management UK Smaller Companies Alpha Fund Plc	Open ended investment company	Ireland	31/12/2011	99.9
Legal & General Special Situations Trust	Equity unit trust	England and Wales	14/09/2011	99.9
Legal & General Investment Management Global Macro Fund Plc	Open ended investment company	Ireland	31/12/2011	99.8
LGV 7 Private Equity Fund Limited Partnership	Private equity partnership	England and Wales	31/12/2011	99.7
LGV 6 Private Equity Fund Limited Partnership	Private equity partnership	England and Wales	31/12/2011	99.5
Legal & General UK Absolute Fund	Mixed asset unit trust	England and Wales	30/01/2011	90.7
Legal & General Global Macro Themes Fund	Mixed asset unit trust	England and Wales	14/09/2011	90.0
Legal & General Asian Income Trust	Equity unit trust	England and Wales	10/09/2011	89.9
Legal & General North American Trust	Equity unit trust	England and Wales	16/01/2011	86.2
Legal & General European Absolute Fund	Mixed asset unit trust	England and Wales	30/01/2011	85.3
Legal & General Pacific Growth Trust	Equity unit trust	England and Wales	18/09/2011	81.5
ARC Property Fund Unit Trust	Property unit trust	Jersey	31/12/2011	80.0
Legal & General Growth Trust	Equity unit trust	England and Wales	15/05/2011	72.3
Legal & General Equity Trust	Equity unit trust	England and Wales	15/08/2011	69.0
Legal & General UK Smaller Companies Trust	Equity unit trust	England and Wales	18/06/2011	68.0
Performance Retail Unit Trust	Property unit trust	Jersey	31/12/2011	66.7
Legal & General Global Growth Trust	Equity unit trust	England and Wales	15/01/2011	66.5
Legal & General European Trust	Equity unit trust	England and Wales	28/07/2011	63.3
Legal & General Pacific Index Trust	Equity unit trust	England and Wales	25/03/2011	61.0
Legal & General High Income Trust	Fixed interest unit trust	England and Wales	05/09/2011	59.5
L&G UK Property Ungeared Fund LP	Limited partnership	England and Wales	31/12/2011	58.8
Legal & General Investment Management Liquidity Funds Plc	Open ended investment company	Ireland	31/12/2011	56.5
Legal & General European Index Trust	Equity unit trust	England and Wales	31/07/2011	52.1
Legal & General UK Active Opportunities Trust	Equity unit trust	England and Wales	14/04/2011	51.3
Lagoon Finance Limited[1]	Limited liability company	Ireland	31/12/2011	–
Trees S.A.[1]	Limited liability company	Luxembourg	31/12/2011	–

1. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

44 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 basis by which associates and joint ventures are consolidated in the Group financial statements is outlined in the basis of preparation (Note 1).

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**	**31/03/2011**	**50.4**
Central St Giles Unit Trust	**Jersey**	**FVTPL**	**31/12/2011**	**50.0**
Legal & General Gulf BSC[2]	**Bahrain**	**Equity method**	**31/03/2011**	**50.0**
Mithras Capital Fund Limited Partnership	**Scotland**	**FVTPL**	**31/12/2011**	**50.0**
Warrington Retail Unit Trust	**Jersey**	**FVTPL**	**31/12/2011**	**50.0**
Meteor Industrial Partnership	**England and Wales**	**FVTPL**	**31/12/2011**	**49.9**
Investment Discounts Online Limited[3]	**England and Wales**	**Equity method**	**31/12/2011**	**49.0**
Legal & General Global Emerging Market Index Fund	**England and Wales**	**FVTPL**	**31/07/2011**	**48.9**
Legal & General Ethical Trust	**England and Wales**	**FVTPL**	**12/12/2011**	**48.6**
Legal & General US Index Trust	**England and Wales**	**FVTPL**	**05/12/2011**	**48.5**
UK Logistics Fund Unit Trust	**Jersey**	**FVTPL**	**31/12/2011**	**42.7**
Arlington Business Parks Unit Trust	**Jersey**	**FVTPL**	**31/12/2011**	**41.3**
Legal & General Japanese Index Trust	**England and Wales**	**FVTPL**	**24/10/2011**	**40.3**
English Cities Fund	**England and Wales**	**FVTPL**	**31/12/2011**	**37.5**
The Leisure Fund Unit Trust	**Jersey**	**FVTPL**	**31/12/2011**	**37.2**
LGV 2 Private Equity Fund Limited Partnership	**England and Wales**	**FVTPL**	**31/12/2011**	**37.1**
Legal & General UK Alpha Trust	**England and Wales**	**FVTPL**	**18/06/2011**	**33.1**
IndiaFirst Life Insurance Company Limited[2]	**India**	**Equity method**	**31/03/2011**	**26.0**
Cofunds (Holdings) Limited	**England and Wales**	**Equity method**	**31/12/2011**	**25.4**
Legal & General Fixed Interest Trust	**England and Wales**	**FVTPL**	**05/09/2011**	**24.5**

1. The Bracknell Property Unit Trust is not consolidated as the Group does not have the power to control the entity.
2. Legal & General Gulf BSC and IndiaFirst Life Insurance Company Limited are joint venture operations. During the year, the Group provided a further capital contribution to IndiaFirst Life Insurance Company Limited of £5m (2010: £4m).
3. Investment Discounts Online Limited was acquired on 1 November 2010 at a cost of £4m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

2011	Private equity £m	Property partner-ships £m	Unit trusts £m	Total £m
Aggregate revenues	**6**	**112**	**200**	**318**
Aggregate profit	**5**	**76**	**90**	**171**
Gross assets	**86**	**2,417**	**3,618**	**6,121**
Gross liabilities	**–**	**939**	**59**	**998**

2010	Private equity £m	Property partner-ships £m	Unit trusts £m	Total £m
Aggregate revenues	59	209	653	921
Aggregate profit	52	63	112	227
Gross assets	98	2,624	3,476	6,198
Gross liabilities	4	1,171	61	1,236

45 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 (2010: £70m). On disposal this goodwill will be 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

46 MANAGEMENT OF CAPITAL RESOURCES

Capital structure

The Group's total capital resources of £8.0bn (2010: £8.1bn) on an IFRS basis comprise equity holders capital, £5.2bn (2010: £4.8bn), subordinated debt £1.8bn (2010: £1.8bn), and unallocated divisible surplus, £1.0bn (2010: £1.5bn).

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 2011, Legal & General's unaudited Insurance Group Directive (IGD) capital resources were £3.8bn (2010: £3.7bn) in excess of capital requirements of £3.1bn (2010: £3.0bn), representing a solvency coverage ratio of 220% (2010: 226%). This surplus capital is after accruing for a 2011 final dividend of £279m (2010: £201m).

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 non profit Risk and Savings businesses.

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 a 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 in 2008 (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 also written by LGA, LGN and LGF.

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 further insight into 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the Group operates are detailed below:

UK regulatory basis

Required capital for the life business is based on FSA rules. Society must hold assets in excess of the higher of two amounts; the first being calculated using the FSA rules specified by the Regulator (pillar 1), the second being an economic capital assessment by the Company which is reviewed by the FSA (pillar 2), otherwise known as ICA.

The public pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk or setting aside a proportion of expenses (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 application of 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 Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with 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, 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 FSA returns, are £6.0bn (2010: £5.9bn) of which £4.1bn (2010: £4.5bn) 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 2011, the realistic value of the UK participating liabilities was £14.6bn (2010: £15.3bn) under the FSA realistic capital regime. The excess of realistic assets over realistic liabilities was £0.7bn (2010: £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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

46 MANAGEMENT OF CAPITAL RESOURCES (CONTINUED)
Table 1 – Regulatory capital position statement

As at 31 December 2011	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Ordinary shareholders' equity outside the LTF	–	56	1,250	1,483	2,789	828	3,617
Ordinary shareholders' equity held in the LTF	–	1,440	–	143	1,583	–	1,583
Capital and reserves attributable to ordinary equity holders of the Company	–	1,496	1,250	1,626	4,372	828	5,200
Adjustments onto regulatory basis:							
Unallocated divisible surplus	1,050	–	–	(12)	1,038	–	1,038
Other[2]	(317)	(496)	–	(768)	(1,581)	(156)	(1,737)
Other qualifying capital:							
Subordinated borrowings	–	–	–	–	–	1,787	1,787
Internal loans[3]	–	–	222	–	222	(222)	–
Proposed dividend	–	–	–	–	–	(279)	(279)
Total available capital resources	733	1,000	1,472	846	4,051	1,958	6,009
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	1,153	–	–	–	1,153	–	1,153
– Other policyholder obligations	12,418	23	–	–	12,441	–	12,441
Overseas participating liabilities	–	–	–	2,432	2,432	–	2,432
Unallocated divisible surplus	1,050	–	–	(12)	1,038	–	1,038
Value of in-force non-participating contracts	(242)	–	–	–	(242)	–	(242)
Participating contract liabilities	14,379	23	–	2,420	16,822	–	16,822
Unit linked non-participating life assurance liabilities	506	477	–	1,281	2,264	–	2,264
Non-linked non-participating life assurance liabilities	2,102	27,164	–	2,231	31,497	–	31,497
Unit linked non-participating investment contract liabilities	8,044	20,962	–	222,339	251,345	–	251,345
General insurance liabilities	–	–	–	–	–	245	245
Non-participating contract liabilities	10,652	48,603	–	225,851	285,106	245	285,351

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £195m and changes to the values of assets and liabilities on a regulated basis of £1,542m.
3. Internal loans wholly comprises the contingent loan (£222m) from Society shareholders' equity to LGPL, which is reflected in the value of LGPL for regulatory purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Table 1 – Regulatory capital position statement (continued)

As at 31 December 2010	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Ordinary shareholders' equity outside the LTF	–	63	981	1,721	2,765	551	3,316
Ordinary shareholders' equity held in the LTF	–	1,351	–	159	1,510	–	1,510
Capital and reserves attributable to equity holders of the Company	–	1,414	981	1,880	4,275	551	4,826
Adjustments onto regulatory basis:							
Unallocated divisible surplus	1,441	–	–	28	1,469	–	1,469
Other[2]	(489)	(506)	–	(784)	(1,779)	(169)	(1,948)
Other qualifying capital:							
Subordinated borrowings	–	–	–	–	–	1,799	1,799
Internal loans[3]	–	–	531	–	531	(531)	–
Proposed dividend	–	–	–	–	–	(201)	(201)
Total available capital resources	952	908	1,512	1,124	4,496	1,449	5,945
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	768	–	–	–	768	–	768
– Other policyholder obligations	13,491	28	–	–	13,519	–	13,519
Overseas participating liabilities	–	–	–	2,419	2,419	–	2,419
Unallocated divisible surplus	1,441	–	–	28	1,469	–	1,469
Value of in-force non-participating contracts	(377)	–	–	–	(377)	–	(377)
Participating contract liabilities	15,323	28	–	2,447	17,798	–	17,798
Unit linked non-participating life assurance liabilities	602	7,359	–	1,409	9,370	–	9,370
Non-linked non-participating life assurance liabilities	2,024	17,496	–	2,174	21,694	–	21,694
Unit linked non-participating investment contract liabilities	8,677	20,766	–	223,983	253,426	–	253,426
General insurance liabilities	–	–	–	–	–	261	261
Non-participating contract liabilities	11,303	45,621	–	227,566	284,490	261	284,751

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £334m and changes to the values of assets and liabilities on a regulated basis of £1,614m.
3. Internal loans wholly comprises the contingent loan (£531m) from Society shareholders' equity to LGPL, which is reflected in the value of LGPL for regulatory purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

46 MANAGEMENT OF CAPITAL RESOURCES (CONTINUED)

Available regulatory capital resource risks

The Group's available capital resources are sensitive to changes in market conditions, both to changes in the value of the assets and to the impact which changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency. The most significant sensitivities arise from the following four risks:

- market risk in relation to UK participating business which would crystallise if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options. The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the liability for guarantees and options in the realistic balance sheet.

- market risk in relation to the UK annuity business, which would crystallise if the return from the fixed interest investments supporting this business were lower than that assumed for reserving.

- mortality risk in relation to the UK annuity business, which would crystallise if the mortality of annuitants improved more rapidly than the assumptions used for reserving.

- mortality risk in relation to the UK and US term assurance businesses, which would crystallise if mortality of the lives insured was higher than that assumed, possibly because of an epidemic.

A range of management actions 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.

Table 2 below provides management estimates of the impact on IGD surplus to changes in market conditions:

Table 2 – IGD sensitivity analysis

	Impact on surplus capital 2011 £bn	Impact on surplus capital 2010 £bn
Sensitivity test		
20% fall in equity values	**(0.4)**	(0.2)
40% fall in equity values	**(0.7)**	(0.5)
15% fall in property values	**(0.1)**	(0.1)
100bp increase in interest rates	**–**	(0.2)
100bp increase in credit spreads	**–**	(0.1)

Details of IFRS sensitivity analysis can be found in Table 7 of Note 48. EEV sensitivity analysis can be found in Note 17 to the supplementary financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Movements in life business regulatory capital resources

The movement in the life business regulatory capital resources is shown in Table 3.

Table 3 – Movements in life business regulatory capital resources

	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m
As at 1 January 2011	**952**	**908**	**1,512**	**1,124**	**4,496**
Effect of investment variations	**(101)**	**36**	**132**	**(32)**	**35**
Effect of changes in valuation assumptions	**5**	**43**	**(40)**	**–**	**8**
Changes in management policy	**(4)**	**4**	**–**	**–**	**–**
New business	**(17)**	**(76)**	**(16)**	**(64)**	**(173)**
Cash distributions	**–**	**(196)**	**–**	**(224)**	**(420)**
Other factors	**(102)**	**281**	**(116)**	**42**	**105**
As at 31 December 2011	**733**	**1,000**	**1,472**	**846**	**4,051**

	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m
As at 1 January 2010	841	839	1,684	825	4,189
Effect of investment variations	210	76	106	(2)	390
Effect of changes in valuation assumptions	(41)	59	(71)	–	(53)
New business	(17)	(77)	(3)	(47)	(144)
Cash distributions	–	(237)	–	(148)	(385)
Other factors	(41)	248	(204)	496	499
As at 31 December 2010	952	908	1,512	1,124	4,496

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

47 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. As a result, 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 LGF 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 assets. 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 overleaf presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 48 (Risk management and control) have been provided using this categorisation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2011	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Purchased interests in long term business	107	4	37	–	148
Investment in associates	60	–	–	–	60
Plant and equipment	69	–	9	–	78
Investments[1]	9,104	30,314	18,927	261,063	319,408
Reinsurers' share of participating insurance contracts	–	–	1	–	1
Reinsurers' share of non-participating insurance contracts	311	1,788	8	8	2,115
Reinsurers' share of non-participating investment contracts	–	–	11	162	173
Other operational assets	2,410	965	279	879	4,533
Total assets	12,061	33,071	19,272	262,112	326,516
Liabilities					
Subordinated borrowings	1,934	–	–	(13)	1,921
Participating contract liabilities	1	23	16,583	215	16,822
Non-participating contract liabilities	2,368	27,966	2,110	252,907	285,351
Senior borrowings	1,147	–	97	85	1,329
Other liabilities[1]	2,864	3,631	450	8,882	15,827
Total liabilities	8,314	31,620	19,240	262,076	321,250

As at 31 December 2010	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Purchased interests in long term business	121	–	36	–	157
Investment in associates	57	–	–	–	57
Plant and equipment	58	–	6	–	64
Investments[1]	8,631	25,746	19,931	262,705	317,013
Reinsurers' share of participating insurance contracts	–	–	2	–	2
Reinsurers' share of non-participating insurance contracts	304	1,789	–	8	2,101
Reinsurers' share of non-participating investment contracts	–	–	–	233	233
Other operational assets	2,132	826	328	796	4,082
Total assets	11,303	28,361	20,303	263,742	323,709
Liabilities					
Subordinated borrowings	1,909	–	–	(12)	1,897
Participating contract liabilities	2	28	17,559	209	17,798
Non-participating contract liabilities	2,496	25,036	2,067	255,152	284,751
Senior borrowings	1,239	–	87	109	1,435
Other liabilities[1]	2,531	1,710	583	8,130	12,954
Total liabilities	8,177	26,774	20,296	263,588	318,835

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £203m (2010: £164m) as a deduction to non profit non-unit linked investments and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL

Risk management approach

A significant part of the Group's business involves the acceptance and management of risk. The Group's risk appetite framework and the methods used to assess and monitor risk exposures can be found in pages 40 to 43. 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: exposure to loss arising from claims experience being different to that anticipated.

Market risk: exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk: exposure 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: exposure to loss arising from inadequate or failed internal processes, people, systems, or from external events.

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. A description of the key products offered by the Group's segments and the associated risks and control techniques is detailed below.

Risk

Principal Products

The Group's Risk business comprises annuities, individual and group protection, and general insurance products. The majority of Risk products are non-participating contracts and as such profits on this business accrue solely to shareholders.

Annuities

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. Immediate and deferred are annuity contacts 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. A small portfolio of immediate annuities has been written as participating business. Some non-participating deferred annuities sold by the Group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options are currently immaterial. There is a block of immediate and deferred annuities within the UK non profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2011 was £271m (2010: £247m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £3m (2010: £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 swaps.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Deferred annuity contracts

The Group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the Group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £185m (2010: £125m).

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.

General insurance

The Group offers Household and Accident, Sickness and Unemployment (ASU) products:

- Household. These contracts 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.
- 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.

In addition, there are portfolios of Motor Insurance and Domestic Mortgage Indemnity Insurance (DMI) in run off. Since 1993, the DMI contract has included a maximum period of cover of ten 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.

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48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Insurance risks

Risk	Product	Control
Mortality & Morbidity Risks		
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. 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.	Protection	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
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.	Annuities	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly.
Persistency Risk		
In the early years of a policy, lapses may result in a loss to the Group, as the acquisition costs associated with the contract would not have been recovered from product margins.	Protection	The pricing basis for protection business includes provision for policy lapses. 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. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation.
Expense Risk		
In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	Protection and annuities	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Product servicing costs are monitored relative to the costs assumed with the product pricing basis.
Concentration 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.	Protection and general insurance	Group protection business contracts include an ‘event limit’ capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigate the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also reduces concentrations of risk.
Epidemics		
The spread of an epidemic could cause large aggregate claims across the Group’s portfolio of protection businesses.	Protection	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events		
Significant weather events such as windstorms, and coastal and river floods can lead to significant claims.	General insurance	The impact of events are mitigated by 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. The 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.	General insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted. Reinsurance arrangements are used to further mitigate the risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Market risks

Risk	Product	Control
Investment Performance Risk The Group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a mismatch with contractual cash flows.	All	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
Currency Risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in Euros and US Dollars. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in sterling could result in unforeseen loss.	Annuities	To mitigate the risk of loss from currency fluctuations, currency swaps are used to hedge exposures to corporate bonds denominated in currencies other than sterling. Hedging arrangements are placed only with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties.
Inflation Risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in prices indices.	Annuities	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment.

Credit risks

Risk	Product	Control
Bond Default Risk A significant portfolio of corporate bonds is held to back the liabilities arising from writing annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default.	Annuities and general insurance	Issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults.
Reinsurance Counterparty Risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly.	All	When selecting new reinsurance partners the Group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Liquidity risks

Risk	Product	Control
Contingent Event Risk Within protection and general insurance business liquidity risks which stem from low probability events that, if not adequately planned for, may result in unanticipated liquidity requirements. Such events may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected and extreme market conditions impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	Protection and general insurance	A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events, with the profile of actual liquid assets being regularly compared to required profile. The Group's treasury function provides formal facilities to the Group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The level of insurance funds held in cash and other readily realisable assets at 31 December 2011 was £2.3bn (2010: £2.6bn).
Collateral Liquidity Risk Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	Annuities	Liquidity requirements to meet potential collateral calls are actively managed. Typically within the overall fund of investment assets held to meet the long term liabilities arising from annuity business, £350m is held in cash and other highly liquid investment types for general liquidity purposes. As at 31 December 2011 eligible assets worth 9 times the outstanding collateral were held.

Savings

Principal Products

The Group's Savings products comprise:

- Non-participating savings, pensions and endowment contracts;
- Participating savings business, comprising endowment contracts and with-profits bonds;
- Unit linked savings contracts, unit trusts and collective investment savings products.

Non-participating contracts

Non-participating business is written in the non profit part of the Society Long Term Fund (LTF). Profits accrue solely to shareholders. Participating contracts are supported by the with-profits part of the Society LTF. They offer policyholders the possibility of 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.

For unit linked savings contracts, unit trusts and collective investment savings products there is a direct link between the investments and the obligations. The financial risk on these contracts is borne by the policyholders and therefore detailed risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written in the Society LTF. Unit trust and collective investment business is administered by Legal & General (Unit Trust Managers) Limited and Legal & General (Portfolio Management Services) Limited, respectively.

Savings

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.

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. 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 the latter types of options are offered.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Endowment policies

These contracts provide a lump sum on maturity determined by the addition of annual and final bonuses over the duration of the contract. In addition, the contracts provide a minimum sum assured death benefit.

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.

Participating contracts

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. These bonuses are determined in accordance with the principles outlined in the Society'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; and
- 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 allocated 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 possible 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 of guarantees and options and the value of the associated funds up to 31 December 2011, and in accordance with the Society's PPFM, a deduction of 0.75% was made to the asset shares. This followed a refund of 0.2% made in respect of the year to 31 December 2010. In the technical provisions, allowance was also 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 policyholder's fund up to the date of retirement or maturity.

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 impact 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. 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 support to the with-profits part of the Society LTF to meet its liabilities, 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 reduced to £350m in 2011 and will then gradually reduce to zero over a period not exceeding seven 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Insurance risks

Risk	Product	Control
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.	All	For insured contracts, terms and conditions typically include surrender deductions to mitigate the 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 in later periods is expected to be broadly neutral.
Expense Risk In pricing long term savings business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	All	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are actively monitored relative to the costs assumed with the product pricing basis, with variances investigated.
Mortality Risks For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	All	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the Group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Pensions	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The Group has limited ability to control the take up of these options. However, the book of business itself is diminishing in size. As at 31 December 2011 the value of guarantees is estimated to be £57m (31 December 2010: £35m).

Market risks

Risk	Product	Control
Investment Performance 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.	With-profits	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.
For unit linked contracts, there is a risk of volatility in asset management fee income 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. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Unit linked	The risk is managed through maintaining a diversified range of funds in which customers may invest. The prodigality of all funds are subject to regular review. For some contracts the Group has discretion over the level of management charges levied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Liquidity risks

Risk	Product	Control
Investment Liquidity Risk Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	With-profits	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a diminution of value.	Non-participating savings	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the Group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.

Investment management

Principal Products

LGIM offers both active and passive management on either a pooled or segregated basis. Assets are managed on behalf of pension funds, institutional clients, sovereign wealth clients, retails funds and subsidiary companies within the Legal & General Group. The core products are set out below.

Index Fund Management

LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

Active Fixed Income and Liquidity Management

A range of pooled and segregated active fixed income funds. The LGIM liquidity funds offers institutional investors seeking an optimal solution for their cash management across a range of core currencies. The fund aims to deliver competitive returns with a high level of diversification, while focusing on capital preservation through portfolios of high quality, liquid assets.

Solution and Liability Driven Investment (LDI)

A wide variety of solutions to help de-risk defined benefit pension schemes and replace them with appropriate defined contribution or workplace savings schemes.

Active Equity

An active equity management business comprising focused teams managing stock selection across different regions.

Property and Venture Capital

A range of pooled or segregated real estate funds to both UK and overseas investors, offered via a mixture of pooled funds, specialist funds and partnerships. The business is based around in-house sector specialists with a dedicated research team. In addition LGIM provides institutional clients with private equity investment funds offered via a partnership structure.

Key risk and controls

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented. The approach to the management of operational risks, including loss arising from trading errors, breach of fund management guidelines or valuation errors, where a breakdown in controls could lead to successful litigation against the company by one or more clients, is set out in the Operational risks section.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

International

Principal Products

The principal products written by our International division are annuities (deferred and immediate), individual and group protection, universal life insurance, non-participating savings business and open ended investment vehicles.

Annuities

Immediate annuities have similar characteristics as products sold by the Risk division. Deferred annuity contracts written by LGA 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.

Protection business (individual and group)

Individual protection consists of individual term assurance, which provide death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set 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.

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 within the protection businesses to manage exposure to large individual and group claims. Within LGA, reinsurance and securitisation is also 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.

Universal life

Universal life contracts written by LGA provide savings and 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 $688m and $200m respectively at 31 December 2011 ($708m and $218m at 31 December 2010 respectively). The guaranteed interest rates associated with those reserves ranged from 0% to 5.5%, with the majority of the policies having guaranteed rates ranging from 3% to 4% (2010: 3% to 4%).

Non-participating savings business

Savings products include contracts that provide minimum guaranteed rates of return. The guarantee is aligned with current and projected rates of return from government securities. Certain savings products include an exposure to interest rate and credit risk, managed through an active asset-liability management programme.

Open Ended Investment Vehicles

These comprise SICAVS, the investment risks for which are borne by unit holders of these funds.

Key risks and controls

The principal risks and associated controls relevant to our International products are consistent with those identified for our Risk and Savings businesses and therefore have not been repeated here.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Group capital and financing

Shareholder Funds

Shareholder assets include portfolios of equity, property, bond and other investments, not directly required to meet contractual obligations to policyholders. The value of, and income from, these assets is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns are managed using a range of techniques, including performance benchmarks and limits on concentrations of exposures by asset type and geographic region.

Group Treasury and Liquidity Management

The Group's treasury function manages the Group's banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends. The Group seeks to manage its corporate 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. During 2011 the Group replaced its £960m syndicated borrowing facility (expiring in 2012), with a new five year £1bn revolving credit facility syndicated with 21 relationship banks. The facility provides flexibility in the management of the Group's liquidity. No drawings were made under these facilities during 2011.

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.

Operational risks

Potential for exposure to operational risk extends to all the Group's businesses. All business managers are required to confirm regularly the adequacy of controls to mitigate those operational risks relevant to their responsibilities. Significant control issues are escalated to senior and executive management through the Group's risk management framework. The framework is supported by the Operational Risk Management teams which facilitates the identification, assessment, monitoring and control of risks across the Group's businesses.

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 business division is responsible for ensuring the adequacy of the controls over its processes. 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. 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 Group has defined minimum standards of control to be applied for all outsourced arrangements within a formal outsourcing and critical 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Operational risks (continued)

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 Regulatory Risk and Compliance function has oversight of the Group's compliance with conduct of business 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.

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. Disaster recovery facilities enable IT operations to be conducted at remote locations in the event of the loss of computer facilities. All records are remotely backed up and computer suites are equipped with alternative power sources.

Group Risk

The potential for contagion risk arises as a consequence of the use of a common brand across the majority of the Group and 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 1 below 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 1 – Exposure to worldwide equity markets

	Shareholder 2011 £m	Non profit non-unit linked 2011 £m	With-profits 2011 £m	Total 2011 £m	Shareholder 2010 £m	Non profit non-unit linked 2010 £m	With-profits 2010 £m	Total 2010 £m
United Kingdom	**458**	**–**	**1,392**	**1,850**	490	–	2,203	2,693
North America	**–**	**–**	**746**	**746**	30	–	425	455
Europe	**117**	**–**	**558**	**675**	127	–	743	870
Japan	**–**	**–**	**402**	**402**	–	–	492	492
Asia Pacific	**50**	**–**	**566**	**616**	49	–	448	497
Other	**–**	**–**	**39**	**39**	11	–	143	154
Listed equities	**625**	**–**	**3,703**	**4,328**	707	–	4,454	5,161
Unlisted UK equities	**15**	**–**	**82**	**97**	16	–	85	101
Holdings in unit trusts	**273**	**–**	**479**	**752**	253	–	456	709
Total equities	**913**	**–**	**4,264**	**5,177**	976	–	4,995	5,971

The Group holds shareholder and non profit non-unit linked property investments totalling £606m (2010: £275m), of which £601m (2010: £269m) are located in the UK.

A 10% reduction in the value of listed equities would result in a reduction in pre-tax profit attributable to shareholders of £63m (2010: £71m). The impact on the with-profits fund has not been provided as the reduction would be offset by a change in the unallocated divisible surplus.

Table 2 – Exposure to worldwide debt markets

Total debt securities and accrued interest[1]	Notes	Shareholder and non profit non-unit linked 2011 £m	With-profits 2011 £m	Shareholder and non profit non-unit linked 2010 £m	With-profits 2010 £m
United Kingdom		**11,758**	**5,001**	10,517	4,605
USA		**10,548**	**1,076**	9,790	1,314
Spain		**236**	**185**	218	225
Portugal		**44**	**4**	76	6
Greece		**–**	**5**	15	13
Ireland		**1,175**	**262**	1,251	320
Italy		**652**	**108**	505	188
Other Europe		**5,516**	**4,860**	5,066	4,891
Japan		**73**	**28**	48	–
Asia Pacific		**85**	**43**	50	7
Other		**2,141**	**570**	1,333	542
		32,228	**12,142**	28,869	12,111
Analysed as[1]					
Debt securities	22(i)	**31,764**	**11,924**	28,444	11,887
Accrued interest	22(i)	**464**	**218**	425	224
		32,228	**12,142**	28,869	12,111

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 non profit non-unit linked investments (2011: £897m; 2010: £957m), cash equivalents (2011: £178m; 2010:£119m) and derivative liabilities (2011: £(203)m; 2010: £(164)m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Table 2 – Exposure to worldwide debt markets (continued)

Sovereign, supras and sub-sovereign debt[1]	Shareholder and non profit non-unit linked 2011 £m	With-profits 2011 £m	Shareholder and non profit non-unit linked 2010 £m	With-profits 2010 £m
United Kingdom	**3,205**	**2,117**	2,366	1,919
USA	**782**	**177**	524	210
Spain	**29**	**20**	43	20
Portugal	**3**	**3**	12	6
Greece	**–**	**5**	15	13
Ireland	**4**	**10**	45	10
Italy	**281**	**14**	189	32
Other Europe	**1,813**	**2,855**	1,737	3,112
Asia Pacific	**–**	**18**	–	1
Other	**71**	**46**	103	–
	6,188	**5,265**	5,034	5,323

1. Sovereign, supras and sub-sovereign debt includes £4,909m (2010: £3,829m) shareholder and non profit non-linked government securities and £2,323m (2010: £2,277m) with-profits government securities.

Other debt securities	Shareholder and non profit non-unit linked 2011 £m	With-profits 2011 £m	Shareholder and non profit non-unit linked 2010 £m	With-profits 2010 £m
United Kingdom	**8,553**	**2,884**	8,151	2,686
USA	**9,766**	**899**	9,266	1,104
Spain	**207**	**165**	175	205
Portugal	**41**	**1**	64	–
Greece	**–**	**–**	–	–
Ireland	**1,171**	**252**	1,206	310
Italy	**371**	**94**	316	156
Other Europe	**3,703**	**2,005**	3,329	1,779
Japan	**73**	**28**	48	–
Asia Pacific	**85**	**25**	50	6
Other	**2,070**	**524**	1,230	542
	26,040	**6,877**	23,835	6,788

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Table 3 – Currency risk

Table 3 below 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.

As at 31 December 2011 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	721	592	43	81	10,624	12,061
Total liabilities	737	1,272	–	–	6,305	8,314
Net assets	(16)	(680)	43	81	4,319	3,747
Non profit non-unit linked						
Total assets	127	9,728	–	19	23,197	33,071
Total liabilities[1]	148	9,795	–	–	21,677	31,620
Net assets	(21)	(67)	–	19	1,520	1,451

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £203m as a deduction to non profit non-unit linked assets and liabilities.

With-profits	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	320	1,039	411	825	16,677	19,272
Total liabilities	(17)	301	2	3	18,951	19,240
Net assets	337	738	409	822	(2,274)	32

As at 31 December 2010 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	840	(562)	–	30	10,995	11,303
Total liabilities	974	68	–	–	7,135	8,177
Net assets	(134)	(630)	–	30	3,860	3,126
Non profit non-unit linked						
Total assets	1,783	4,175	–	21	22,382	28,361
Total liabilities[1]	1,830	4,171	–	–	20,773	26,774
Net assets	(47)	4	–	21	1,609	1,587

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £164m as a deduction to non profit non-unit linked assets and liabilities.

With-profits	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	1,626	917	505	797	16,458	20,303
Total liabilities	650	204	–	–	19,442	20,296
Net assets	976	713	505	797	(2,984)	7

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 US Dollar and Euro on an IFRS basis, net of hedging activities, is detailed in Table 4.

Table 4 – Currency sensitivity analysis

Currency sensitivity test	Impact on pre-tax profit 2011 £m	Impact on equity 2011 £m	Impact on pre-tax profit 2010 £m	Impact on equity 2010 £m
10% Euro appreciation	(4)	(3)	(18)	(13)
10% US Dollar appreciation	(75)	(55)	(63)	(45)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

The credit profile of the Group's assets exposed to credit risk is shown in Table 5. The credit rating bands are provided by independent rating agencies. For unrated assets, the Group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

Table 5 – Exposure to credit risk

As at 31 December 2011	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Shareholder									
Government securities		1,643	139	80	3	4	–	3	1,872
Other fixed rate securities		442	455	1,278	738	53	–	7	2,973
Variable rate securities		468	159	202	91	6	–	–	926
Total debt securities	22(i)	2,553	753	1,560	832	63	–	10	5,771
Accrued interest	22(i)	28	7	20	14	1	–	6	76
Loans and receivables	22(ii)	–	–	11	–	–	–	74	85
Derivative assets	23	–	55	244	–	–	–	9	308
Cash and cash equivalents[1]	27	258	842	598	4	–	–	129	1,831
Financial assets		2,839	1,657	2,433	850	64	–	228	8,071
Reinsurers' share of non-participating insurance contracts		6	91	97	–	–	–	117	311
Other assets	26	85	23	85	5	–	–	407	605
		2,930	1,771	2,615	855	64	–	752	8,987

1. 'A' rated cash and cash equivalents include £nil (2010: £247m) 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									
Government securities		2,795	3	200	39	–	–	–	3,037
Other fixed rate securities		1,301	2,565	8,007	6,372	412	–	616	19,273
Variable rate securities[1]		614	286	1,341	331	1	872	238	3,683
Total debt securities	22(i)	4,710	2,854	9,548	6,742	413	872	854	25,993
Accrued interest	22(i)	36	43	162	133	5	–	9	388
Loans and receivables	22(ii)	–	–	–	–	–	–	–	–
Derivative assets	23	1	438	2,667	–	1	–	–	3,107
Cash and cash equivalents[1]	27	20	140	140	–	–	–	40	340
Financial assets		4,767	3,475	12,517	6,875	419	872	903	29,828
Reinsurers' share of non-participating insurance contracts		–	1,244	393	–	–	–	151	1,788
Other assets	26	–	14	–	–	–	–	259	273
		4,767	4,733	12,910	6,875	419	872	1,313	31,889

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 investments (£897m), cash equivalents (£178m) and derivative liabilities (£(203)m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Table 5 – Exposure to credit risk (continued)

As at 31 December 2011	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
With-profits									
Government securities		2,251	24	30	–	17	–	1	2,323
Other fixed rate securities		3,717	1,334	2,260	1,851	127	–	203	9,492
Variable rate securities		33	9	45	14	3	–	5	109
Total debt securities	22(i)	6,001	1,367	2,335	1,865	147	–	209	11,924
Accrued interest	22(i)	92	26	51	45	2	–	2	218
Loans and receivables	22(ii)	–	–	–	–	–	–	1	1
Derivative assets	23	–	10	155	–	–	–	2	167
Cash and cash equivalents	27	474	490	163	–	3	–	–	1,130
Financial assets		6,567	1,893	2,704	1,910	152	–	214	13,440
Reinsurers' share of participating insurance contracts		–	1	–	–	–	–	–	1
Reinsurers' share of non-participating insurance contracts		–	–	–	–	–	–	8	8
Reinsurers' share of non-participating investment contracts		–	–	–	–	–	–	11	11
Other assets	26	–	–	–	–	–	–	169	169
		6,567	1,894	2,704	1,910	152	–	402	13,629

At the year end, the Group held £419m (2010: £222m) of collateral in respect of non-unit linked derivative assets.

As at 31 December 2010	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Shareholder									
Government securities		1,586	136	14	1	1	–	5	1,743
Other fixed rate securities		375	337	1,060	641	85	–	22	2,520
Variable rate securities		619	133	86	51	13	–	2	904
Total debt securities	22(i)	2,580	606	1,160	693	99	–	29	5,167
Accrued interest	22(i)	30	7	17	13	1	–	–	68
Loans and receivables	22(ii)	–	6	14	–	–	–	73	93
Derivative assets	23	–	153	135	–	–	–	–	288
Cash and cash equivalents	27	166	450	998	–	2	–	277	1,893
Financial assets		2,776	1,222	2,324	706	102	–	379	7,509
Reinsurers' share of non-participating insurance contracts		6	84	126	–	–	–	88	304
Other assets	26	82	65	79	7	–	–	265	498
		2,864	1,371	2,529	713	102	–	732	8,311

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Table 5 – Exposure to credit risk (continued)

As at 31 December 2010	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Non profit non-unit linked									
Government securities		1,967	73	9	37	–	–	–	2,086
Other fixed rate securities		1,090	1,965	7,561	5,286	373	–	575	16,850
Variable rate securities[1]		1,298	403	1,217	282	1	912	229	4,342
Total debt securities	22(i)	4,355	2,441	8,787	5,605	374	912	804	23,278
Accrued interest	22(i)	31	38	160	113	5	–	9	356
Loans and receivables	22(ii)	–	–	–	–	–	–	–	–
Derivative assets	23	2	295	1,128	–	–	–	–	1,425
Cash and cash equivalents	27	39	165	344	–	–	–	9	557
Financial assets		4,427	2,939	10,419	5,718	379	912	822	25,616
Reinsurers' share of non-participating insurance contracts		–	769	859	–	–	–	161	1,789
Other assets	26	–	–	–	–	–	–	117	117
		4,427	3,708	11,278	5,718	379	912	1,100	27,522

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 investments (£957m), cash equivalents (£119m) and derivative liabilities (£(164)m).

	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
With-profits									
Government securities		2,168	49	36	10	13	–	1	2,277
Other fixed rate securities		3,707	1,323	2,585	1,323	144	–	373	9,455
Variable rate securities		82	23	41	4	–	–	5	155
Total debt securities	22(i)	5,957	1,395	2,662	1,337	157	–	379	11,887
Accrued interest	22(i)	97	26	64	31	2	–	4	224
Loans and receivables	22(ii)	–	40	47	–	–	–	1	88
Derivative assets	23	–	6	49	–	–	–	29	84
Cash and cash equivalents	27	330	549	389	1	–	–	1	1,270
Financial assets		6,384	2,016	3,211	1,369	159	–	414	13,553
Reinsurers' share of participating insurance contracts		–	–	2	–	–	–	–	2
Other assets	26	–	–	–	–	–	–	191	191
		6,384	2,016	3,213	1,369	159	–	605	13,746

Impairment

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.

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.

Table 6 provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Table 6 – Ageing of financial assets that are past due but not impaired

As at 31 December 2011	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 £m	Carrying value £m
Shareholder	**8,475**	**22**	**1**	**–**	**–**	**–**	**8,498**
Non profit non-unit linked[1]	**31,518**	**107**	**8**	**2**	**9**	**–**	**31,644**
With-profits	**13,535**	**19**	**–**	**–**	**1**	**–**	**13,555**

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 investments (£897m), cash equivalents (£178m) and derivative liabilities (£(203)m).

As at 31 December 2010	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 £m	Carrying value £m
Shareholder	7,715	30	2	–	4	–	7,751
Non profit non-unit linked[1]	27,377	2	–	–	–	–	27,379
With-profits	13,663	2	–	1	–	–	13,666

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 investments (£957m), cash equivalents (£119m) and derivative liabilities (£(164)m).

Sensitivity analysis
Table 7 – UK long term business IFRS sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2011 £m	Impact on equity net of reinsurance 2011 £m	Impact on pre-tax profit net of reinsurance 2010 £m	Impact on equity net of reinsurance 2010 £m
Sensitivity test				
1% increase in interest rates	**49**	**36**	35	25
1% decrease in interest rates	**(142)**	**(104)**	1	1
Credit spread widens by 100 bps with no change in expected defaults	**(52)**	**(38)**	(76)	(55)
1% increase in inflation	**37**	**28**	17	12
Default of largest reinsurer	**(694)**	**(510)**	(681)	(490)
1% decrease in annuitant mortality	**(76)**	**(55)**	(66)	(47)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

48 RISK MANAGEMENT AND CONTROL (CONTINUED)

Sensitivity analysis (continued)

The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the UK long term business. This scenario does not reflect management action which could be taken to reduce the impact of a decrease in interest rates. In a scenario where the bases are not adjusted for regulatory restrictions i.e. changes to the reinvestment rate are ignored, the sensitivitiy to a +/-1% interest rate movement would be +/-£7m.

- In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Group's experience may be correlated.
- The Group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Group asset and liability position and any second order tax effects.
- These stresses use the assets that back the liabilities. Any excess assets have not been stressed in these calculations.
- The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
- The change in interest rate test assumes a 100bps change in the gross redemption yield on a fixed interest securities together with a 100bps change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of FSA regulations.
- In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
- The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.
- The reinsurer stress shown is equal to the technical provisions ceded to that insurer.
- The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates.
- Default of largest reinsurer: The largest reinsurer was deducted at an entity level by mathematical reserves ceded. The largest reinsurer is Swiss Re. The increase in reserves is consistent with the reinsured reserves.

Details of IGD sensitivity analysis can be found in Table 2 of Note 46.

The Group also uses embedded value financial statements information to manage risk. The effect of alternative assumptions on the long term embedded value, prepared in accordance with the guidance issued by the European Insurance CFO Forum in October 2005 are contained within the Supplementary Financial Statements on page 216 of the Annual Report and Accounts.

Table 8 – General insurance sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2011 £m	**Impact on equity net of reinsurance 2011 £m**	Impact on pre-tax profit net of reinsurance 2010 £m	Impact on equity net of reinsurance 2010 £m
Sensitivity test				
Single storm event with 1 in 200 year probability	**(90)**	**(66)**	(55)	(40)
Subsidence event – worst claim ratio in last 30 years	**(41)**	**(30)**	(39)	(28)
Economic downturn	**(43)**	**(32)**	(38)	(28)
5% decrease in overall claims ratio	**9**	**7**	9	6
5% surplus over claims liabilities	**5**	**3**	6	4

For any single event with claims in excess of £30m (2010: £30m) but less than £265m (2010: £235m), the ultimate cost to Legal & General Insurance Limited (LGI) would be £30m (2010: £30m). The ultimate cost to the Group is greater as a proportion of the catastrophe reinsurance cover is placed with Legal & General Assurance Society Limited, which is exposed to 70% of claims between £30m and £50m, 50% of claims between £50m and £120m and 20% of claims between £120m and £265m. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the upper limit of the catastrophe cover by approximately £192m (2010: £131m), with an estimated total cost to LGI of £245m (2010: £180m) and to the Group of £317m (2010: £227m).

EUROPEAN EMBEDDED VALUE BASIS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011	Notes	2011 £m	2010 £m
From continuing operations			
Risk	2	**801**	663
Savings	2	**228**	204
Investment management	5	**210**	179
International	6	**242**	163
Group capital and financing	7	**44**	54
Investment projects[1]		**(56)**	(39)
Operating profit		**1,469**	1,224
Variation from longer term investment return	8	**(111)**	161
Effect of economic assumption changes	9	**(21)**	292
Property losses attributable to non-controlling interests		**(3)**	–
Profit before tax		**1,334**	1,677
Tax expense attributable to equity holders of the Company	11	**(259)**	(446)
Effect of tax rate changes	11	**156**	33
Profit for the year		**1,231**	1,264
Loss attributable to non-controlling interests		**3**	–
Profit attributable to equity holders of the Company		**1,234**	1,264
		p	p
Earnings per share	12		
Based on operating profit after tax attributable to equity holders of the Company		**19.08**	15.52
Based on profit attributable to equity holders of the Company		**21.17**	21.71
Diluted earnings per share	12		
Based on operating profit after tax attributable to equity holders of the Company		**18.77**	15.31
Based on profit attributable to equity holders of the Company		**20.83**	21.41

1. Investment projects predominately relates to Solvency II and other strategic investments.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011	2011 £m	2010 £m
Profit for the year	**1,231**	1,264
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**(1)**	(5)
Actuarial (losses) on defined benefit pension schemes	**(70)**	(5)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**48**	4
Total comprehensive income for the year	**1,208**	1,258
Total comprehensive income/(expense) attributable to:		
Non-controlling interests	**(3)**	–
Equity holders of the Company	**1,211**	1,258

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

CONSOLIDATED BALANCE SHEET

As at 31 December 2011	Notes	2011 £m	2010 £m
Assets			
Investments		**319,671**	317,234
Long term in-force business asset		**3,556**	3,060
Other assets		**6,900**	6,482
Total assets		**330,127**	326,776
Equity			
Shareholders' equity	14/15	**8,608**	7,730
Non-controlling interests		**66**	47
Total equity		**8,674**	7,777
Liabilities			
Subordinated borrowings		**1,921**	1,897
Unallocated divisible surplus		**1,038**	1,469
Participating contract liabilities		**15,784**	16,329
Non-participating contract liabilities		**285,351**	284,751
Senior borrowings		**1,329**	1,435
Other liabilities and provisions		**16,030**	13,118
Total liabilities		**321,453**	318,999
Total equity and liabilities		**330,127**	326,776

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

1 METHODOLOGY

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.

The supplementary financial statements have been audited by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuaries; Towers Watson in the UK and Milliman in the USA.

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.

The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

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 Legal & General Pensions Limited (LGPL) and to Legal & General Assurance Society Limited (Society). 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.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

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 recurring and are included in single premium new business when received. Longevity insurance fixed leg payments have been treated as regular premiums.

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 future 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, with the exception of longevity insurance. Longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. For longevity insurance, PVNBP is not an appropriate measure of expected income stream and as such, the PVNBP has not been applied for this product.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP, with the exception of longevity insurance. The new business margin has not been applied to longevity insurance for the reason above. 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 best estimate 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 by LGA, 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 normally 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 future changes. No account has been taken of the proposals for regime change for life insurance companies in 2013 which are still in draft form.

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.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

1 METHODOLOGY (CONTINUED)

Required capital and free surplus

Regulatory capital for the 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.

For LGA, 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 LGN, 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 212% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

For LGF, 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

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.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

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.

LGA 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 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

LGN separately provides for two types of guarantees: 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.

For LGF, 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 free rate
The risk free rate is set to reflect both the pattern of the emerging profits under EEV and the relevant duration of the liabilities where backing assets reflect this assumption (e.g. equity returns). For the UK, it is set by reference to the gross redemption yield on the 15 year gilt index. For LGA, the risk free rate is the 10 year US Treasury effective yield, while the 10 year ECB AAA-rated Euro area central government bond par yield is used for LGN and LGF.

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 is 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.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

1 METHODOLOGY (CONTINUED)

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 23%.

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.

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 return differing from the assumed long term investment return (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 SNW and VIF business from that assumed at the beginning of the period.

Economic assumption changes comprise the effect of changes in economic variables on SNW and VIF 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.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

2 PROFIT/(LOSS) FOR THE YEAR

For the year ended 31 December 2011	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	3	**376**		**65**		**441**
Contribution from in-force business:						
– expected return[1]		**387**		**107**		**494**
– experience variances	4	**112**		**125**		**237**
– operating assumption changes	4	**101**		**(68)**		**33**
Development costs		**(10)**		**–**		**(10)**
Contribution from shareholder net worth				**21**	**157**	**178**
Operating profit on covered business		**966**	**–**	**250**	**157**	**1,373**
Business reported on an IFRS basis:						
Risk non-covered business[2]		**36**				**36**
Savings non-covered business[3]		**27**				**27**
Investment management[4]	5		**210**			**210**
Group capital and financing	7				**(113)**	**(113)**
Investment projects[5]					**(56)**	**(56)**
International non-covered business[6]				**(8)**		**(8)**
Total operating profit		**1,029**	**210**	**242**	**(12)**	**1,469**
Variation from longer term investment return	8	**124**	**(7)**	**(6)**	**(222)**	**(111)**
Effect of economic assumption changes	9	**43**	**–**	**(64)**	**–**	**(21)**
Property losses attributable to non-controlling interests		**–**	**–**	**–**	**(3)**	**(3)**
Profit/(loss) before tax		**1,196**	**203**	**172**	**(237)**	**1,334**
Tax (expense)/credit on profit from ordinary activities		**(279)**	**(38)**	**(63)**	**121**	**(259)**
Effect of tax rate changes[7]		**155**	**–**	**1**	**–**	**156**
Profit/(loss) for the year		**1,072**	**165**	**110**	**(116)**	**1,231**
Operating profit attributable to:						
Risk		**801**				
Savings		**228**				

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £3,886m in 2011 (2010: £3,679m). This is adjusted for the effects of opening model changes of £200m (2010: £39m) to give an adjusted opening base VIF of £4,086m (2010: £3,718m). This is then multiplied by the opening risk discount rate of 7.3% and the result grossed up at the notional attributed tax rate of 23% (2010: 27%) to give a return of £387m (2010: £407m).
2. Risk non-covered business primarily reflects general insurance operating profit of £42m (see Note 2(ii)(f) of the Group's consolidated financial statements).
3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and Nationwide.
4. Investment management operating profit excludes £24m (2010: £27m) 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.
5. Investment projects predominately relates to Solvency II and other strategic investments.
6. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m (2010: £5m) allocated to the International segment.
7. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 23% on 1 April 2014.

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EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

2 PROFIT/(LOSS) FOR THE YEAR (CONTINUED)

For the year ended 31 December 2010	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	3	333		44		377
Contribution from in-force business:						
– expected return[1]		407		120		527
– experience variances	4	188		6		194
– operating assumption changes	4	(58)		(20)		(78)
Development costs		(15)		–		(15)
Contribution from shareholder net worth				22	138	160
Operating profit on covered business		855	–	172	138	1,165
Business reported on an IFRS basis:						
Risk non-covered business[2]		(8)				(8)
Savings non-covered business[3]		20				20
Investment management[4]	5		179			179
Group capital and financing	7				(84)	(84)
Investment projects[5]					(39)	(39)
International non-covered business[6]				(9)		(9)
Total operating profit		867	179	163	15	1,224
Variation from longer term investment return	8	115	(8)	43	11	161
Effect of economic assumption changes	9	252	–	40	–	292
Property losses attributable to non-controlling interests		–	–	–	–	–
Profit/(loss) before tax		1,234	171	246	26	1,677
Tax (expense)/credit on profit from ordinary activities		(332)	(34)	(84)	4	(446)
Effect of tax rate changes		33	–	–	–	33
Profit for the year		935	137	162	30	1,264
Operating profit attributable to:						
Risk		663				
Savings		204				

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £3,679m in 2010. This is adjusted for the effects of opening model changes of £39m to give an adjusted opening base VIF of £3,718m. This is then multiplied by the opening risk discount rate of 8.0% and the result grossed up at the notional attributed tax rate of 27% to give a return of £407m.
2. Risk non-covered business primarily reflects general insurance operating profit of £(8)m (see Note 2(ii)(f) of the Group's consolidated financial statements).
3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and Nationwide.
4. Investment management operating profit excludes £27m 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.
5. Investment projects predominately relates to Solvency II and other strategic investments.
6. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m allocated to the International segment.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

3 NEW BUSINESS[1]

For the year ended 31 December 2011	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP[3] £m	Contribution from new business[4] £m	New business margin[5] %
Risk[6]	**247**	**931**	**5.3**	**2,515**	**3,446**	**345**	**9.8**
Savings	**313**	**1,128**	**3.6**	**2,768**	**3,896**	**31**	**0.8**
International	**98**	**847**	**8.6**	**327**	**1,174**	**65**	**5.5**
	658	**2,906**	**4.9**	**5,610**	**8,516**	**441**	**5.1**

For the year ended 31 December 2010	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP[3] £m	Contribution from new business[4] £m	New business margin[5] %
Risk	175	860	4.9	2,065	2,925	300	10.3
Savings	371	1,367	3.7	2,567	3,934	33	0.8
International	80	656	8.2	361	1,017	44	4.3
	626	2,883	4.6	4,993	7,876	377	4.8

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contribution from new business but determined as at the point of sale.
4. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
5. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.
6. Longevity insurance has been excluded from the Risk present value of annual premiums, capitalisation factor, PVNBP and new business margin measures. See Note 1.

4 ANALYSIS OF EXPERIENCE VARIANCES AND OPERATING ASSUMPTION CHANGES

	Risk and Savings			International		
For the year ended 31 December 2011	Experience variances £m	Operating assumption changes £m	Total £m	Experience variances £m	Operating assumption changes £m	Total £m
Persistency	**5**	**9**	**14**	**3**	**(24)**	**(21)**
Mortality/morbidity	**(25)**	**(7)**	**(32)**	**(27)**	**(55)**	**(82)**
Expenses	**–**	**55**	**55**	**(7)**	**1**	**(6)**
Other						
– US capital restructure	**15**			**163**		
– Bulk purchase annuity data loading	**42**			**–**		
– UK cost of capital unwind	**54**			**–**		
– Modelling changes and other experience variances	**21**			**(7)**		
	132	**44**	**176**	**156**	**10**	**166**
	112	**101**	**213**	**125**	**(68)**	**57**

2011 Risk and Savings mortality experience variances primarily relates to our group protection business which was impacted by a number of high value claims which predominately occurred during H1 11.

2011 Risk and Savings expense operating assumption changes reflects the change in long term expense assumptions in protection business and changes in the modelled long term unit cost and investment expenses assumptions in non profit savings and pensions.

Adverse International persistency and mortality operating assumptions changes mainly relate to LGA term assurances in the period after the end of the ordinary level premium period when policyholders may choose to continue their policies at reviewable rates.

The domicile of a US captive structure was moved from Bermuda to Vermont, which results in an acceleration of the emergence of surplus, and as a consequence increases the present value of the in-force business.

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EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

4 ANALYSIS OF EXPERIENCE VARIANCES AND OPERATING ASSUMPTION CHANGES (CONTINUED)

	Risk and Savings			International		
For the year ended 31 December 2010	Experience variances £m	Operating assumption changes £m	Total £m	Experience variances £m	Operating assumption changes £m	Total £m
Persistency	–	(16)	(16)	(1)	(14)	(15)
Mortality/morbidity	–	(28)	(28)	(12)	(13)	(25)
Expenses	(1)	1	–	(10)	(1)	(11)
Other						
– US capital restructure	30			16		
– Bulk purchase annuity data loading	59			–		
– UK cost of capital unwind	54			–		
– Modelling changes and other experience variances	46			13		
	189	(15)	174	29	8	37
	188	(58)	130	6	(20)	(14)

2010 Risk and Savings persistency assumption changes relate to the strengthening of lapse assumptions for individual protection and non profit pensions.

2010 Risk and Savings mortality assumption changes reflect the strengthening of the annuity business mortality assumptions partially offset by favourable individual protection mortality.

The 2010 US Capital restructuring programme involved replacing the Triple X financing solution with an internal reinsurance structure.

5 INVESTMENT MANAGEMENT OPERATING PROFIT

	2011 £m	2010 £m
Pension funds (managed and segregated)[1]	**172**	148
Other non-pension[2]	**25**	20
Investment management services for internal funds[3]	**13**	11
Total Investment management operating profit	**210**	179

1. The managed pension funds business within Investment management has been reported on an IFRS basis as is consistent with prior years.
2. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £9m (2010: £11m) has been included within other non-pension operating profit.
3. Investment management services for internal funds excludes £24m (2010: £27m) 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 and Savings covered business on an EEV basis.

6 INTERNATIONAL OPERATING PROFIT

	2011 £m	2010 £m
USA (LGA)[1]	**242**	129
Netherlands (LGN)[2]	**6**	52
France (LGF)	**2**	(9)
Total Europe operating profit	**8**	43
Other[3]	**(8)**	(9)
Total International operating profit	**242**	163

1. The significant increase in LGA operating profit reflects the improved new business contribution and the impact of the captive reinsurance structure, which was moved from Bermuda to Vermont during 2011.
2. The reduction in LGN operating profit reflects one-off modelling assumption changes in 2010; not repeated in 2011.
3. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m (2010: £5m) allocated to the International segment.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

7 GROUP CAPITAL AND FINANCING OPERATING PROFIT[1]

	2011 £m	2010 £m
Investment return	**191**	187
Interest expense[2]	**(123)**	(121)
Investment expenses	**(5)**	(3)
Unallocated corporate expenses	**(11)**	(5)
Other	**(8)**	(4)
Total Group capital and financing operating profit	**44**	54
Analysed as:		
On an EEV basis	**157**	138
On an IFRS basis	**(113)**	(84)

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 (see Note 35 of Group's consolidated financial statements).

8 VARIATION FROM LONGER TERM INVESTMENT RETURN

	2011 £m	2010 £m
Business reported on an EEV basis:		
Risk and Savings[1]	**124**	103
International	**(6)**	43
Group capital and financing[2]	**(152)**	82
	(34)	228
Business reported on an IFRS basis:		
Risk and Savings	**–**	12
Investment management	**(7)**	(8)
Group capital and financing[2]	**(70)**	(71)
	(111)	161

1. The positive investment variance primarily reflects the annuity business. Contributing factors include: improved asset diversity which increased the risk adjusted yield, for example, sale and leaseback; no defaults in the portfolio; improved asset liability matching, for example, reinvestment into longer duration bonds; more efficient cash management and small one-off benefits from tax and interest rate movements.
2. Group capital and financing investment returns primarily consists of negative debt and equity related investment variance. (See Note 2(vii) in the Group's consolidated financial statements).

9 EFFECT OF ECONOMIC ASSUMPTION CHANGES

	2011 £m	2010 £m
Business reported on an EEV basis:		
Risk and Savings[1]	**43**	252
International[2]	**(64)**	40
	(21)	292

1. Primarily reflects the increased value of in-force from the reduction in the risk discount rate from 7.3% to 6.2% partially offset by the lower future expected investment returns.
2. Includes the impact of the increase in the risk margin from 3.3% to 3.7%.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

10 TIME VALUE OF OPTIONS AND GUARANTEES

	2011 £m	2010 £m
Risk and Savings[1]	**21**	15
International	**10**	13
	31	28

1. Includes £16m (2010: £10m) relating to UK with-profits business, and £5m (2010: £5m) relating to UK non profit business.

11 TAX

	Profit/(loss) before tax 2011 £m	Tax (expense)/ credit 2011 £m	Profit/(loss) before tax 2010 £m	Tax (expense)/ credit 2010 £m
From continuing operations				
Risk	**801**	**(187)**	663	(179)
Savings	**228**	**(54)**	204	(54)
Investment management	**210**	**(40)**	179	(36)
International	**242**	**(85)**	163	(54)
Group capital and financing	**44**	**(6)**	54	(8)
Investment projects	**(56)**	**15**	(39)	11
Operating profit	**1,469**	**(357)**	1,224	(320)
Variation from longer term investment return	**(111)**	**87**	161	(43)
Effect of economic assumption changes	**(21)**	**11**	292	(83)
Property losses attributable to non-controlling interests	**(3)**	**–**	–	–
Effect of tax rate changes	**–**	**156**	–	33
Profit/(loss) before tax / Tax	**1,334**	**(103)**	1,677	(413)

The UK EEV calculations assume a tax basis which reflects the annualised current tax rate of 26.5% and the planned future reductions in corporation tax to 25% from 1 April 2012, 24% from 1 April 2013, and 23% from 1 April 2014 (previously a single tax rate was used: 2010: 27%). The tax rate used for grossing up in the income statement is based on a UK corporation tax rate of 23% (2010: 27%).

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

12 EARNINGS PER SHARE

(i) Earnings per share

	Profit before tax 2011 £m	Tax (expense)/ credit 2011 £m	Profit after tax 2011 £m	Per share 2011 p	Profit before tax 2010 £m	Tax (expense)/ credit 2010 £m	Profit after tax 2010 £m	Per share 2010 p
Operating profit	**1,469**	**(357)**	**1,112**	**19.08**	1,224	(320)	904	15.52
Variation from longer term investment return	**(111)**	**87**	**(24)**	**(0.41)**	161	(43)	118	2.03
Effect of economic assumption changes	**(21)**	**11**	**(10)**	**(0.17)**	292	(83)	209	3.59
Effect of tax rate changes	**–**	**156**	**156**	**2.67**	–	33	33	0.57
Earnings per share based on profit attributable to equity holders	**1,337**	**(103)**	**1,234**	**21.17**	1,677	(413)	1,264	21.71

(ii) Diluted earnings per share

(a) Based on operating profit after tax

	Profit after tax 2011 £m	Number of shares[1] 2011 m	Per share 2011 p	Profit after tax 2010 £m	Number of shares[1] 2010 m	Per share 2010 p
Operating profit after tax	**1,112**	**5,828**	**19.08**	904	5,827	15.52
Net shares under options allocable for no further consideration	**–**	**97**	**(0.31)**	–	79	(0.21)
Diluted earnings per share	**1,112**	**5,925**	**18.77**	904	5,906	15.31

(b) Based on profit attributable to equity holders of the Company

	Profit after tax 2011 £m	Number of shares[1] 2011 m	Per share 2011 p	Profit after tax 2010 £m	Number of shares[1] 2010 m	Per share 2010 p
Profit attributable to equity holders of the Company	**1,234**	**5,828**	**21.17**	1,264	5,827	21.71
Net shares under options allocable for no further consideration	**–**	**97**	**(0.34)**	–	79	(0.30)
Diluted earnings per share	**1,234**	**5,925**	**20.83**	1,264	5,906	21.41

1. Weighted average number of shares.

The number of shares in issue at 31 December 2011 was 5,872,166,893 (31 December 2010: 5,866,669,323).

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

13 GROUP EMBEDDED VALUE RECONCILIATION

For the year ended 31 December 2011	Covered business UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m	International £m	Non-covered business £m	Total £m
At 1 January							
Value of in-force business (VIF)	–	–	3,886	3,886	1,015	–	4,901
Shareholder net worth (SNW)	1,395	1,640	–	3,035	748	(954)	2,829
	1,395	1,640	3,886	6,921	1,763	(954)	7,730
Exchange rate movements	–	–	–	–	(4)	3	(1)
	1,395	1,640	3,886	6,921	1,759	(951)	7,729
Operating profit/(loss) for the year:							
– New business contribution[1]	(258)	167	381	290			
– Expected return on VIF	–	–	298	298			
– Expected transfer from Non profit VIF to SNW[2]	745	(185)	(560)	–			
– With-profits transfer	51	–	(51)	–			
– Expected return on SNW	58	67	–	125			
Generation of embedded value	596	49	68	713			
– Experience variances	(52)	20	108	76			
– Operating assumption changes	34	3	41	78			
– Development costs	(8)	–	–	(8)			
Variances	(26)	23	149	146			
Operating profit after tax for the year	570	72	217	859	164	89	1,112
Non-operating profit/(loss) for the year:							
– Investment variances	81	–	(47)	34			
– Economic assumption changes	(65)	45	53	33			
– Effect of UK Budget tax changes	–	–	155	155			
Non-operating profit/(loss) for the year:	16	45	161	222	(48)	(55)	119
Profit for the year	586	117	378	1,081	116	34	1,231
Capital movements[3]	–	–	–	–	(262)	262	–
Intra-group distributions[4]	(437)	–	–	(437)	(82)	519	–
Dividends to equity holders of the Company	–	–	–	–	–	(298)	(298)
Net movements in employee share schemes	–	–	–	–	–	4	4
Loss attributable to non-controlling interests	–	–	–	–	–	3	3
Transfer to non-covered business[5]	(19)	–	–	(19)	–	19	–
Other reserve movements including pension deficit	(64)	–	(17)	(81)	–	20	(61)
Embedded value	1,461	1,757	4,247	7,465	1,531	(388)	8,608
Represented by:							
– Non profit			3,808				
– With-profits			439				
Value of in-force business	–	–	4,247	4,247	1,130	–	5,377
Shareholder net worth	1,461	1,757	–	3,218	401	(388)	3,231

1. The free surplus reduction of £258m to finance new business includes £94m IFRS new business strain and £167m additional required capital. Other items have a net negative impact of £3m.
2. The increase in free surplus of £745m from the expected transfer from the in-force non profit business includes £560m of IFRS operational cash generation and a £185m reduction in required capital.
3. The capital movement of £262m primarily reflects the capital repayment from LGA in respect of Potomac securities of £271m.
4. UK intra-group distributions reflect a £500m dividend paid from Society to Group and dividends of £20m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of $57m from LGA, €50m from LGN and €2m from LGF were also paid to the Group.
5. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions 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.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2010	Covered business UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m	International £m	Non-covered business £m	Total £m
At 1 January							
Value of in-force business (VIF)	–	–	3,679	3,679	928	–	4,607
Shareholder net worth (SNW)	1,067	1,521	–	2,588	518	(1,018)	2,088
	1,067	1,521	3,679	6,267	1,446	(1,018)	6,695
Exchange rate movements	–	–	–	–	7	(12)	(5)
	1,067	1,521	3,679	6,267	1,453	(1,030)	6,690
Operating profit/(loss) for the year:							
– New business contribution[1]	(258)	178	323	243			
– Expected return on VIF	–	–	297	297			
– Expected transfer from Non profit VIF to SNW[2]	688	(166)	(522)	–			
– With-profits transfer	46	–	(46)	–			
– Expected return on SNW	45	72	–	117			
Generation of embedded value	521	84	52	657			
– Experience variances	121	11	(7)	125			
– Operating assumption changes	(14)	1	(28)	(41)			
– Development costs	(11)	–	–	(11)			
Variances	96	12	(35)	73			
Operating profit after tax for the year	617	96	17	730	117	57	904
Non-operating profit/(loss) for the year:							
– Investment variances	95	49	(6)	138			
– Economic assumption changes	–	–	184	184			
– Effect of UK Budget tax changes	–	–	33	33			
Non-operating profit/(loss) for the year:	95	49	211	355	53	(48)	360
Profit for the year	712	145	228	1,085	170	9	1,264
Capital movements[3]	–	–	–	–	184	(184)	–
Intra-group distributions[4]	(207)	–	–	(207)	(44)	251	–
Dividends to equity holders of the Company	–	–	–	–	–	(238)	(238)
Net movements in employee share schemes	–	–	–	–	–	17	17
Transfer to non-covered business[5]	(19)	–	–	(19)	–	19	–
Other reserve movements including pension deficit[6]	(158)	(26)	(21)	(205)	–	202	(3)
Embedded value	1,395	1,640	3,886	6,921	1,763	(954)	7,730
Represented by:							
– Non profit			3,372				
– With-profits			514				
Value of in-force business	–	–	3,886	3,886	1,015	–	4,901
Shareholder net worth	1,395	1,640	–	3,035	748	(954)	2,829

1. The free surplus reduction of £258m to finance new business includes £80m IFRS new business strain and £178m additional required capital.
2. The increase in free surplus of £688m from the expected transfer from the in-force non profit business includes £522m of IFRS operational cash generation and a £166m reduction in required capital.
3. The capital movement of £184m reflects the capital contribution made to LGA to enable the repurchase of Potomac securities.
4. UK intra-group distributions reflect a £300m dividend paid from Society to Group and dividends of £93m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of $53m from LGA, €10m from LGN and €2m from LGF were also paid to the Group.
5. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions 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.
6. Other reserve movements primarily comprise the transfer from the covered business of Nationwide Life following the Part VII transfer of the majority of the insurance business in 2009.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

14 ANALYSIS OF SHAREHOLDERS' EQUITY

As at 31 December 2011	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	**309**	**351**	**1,407**	**3,133**	**5,200**
Additional retained profit/(loss) on an EEV basis	**4,247**	**–**	**163**	**(1,002)**	**3,408**
Shareholders' equity on an EEV basis	**4,556**	**351**	**1,570**	**2,131**	**8,608**
Comprising:					
Business reported on an IFRS basis	**309**	**351**	**39**	**(1,087)**	**(388)**
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]			**148**	**1,461**	**1,609**
– Required capital to cover solvency margin			**253**	**1,757**	**2,010**
Value of in-force					
– Value of in-force business	**4,620**		**1,211**		**5,831**
– Cost of capital	**(373)**		**(81)**		**(454)**

As at 31 December 2010	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	265	324	1,664	2,574	4,827
Additional retained profit/(loss) on an EEV basis	3,886	–	136	(1,119)	2,903
Shareholders' equity on an EEV basis	4,151	324	1,800	1,455	7,730
Comprising:					
Business reported on an IFRS basis	265	324	37	(1,580)	(954)
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]			501	1,395	1,896
– Required capital to cover solvency margin			247	1,640	1,887
Value of in-force					
– Value of in-force business	4,220		1,090		5,310
– Cost of capital	(334)		(75)		(409)

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.

Further analysis of shareholders' equity is included in Note 15.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

15 SEGMENTAL ANALYSIS OF SHAREHOLDERS' EQUITY

	Covered business EEV basis 2011 £m	Other business IFRS basis 2011 £m	Total 2011 £m	Covered business EEV basis 2010 £m	Other business IFRS basis 2010 £m	Total 2010 £m
Risk						
– Risk reported on an EEV basis	**2,995**	**–**	**2,995**	2,563	–	2,563
– General insurance	**–**	**148**	**148**	–	120	120
– Other	**–**	**6**	**6**	–	3	3
Total Risk	**2,995**	**154**	**3,149**	2,563	123	2,686
Savings						
– Savings reported on an EEV basis	**1,252**	**–**	**1,252**	1,323	–	1,323
– Savings investments	**–**	**136**	**136**	–	121	121
– Other	**–**	**19**	**19**	–	21	21
Total Savings	**1,252**	**155**	**1,407**	1,323	142	1,465
Investment management	**–**	**351**	**351**	–	324	324
International						
– USA (LGA)	**1,062**	**–**	**1,062**	1,220	–	1,220
– Netherlands (LGN)	**271**	**–**	**271**	335	–	335
– France (LGF)	**198**	**–**	**198**	208	–	208
– Emerging markets	**–**	**39**	**39**	–	37	37
Total International	**1,531**	**39**	**1,570**	1,763	37	1,800
Group capital and financing	**3,218**	**(1,087)**	**2,131**	3,035	(1,580)	1,455
	8,996	**(388)**	**8,608**	8,684	(954)	7,730

16 RECONCILIATION OF SHAREHOLDER NET WORTH

	UK covered business 2011 £m	Total 2011 £m	UK covered business 2010 £m	Total 2010 £m
SNW of long term operations (IFRS basis)	**4,209**	**5,588**	4,154	5,781
Other liabilities (IFRS basis)	**–**	**(388)**	–	(954)
Shareholders' equity on the IFRS basis	**4,209**	**5,200**	4,154	4,827
Purchased interest in long term business	**(76)**	**(77)**	(86)	(91)
Deferred acquisition costs/deferred income liabilities	**(252)**	**(1,291)**	(253)	(1,211)
Contingent loan[1]	**(210)**	**(210)**	(551)	(551)
Deferred tax[2]	**(235)**	**163**	(238)	85
Other[3]	**(218)**	**(554)**	9	(230)
Shareholder net worth on the EEV basis	**3,218**	**3,231**	3,035	2,829

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 annuities and non profit pension results under EEV compared with IFRS. Other total business also includes the different treatment of LGA Triple X securitisation on an EEV and IFRS basis.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

17 SENSITIVITIES

In accordance with the guidance issued by the European Insurance 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 2011

	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	7,465	515	(444)	204	(202)	121
International	1,531	147	(119)	37	(39)	5
Total covered business	8,996	662	(563)	241	(241)	126

	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	7,465	(233)	83	87	(220)	50
International	1,531	(8)	21	10	n/a	150
Total covered business	8,996	(241)	104	97	(220)	200

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	376	54	(46)	21	(13)	11
International	65	15	(12)	3	(3)	–
Total covered business	441	69	(58)	24	(16)	11

	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	376	(2)	11	9	(11)	4
International	65	–	2	1	n/a	18
Total covered business	441	(2)	13	10	(11)	22

Opposite sensitivities are broadly symmetrical.

Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £824m negative impact on embedded value and a £90m negative impact on new business contribution for the year.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

18 ASSUMPTIONS

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. Indicative yields on the portfolio, excluding annuities within Legal & General Pensions Limited (LGPL), but after allowance for long term default risk, are shown below.

For LGPL annuities, separate returns are calculated for new and existing business. Indicative combined yields, after allowance for long term default risk and the following additional assumptions, are also shown below. These additional assumptions are:

i. Where cash balances are held at the reporting date in excess of, or below strategic investment guidelines, then it is assumed that these cash balances are immediately invested or disinvested at current yields.

ii. 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. (0.70% p.a. at 31 December 2010) greater than the swap rate at that time (i.e. the long term credit rate).

iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above 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 credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 26bps at 31 December 2011 (29bps at 31 December 2010).

Economic assumptions

As at 31 December	2011 % p.a.	2010 % p.a.	2009 % p.a.
Equity risk premium	**3.3**	3.5	3.5
Property risk premium	**2.0**	2.0	2.0
Investment return (excluding annuities in LGPL)			
– Gilts:			
– Fixed interest	**1.8 – 2.5**	3.4 – 4.0	4.0
– RPI linked	**2.6**	4.1	4.5
– Non gilts:			
– Fixed interest	**3.0 – 4.6**	3.6 – 5.0	4.4 – 6.2
– Equities	**5.8**	7.5	8.0
– Property	**4.5**	6.0	6.5
Long term rate of return on non profit annuities in LGPL	**5.0**	5.5	6.1
Risk free rate[1]	**2.5**	4.0	4.5
Risk margin	**3.7**	3.3	3.5
Risk discount rate (net of tax)	**6.2**	7.3	8.0
Inflation			
– Expenses/earnings	**3.5**	4.1	4.6
– Indexation	**3.0**	3.6	3.6

1. The risk free rate is the gross redemption yield on the 15 year gilt index (15 year gilt index for 31 December 2010; 20 year gilt index for 31 December 2009).

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 100% of CMI2009 Working Paper 41, with a Long Term Rate of improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 100% of CMI2009, with a Long Term Rate of 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 85 to zero at age 120.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

18 ASSUMPTIONS (CONTINUED)

On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 24.2 years (31 December 2010: 24.3 years). The expectation of life on the regulatory reserving basis is 25.8 years (31 December 2010: 26.0 years).

v. Development costs relate to investment in strategic systems and development capability that are charged to the covered business. Projects charged to the non-covered business are included within Investment projects in Group capital and financing.

International

vi. Key assumptions:

As at 31 December	2011 % p.a.	2010 % p.a.	2009 % p.a.
LGA			
Reinvestment rate	**4.2**	5.5	5.1
Risk free rate[1]	**1.9**	3.3	3.9
Risk margin	**3.7**	3.3	3.5
Risk discount rate (net of tax)	**5.6**	6.6	7.4
Europe			
Risk free rate[1]	**2.6**	3.2	3.6
Risk margin	**3.7**	3.3	3.5
Risk discount rate (net of tax)	**6.3**	6.5	7.1

1. The LGA risk free rate is the 10 year US Treasury effective yield (10 year US Treasury effective yield for 31 December 2010 and 2009). The Europe risk free rate is the 10 year ECB AAA-rated euro area central government bond par yield (10 year ECB AAA-rated euro area central government bond par yield for 31 December 2010 and 2009).

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. For the UK, the after tax basis assumes the annualised current tax rate of 26.5% and the subsequent planned future reductions in corporation tax to 25% from 1 April 2012, 24% from 1 April 2013, and 23% from 1 April 2014 (previously a single tax rate was used; 31 December 2010: 27%). The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 23% (31 December 2010: 27%) taking into account the expected further rate reductions to 23% by 1 April 2014. 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.

Stochastic calculations

ix. The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

This section describes the models used to generate future investment simulations, and gives some sample statistics for the simulations used. A single model has been used for UK and international business, with different economic assumptions for each territory.

Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

Asset classes

The significant asset classes are:

- UK with-profits business – equities, property and fixed rate bonds of various durations;
- UK annuity business – fixed rate and index-linked bonds of various durations; and
- International business – fixed rate bonds of various durations.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS (CONTINUED)

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2011 for the most significant asset classes. Correlations between asset classes have been set based on an internal assessment of historical data.

	10-year return		20-year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
UK Business (Sterling)				
Government bonds	2.2%	3.1%	3.3%	3.3%
Corporate bonds	4.5%	3.6%	5.1%	3.8%
Property (excess returns)	2.0%	15.0%	2.1%	15.2%
Equities (excess returns)	3.3%	20.1%	3.4%	20.6%
European Business (Euro)				
Long Government bonds[3]	2.7%	3.8%	3.2%	3.8%
Short Government bonds[4]	2.7%	3.2%	3.2%	5.8%
US Business (US Dollar)				
Long Government bonds[3]	2.0%	4.3%	3.1%	4.5%

1. For asset classes other than for equities and property, mean returns are calculated as the mean return in excess of 1 year government bonds plus the mean return on 1 year government bonds. Mean excess returns for the equities and property are calculated as the mean return in excess of 1 year government bonds. Each mean return is derived by calculating the accumulated value of a unit asset invested to time n years for each simulation, averaging the resultant values across all simulations, then calculating the equivalent annual return required to give this average accumulation (by taking the nth root of the average accumulation and deducting 1).
2. Standard deviations are calculated by accumulating a unit investment for n years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by n and taking the square root. Equities and property values use excess returns. The results are comparable to implied volatilities quoted in investment markets.
3. Long term bonds are defined to be 10 year par-coupon bonds.
4. Short term bonds are defined to be 1 year duration bonds.

Risk discount rate:

The risk discount rate is scenario dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

Sensitivity calculations

x. A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.7% risk margin).
- 1% variation in interest rate environment – a one percentage point increased/decreased parallel shift in the risk free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 5.8% to 6.8%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (a 10% decrease on a base assumption of £10 per annum would result in a £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

INDEPENDENT AUDITORS' REPORT

To the Directors of Legal & General Group Plc on the Supplementary Financial Statements – European Embedded Value Basis

We have audited the Supplementary Financial Statements – European Embedded Value Basis of Legal & General Group Plc ('the Company') for the year ended 31 December 2011 which comprise the Consolidated Income Statement – European Embedded Value Basis, Consolidated Statement of Comprehensive Income – European Embedded Value Basis, Consolidated Balance Sheet – 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 Note 1 – Methodology and which should be read in conjunction with the Group's financial statements.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the supplementary financial statements on the European Embedded Value Basis in accordance with the European Embedded Value Basis set out in Note 1 – Methodology. Our responsibility, as set out in our letter of engagement agreed with you dated 25 January 2012 is to audit and express an opinion on the supplementary financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 25 January 2012 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.

Scope of the audit of the supplementary financial statements
An audit involves obtaining evidence about the amounts and disclosures in the supplementary financial statements sufficient to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the supplementary financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the supplementary financial statements
In our opinion, the supplementary financial statements for the year ended 31 December 2011 have been properly prepared in all material respects in accordance with the European Embedded Value Basis set out in Note 1 – Methodology.

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 March 2012

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.

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 2011 which comprise the Company Balance Sheet, the Company Statement of Total Recognised Gains and Losses, the Company Reconciliation of Movements in Total Shareholders' Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011;
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Report on Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the group financial statements of Legal & General Group Plc for the year ended 31 December 2011.

Richard Keers (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 March 2012

Notes:
(a) The financial statements are published on the website of Legal & General Group Plc, legalandgeneralgroup.com. The maintenance and integrity of 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 2011	Notes	2011 £m	2010 £m
Fixed assets			
Investments	7	**6,382**	6,449
Current assets			
Debtors	8	**1,293**	780
Derivative assets	11	**278**	261
Current liabilities			
Creditors: amounts falling due within one year	9	**(35)**	(25)
Derivative liabilities	11	**(172)**	(113)
Net current assets		**1,364**	903
Total assets less current liabilities		**7,746**	7,352
Creditors: amounts falling due after more than one year	10	**(2,555)**	(2,525)
Net assets		**5,191**	4,827
Capital and reserves			
Called up share capital	13/14	**147**	147
Share premium account	14	**941**	938
Revaluation reserve	14	**2,614**	2,521
Capital redemption and other reserves	14	**62**	59
Profit and loss account	14	**1,427**	1,162
Total shareholders' funds		**5,191**	4,827

The notes on pages 224 to 231 form an integral part of these financial statements.

The financial statements on pages 222 to 231 were approved by the directors on 13 March 2012 and were signed on their behalf by:

John Stewart
Chairman

Tim Breedon
Group Chief Executive

Nigel Wilson
Group Chief Financial Officer

COMPANY STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2011	Note	2011 £m	2010 £m
Profit for the financial year		**558**	285
Gains on revaluation of investments in subsidiary undertakings	7	**93**	552
Total recognised gains and losses relating to the year		**651**	837

COMPANY RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

For the year ended 31 December 2011	Note	2011 £m	2010 £m
As at 1 January		**4,827**	4,217
Total recognised gains and losses		**651**	837
Dividend distributions to equity holders of the Company during the year	2	**(298)**	(238)
Issue of share capital		**3**	2
Net movement in share-based payments reserve		**8**	9
As at 31 December		**5,191**	4,827

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of fixed asset investments and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The Company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the profit and loss account conferred by Section 408 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 current value. 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.

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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items are maintained at historic rates. Exchange gains or losses are recognised in the profit and loss account, except those arising upon the revaluation of fixed assets, which are included in the revaluation reserve.

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 and the defined contribution 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.

Related Party Transactions

The Company has taken advantage of the exemptions of FRS 8, 'Related Party Transactions', not to disclose transactions with other group companies.

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. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

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.

Risk Management

The Company has taken advantage of the exemptions provided in FRS 29, 'Financial Instruments: Disclosures', which states that disclosure of financial instruments is not required in parent company financial statements where these are included in publicly available Consolidated Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

2 DIVIDENDS

	Per share 2011 p	Total 2011 £m	Per share 2010 p	Total 2010 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**3.42**	**201**	2.73	160
– Current year interim dividend	**1.66**	**97**	1.33	78
	5.08	**298**	4.06	238
Ordinary share dividend proposed[1]	**4.74**	**279**	3.42	201

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

3 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 2011 there were no loans outstanding with directors of the Company (2010: £nil). The Company has no other employees (2010: nil).

4 PENSIONS

There were no contributions prepaid or outstanding at either 31 December 2011 or 31 December 2010 in respect of these schemes, and there were no current service costs incurred in respect of these schemes for year ended 31 December 2011 (2010: £nil). The Company had no liability for retirement benefits at 31 December 2011 (2010: £nil).

Defined contribution plans

The Company operates the following defined contribution pension schemes in the UK:

– Legal & General Group Personal Pension Plan (UK).
– Legal & General Staff Stakeholder Pension Scheme (UK).

Defined benefit plans

The Company operates the following defined benefit pension schemes in the UK:

– 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 2009.
– 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 2009.

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 2011 of £215m (2010: £169m) and the contributions in respect of them for the year were £58m (2010: £59m). Further information is given in Note 36 of the Group's consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

5 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 (2010: £nil).

6 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.

7 INVESTMENTS

	Shares in Group companies 2011 £m	Loans to Group companies 2011 £m	Total 2011 £m	Shares in Group companies 2010 £m	Loans to Group companies 2010 £m	Total 2010 £m
At valuation, 1 January	**5,648**	**801**	**6,449**	4,929	770	5,699
Additions	**11**	**66**	**77**	167	21	188
Repayment	**(233)**	**–**	**(233)**	–	–	–
Revaluation	**93**	**(4)**	**89**	552	10	562
At valuation, 31 December	**5,519**	**863**	**6,382**	5,648	801	6,449
At cost, 31 December	**2,939**	**832**	**3,771**	3,161	766	3,927

Additions represent capital injections into Group undertakings.

Full disclosure of the Company's investments in subsidiary undertakings is contained in Note 43 of the Group's consolidated financial statements.

8 DEBTORS

	2011 £m	2010 £m
Amounts owed by Group undertakings	**1,230**	725
Corporation tax	**41**	41
Deferred tax	**15**	11
Other debtors	**7**	3
	1,293	780

Amounts owed by Group undertakings are repayable at the request of either party and include an £88m (2010: £162m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

At 31 December 2011, there is an unrecognised deferred tax asset in respect of timing differences of £3m (2010: £4m).

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NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 £m
Amounts owed to Group undertakings	**22**	20
Other creditors	**13**	5
	35	25

Amounts owed to Group undertakings falling due within one year are interest free and repayable at the request of either party.

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2011 £m	2010 £m
Subordinated borrowings	12	**1,934**	1,909
Amounts owed to Group undertakings		**621**	616
		2,555	2,525

Amounts owed to Group undertakings falling due after more than one year are unsecured and include £601m (2010: £601m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2010: 5.71% and 6.12%).

11 DERIVATIVE ASSETS AND LIABILITIES

	Contract/ notional amount 2011 £m	Fair values Assets 2011 £m	Fair values Liabilities 2011 £m
Interest rate contracts – held for trading	**1,760**	**41**	**162**
Interest rate contracts – fair value hedges	**600**	**122**	**–**
Forward foreign exchange contracts – net investment hedges	**884**	**–**	**9**
Forward foreign exchange contracts – held for trading	**578**	**115**	**1**
Derivative assets and liabilities		**278**	**172**

	Contract/ notional amount 2010 £m	Fair values Assets 2010 £m	Fair values Liabilities 2010 £m
Interest rate contracts – held for trading	1,513	31	112
Interest rate contracts – fair value hedges	600	91	–
Forward foreign exchange contracts – net investment hedges	887	15	1
Forward foreign exchange contracts – held for trading	526	124	–
Derivative assets and liabilities		261	113

The descriptions of each type of derivative are given in Notes 23 and 48 of the Group's consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

12 BORROWINGS
Analysis by nature

	Carrying amount 2011 £m	Coupon rate 2011 %	Fair value 2011 £m	Carrying amount 2010 £m	Coupon rate 2010 %	Fair value 2010 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**721**	**6.39**	**487**	690	6.39	527
5.875% Sterling undated subordinated notes (Tier 2)	**421**	**5.88**	**329**	423	5.88	356
4.0% Euro subordinated notes 2025 (Tier 2)	**483**	**4.00**	**432**	488	4.00	476
10% Sterling subordinated notes 2041 (Tier 2)	**309**	**10.00**	**361**	308	10.00	381
Total borrowings	**1,934**		**1,609**	1,909		1,740

As at 31 December 2011, the Company had in place a £1.00bn (2010: £0.96bn) syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in October 2016. This facility which was entered into in October 2011 replaces syndicated and bilateral facilities totalling £1.02bn which had been due to expire in December 2012. No drawings were made under any of these facilities during 2011.

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 1 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 2 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 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041
On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041 and are treated as lower tier 2 capital for regulatory purposes.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

13 CALLED UP SHARE CAPITAL

Authorised share capital	2011 Number of shares	2011 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**

Authorised share capital	2010 Number of shares	2010 £m
At 31 December: ordinary shares of 2.5p each	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Called up share capital £m
As at 1 January 2011	**5,866,669,323**	**147**
Options exercised under share option schemes		
– Executive share option schemes	**1,736,890**	**–**
– Savings related share option scheme	**3,760,680**	**–**
As at 31 December 2011	**5,872,166,893**	**147**

Issued share capital, fully paid	Number of shares	Called up share capital £m
As at 1 January 2010	5,862,216,780	147
Options exercised under share option schemes		
– Executive share option schemes	295,065	–
– Savings related share option scheme	4,157,478	–
As at 31 December 2010	5,866,669,323	147

Options over the ordinary share capital of the Company are disclosed in Note 16 of the Group's consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

14 MOVEMENT IN RESERVES

	Called up share capital £m	Share premium account £m	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 2011	**147**	**938**	**17**	**(1)**	**43**	**2,521**	**1,162**	**4,827**
Retained profit after tax and dividends	**–**	**–**	**–**	**–**	**–**	**–**	**260**	**260**
Increase in the net assets of subsidiaries	**–**	**–**	**–**	**–**	**–**	**93**	**–**	**93**
Value of employee services	**–**	**–**	**–**	**–**	**22**	**–**	**–**	**22**
Shares vested and transferred from share-based payments reserve	**–**	**–**	**–**	**–**	**(19)**	**–**	**5**	**(14)**
Options exercised under share option schemes	**–**	**3**	**–**	**–**	**–**	**–**	**–**	**3**
As at 31 December 2011	**147**	**941**	**17**	**(1)**	**46**	**2,614**	**1,427**	**5,191**

	Called up share capital £m	Share premium account £m	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 2010	147	936	17	(1)	41	1,969	1,108	4,217
Retained profit after tax and dividends	–	–	–	–	–	–	47	47
Increase in the net assets of subsidiaries	–	–	–	–	–	552	–	552
Value of employee services	–	–	–	–	20	–	–	20
Shares vested and transferred from share-based payments reserve	–	–	–	–	(18)	–	7	(11)
Options exercised under share option schemes	–	2	–	–	–	–	–	2
As at 31 December 2010	147	938	17	(1)	43	2,521	1,162	4,827

SHAREHOLDER INFORMATION.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting (AGM) will be held on Wednesday, 16 May 2012 at 11.00am at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. 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. The Notice of Meeting and all other details for the AGM are available at legalandgeneralgroup.com (the website).

DIVIDEND INFORMATION

Dividend per share

This year the directors are recommending the payment of a final dividend of 4.74p per share. If you add this to your interim dividend of 1.66p per share, the total dividend recommended for 2011 will be 6.40p per share (2010: 4.75p per share). The key dates for the payment of dividends are set out in the Important Dates section on the next page.

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 Registrar. Details of how to contact the Registrar can be found on the opposite page and on our website.

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 Registrar. Alternatively, the DRIP booklet and mandate form can be found in the Investors Section of the website.

COMMUNICATIONS

Internet

Information about the Company, including details of the current share price, is available on the website, legalandgeneralgroup.com.

Investor relations

Private investors should contact the Registrar with any queries.

Institutional investors can contact the Investor Relations Team by telephone on: 020 3124 2345 or email: investor.relations@group.landg.com.

Over the last year many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas based ‘brokers’ who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments.

They can be very persistent and extremely persuasive. A 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company.

If you receive any unsolicited investment advice, make sure you get the correct name of the person and organisation and make a record of any other information they give you, e.g. telephone number, address etc.

Check that they are properly authorised by the FSA before getting involved. You can check at fsa.gov.uk/register/.

The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at fsa.gov.uk/pages/doing/regulated /law/alerts/form.shtml or, if you do not have access to the internet, on 0845 606 1234.

Inform our Registrar, Capita Registrars, on 0871 402 3341. They are not able to investigate such incidents themselves but will record the details and pass them on to us and liaise with the FSA.

Details of any sharedealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website fsa.gov.uk/pages/consumerinformation/.

FINANCIAL REPORTS

The Company's financial reports are available on the website.

The Annual Report and Accounts 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.landgshareportal.com.

If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the Registrar, who can arrange for your accounts to be amalgamated.

REGISTRAR

You can contact our Registrar:

By post: Capita Registrars Limited, The Registry, 34 Beckenham Rd, Beckenham, Kent BR3 4TU.
By telephone: 0871 402 3341*.

* Calls to this number cost 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday. If calling from outside the UK please dial + 44 800 1412959

The Registrar also provides the following services:

CORPORATE SPONSORED NOMINEE

The Corporate Sponsored Nominee 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 Capita IRG Trustees (Nominees) Limited. To join or obtain further information contact the Registrar. 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.

SHARE PORTAL

Share portal allows you to view your Legal & General shareholding on the internet. Registering is easy; simply log on to www.landgshareportal.com and follow the instructions. You will need your Shareholder Investor Code, which can be found on your share certificate, dividend statement or proxy form. If you have any queries, please call the Shareholder Helpline.

SHARE DEALING SERVICE

A quick and easy share dealing service is provided by Capita Share Dealing Services to sell or buy shares in Legal & General and any other UK leading companies. Further information is available online at www.capitadeal.com.

GENERAL INFORMATION

Capital gains tax: For the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share 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 Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: For details of shareholder offers on Legal & General products call 0500 65 5555.

Important dates	
14 March 2012	Final Results 2011
18 April 2012	Ex-dividend date (Final Dividend)
3 May 2012	Last day for DRIP elections
16 May 2012	Annual General Meeting
23 May 2012	Payment of Final Dividend for 2011 (to members registered on 20 April 2012)
26 July 2012	Half Year Results 2012
29 August 2012	Ex-dividend date (Interim Dividend)
1 October 2012	Payment of Interim Dividend for 2012 (to members registered on 31 August 2012)

GLOSSARY.

ANNUAL PREMIUM EQUIVALENT (APE)
An industry measure of new business that is common in the UK. It is the total value of regular premiums, plus 10% of any new single premiums written for the year.

BULK PURCHASE ANNUITY (BPA)
Bulk annuities are bought by firms that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

DIVIDEND COVER
Dividend cover measures how many times over the profits could have paid the dividend. For example, if the dividend cover is 3, this means that the company's post tax profit attributable to shareholders was three times the amount of dividend paid out.

EARNINGS PER SHARE (EPS)
EPS is a common financial metric which can be used to measure the profitability and strength of a company over time. It is the total earnings divided by the number of shares outstanding. Basic EPS uses a weighted average of shares outstanding during the year.

EUROPEAN EMBEDDED VALUE (EEV)
The Embedded Value (EV) of a life insurance company is the value to equity shareholders of the net assets and expected future profits of the company on existing business. The European Embedded Value (EEV) is a variation of EV which allows for a more formalised method of choosing the parameters and doing the calculations to enable greater transparency and accountability.

EUROPEAN EMBEDDED VALUE OPERATING PROFIT (EEV OPERATING PROFIT)
Legal & General provides supplementary financial statements prepared on the European Embedded Value (EEV) basis for long term insurance contracts. 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.

EUROPEAN EMBEDDED VALUE PER SHARE (EEV PER SHARE)
EEV per share is used to measure value creation over time. It is the total Group EEV divided by the closing number of shares in issue.
Purpose: EEV per share provides shareholders with an insight into the value of the existing book of business at the balance sheet date.

FUNDS UNDER MANAGEMENT (FUM)
The total amount of money investors have trusted to a fund manager to invest across all their investment products.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are a widely accepted collection of guidelines and principles, established by the International Accounting Standards Board, and used by the accounting community to report financial information.

INSURANCE GROUP DIRECTIVE SURPLUS (IGD SURPLUS)
The IGD surplus is an FSA regulatory measure which calculates surplus capital within the Group. IGD surplus is defined as Group regulatory capital less the Group regulatory capital requirement. Surplus capital held within Society's 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 accrual of proposed dividend.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
These are accounting guidelines and rules that companies and organisations can follow when completing financial statements. They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) OPERATING PROFIT
The Group's primary financial statements are prepared on an International Financial Reporting Standards (IFRS) basis. 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.
Purpose: IFRS operating profit gives an insight into the Group's ability to generate cash flows to support dividends during a period.

KEY PERFORMANCE INDICATORS (KPIs)
These are measures by which the development, performance or position of the business can be measured effectively.

LIABILITY DRIVEN INVESTMENT (LDI)
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

NET CASH GENERATION
Net cash generation is defined as operational cash generation less new business strain for the UK non profit Risk and Savings businesses.
Purpose: Net cash generation demonstrates the ability of the Group to pay returns to shareholders.

NEW BUSINESS STRAIN
The impact of writing new business on the regulatory position, including the cost of acquiring new business and setting up regulatory reserves.

OPERATIONAL CASH GENERATION
Operational cash generation is defined as the expected release from in-force business for the UK non profit Risk and Savings businesses, the shareholder's share of bonuses on With-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on Group Capital and Financing invested assets, and dividends remitted from our international businesses from sustainable cash generation.

PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)
The industry measure used to determine the value of new business. It is calculated as 100% of single premiums plus the expected present value of new regular premiums.

PURCHASED INTEREST IN LONG-TERM BUSINESS (PILTB)
An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

RETURN ON EQUITY (ROE)
ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholder's funds.
Purpose: RoE provides a link between performance and balance sheet management and ensures that an appropriate balance is maintained between the two.

SELF INVESTED PERSONAL PENSIONS (SIPP)
A self invested personal pension provides the policyholder with greater choice and flexibility as to the range of investments made, how these investments are managed, and the administration of those assets and how retirement benefits are taken.

SOCIETY
Legal & General Assurance Society Limited.

SOLVENCY II
A proposed EU-wide regulatory regime which intends to align solvency capital to an insurers risk profile. Expected to be implemented in 2014.

TOTAL SHAREHOLDER RETURN (TSR)
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.
Purpose: TSR measures total return to shareholders over the medium term.

VALUE IN FORCE (VIF)
The value of in-force business is the present value of expected future shareholder profits less the present value cost of holding capital required to support the in-force business.

Key Performance Indicators (KPIs) are denoted by the symbol throughout this glossary.

OUR GROUP
OUR PERFORMANCE
OUR APPROACH
GOVERNANCE
FINANCIAL STATEMENTS
OTHER INFORMATION

NOTES

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