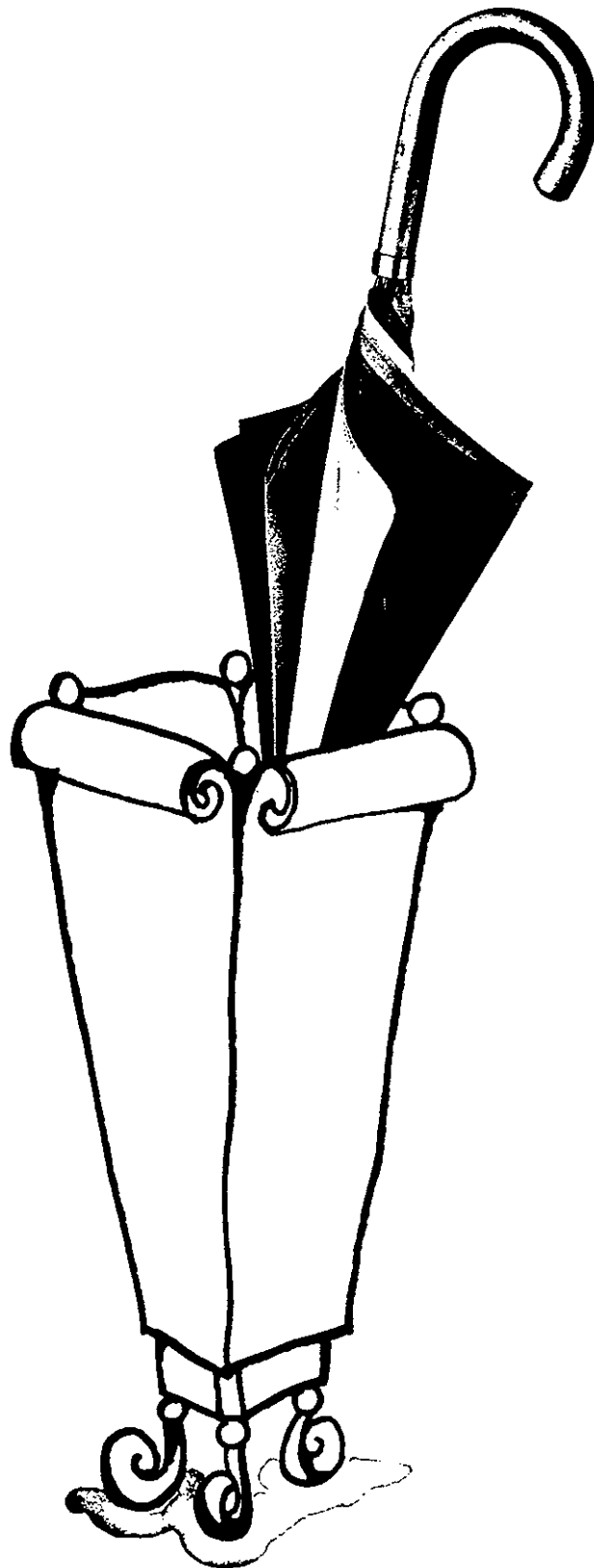
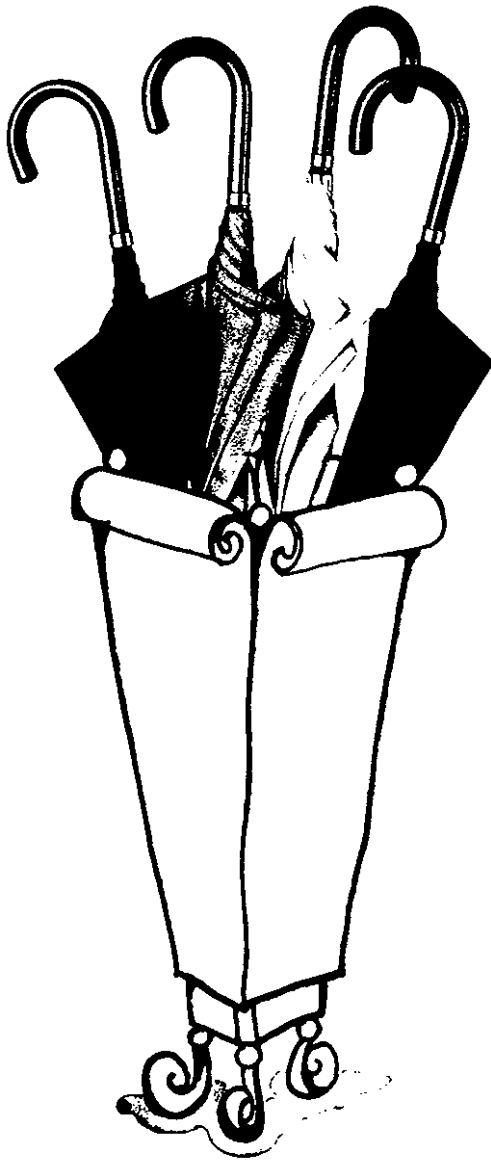
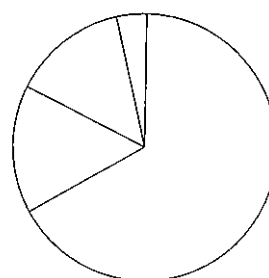




ONE BRAND, ONE FOCUS

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1995 Pre-Tax Profits (£m)



☐	UK Life & Pensions	181.5
☐	General Insurance	42.2
☐	Overseas Life & Pensions	38.3
☐	Other	9.3

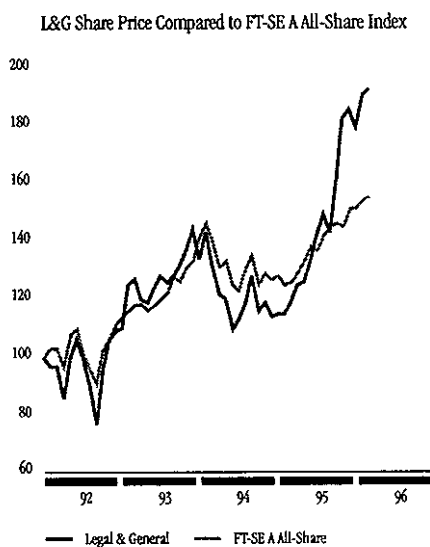
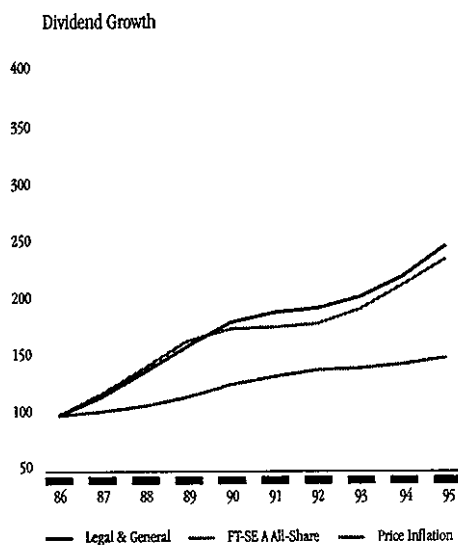
Shareholder Interest in the UK Long Term Fund (£bn)



Financial Highlights

Profit from continuing operations

	1995	1994
Long term business - UK	£181.5m	£131.1m
- Overseas	38.3	36.5
	£219.8	£167.6
General insurance	42.2	20.6
Non-insurance result	9.3	(19.6)
Profit before tax	£271.3m	£168.6m
Profit attributable to shareholders	£195.2m	£111.0m
Cost of dividend	£120.4m	£106.3m
Earnings per share	39.72p	22.68p
Dividend per share	24.40p	21.70p
Reported shareholders' funds	£426m	£332m
Shareholders' interest in long term business, net of tax		
- at least	£2,660m	£2,220m
Funds under management	£40.1bn	£34.1bn



**CHAIRMAN & EXECUTIVE
DIRECTORS**

FROM LEFT TO RIGHT:

*Back Row: Robin Phipps,
David Rough and Andrew Palmer*

*Front Row: David Prosser,
Anthony Hobson and
Sir Christopher Harding*



Chairman's Statement

In 1995 your company reported a pre-tax profit of £271.3 million from its worldwide operations, up 60% from 1994. This result reflects the recovery in investment markets in 1995 and a significant increase in UK life and pensions profit.

Profit from UK life and pensions business grew by 38.4% to £181.5 million in 1995 (1994, £131.1 million), reflecting the increased cost of bonus, which includes the cost of the special bonus to UK with-profit policyholders. Overseas life and pensions business contributed £38.3 million (1994, £36.5 million), an increase of 4.9%.

General insurance profit increased to £42.2 million (1994, £20.6 million). The recovery in investment markets more than offset the cost of claims for subsidence after the summer drought and damage arising from burst pipes caused by the severe freeze at the end of the year.

The improved investment markets have contributed to a marked rise in the shareholders' interest in the UK long term fund. At the end of 1995, this amounted to at least £2.66 billion (net of tax) after distribution to shareholders of £122 million (net of tax). This represents an increase of 20% on 1994. Further details on the shareholders' interest in the UK long term fund are given on pages 28 and 29 of this Report.

The Board has declared a final dividend of 16.7p per share for 1995. The total for the year of 24.4p is up 12.4% from the total 1994 dividend of 21.7p per share. This reflects your Board's commitment to a progressive dividend policy; dividends have been increased each year for over two decades. The demonstrable financial strength of the UK long term fund provides a secure base for this dividend policy.

Your company's share of new UK individual regular premium life and pensions business grew to 4.4% in the second half of 1995, from 3.7% in the same period of 1994. This was most encouraging as total market volumes declined, reflecting the continuing low level of housing transactions, concerns

over pension provision and job security, and a consequent lack of confidence on the part of individual investors. Thus, despite difficult trading conditions, the UK life and pensions operation had a successful year, and has a solid foundation for continuing success.

The debate on the future of state provision for old age is an issue of particular importance to Legal & General. Demographic pressures make this a topic of natural concern for all political parties. The desirability of private sector provision now seems to be generally accepted. This must deliver fair value to customers and it is essential that any new arrangements are designed for low cost administration. Equally, it is necessary that fiscal policy encourages people to make provision for their old age. I believe that your company is well qualified to participate in developments in this important area.

It is also of paramount importance that private sector providers offer a high level of security to customers whose future in old age is dependent upon commitments being honoured. Legal & General has long recognised this, and the UK business was at the forefront of seeking independent ratings from Moody's and Standard & Poor's. "Triple A" ratings for the UK long term fund have recently been reaffirmed by both agencies.

For our business to thrive we must deal fairly with all our customers. We aim to deliver value for money across our whole product range, consistently strong investment performance, sound financial advice, and a level of service which encourages our customers to maintain and extend their relationship with us.

Legal & General recognises the necessity of regulation, but believes that there is scope for improvement in the present system. The industry and its regulators should work together to ensure that regulation is cost effective for the consumer, encourages responsible competition and maintenance of financial standards, achieves transparency without unnecessary prescription, and provides for suitable redress while recognising that the consumer also has responsibilities.

Corporate governance in all its aspects has been a topic of continuing public debate. Legal & General strongly supports, and has responded positively to, the recommendations of the Cadbury Committee. We have also addressed the proposals of the Greenbury Committee. In this context there is, commencing on page 40, a report from the Board's Remuneration Committee.

We also take corporate governance seriously in carrying out our responsibilities as a major institutional investor and will be encouraging high levels of compliance with evolving standards. We look for long term relationships with successful companies and, where we judge change to be necessary, we exercise positive pressure through the existing Board.

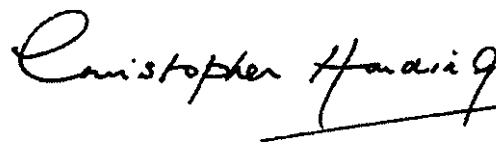
The attention of shareholders is drawn to the accompanying notice of the Annual General Meeting and of an Extraordinary General Meeting, which will follow. There are two principal matters for consideration. The first is a revision of the company's Articles of Association to provide for participation in the Crest system for share registration. The opportunity has been taken for a comprehensive review of the Articles, the first such review since 1989, to bring them in line with current Stock Exchange standards. The second matter relates to changes to the company's share schemes to reflect recent developments. These schemes are designed to encourage performance which benefits both shareholders and customers.

There have been three new appointments to the Board during the past 12 months. David Reid, Group Finance and Distribution Director of Tesco Plc, has joined the Board as a non-executive director and will bring a valuable range of business experience to our deliberations. Andrew Palmer and Robin Phipps have been appointed as executive directors, recognising both their practical experience and their important contribution to your company's future development.

The longest serving of our Directors, Bill Govett, retires in 1996. A member of the Board since 1972, he has made an enormous contribution to your company's success. I am sure shareholders will wish to endorse my appreciation of his services.

The excellent progress we have made would not have been possible without the wholehearted commitment of our staff. This has been demonstrated across all aspects of the business, and not least by those who have been involved in completing important projects. I would like to take this opportunity of expressing to them the thanks of shareholders.

1996 marks the 160th anniversary of Legal & General. However we are a young company in outlook. Our achievements in 1995 show that our strategy is working. We are meeting customer needs by providing quality advice and a broad range of competitive products through our multi-channel distribution. The business has a culture of change, we have the financial strength to implement change and we are confident of continuing success.



SIR CHRISTOPHER HARDING
Chairman

Group Chief Executive's Overview

1995 was a year of significant achievement for Legal & General. Despite a difficult market environment our UK life and pensions business had a successful year and our general insurance business produced a good insurance result.

An important feature of 1995, and one which will continue, was the broad range of product initiatives across our business. Such initiatives and innovation are essential in the modern competitive market place. Legal & General is committed to meeting a broad range of customers' needs by providing appropriate products at attractive prices. Improved terms were announced in 1995 for our term assurance and protection products. We also introduced an innovative Guaranteed Bond PEP, an index tracker PEP with highly competitive charges, a new flexible mortgage and a medical insurance policy which was launched in January 1996. This latter development recognises the increasing need to provide products which complement State provision.

Legal & General continues to believe its multi-channel approach to distribution provides valuable flexibility to respond to changing conditions. It also allows customers to select their source of advice and a wide choice of how to do business with us. The management of this diverse distribution, and the broadening range of products we offer, requires leadership and co-ordination. This is addressed in the appointment of Robin Phipps as Group Director (Sales & Marketing).

During 1995 there was encouraging progress across all life and pensions distribution channels. The restructured consultancy division showed a marked improvement in productivity. We obtained good increases in volumes from independent financial advisers, for whom we will continue to provide suitable, competitively priced, products. We also continued to develop our appointed representatives

network, which we believe is now the largest in the market, and which is well placed to benefit from recovery in consumer confidence.

To complement our existing distribution channels, each of which continues to make a substantial contribution to the success of our business, we are also developing an enhanced direct distribution capacity. Many of our customers will prefer to deal direct. Our aim is to have an effective direct business capability for the long term, providing quality service and products.

The development of direct distribution and services emphasises how dependent our business is upon the effective use of new technology. This is also demonstrated by the successful implementation of a new "point of sale" system at the beginning of 1995. We will continue to invest to ensure that we have efficient, customer responsive, systems. The importance of such investment is reflected in the appointment of Andrew Palmer as Group Director (Services), with responsibility for co-ordinating systems and operational processes across the UK businesses. A key focus will be the achievement of cost efficiencies across the business while enhancing service to our customers.

Investment management continues to be a key strength of Legal & General. Consistent good performance over the years has enabled the UK business to continue to declare bonuses which deliver attractive returns to long term policyholders. We continue to be a leading provider of index management for pension funds. We are now using the skills acquired for this business to target the retail sector with our highly competitive index tracker PEP.

The announcement in November regarding the review of the UK long term fund confirmed its financial strength, which has for several years been recognised by the "Triple A" ratings from Moody's and Standard & Poor's. This financial strength has many advantages and gives confidence in our ability to provide good value. For example there are no undue constraints on investment strategy. The key message for customers is that they can "trust us to deliver".

It has been clear for some time that major mortgage lenders would be reconsidering their involvement in general insurance business, and household insurance business in particular. Legal & General has established expertise in household business and has had a close working relationship with the Woolwich Building Society over many years. We were pleased to be selected as their partner for a new joint venture. The arrangements made will maintain and strengthen our relationship, and secure significant volumes of household business for the coming years.

These developments in 1995, coupled with our financial strength, create the foundation for the future of Legal & General's UK business. We have a broad range of competitive products, multi-channel distribution and the scale and resources to handle the challenges ahead. Whilst we foresee consolidation in the market, this is likely to have the greatest impact on smaller and less well capitalised companies. Legal & General will only participate in the re-structuring of the industry if it is clear that to do so will add value to the business for shareholders.

Our overseas subsidiaries continue to make progress. In November 1995, Legal & General Australia acquired the life business of the State Government Insurance Corporation of South Australia (SGIC), together with a funds management contract, from the South Australian government. This acquisition, which increases the range of distribution opportunities for the Australian business, was made in conjunction with SGIO, a Western Australian general insurer which acquired the other SGIC businesses. The future of this business is underpinned by a comprehensive co-operation agreement with SGIO.

Legal & General Australia has also entered into a technical assistance agreement with Ongko Multicorpora for the development of an Indonesian life company. We are studying other opportunities in the Asia/Pacific region and will take further initiatives if we judge the prospects to be attractive.

In the USA, William Penn has successfully established a solid niche position in the affluent individual life market in the New York region, by offering good value life assurance products. These are based on low cost operations and effective risk selection. We will build on William Penn's expertise by offering similar good value products nationwide through Banner.

In Europe our operations continue to develop satisfactorily. The businesses in France and The Netherlands have maintained their steady growth, and are making an increasing profit contribution.

Finally, I am pleased that the contribution of UK staff in 1995 has been recognised in the allocation of 40 shares under the UK staff profit sharing scheme to all eligible employees. The total number of shares involved is approximately 220,000.



DAVID PROSSER
Group Chief Executive



UK Business - Life and Pensions

Our UK business is built around meeting the savings and insurance protection needs of our individual and corporate customers. In an increasingly transparent and open market, our products must offer genuine value and be seen as highly competitive.

We will develop improved knowledge of our customers and increase our understanding of their needs in order to deliver a quality of service and advice which will make them want to buy additional products or services from us. In the individual market that service and advice will be delivered either by company representatives or Independent Financial Advisers (IFAs) who meet appropriate standards of competence, or through direct contact between customers and Legal & General staff. In the corporate market we will use the company's shared administrative and distribution capabilities to develop our already substantial business in order to generate additional shareholder value.

Products

During 1995 Legal & General both extended and improved its product range. Customers have benefited through targeted competitive pricing and greater product flexibility. We will continue to seek the confidence of customers by such means in order to gain competitive advantage.

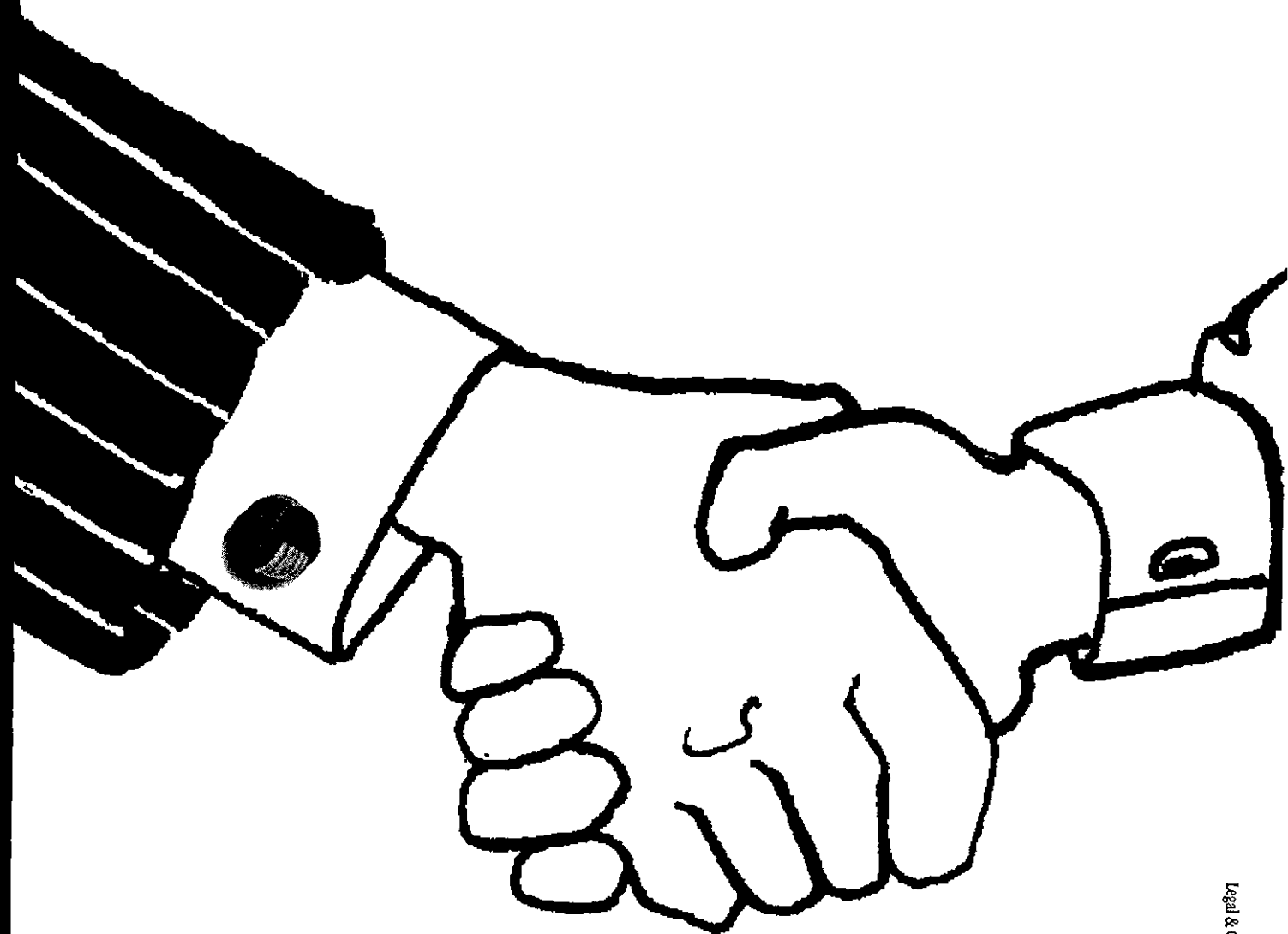
Important product initiatives included the successful Guaranteed Bond PEP which sold in excess of £130 million including £26 million of direct sales; highly competitive life assurance rates which took advantage of expense efficiencies already achieved; the promotion of our low cost index tracker PEP which capitalises on investment skills originally acquired for corporate funds management; the launch of our innovative Flexible Reserve mortgage; the introduction of a stand alone critical illness policy and a major revision of our personal pension plans.

We will continue to innovate and extend our product range, so that we and our intermediaries have the capacity to satisfy a full range of customers' potential savings and protection needs. To this end, we have introduced a new medical insurance plan to complement our existing range in early 1996.

Distribution

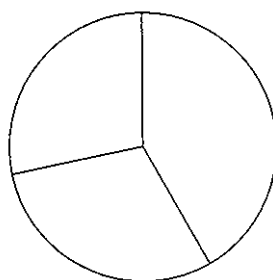
Multi-channel distribution served Legal & General well throughout 1995. Each principal sales channel – Broker Division, Financial Consultancy, Appointed Representatives, and the Introducer Sales Force (our employed salesforce servicing Introducers) – has a dedicated management which focuses on the needs of its own market sector. Overall co-ordination ensures a consistent presentation of the brand to external audiences while the fixed costs of training, product development and compliance are shared between the channels.

Synergy between the sales channels is also assisted by co-ordinated initiatives which provide greater focus in key markets such as house purchase where Legal & General representatives arrange over £2 billion of mortgages each year. We have established the Legal & General Mortgage Club to maximise the effectiveness of our relationships with major UK mortgage lenders, and to pass on the resulting benefits to our customers and intermediaries. In its first year of operation, the Mortgage Club accounted for over £600 million of completed mortgages.



We are following up this success with the introduction of the Legal & General Estate Agency Network. The Network aims to support our business partners who operate in the Estate Agency market, primarily Appointed Representatives or Introducers. Marketing and training programmes are provided to help network members to improve their own effectiveness. The overall aim is to build a broader and deeper business relationship with intermediaries in the house purchase market.

UK Individual Life & Pensions Distribution



- ☐ IFAs 41.8%
- ☐ Appointed Representatives/other 29.9%
- ☐ Financial Consultancy 28.3%

• *IFAs*

The Broker Division is focused on a number of key sectors within the IFA market in order to concentrate on their different needs. Following the establishment in 1994 of a National Account team for the largest UK brokers, in 1995 we introduced "Broker Direct" – a centralised telephone based sales support service to those IFAs who hitherto did not have a relationship with the company. Further specialist teams have also been introduced to service Employment Benefit Consultants and other groups such as accountants and consulting actuaries.

• *Appointed Representative Division*

Legal & General is now the market leader in this field. We continue to strengthen our network of Appointed Representatives as competitors withdraw because they cannot create the necessary economies of scale or provide a full range of competitive products.

During the year the company engaged in selective recruitment and continued its review of the quality and productivity of tied firms. This resulted in a substantial number of lower producing agents switching to Introducer status, reducing from 1,000 to 700 the number of fully licensed individuals. Despite this reduction, the Appointed Representative Division's share of Legal & General's overall individual business has hardly changed.

• *Introducer Sales Force*

This salesforce, which uses Legal & General employees to handle introductions and deal with customers who are not serviced by other intermediaries, has a close working relationship with the Appointed Representative Division. To achieve a smooth transition of lower producing agents to Introducer status, it offers potential tied agents the option of using Legal & General employees to handle introductions and service customers rather than employing, training and monitoring their own company representatives.

In future the division will become the focus for all introduced business regardless of whether it comes from established Introducers, our customer call centres, our corporate estate agency or alliances with companies that can offer business opportunities.

• *Financial Consultancy*

Towards the end of 1994 we significantly reduced our Financial Consultancy salesforce. By pruning low producers and focusing on our more productive people we have achieved a significant improvement in performance. Recruitment has been confined to experienced recruits. By the second half of 1995, average productivity had increased by more than 50% compared with 1994. We believe that we now have one of the most productive direct salesforces in the insurance industry.

• *Direct Distribution*

During 1995 we set up a separate distribution division for customers who prefer to deal direct with Legal & General. Until recently customers have bought insurance products face to face, primarily through intermediaries. Their role in providing advice is likely to predominate for many years to come. However, an increasing number of customers have begun to buy over the telephone or by post. Our Direct Division aims to complement our existing channels by providing both products and advice through a central call centre. Initial testing has been encouraging across a broad range of mortgage, investment, life assurance, and general insurance products.

Compliance

The conduct of sales and marketing of financial services products is now subject to extensive regulation by the Personal Investment Authority (PIA) under the Financial Services Act. We aim for high standards of compliance with these regulations and have invested substantial resources in training our representatives and in developing appropriate monitoring systems to meet the standards expected by the PIA, whose monitoring visit in 1995 was concluded very satisfactorily.

At the beginning of 1995 the regulations were extended to introduce additional disclosure of product details, charges and expenses and commissions for new business. We took the opportunity of these changes to improve the competitiveness of a number of our products and to introduce new technology at the point of sale.

New Business

The extent of the changes to working practices led to considerable disruption in the flow of new individual business in the early months of 1995. However, as the new arrangements became established, the benefits of our actions began to show through in a rising market share.

Our overall new Equivalent Premium Income (EPI: annual premiums plus 10% of single premiums) for individual business fell to £132 million (1994, £150 million). However, our new business recovered

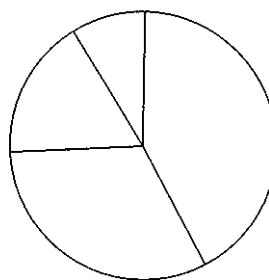
well in the second half year, with new annual premiums 1% higher than in the second half of 1994, even though the market as a whole fell by 15% over this period. The breakdown of new annual and single premiums is shown below:

	Annual		Single	
	1995	1994	1995	1994
	£m	£m	£m	£m
Life	63.0	69.4	185.5	209.1
Individual Pensions	44.4	48.8	181.6	222.2
Group Pensions	12.6	14.2	175.8	248.9
Permanent Health	3.4	2.6	—	—
Total	123.4	135.0	542.9	680.2

New EPI, excluding £177.4 million (1994, £105.4 million) of Unit Trusts and PEP sales, was:

	EPI	
	1995	1994
	£m	£m
Life	81.5	90.3
Individual Pensions	62.6	71.0
Group Pensions	30.2	39.1
Permanent Health	3.4	2.6
Total	177.7	203.0

UK New E.P.I (including Unit Trusts and PEPs)



- ☐ Life 42%
- ☐ Individual Pensions 32%
- ☐ Group Pensions & PHI 17%
- ☐ PEP/Unit Trust 9%

These figures, and a continuing improvement in persistency, contributed to total premiums of £1,541.9 million (1994, £1,664.1 million) the breakdown of which is as follows:

	1995	1994
	£m	£m
Life	810.5	828.7
Individual Pensions	417.7	447.3
Group Pensions	303.2	378.6
Permanent Health	10.5	9.5
Total	<u>1,541.9</u>	<u>1,664.1</u>

The decline in single premiums and also in total premiums, reflects a continuation of our prudent approach to the sale of individual pensions transfer business and a reduced market for bulk purchase annuity and other pension business.

Profit

UK life and pensions pre-tax profits totalled £181.5 million (1994, £131.1 million), a rise of 38.4%, reflecting the increased cost of bonus which includes the cost of the special bonus to policyholders of £163 million. As a result of the bonus declaration, proceeds of almost all life endowment policies maturing in 1996 are now higher than in 1995. The maturity benefits for a 25 year endowment policy, commonly used for mortgage repayment, will be over 2% greater than in 1995.

The contribution to profit by class of business is as follows:

	1995	1994
	£m	£m
Life	124.8	88.6
Individual Pensions	39.7	27.9
Group Pensions	13.3	10.3
Permanent Health	3.7	4.3
Total	<u>181.5</u>	<u>131.1</u>

Customer Services

Our future success must be built on ensuring that we provide our customers with the level of service they want – when and how they want it and at an affordable price. 1995 saw a sustained push on these issues across all parts of our business. During the year the life and pensions business again raised service levels and cut costs in order to improve the value for money we offer our customers. This was an important element in allowing us to introduce much more competitive, but still profitable, term assurance rates. Moreover, we were able to cope effectively with the resulting increased new business flow.

During the year we closed one of our three main administration centres for life and pensions business and continued re-engineering our processes around the remaining two sites – one servicing corporate clients, the other looking after the needs of individual customers. These moves have enabled us to bring down the cost of servicing in force individual life and pensions policies by 8%.

We have expanded the range of services we offer our customers. We now have staff available to handle telephone enquiries six days a week, to 8.30 pm on weekdays and 5.00 pm on Saturday. We have also introduced dedicated telephony teams to service both IFAs and our own representatives.

We aim to respond to the needs of both our customers and our intermediaries. Our service standards – independently benchmarked – continue to improve when measured against our competitors. These improvements have been made at a time when the number of staff servicing traditional business activities fell again and productivity rose by 6%. These achievements reflect continuing investment in technology and re-engineering the business, in training and developing our people, and in driving forward our total quality management process.



Investment Management

At the end of 1995, worldwide assets had reached £40.1 billion (1994, £34.1 billion), aided by new business and strong growth in securities markets. Of this total, funds of £35.2 billion were managed in the UK (1994, £31.6 billion) reinforcing the company's position as one of the UK's leading fund management institutions.

In addition to managing assets for the Group's operations, investment services are provided to UK corporate pension funds and to individual savers. The corporate pensions business continued to develop as a result of the continuing success of the company's range of index funds. In the individual product sector, the major events in 1995 were the launch of the Legal & General Guaranteed Bond PEP, which attracted over £130 million in a six week period and the promotion of a highly competitive index tracking PEP.

The performance of the flagship discretionary managed funds over the year was close to the median. Good UK equity results were partly offset by underperformance in overseas equity markets, reflecting the relatively poor performance of Japanese stocks. Over a five year period the discretionary results for all three flagship funds were comfortably above the median.

Our strength in actively managed UK equities, as well as in index funds, permits us to operate a higher risk active portfolio alongside a low risk and low cost index fund core holding when this is required by clients.

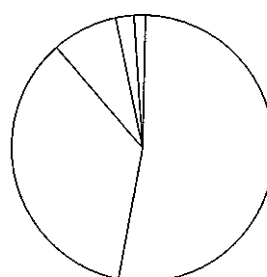
Our successful venture capital team continues to attract funds from other institutional investors on an annual limited partnership basis, which is unique in the UK. Joint marketing arrangements were also established in Germany and France which will enable the company to participate in the emerging market for venture capital in Continental Europe.

Main asset class performance (with income reinvested where appropriate)

	1 year	5 years	10 years
	%	%	%
		annualised	annualised
UK Equities ¹	23.9	16.8	15.2
Fixed Interest ²	17.4	14.0	11.6
Index Linked ³	12.0	8.9	—
International ⁴	19.8	16.6	12.1
Property ⁵	4.2	5.9	9.8
RPI	3.2	3.0	4.6
Cash	6.4	7.8	9.8

1. FT-SE A All -Share Index 2. FT-SE A over 15 year 3. FT-SE A over 5 year Index Linked
4. FT-SE A World Index (ex UK), MSCI (ex UK) prior to 1988 5. IPD Index

UK Funds Under Management



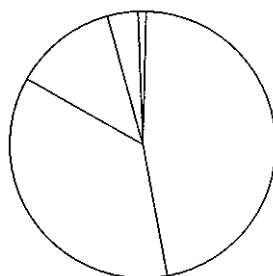
- ☐ Life Fund (non-linked) 52.7%
- ☐ Corporate Pensions 35.7%
- ☐ Linked Life & Pensions 8.0%
- ☐ General Insurance/Others 2.2%
- ☐ Unit Trusts 1.4%

UK Long Term Fund Performance

The market value of UK long term fund investments increased to £21.4 billion (1994, £18.4 billion) excluding the assets of the Pensions Management Company. The asset mix of the UK long term fund reflects both the contractual liabilities of the fund and the need to meet the expectations of policyholders. The make-up of the UK long term fund investments (excluding those relating to linked business) is shown below:

	1995	1994
	%	%
Bonds (including mortgages, loans and deposits)	36.1	37.8
Index Linked bonds	3.7	3.5
Equities (UK and overseas)	46.8	42.9
Property	12.5	14.4
Venture capital	0.9	1.4
Total	<u>100.0</u>	<u>100.0</u>

UK Long Term Fund (Non-Linked) Asset Allocation



- ☐ Equities (UK and overseas) 46.8%
- ☐ Bonds (including mortgages, loans and deposits) 36.1%
- ☐ Property 12.5%
- ☐ Index Linked bonds 3.7%
- ☐ Venture capital 0.9%

• Bonds

The modest decline in the proportion of bond holdings in the UK long term fund reflects relative market movements and cash flow being largely directed to other markets. The company is a major investor in non-gilt fixed interest securities and this activity has enhanced returns this year and over the longer term.

• Equities

During the early part of 1995 a significant proportion of new cash was directed to equity investment both in the UK and overseas, thus benefiting from subsequent market strength. The actively managed UK equity portfolio out-performed the FT-SE A All-Share index.

• Property

As anticipated in the 1994 Report & Accounts, the property exposure has reduced further, largely as a result of relative market movements. The focus has been on ensuring that the quality of the portfolio is maintained and enhanced where possible. Selective investment across the sectors focused on good locations with quality covenants.

• Venture Capital

The venture capital portfolio continued to perform well, with two recent equity investments achieving flotation on the stockmarket. Returns on the venture capital equity portfolio have exceeded those achieved by the quoted market by a sizeable margin over the last five years.

Shareholders' and General Insurance Funds

The majority of the investment portfolio which supports the shareholders' and general insurance funds is invested in short-dated UK fixed interest stocks and short term cash investments, thus matching the liabilities of the general insurance operation. The remainder is invested in a diversified equity portfolio, predominantly in UK shares.

Pension Fund Management

The company remains one of the two major providers of indexed management for pension funds in the UK. Total indexed assets now exceed £11.0 billion despite the transfer of a £2.2 billion portfolio to the client's in-house management. This loss was partly compensated for by £2.0 billion attracted from new clients, most of which was index fund business, and by further contributions from existing clients. Total pension fund assets increased to £12.5 billion (1994, £11.3 billion) including pooled and segregated actively managed portfolios. Over a five year period, discretionary performance for our pooled funds is between the median and upper quartile whilst UK equity performance is upper quartile.

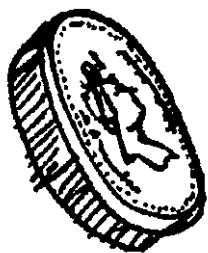
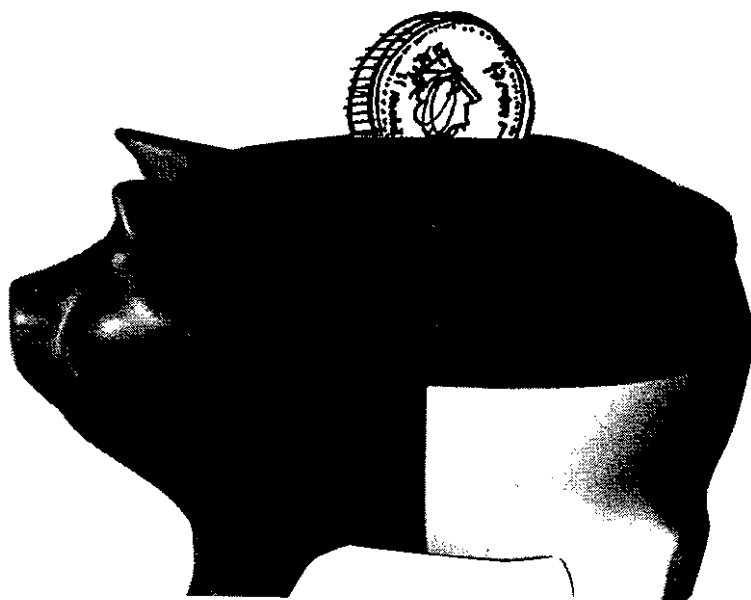
Retail Investment Products

Sales of PEPs and unit trusts reached £177.4 million (1994, £105.4 million) largely as a result of the successful launch of the Legal & General Guaranteed Bond PEP. The complete range of PEPs and unit trusts was re-priced in the course of the year. The index tracking PEP is now the most competitively priced product of its type. Our innovative distribution bond introduced in 1994 continues to attract new investors and achieved a market share of more than 8% for this product segment.

Funds managed for personal investors in the UK now exceed £3.3 billion (1994, £2.6 billion) comprising linked life and pensions products, PEPs and unit trusts.

Outlook

We have established a record of consistent good investment performance – especially for UK equities – and a leading position in index tracking. These factors, together with our reputation for product innovation, have been key to the development of our business. We are convinced that index tracking will continue to be a core customer need and we are strongly placed to grow our business by meeting customer requirements.



General Insurance

There was a satisfactory insurance profit in 1995 of £42.2 million (1994, £20.6 million). The severe drought and freezing winter conditions produced substantial claims, but this cost was more than offset by strong investment performance in bond and equity markets.

Worldwide general insurance results are shown below:

	1995				1994			
	Net premiums written	Underwriting profit (loss)	Investment return	Insurance profit (loss)	Net premiums written	Underwriting profit (loss)	Investment return	Insurance profit (loss)
	£m	£m	£m	£m	£m	£m	£m	£m
Property	260.2	6.6	23.9	30.5	188.7	32.9	(2.0)	30.9
Motor	26.0	(3.6)	7.1	3.5	37.3	0.3	(0.7)	(0.4)
Mortgage Indemnity	16.6	(16.5)	16.5	-	21.3	1.8	(1.8)	-
Other	14.5	2.4	10.9	13.3	17.5	0.7	(1.0)	(0.3)
UK Total	317.3	(11.1)	58.4	47.3	264.8	35.7	(5.5)	30.2
Overseas	1.5	(8.2)	3.1	(5.1)	1.3	(12.1)	2.5	(9.6)
	<u>318.8</u>	<u>(19.3)</u>	<u>61.5</u>	<u>42.2</u>	<u>266.1</u>	<u>23.6</u>	<u>(3.0)</u>	<u>20.6</u>

The investment return allocated to general insurance business includes realised and unrealised gains and losses on investments

United Kingdom

The UK operations produced an insurance profit of £47.3 million compared to £30.2 million in 1994.

The property insurance account, the largest part of the business, showed a profit of £30.5 million (1994, £30.9 million) despite the increase in the cost of weather related claims. The long dry summer resulted in subsidence claims costing £23 million and the severe frost in the last few days of the year caused burst pipe claims of £15 million after allowing for reinsurance recoveries.

There was an insurance profit of £3.5 million (1994, £0.4 million loss) from the motor account which is now predominately private car insurance, but in a severely price competitive market total premiums were significantly reduced. There was an underwriting loss of £3.6 million (1994, £0.3 million profit).

The other classes of business – mainly business interruption and liability – contributed a significant insurance profit of £13.3 million (1994, £0.3 million loss).

During the course of 1995 overall experience remained within the range of assumptions made for future mortgage indemnity claims, resulting in a break-even insurance result in line with the expectations for this account.

Legal & General's policy in the general insurance market is to underwrite selectively for profit, emphasising the property classes of both the personal and commercial sectors. In these areas Legal & General has established expertise enabling the formation of a new joint venture with Woolwich Building Society.

The joint venture started operations in late September and the increase in premium income for property business reflects this, as well as a reduction in the quota share reinsurance on the domestic property account from 40% to 20%. This quota share reinsurance has not been renewed for 1996.

General insurance products, particularly for house structure and contents, have an important place in the development of the Group's direct distribution capability. Located in Dudley in the West Midlands, the general insurance direct operations are being closely integrated within the wide range of financial services being provided to Legal & General customers.

Overseas

All underwriting agreements with overseas agents have been terminated. The 1995 insurance loss of £5.1 million, compared with a loss of £9.6 million in 1994, includes the estimated costs of run-off administration in the overseas territories, disengagement costs and the result of the closed marine account.

OTHER UK OPERATIONS

Mortgage Lending

Legal & General Mortgage Services produced a pre-tax profit of £1.7 million in 1995 (1994, £1.5 million); total mortgages outstanding amount to £409 million, of which £133 million is securitised. New mortgages are currently granted by Legal & General Mortgages, a subsidiary of the UK long term fund. During the year a new type of mortgage arrangement, Flexible Reserve, was launched. This innovative concept enables customers to make additional payments to reduce their outstanding balance. Customers can borrow again up to their original mortgage level.

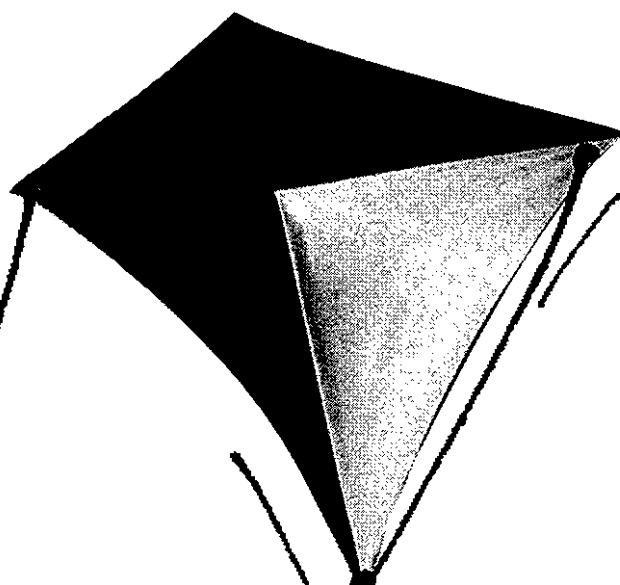
Estate Agencies

The housing market remained depressed during 1995, as a result of which the estate agencies showed a loss of £4.1 million (1994, £4.2 million loss). The estate agencies are however the largest of Legal & General's appointed representatives in terms of the volume of business produced.

Fairmount Group

Profits from Fairmount, an independent intermediary business, specialising in services to high net worth individuals and small companies, reduced to £0.5 million (1994, £1.1 million). This reflects the generally difficult trading conditions in its sector in 1995.

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Overseas Operations

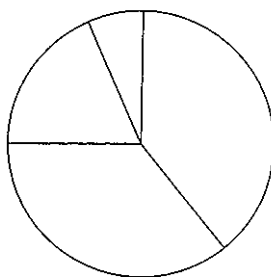
Our overseas operations continue to make progress, although economic uncertainty constrained sales in an environment of continuing regulatory change. Profit at £38.3 million was 4.9% above the 1994 total of £36.5 million.

The breakdown of new business and profit was as follows:-

	1995			1994		
	New Annual Premium	New Single Premium	Pre-tax Profit	New Annual Premium	New Single Premium	Pre-tax Profit
	£m	£m	£m	£m	£m	£m
Australia	24.7	53.2	13.2	28.6	100.3	13.2
USA	27.0	53.8	17.4	29.1	53.5	18.0
France	7.1	83.5	6.0	4.7	69.1	4.4
Netherlands	3.4	18.7	1.7	2.9	18.4	0.9
	62.2	209.2	38.3	65.3	241.3	36.5

Thus new equivalent premium income fell by 7% from £89.4 million in 1994 to £83.1 million in 1995. Total premium income also fell by 7% from £486.6 million in 1994 to £453.1 million in 1995.

New E.P.I



- ☐ USA 39.0%
- ☐ Australia 36.1%
- ☐ France 18.5%
- ☐ Netherlands 6.4%

AUSTRALIA

The decline in new business reflected a generally depressed market environment. Following the poor investment conditions in 1994, individual investors reacted adversely and were more reluctant in 1995 than they were in 1994 to enter into longer term commitments.

Micropay was sold in October 1995. Although profitable, changes in superannuation regulations have eliminated the potential synergy with our business. In November 1995 SGIC Life, a South Australian business, was acquired. This business will provide additional distribution, including access to a modern telecentre for sales and customer services, and increased funds under management.

Profits were stable at £13.2 million, after allowing for costs associated with the acquisition of SGIC Life and the disposal of Micropay.

OPERATING REVIEW

USA

The USA subsidiaries reported total profits of £17.4 million (1994, £18.0 million), against a background of lower interest rates in 1995. Premium income totalled £144.4 million (1994, £152.0 million), with new premiums including a 12% rise in annual premium sales by William Penn.

On an EPI basis, new business amounted to £32.4 million (1994, £34.4 million) reflecting a customer preference for equity investment in a period of lower interest rates.

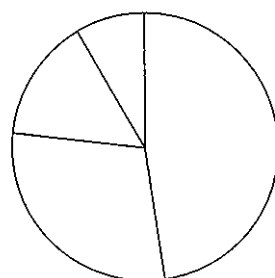
EUROPE

The subsidiaries in both France and The Netherlands reported improved profits. The Netherlands business has now emerged successfully from its development phase, during which it added significant value despite incurring financing strains. Despite a continuing difficult economic environment both companies were successful in achieving new business growth through their focus on upper income market segments.

FUNDS UNDER MANAGEMENT

Overseas subsidiaries funds under management increased to £4.2 billion (1994, £3.1 billion), the principal components being in Australia and the USA.

Funds Under Management



- ☐ Australia 47.7%
- ☐ USA 29.2%
- ☐ France 14.8%
- ☐ Netherlands 8.3%

Financial Review

OVERVIEW

The principal financial matters arising in 1995 are described in this overview. On pages 26 to 29, the important developments relating to the UK long term fund are discussed and, from page 30, there is commentary on the financial management of the Group during 1995.

UK LONG TERM FUND

In the 1994 Report and Accounts, we announced that we were in discussions with the Department of Trade and Industry (DTI) regarding the operation of the UK long term fund. As a result of these discussions and accompanying investigations, and with the support of the DTI and an Independent Actuary, proposals were announced in November 1995 and implemented on 1 February 1996.

The investigations quantified the substantial financial strength of the UK long term fund supporting with-profits business.

For policyholders, the confirmation of this strength enabled us to declare a special bonus on with-profits policies of £163 million, representing an additional 37% of the annual reversionary bonuses for 1995.

For shareholders, the changes implemented will enable transfers to be made from the long term fund, which better reflect their interest in the life and annuity business. It is intended that the transfer will increase progressively from the 1995 transfer of £122 million, until a level is reached which comprises a smoothed investment return on the shareholders' retained capital and the capital invested in the non-profit business, together with the shareholders' share of with-profits surplus. These transfers will also provide a new and secure base to support the Group's progressive dividend policy. The changes are explained in more detail on page 26.

SHAREHOLDERS' INTEREST IN UK LONG TERM FUND

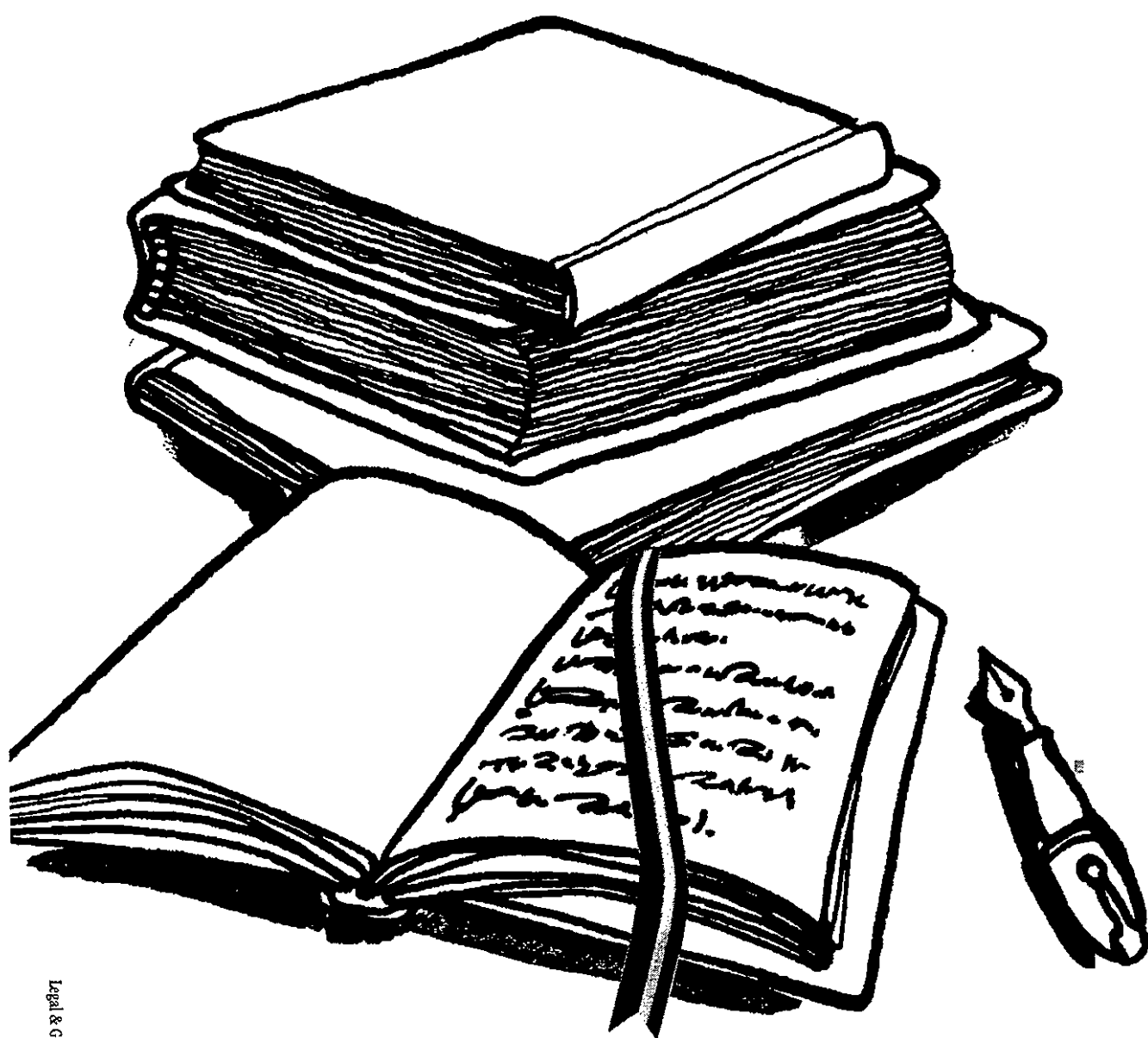
For the past five years, we have been providing shareholders with information about their interest in the UK long term fund. At the end of 1995, the Group's estimate of the value to shareholders

(excluding goodwill) of their interest in the UK long term fund was at least £2.66 billion (1994, £2.22 billion) after tax. The substantial increase during the year reflected a recovery in investment markets, good operating performance and the release of reserves no longer needed to support the with-profits business.

The increase in the shareholders' interest attributed to new business of £20 million (1994, £30 million) represents the degree to which the anticipated profitability of that business exceeds the risk discount rate. Despite the depressed market for our products and the very competitive environment in 1995, an immediate contribution from new business has again been achieved. This new business will generate further contributions in the future, both from the achievement of the target rate of return and from the effect of actual experience varying from operating assumptions.

FINANCIAL REPORTING

The 1995 accounts of UK insurers must comply with the revisions to the Companies Act required by the EU Insurance Accounts Directive. The Group's financial statements have accordingly been presented using the prescribed detailed formats for the profit and loss account and balance sheet. The Association of British Insurers (ABI) is developing a revised Statement of Recommended Practice (SORP) to clarify the regulations implementing the Directive and to establish recommended practice for true and fair reporting. This has so far been issued as a guidance note on accounting for insurance business, with the exception of accounting for investments.



Since 1992, the Group has followed an accounting policy in which the total return on shareholder investments outside the long term fund, including unrealised and realised gains and losses, is fully reflected in the profit and loss account. This anticipated one of the two reporting methods now permitted by the Companies Act.

The accounts for long term insurance businesses, with the exception of the USA, have been prepared on the Modified Statutory Solvency basis, as set out in the ABI guidance note. The Modified Statutory Solvency basis is the existing statutory basis, adjusted for the deferral of new business acquisition costs and for an analysis of the long term fund into provisions and reserves. Under this basis, the amount representing the long term fund must be analysed between technical provisions (including linked liabilities); shareholders' funds (in which policyholders are not eligible to participate); and a fund for future appropriations (FFA). The FFA comprises all funds, the allocation of which between shareholders and policyholders has not been determined with reasonable certainty at the balance sheet date.

The FFA at 31 December 1995 includes all of the investment reserves of the UK and Australian long term funds, reflecting the respective Articles of Association governing the distribution of profit to policyholders and shareholders in the relevant subsidiary companies. Thus, the profit after tax reported in respect of 1995 and 1994 for UK and Australia, represents the distributable transfers from the funds which have been made following the necessary actuarial investigations. The changes being made to comply with the Directive have no effect on the amount of profit available to shareholders as dividends.

The changes to the Society's Articles on 1 February 1996, described below, will result in the allocation of the accumulated profits arising from business other than with-profits to shareholders' funds in the 1996 Group consolidated accounts, although they will remain within the long term fund.

The ABI is also developing guidance for proprietary companies on the recognition of the shareholders' interest in long term business ("achieved profits"). We expect that this guidance will accommodate the methodology which we have used for the past five years for reporting the shareholders' interest in the UK long term fund. We consider that this reporting provides a better indication of the earnings capacity of the Group's long term business than the consolidated profit before tax which, in respect of the UK and Australia, has been determined by the cash transfers to shareholders from the relevant long term funds.

FINANCIAL STRENGTH

Moody's and Standard & Poor's have reaffirmed both the "Triple A" rating for the UK long term fund and the Group's strong debt ratings.

The announcement to policyholders and shareholders in November 1995 demonstrated the substantial financial strength of the UK long term fund, including the fund supporting the with-profits business.

THE UK LONG TERM FUND

Special Bonus and Changes to Articles of Association

The Group's life and pensions business in the UK is written in the UK long term fund of Legal & General Assurance Society Limited ("the Society").

In January 1996, the Group announced that it was implementing the proposals put forward on 16 November 1995, regarding the operation of the Society's long term fund. These were that:-

- the Society intended to declare a special bonus for with-profits policyholders, which would be added to policies, in March 1996.
- it intended to make certain changes to the Articles of Association of the Society.

The proposals had been examined from the perspective of policyholders by an Independent Actuary who concluded that they were fair to policyholders. The DTI was kept fully informed and both it and the Independent Actuary supported the proposals, having considered comments received from policyholders. Details of the changes and the background to them are set out below.

Special Bonus

The Society started providing with-profits policies in their present form in 1954. Since then, sizeable investment has been made in the fund supporting with-profits business, from surplus on non-profit business which would otherwise have gone to shareholders. Recent analysis has confirmed that, as a result, the fund is financially very strong and is more than able to meet guaranteed benefits and expected future bonuses.

Consequently, the Society has declared a special bonus on its with-profits policies, representing an additional 37% of the annual reversionary bonuses for 1995. The total value of the special bonus is £163 million.

Articles of Association

The distribution of surplus is regulated by the Society's Articles of Association, which had remained largely unchanged since 1954.

These Articles prevented the Directors of the Society from distributing to policyholders more than 90% of the surplus derived from with-profits policies. The first change announced in November 1995 clarified the determination of that surplus in favour of policyholders and will enable the Directors to distribute a greater proportion of that surplus to policyholders, should this be appropriate.

Furthermore, the Directors had discretion under the Articles to retain and apply part of the surplus on non-profit policies for the benefit of with-profits policyholders. In view of the financial strength of the fund supporting with-profits business, the Directors believe that this discretion is not required beyond the surplus from a specially designated sub-fund of £200 million, consisting of assets attributable to the non-profit business. The Articles have been changed to reflect this. The Directors believe that it will not be necessary to exercise this discretion in respect of the surplus on the sub-fund in the foreseeable future.

As a result of the changes, the Directors of the Society are able to adopt a basis for distributions to shareholders from the long term fund which better reflects the shareholders' interest in the Society's life and annuity business. As in the past, distributions to shareholders will only be made in accordance with sound and prudent management principles.

Reflecting the financial strength of the long term fund and independent of the changes to the Articles, the value of the shareholders' interest in the long term fund has increased by £160 million, largely related to a release of reserves held outside the fund supporting with-profits policies.

Independent Advice

The Society appointed an Independent Actuary, Michael Arnold of consulting actuaries Hymans Robertson, to examine the proposals from the perspective of policyholders. His appointment was approved by the DTI.

In the opinion of the Independent Actuary, there is substantial financial strength within the fund supporting with-profits policies, which will enable the Society to continue to provide competitive returns to with-profits policyholders. He considered that the overall effect of the changes to the Directors' discretionary powers under the Articles respected policyholders' interests and reasonable expectations. He also considered that the clarity introduced was clearly to their advantage. After considering comments received from policyholders, he confirmed his conclusion that the proposals were fair to policyholders.

Transfers from the long term fund

In November 1995, when the changes were announced, the Society anticipated that the transfer from the long term fund for 1995 would be approximately £115 million after tax; the actual transfer is £122 million (1994, £88 million). The actual transfer in respect of the life and annuity business represents 14.5% of the distributable surplus (1994, 14%), which in 1995 has been augmented by the special bonus.

For the future, it is intended that the transfer to shareholders will increase progressively from £122 million, until a level is reached which reflects an appropriate return on the shareholders' interest in the long term fund. This target level would comprise a smoothed return on the shareholders' retained capital and the capital invested in the non-profit business, together with the shareholders' share of with-profits surplus. As an illustration, in end 1994 terms, this would have produced a transfer of approximately £150 million after tax, comprising some £60 million from the with-profits business and £90 million from the remainder of the long term fund. This will provide a strong foundation for the Group's progressive dividend policy.

There will be no step change from the 1995 transfer and there is no present intention of distributing shareholders' retained capital. Any future capital distributions will only be made with due regard to the ongoing prudential capital requirements

of the long term fund and on the basis that any excess capital identified was distributed to shareholders over a period of years. Any such distributions of capital will also only be made after discussion with the DTI.

STRENGTH OF THE UK LONG TERM FUND

The November 1995 announcement quantified, as at end 1994, that part of the long term fund which is attributed to with-profits business, including past support from the non-profit business. The equivalent 1995 figures are shown below:-

	1995	1994
	£bn	£bn
Assets attributed to		
-- with-profits business	15.6	13.2
-- non-profit statutory liabilities	4.3	3.8
Balance of assets	1.6	1.4
Market value of assets representing the long term fund	21.5	18.4

The balance of assets represents the pre-tax value of accumulated profits retained from past non-profit business. The 1994 balance also includes the reserve set aside to support with-profit distributions, but released in 1995. The 1995 balance includes £200 million of assets, which now constitutes the sub-fund established following the changes in the Articles.

The accumulated profits retained within the long term fund have been reflected in the FFA in the Group balance sheet and therefore are included neither in reported earnings, nor in the shareholders' funds shown in the Group's balance sheet (see Note 2(v) to the Accounts). The retention of these profits within the long term fund provides financial strength to support both the existing business and the generation of new business.

An actuarial investigation was carried out during 1995 to review the adequacy of the assets attributed to the Society's with-profits business. This investigation showed that the £13.2 billion of assets supporting the with-profits business as at 31 December 1994, substantially exceeded the amount required to meet guaranteed benefits, expected future bonuses and all other liabilities relating to with-profits policies. The amount of this excess, which constitutes dedicated working capital for the with-profits business, depends on future market conditions but was estimated to be between £1.2 billion and £1.5 billion, after taking account of the special bonus mentioned earlier.

VALUE OF SHAREHOLDERS' INTEREST IN UK LONG TERM FUND

Shareholders' profits retained within the fund are not reflected either in the Group's reported earnings, or in the shareholders' funds shown in the Group's balance sheet. The retention of such profits within the fund provides financial strength to support both existing business and the Group's marketing strategy to generate new business.

At the end of 1995, the Group's estimate of the value to shareholders (excluding goodwill) of their interest in the UK long term fund was at least £2.66 billion, after tax and based on the assumptions stated below. Approximately £1.2 billion relates to the value of shareholders' retained capital, including the value of the sub-fund. The balance represents the value of the in-force business. These values have been reviewed by Tillinghast, independent actuaries, and our auditors, Price Waterhouse, who have agreed that the values indicated are reasonable.

The principal components of the change in the value to shareholders of their interest in the fund during 1995 and 1994 are:

	1995	1994
	£bn	£bn
Opening value	2.22	2.30
Opening adjustments	0.02	(0.01)
	2.24	2.29
Release of reserves	0.16	-
Contribution from — new business	0.02	0.03
— in-force business	0.18	0.01
— shareholders' retained capital	0.18	(0.02)
End year value, before transfer	2.78	2.31
Transfer from long term fund	(0.12)	(0.09)
End year value, net of tax	2.66	2.22

The value of the shareholders' interest increased substantially during 1995 reflecting a recovery in investment markets, good operating performance and the release of reserves no longer needed to support the with-profits business. This release of reserves resulted from the investigations referred to above.

The assumptions underlying the value of the shareholders' interest in the long term fund are reviewed each year and reflect recent operating experience and current economic conditions. As in previous years, the changes in 1995 relate mainly to the economic assumptions for future rates of investment return and inflation. Taken together with a corresponding decrease in the discount rate, the aggregate effect of these adjustments on the opening 1995 value was an increase of £20 million.

The total change in the value to shareholders after tax during 1995, on the revised assumptions, was an increase of £540 million (1994, £20 million), before the distribution of £122 million to shareholders (1994, £88 million). This distribution includes the effect of the special bonus to policyholders and is reflected in the Group's consolidated profit and loss account for 1995 as pre-tax life and pensions profits of £181 million (1994, £131 million).

The increase in the shareholders' interest attributed to new business of £20 million (1994, £30 million) represents the degree to which the anticipated profitability of that business exceeds the risk discount rate. Despite the depressed market for our products and the very competitive environment in 1995, an immediate contribution from new business has again been achieved. This new business will generate further contributions in the future, both from the achievement of the target rate of return and from the effect of actual experience varying from operating assumptions.

The contribution from in-force business comprises the release of assumed margins, together with the effects of good investment returns in 1995 and continued improvements in operational performance. Investment returns on the equity and property element of the portfolio were approximately 7% more than the assumed pre-tax return, compared with a shortfall of 13% in 1994. These investment returns also resulted in a strong contribution from shareholders' retained capital.

ASSUMPTIONS: SHAREHOLDERS' INTEREST IN UK LONG TERM FUND

The methodology and key assumptions we have used are outlined below:-

- i) The value of the shareholders' interest in the fund represents the aggregate of the discounted value of potential transfers to shareholders related to the portfolio of in-force business, and the value of the shareholders' capital retained in the fund.
- ii) This value is net of tax at current rates, including the present value of tax which would become payable if the shareholders' capital retained in the fund were eventually to be distributed.
- iii) The assumed future pre-tax return on fixed interest securities is set by reference to redemption yields available in the market at the end of each year. The corresponding returns on equities and property are set by reference to this fixed interest assumption. These assumptions, which are set out below, are therefore not intended to represent the Group's view of future investment returns:

	1995	1994
Fixed interest	8.0% p.a.	9.0% p.a.
Equities and property	10.5% p.a.	11.5% p.a.

Investments which are regarded as matched to contractual non-linked liabilities are effectively valued on an amortised basis.

iv) The risk discount rate, which has been set by reference to the assumed future investment returns, is 10% p.a. net of tax (1994, 11.0% p.a.). Potential transfers are discounted from the time at which they are assumed to become available for distribution to shareholders. Thus, capital retained in the long term fund to support the business (e.g. minimum solvency margins) is not assumed to be immediately available for distribution and is hence included at a discounted value.

v) The assumed expense and earnings inflation rates are both 5.25% p.a. (1994, 6.0% p.a.).

For indexation purposes the inflation rate has been set at 4.25% p.a. (1994, 5.0% p.a.).

vi) The value of new business has been calculated using actual 1995 acquisition costs.

vii) Future bonus rates have been set at levels which would fully utilise the assets supporting with-profits business.

viii) Subsidiaries are attributed to shareholders' retained capital and have been included at net asset value, other than Legal & General Investment Management (Holdings) Ltd. which is included at its cost to the long term fund. As at 31 December 1995, directors estimate that the net realisable value of this subsidiary exceeds its cost by at least £40 million.

ix) The value reflects a prudent allowance for possible compensation in relation to pensions transfers and opt-outs.

x) Other assumptions have been set at levels commensurate with recent experience, including those relating to mortality, persistency and renewal expenses (excluding exceptional closure and re-engineering costs).

EXPOSURE MANAGEMENT - REINSURANCE AND UNDERWRITING

The Group, in common with other insurers, controls its exposures by transfer of risks through reinsurance and through underwriting policies on the risks which may be accepted.

The reinsurance programme restricts, for each company or long term fund within the Group, the potential maximum loss from individual large risks and catastrophic events. Most of the reinsurance is ceded to reinsurers by treaty, which automatically covers all risks which meet prescribed criteria.

The ceding of reinsurance does not discharge the original insurer from its liability to its policyholder. However, the original insurer would only bear the gross amount of any claims if its reinsurers were unable to meet their obligations.

The UK long term fund, by virtue of its size and strength and the nature of its business, has limited need for reinsurance. For certain new products it shares its risk exposure with reinsurers through proportional treaties. Underwriting is carried out through a system of delegated authorities accountable to the appointed actuary. The overseas life companies' arrangements are commensurate with their respective exposures and capital bases.

For general insurance, the Group has a policy of ceding its reinsurance to a number of reinsurers, each of which has been subject to a financial security review by a leading reinsurance broker. The Group also has access to the data of the credit review committees of other reinsurance intermediaries.

The principal reinsurance treaties, which relate to the Group's general insurance activities are: excess of loss catastrophe treaties, under which the Group can recover from its reinsurers the excess of an accumulation of claims above an agreed level from an event; excess of loss treaties, which restrict the loss on each individual claim in the accident classes; surplus treaties, relating primarily to commercial property business where agreed proportions of the larger individual property risks are reinsured; and quota share treaties, where fixed percentages of certain classes of business are reinsured.

For 1996, the Group has not renewed its 20% quota share reinsurance for household business. It continues to have protection from any one catastrophe for the accumulation of claims. The effective retention has now been reduced from £40 million to £25 million, with recovery potential of £125 million reducing over the first six months to £95 million, in Legal & General Insurance Ltd; and to £90 million in Gresham Insurance Ltd. The mortgage indemnity exposure in respect of business written in 1990 to 1992 was also reduced by quota share reinsurance.

Retention limits are regularly reviewed and are revised periodically in the light of the Group's risk management policies and the cost of cover.

LIQUIDITY MANAGEMENT

Insurance premiums are generally collected prior to claim and benefit disbursements under the applicable policies and are used firstly to fund current claim and expense payments. The balance is then invested in a mix of assets which have maturities or durations appropriate to the Group's related insurance liabilities.

Liquidity requirements vary according to the line of business. Given the long term duration of most long term business, the expectations of with-profits policyholders and the strength of the UK long term fund, a significant portion of that fund is invested in equities and, to a lesser extent, in land and buildings in order to maximise the long term return to policyholders and shareholders. Investments are also made in fixed interest securities, predominantly to

match the contractual liabilities. The duration of general insurance liabilities varies by class of business and, accordingly, short to medium term fixed interest investments cover the general insurance provisions.

In attempting to match asset and liability durations, a number of assumptions must be made about cash flows from insurance operations and from investing and financing activities. It is in the nature of the business that variances from these assumptions will occur, thereby placing unanticipated demands on cash flow and liquidity. Cash requirements can be satisfied in a number of ways including the sale of short term investments and publicly traded securities included in the investment portfolios. The use of short term borrowings through the commercial paper markets and from banks allows funds which support the insurance business to remain invested in long term investments.

During 1995, the general insurance net cash inflow increased the investment portfolio by approximately £10 million.

INVESTMENT AND TREASURY POLICY

The investment policy for each Group company, and the UK long term fund, is approved by the relevant Board. An investment manager is appointed to manage the designated portfolio in accordance with targets, objectives and guidelines specified in a formal management agreement. All UK investment portfolios are managed in-house.

The Group operates a central treasury function, which is responsible for arranging debt and debt facilities and managing the related interest rate exposures as well as foreign exchange risk and liquidity in respect of shareholders' activities. Group Treasury's authorities are approved by the relevant subsidiary and reviewed by the Audit Committee. The Audit Committee also reviews the Group's counterparty exposure limits and limits of authority for investment activities.

Derivatives such as swaps, options and futures are only used in the management of interest rate, foreign exchange and equity exposures. They are applied to hedge exposures which arise in respect

of borrowings and investments. Group Treasury's authorities prescribe both the extent to which derivative instruments may be used and the individuals authorised to effect transactions. Similar authorities are applied to the investment manager of each designated portfolio.

The internal control framework for the investment and treasury activities includes segregation of duties between dealing and settlement activity and formal regular reporting to the relevant Boards.

DEBT AND DEBT FACILITIES

Operational borrowings, which exclude both UK long term fund borrowings and debt to fund mortgage lending, amounted to £176 million at the end of 1995 (1994, £130 million).

These figures include the £120 million 6¾% Euro Convertible Bond issued in April 1993, which is convertible into equity at any time until maturity in 2008 at a conversion price of 558p; the Group may call the issue after 1998. The increase during the year was principally used for the acquisition of SGIC by Legal & General Australia in November 1995 for a consideration of A\$99 million (£47 million), of which £45 million was funded by debt.

Debt to fund mortgage lending and related assets amounted to £440 million at end 1995 (1994, £416 million).

At 31 December 1995, total debt amounted to £649 million, comprising £441 million of sterling debt, £126 million of US dollar debt, £45 million of Australian dollar debt and the balance, of £37 million, in a number of other currencies. The US dollar debt is principally used to hedge the Group's translation exposure in respect of its US business.

The Group continues to comply with all of its borrowing covenants, none of which represents a restriction on funding or investment policy for the foreseeable future. The Group's current debt ratings from Moody's and Standard & Poor's for long term debt are Aa2 and AA-, respectively; and for short term debt, P1 and A1+, respectively.

The Group has access to funding facilities from a number of sources, including a US\$1 billion multicurrency euro commercial paper programme and a US\$1 billion Global Medium Term Note programme. The Group also took advantage of the opportunity in 1995 to be the first issuer of a corporate bond, packaged for retail investors in a fixed rate bond PEP. The successful launch of this issue enabled the Group to raise £124 million, to refinance other debt.

Although the bond was issued as a fixed rate bond, it was swapped to carry a floating rate of interest. This provided an additional funding source, further enhancing the flexibility of the Group's funding arrangements and its ability to minimise borrowing costs. There are also committed medium term bank facilities of £330 million available to the Group.

FOREIGN EXCHANGE MANAGEMENT

The Group's reported profits and balance sheet are influenced by exposures to the US dollar, Australian dollar, French franc and Dutch guilder, arising from the Group's interest in its overseas subsidiaries. These individual operations only conduct business in their respective domestic markets.

The Group's balance sheet translation exposure to the US dollar is actively managed within a policy approved by the Group Board, which allows for between 25% and 75% of net US dollar assets to be hedged. This is effected by maintaining US dollar debt and by entering into foreign exchange contracts. Only limited balance sheet translation exposure arises in respect of the Australian, Dutch and French operations as their values on the Group balance sheet reflect their original cost. Hence, only limited hedging action is taken to manage these exposures.

No action is taken to manage the exposure to the translation of reported profits and losses. However, this exposure is partially hedged by foreign currency interest expense in respect of borrowings used to manage the balance sheet translation exposure.

INTEREST RATE MANAGEMENT

The investment policies for the life and pensions business have due regard to the nature of the liabilities and the guarantees given to policyholders.

In respect of the interest rate exposure of borrowings it is the Group's policy broadly to match the liability with the assets being financed. This is particularly relevant for those mortgage assets for which debt is raised.

INTEREST EXPENSE

Interest expense in respect of operational borrowings was £8.8 million (1994, £9.1 million), reflecting lower interest rates during the year. Of the £176 million of operational borrowings at end 1995 all but £5 million is effectively financed on a fixed rate basis – approximately £100 million in sterling; £59 million in US dollars; and £12 million in French francs. Excluding the mortgage lending activities, interest cover for 1995 was 30 (1994, 19).

TAX

The effective rate of tax for the year was 28.1% (1994, 34.2%). Included within the tax charge of £76.1 million (1994, £57.6 million) was an amount of £69.4 million (1994, £50.0 million) representing life and pensions tax attributable to shareholders' profit at a rate of 31.6% (1994, 29.8%). The majority of this attributable tax was determined by grossing up net of tax transfers from the UK and Australian long term funds using the appropriate corporate tax rates.

The effective rate was lower than the UK corporate tax rate of 33%. The principal reasons were that rates of tax on the life profits were lower in US, France and the Netherlands and that, in accordance with our deferred tax policy, there is no tax charge required in respect of unrealised investment appreciation included in profits.

GOING CONCERN

The directors have prepared the financial statements on a going concern basis consistent with their view, formed after making appropriate enquiries, that the company and the Group are operationally and financially robust.

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Board of Directors

SIR CHRISTOPHER HARDING

Chairman Aged 56. Appointed as a non-executive director in 1993 and Chairman in 1994. Chairman of BET Plc, Newarthill Plc and the Prince's Youth Business Trust. Directorships include Hanson Plc, General Electric Company Plc and The Post Office. He was formerly Chairman of British Nuclear Fuels Plc.

Executive

DAVID PROSSER

Group Chief Executive Aged 52. Joined Legal & General in 1988 as Group Director (Investments) from British Coal where he was Chief Executive of the pensions investment management company. Appointed Group Chief Executive with effect from 11 September 1991. He is also Chairman of Watling Street Properties Ltd. He is a board member of the Association of British Insurers and Chairman of its life insurance council. Previously, he had held positions at Sun Alliance and Hoare Govett. He is a Fellow of the Institute of Actuaries and holds a degree from the University College of Wales, Aberystwyth. Appointed as director in 1988.

ANTHONY HOBSON

Group Director (Finance) Aged 48. Joined Legal & General in 1986 from Sperry Corporation, where he was Finance Director: Europe, Middle East, Africa. He was appointed to the Group Board in 1987, as Group Director (Finance). He is also a non-executive director of Thames Water Plc. He is a Fellow of the Institute of Chartered Accountants and holds degrees from the Universities of Virginia (MBA) and Liverpool.

ANDREW PALMER

Group Director (Services) Aged 42. Joined Legal & General in 1988 from Commercial Union. He became Managing Director Life & Pensions Services in June 1994 and was appointed Group Director (Services) on 1 January 1996, the date on which he joined the Board. He is a Fellow of the Institute of Chartered Accountants.

ROBIN PHIPPS

Group Director (Sales & Marketing) Aged 45. Joined Legal & General in 1982 from Segas. He became Managing Director Life & Pensions Sales & Marketing in June 1994 and was appointed Group Director (Sales & Marketing) on 1 January 1996, the date on which he joined the Board.

DAVID ROUGH

Group Director (Investments) Aged 45. Joined Legal & General in 1989 from Royal Insurance where he was Investment Manager Royal Life. He is a director of Mithras Investment Trust Plc, Group Development Capital Trust plc and Legal & General Recovery Investment Trust Plc. He is a Fellow of the Chartered Insurance Institute and holds a degree from the University of East Anglia. Appointed as director in 1991.

Company Secretary

DAVID BINDING

Group Secretary Aged 41. Joined Legal & General in 1994 as Group Secretary and Group Compliance Officer. He is a barrister.

Non Executive

SIR JOHN EGAN

Vice Chairman Aged 56. Chief Executive of BAA plc. A director of Foreign and Colonial Investment Trust Plc, the British Tourist Authority and Chairman of the London Tourist Board. Appointed in 1987. Chairman of the Audit Committee.

HONOR CHAPMAN

Aged 54. Partner of Jones Lang Wootton, Chartered Surveyors. She is also Governor of the Centre for Economic Policy Research and a Board Member of London First Centre. Appointed in 1993.

PROFESSOR SIR FREDERICK CRAWFORD

Aged 64. Vice-Chancellor of Aston University. A director of Rexam Plc and PowerGen Plc. Appointed in 1988. Chairman of the Information Technology Committee.

BILL GOVETT

Aged 59. Former Chairman of John Govett & Co. Directorships include 3i Group Plc, CIN Management Ltd (National Coal Board Pension Fund), Ranger Oil (UK) Ltd and Hungarian Investment Co Ltd (Chairman). Appointed in 1972.

LADY HOWE

Aged 64. A director of Kingfisher Plc, Chairman of BOC Foundation for the Environment and the Broadcasting Standards Council. She is President of UNICEF UK, on the Board of Business in the Community and Chairman of Opportunity 2000. Appointed in 1989.

DAVID REID

Aged 48. Group Finance & Distribution Director, Tesco Plc. He is a director of The Greenalls Group and Westbury Plc. Appointed in November 1995.

ALAN WHEATLEY

Aged 57. Directorships include NM Rothschild & Sons Ltd and Babcock International Group Plc. He is also Chairman of Foreign & Colonial Special Utilities Investment Trust Plc and Deputy Chairman of Ashted Group Plc. Appointed in 1993.

Board Committees

AUDIT COMMITTEE

Sir John Egan
(Chairman)
Bill Govett
David Reid*
Alan Wheatley

REMUNERATION COMMITTEE

Sir Christopher Harding
(Chairman)
Honor Chapman
Professor Sir Frederick Crawford
Sir John Egan
Bill Govett
Lady Howe
David Reid
Alan Wheatley

INFORMATION TECHNOLOGY COMMITTEE

Professor Sir Frederick Crawford
(Chairman)
Honor Chapman
Lady Howe
Alan Wheatley

*From 1 March 1996

AUDIT COMMITTEE

This committee is responsible for advising the Board:

- whether the accounting principles and policies applied in the Group's financial statements conform to the law and applicable accounting standards,
- whether the independence of the Group's external auditors is unimpaired and whether they are effectively carrying out their responsibilities to shareholders to report on the annual financial statements,
- on the financial control environment,
- whether the internal audit function is adequately staffed and structured and whether recommendations are appropriately executed.

REMUNERATION COMMITTEE

This committee comprises all the non-executive directors. It determines remuneration philosophy and overall policy for all staff, remuneration practice for the executive directors and major individual remuneration changes.

INFORMATION TECHNOLOGY COMMITTEE

This committee reviews the Group's policy and structure for UK IT activities and their financial and operational performance and whether the Group derives the best advantage from its investment in IT resources.

NOMINATION COMMITTEE

This committee comprises the Chairman, Vice Chairman, Group Chief Executive and at least one other non-executive director. It is responsible for managing the selection and appointment of directors of the Company as well as approving senior management appointments.

INVESTMENTS

Separate meetings of all Board directors are held to monitor the performance of the Group's investment business, its investment policies and major investment transactions.

**CHAIRMAN & NON-EXECUTIVE
DIRECTORS**

FROM LEFT TO RIGHT:

*Back Row: Bill Govett, Alan Wheatley
David Reid and*

Professor Sir Frederick Crawford

Front Row: Sir Christopher Harding

Lady Howe, Sir John Egan

and Honor Chapman



Corporate Governance

CADBURY COMMITTEE CODE OF BEST PRACTICE

In the opinion of the directors, the Group has complied with the Code of Best Practice within the Cadbury Report throughout the year and in the preparation of these financial statements, as set out below, and in the Operating and Financial Review. The auditors, Price Waterhouse, have reviewed the Group's compliance with the Code and their report is shown below.

THE BOARD

The Board determines the strategic direction of the Group. It meets monthly to review the current operating and financial position of the Group. The Board has a formal schedule of matters specifically reserved for its decision which can only be amended by the Board itself. This ensures that the directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues.

DIRECTORS

There is a clear division of responsibility between the Chairman and the Chief Executive. Over and above the formal legal requirements, the roles of Chairman, Chief Executive and directors are clearly defined, such as to give no individual unfettered power of decision. New directors are provided with a formal induction and familiarisation programme.

The Board has a majority of non-executive directors, the remuneration of whom, from 1 January 1996, consists only of fees. At the end of 1995, there were 8 non-executives, with wide business experience. They have access to all information and, if required, external advice at the expense of the Company. Their fees reflect their involvement in the business and their terms of office are subject to renewal every three years at the discretion of the Board and of shareholders through re-election at annual general meetings.

BOARD COMMITTEES

The formal Committees of the Board are shown on page 36, together with their responsibilities and current composition. The role of the Audit Committee is described below. The report of the Remuneration Committee is shown on page 40.

AUDIT COMMITTEE

The Audit Committee is composed entirely of non-executive directors and plays an important role in supporting the control environment and the quality of financial reporting to shareholders. The Audit Committee normally meets five times per year to review internal control matters; the scope of work to be performed by the independent auditors and by our internal

auditors; non-audit services provided to the Group by the independent auditors; and accounting issues and financial reporting matters. It meets regularly with executive directors and management, as well as privately with the independent auditors and the internal auditors to receive reports on internal controls.

The Audit Committee is responsible for selecting the firm of auditors which, following confirmation by the Board, is recommended to shareholders for appointment as independent auditors each year. The terms of reference of the Audit Committee include all of those matters suggested by the Cadbury Committee.

INTERNAL FINANCIAL CONTROLS

The directors are responsible for the Group's internal financial controls, which are designed to provide reasonable, but not absolute, assurance that:

- transactions are executed in accordance with management authority,
- transactions are appropriately recorded to permit the preparation of reliable financial statements,
- the assets of the Group are protected, and
- fraud will be prevented or detected.

In assessing what constitutes reasonable assurance, they have regard to materiality and to the relationship between the cost of, and benefits from, particular aspects of the control system.

The directors have reviewed the effectiveness of the systems of controls for the period up to the date of signature of the accounts. This included a process of supervised self assessment by the business units, through which they are required to confirm compliance with control objectives. This review was supervised by the internal audit department. The results of the review have been considered by executive management and the external auditors and were summarised for review by the Audit Committee.

Legal & General's internal financial control system includes organisational arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly reviewed. The control policies and procedures are set out in an operating manual which is distributed throughout the Group. The control environment is reinforced by an internal audit function and by human resource policies. The Chief Internal Auditor reports regularly to the Group Chief Executive and the Audit Committee.

We carefully select and train our employees, develop and distribute to them written policies and procedures, provide appropriate communication channels and foster a control conscious environment. We seek to conduct business in accordance with high ethical standards and provide employees with guidance in a document entitled "Assurance of Ethical Standards".

The Group prepares a five year plan and a more detailed annual operating and financial plan. Executive management reports regularly to the Group Board on the actual and forecast performance of its business compared with the annual operating plan. The arrangements for establishing investment, treasury and underwriting policies, together with the related internal control framework, are described in the Operating and Financial Review.

The Group's business is the acceptance of risk, in a controlled and considered manner. Risk management policies and procedures, as described in the Operating and Financial Review, are regularly reviewed. However, the essence of insurance is the transfer of financial risk from policyholder to insurer and therefore there is a potential for financial loss for insurers. The nature of the risks accepted by insurance companies means that unanticipated events as regards size and timing do occur.

The Group's principal activity is the transaction in the UK of long term business written through a long term insurance fund for which its appointed actuary has certain legal accountabilities. The appointed actuary is subject to the disciplines of professional conduct and guidance and has a reporting relationship not only to the directors of the insurance company but also to the supervisory authorities. The appointed actuary, who has access to the Group Board, must report fully and impartially, annually quantifying the fund's liabilities and confirming the fund's solvency position. The supervisory authorities receive a copy of the appointed actuary's report.

The Group controls its general insurance business risk through the reinsurance programme and through underwriting criteria described in the Operating and Financial Review. In aggregate, the gross provisions and the related reinsurance recoveries are fairly stated, on the basis of information available, but the establishment of provisions can never be definitive and reassessment takes place regularly.

REPORT BY THE AUDITORS TO THE DIRECTORS OF LEGAL & GENERAL GROUP Plc ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements we have reviewed your statement above concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on pages 38 and 39, and going concern on page 32 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are consistent with the information which came to our attention as a result of our work on the financial statements. In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement above appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants

London

26 March 1996

Report of the Remuneration Committee

THE COMMITTEE

All non-executive directors are members of the Committee which is chaired by Sir Christopher Harding. The Committee determines the remuneration philosophy and overall policy for all staff, remuneration practice for the executive directors, and major changes to individual remuneration. The remuneration of the non-executive directors is determined by the Group Board.

COMPLIANCE

The Code of Best Practice ("the Code") published by the Study Group on Directors' Remuneration ("the Greenbury Committee") has, to a large extent, been issued in the form of amendments to the Stock Exchange listing rules with which the Group has complied. The Remuneration Committee has given full consideration to the best practice provisions set out in Section B of the annexe to the listing rules. In addition, the best practice provisions of Section A to the annexe had been complied with at the date of signing of these accounts.

It is the Group's intention to apply the best practice provisions of the Code not only to executive directors, but also to other executives.

Judgements are based on a range of external information, mainly from major consultants such as Hay, Wyatt and Towers Perrin. The practice is to use at least two independent sources of information for each decision.

REMUNERATION POLICY IN THE UK

Total Remuneration

The Group aims to pay appropriately to retain, motivate and, when necessary, acquire executives of the right calibre. Pay is related to relevant comparator companies, taking account of the Group's comparative performance as well as the executive's job size, function and sector. For the Group Chief Executive, for example, this would be the Chief Executives in major UK companies, with particular emphasis on the UK financial services sector.

The Group seeks to give a comparatively higher proportion of total compensation as variable, as opposed to fixed, pay. This allows for a significant element of "risk" pay to reflect more appropriately the Group's and the individual's performance.

The Remuneration Committee determines each element of remuneration in the following way:-

Basic Salaries

The practice is to pay basic salaries towards the median of the relevant market, depending on the individual's performance in the job. This is the only remuneration element which is pensionable. Basic salaries are reviewed annually with effect from 1 January.

Cash Bonus

The annual cash bonus determined by the Remuneration Committee reflects both the nature of the position held and the performance of the Group and individual measured against pre-determined objectives - eg. meeting profit and productivity targets and improving shareholder return. Executive directors' cash bonuses are capped at 50% of basic salary. This cap also applies to other executives except for a small number where market practice makes it inappropriate.

Long Term Incentives

The Committee believes that share ownership, particularly if it is deferred, encourages executives to align their career aspirations with the long term interests of the Group.

As stated in last year's Annual Report & Accounts, the executive share option scheme closed in October 1995.

No grants were made to the executive directors during 1995.

A Restricted Share Plan (RSP) was established in 1993 to reward executive directors' and a number of senior executives' contributions to the success of the Group. Under the RSP, these executives invested a percentage, as determined by the Remuneration Committee, of their annual cash bonuses in the shares of the Company, which in turn acquired additional shares on behalf of the executive through a share trust, equivalent to the gross amount of the bonus invested by the executive. In most circumstances, the latter shares are released after a period of five years, during which time dividends are paid to the executive. The RSP is to be superseded for 1996, subject to shareholder approval, by the Performance Share Plan outlined below.

A Share Bonus Plan (SBP) was established in 1995. Under the SBP, shares can be awarded in addition to the individual's performance cash bonus. An award is based on current individual performance and reflects the objective of linking the executive's interests to the longer term interests of the Group. Shares will normally be released to the executive after a period of three years, provided that the individual is still employed by the Group. During this three year period the executive receives no dividends on the shares held. The SBP uses existing shares. Around 500 executives are eligible for the SBP. No allocations were made under the SBP to executive directors in 1995.

The Remuneration Committee intend, subject to EGM approval, to introduce a Performance Share Plan (PSP), to supersede the existing RSP. The PSP will operate in conjunction with the SBP and apply to a limited group of senior executives. The PSP is a deferred share scheme, which is directly related to corporate performance during the deferral period. Performance shares, linked to the basic SBP award, will be granted to designated senior executives and become available after three years.

The Remuneration Committee believes that total shareholder return (TSR) is the appropriate measure of performance for the Group, with three years as a realistic time horizon in a rapidly changing industry. The number of performance shares distributed will be dependent upon the Legal & General TSR compared with the FT-SE 100, measured over a three year period, as calculated by Bacon & Woodrow.

No performance shares will vest unless performance is better than at least one half of the comparator companies. Performance shares will equal the SBP award when Legal & General ranks 50th, whilst performance at or above twentieth will generate a maximum performance share allocation of four times the SBP award. For intermediate performance, there will be a proportionate allocation of performance shares.

At the time of grant, the maximum potential value of deferred shares under SBP and PSP attributable to one year cannot exceed 100% of salary. Participants will receive no dividends and the Plan will use only existing shares. The PSP is fully explained in the EGM circular seeking shareholder approval.

Pension

The Legal & General Senior Pension Scheme, for which all UK senior managers including executive directors are eligible, is a defined benefit arrangement with surviving spouses' pension, death in service and ill-health benefit. The five executive directors will be entitled, on retirement from Legal & General at age 60, to a pension of two thirds of their basic annual salary. The costs are shown using the current contribution rate for the scheme. In future years pension costs will be shown on what is agreed as the 'best practice' approach. The Group has no unapproved pensioning arrangements.

Other benefits

Other benefits are provided by the Group only when there are strong market or other reasons. The benefits given to executive directors are:

- A company car, or an allowance of equal cost; and medical insurance;
- Employee share schemes. Executive directors are eligible to participate on the same terms as all UK employees in the Inland Revenue approved "save as you earn" share option scheme, and the employee profit sharing scheme when there is a profit distribution;
- Staff discounts. Legal & General products can be acquired by directors on terms which are no more favourable than those which apply to other members of staff.

OVERSEAS

Although the UK philosophy is followed throughout the Group, detailed practice outside the UK reflects local markets and conditions. The individual remuneration for each overseas Managing Director is determined in the UK under the Remuneration Committee.

SERVICE CONTRACTS

With effect from 1 March 1995, the previous three years' total redundancy and notice entitlement for existing executive directors was replaced without compensation by a six month rolling notice plus an eighteen months' salary and benefits entitlement on termination. The Remuneration Committee consider that it would not be reasonable to reduce this period further, but contracts for all new executive directors, including the two appointed on 1 January 1996, will contain six months' rolling notice, plus a six months' salary and benefits entitlement on termination. Copies of executive directors' service contracts are available for inspection during normal working hours at the registered office and prior to and at the Annual General Meeting.

EXTERNAL APPOINTMENTS

The Company encourages its top managers to broaden their experience and capability through involvement in up to two major outside activities, one of which would usually be as a non-executive director of another large company. These appointments are subject to initial and annual agreement by the Remuneration Committee and must not be with competing companies. Subject to the Committee's agreement, the fees may be retained by the individual.

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees for the non-executive directors are determined by the full Board based on a range of external information and within the aggregate limits contained in the Articles of Association. All fees are non-pensionable from 1 January 1996 and there is no other remuneration.

DETAILS OF REMUNERATION AND SHARE INTERESTS

The remuneration, share options and share holdings for individual directors are given in note 23 to the Accounts.

Report of the Directors

PRINCIPAL ACTIVITIES

Legal & General Group Plc (the Company) is the holding company for the Legal & General Group. Information on the principal activities of the Company's subsidiaries and their financial performance is contained in the Chairman's statement on pages 3 and 4 and the Operating and Financial Review on pages 5 to 32. The Company's principal operating subsidiaries are set out on page 71.

RESULT FOR THE YEAR

The profit for the financial year was £195.2m (1994, £111.0m) and earnings per share were 39.72p (1994, 22.68p). The consolidated balance sheet on pages 48 and 49 and the consolidated profit and loss account on pages 45 to 47 show the affairs of the Group as at, and for the year ended, 31 December 1995. Worldwide written premiums are shown on page 55.

DIVIDEND

The directors recommend payment of a final dividend of 16.7p per share. With the interim dividend of 7.7p per share paid on 1 December 1995, this brings the total dividends for 1995 to 24.4p per share (1994, 21.7p), an increase of 12.4%. The final dividend will be paid on 3 June 1996 to members registered on 2 April 1996. UK residents and certain foreign shareholders will be entitled to a tax credit of 4.18p per share on the final dividend. The cost of the shareholders' dividends for the year is £120.4m, leaving a retained profit of £74.8m.

FIXED ASSETS

The movements in tangible fixed assets are shown in note 11 to the Accounts.

DIRECTORS

The present directors of the Company, together with biographical notes are shown on pages 34 and 35. With the exception of D E Reid, who was appointed on 1 November 1995, and A W Palmer and R A Phipps who were appointed on 1 January 1996, all the directors remained in office throughout the year.

D E Reid, A W Palmer and R A Phipps will retire at the Annual General Meeting in accordance with the Articles of Association and, being eligible, offer themselves for re-appointment.

The directors retiring by rotation at the Annual General Meeting are W J R Govett, Sir Christopher Harding and A E Wheatley. W J R Govett is not offering himself for re-appointment. Sir Christopher Harding and A E Wheatley, being eligible, offer themselves for re-appointment.

A W Palmer and R A Phipps have service contracts which are terminable by them or the Company upon not less than six months' written notice plus six months' salary and benefits entitlement on termination. Sir Christopher Harding, D E Reid and A E Wheatley do not have service contracts with the Company.

The Company has a directors' and officers' liability insurance policy which indemnifies the directors and officers against liabilities arising from breach of fiduciary duty.

Details of the directors' interests in the share capital of the Company and details of directors' share options and other long term incentive schemes are set out in note 23 to the Accounts. There have been no changes in the directors' share interests between 31 December 1995 and 12 March 1996.

UNITED KINGDOM EMPLOYEES

It is the Group's policy to treat its employees without discrimination and to operate equal opportunity and employment practices designed to achieve this end.

Furthermore, it is the Group's policy to give full and fair consideration to applications for employment made by disabled persons, to continue, wherever possible, the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees.

The Group seeks to achieve a common awareness among staff of corporate objectives and performance, financial and economic factors affecting the business and other matters of concern to them as employees. During the year, staff were provided with information through briefings by managers, training courses, staff newspapers and circulars.

The Company continues to run Inland Revenue approved *save as you earn* share options schemes. The executive share option scheme closed in October 1995. Details of the current incentive schemes are included in the report of the Remuneration Committee on pages 40 and 41.

Information on the number of employees and their remuneration is shown in note 34 to the Accounts.

PURCHASE OF OWN SHARES

The Company's Articles of Association permit the purchase of the Company's own shares for cancellation, subject to obtaining shareholders' approval. The directors consider it desirable, and in the Company's interest, for shareholders to grant to the Company authority to exercise this power, within certain limits, to enable the Company to purchase its own shares. The directors intend that the authority to purchase the Company's shares will only be exercised when such a purchase would result in an increase in earnings per share and/or net asset value per share and is in the best interests of shareholders generally. Shares purchased under this authority will be cancelled.

The directors propose an authority for the Company to purchase its own shares up to a total of 24,500,000 ordinary shares of 25p each, having an aggregate nominal value of £6,125,000, being just under 5% of the issued nominal ordinary share capital as at 31 December 1995.

A Special Resolution seeking shareholders' authority is set out in the notice of the Annual General Meeting on page 78.

SHARE CAPITAL

At 12 March 1996 the Company had received notifications from Prudential Corporation plc, Sun Life Investment Management Services Limited, Scottish Widows Investment Management Limited and Abu Dhabi Investment Authority of current holdings of the Company's issued share capital amounting to 4%, 3.02%, 3.01% and 3.16% respectively.

Resolution 4 set out in the notice of the Annual General Meeting will authorise the directors to allot up to an aggregate nominal amount of £26,624,028.50, being the present authorised but unissued share capital of the Company, representing at 12 March 1996, 21.58 per cent of the total issued share capital.

Resolution 5 set out in the notice of the Annual General Meeting will authorise the directors to issue up to 5 per cent of the Company's present issued share capital at 12 March 1996 for cash without offering the shares first to existing shareholders by way of rights, although it is not intended, without prior consultation with the Investment Committee of the Association of British Insurers, to issue in this way more than 7.5 per cent of the unissued share capital in any rolling three year period. The resolution will also authorise the directors to allot shares in connection with a rights issue otherwise than strictly pro rata where practical considerations, such as fractions and foreign securities laws, make this desirable.

Details of the number, the consideration and the reason for the issue of shares by the Company during the year are set out in note 13. Shares are issuable pursuant to the Company's share schemes and in relation to the Euro convertible subordinated bond issue referred to in note 13. Other than the above, your 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 the prior approval of the Company in general meeting.

SOCIAL RESPONSIBILITY

For some years now the Group has had a social responsibility programme which operates at a staff and a Group level. Staff are encouraged to be active in the community by, for example, providing seed funds or incentives for their own fund raising and giving grants to schools where they are governors. At each head office location, support is given to local charities and schools and to staff fund raising initiatives. The Group level has focused on longer term support in areas which are of broader public interest, such as those aimed at the environment or those that have a direct relevance to our core businesses. Areas currently supported include Crime Concern's initiatives relating to youth crime, prostate cancer research, job creation and small business development schemes, and an environmental competition for schools.

UNITED KINGDOM DONATIONS

During 1995 charitable donations totalling £464,750 (1994, £477,750) were made. A political donation of £30,000 (1994, £30,000) was made to the Conservative Party.

AUDITORS

A resolution to re-appoint the retiring auditors, Price Waterhouse, who have expressed their willingness to be re-appointed, will be proposed at the Annual General Meeting.

On behalf of the Board



D W BINDING
Group Secretary
26 March 1996

Responsibility of the Directors

for preparation of the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also have general responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

to the members of Legal & General Group Plc.

We have audited the financial statements on pages 45 to 74 which have been prepared in accordance with the accounting policies set out on pages 52 to 54.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group as at 31 December 1995 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE

Chartered Accountants and Registered Auditors
London, 26 March 1996

Consolidated Profit and Loss Account*For the year ended 31 December 1995*

TECHNICAL ACCOUNT – GENERAL BUSINESS PROFIT FROM CONTINUING OPERATIONS	Notes	1995 £m	1994 £m
<i>Earned premiums, net of reinsurance</i>			
Gross premiums written	2(ii)	374.4	413.9
Outward reinsurance premiums		(55.6)	(147.8)
	2(iv)	318.8	266.1
Change in the provision for unearned premiums – gross		12.1	24.8
– reinsurers' share		(44.3)	(13.8)
		286.6	277.1
Allocated investment return transferred from the non-technical account	3	61.5	(3.0)
		348.1	274.1
<i>Claims incurred, net of reinsurance</i>			
Claims paid – gross		213.8	288.7
– reinsurers' share		(37.6)	(70.1)
		176.2	218.6
Change in the provision for claims – gross		(13.2)	(77.5)
– reinsurers' share		17.1	14.7
		180.1	155.8
Changes in other technical provisions, net of reinsurance		4.9	(20.2)
Net operating expenses	4	120.9	117.9
		305.9	253.5
BALANCE ON TECHNICAL ACCOUNT FOR GENERAL BUSINESS		42.2	20.6
comprising:			
Underwriting result		(19.3)	23.6
Investment return		61.5	(3.0)
		42.2	20.6

Consolidated Profit and Loss Account*For the year ended 31 December 1995*

TECHNICAL ACCOUNT – LONG TERM BUSINESS PROFIT FROM CONTINUING OPERATIONS	Notes	1995 £m	1994 £m
<i>Premiums, net of reinsurance</i>			
Gross premiums written	2(ii)	2,052.5	2,211.1
Outward reinsurance premiums		(57.5)	(60.4)
		<u>1,995.0</u>	<u>2,150.7</u>
Investment income and realised gains	3(i)	2,320.0	2,170.2
Unrealised gains on investments		2,904.6	-
Other technical income		1,789.3	1,566.2
		<u>9,008.9</u>	<u>5,887.1</u>
<i>Claims incurred, net of reinsurance</i>			
Claims paid – gross		2,232.5	1,791.6
– reinsurers' share		(46.9)	(51.3)
		<u>2,185.6</u>	<u>1,740.3</u>
Change in the provision for claims – gross		(4.3)	(1.0)
– reinsurers' share		(1.9)	0.4
		<u>2,179.4</u>	<u>1,739.7</u>
<i>Change in other technical provisions, net of reinsurance</i>			
Long term business provision – gross		1,243.1	115.1
– reinsurers' share		(12.0)	(3.3)
		<u>1,231.1</u>	<u>111.8</u>
Provisions for linked liabilities		3,396.5	1,017.7
		<u>4,627.6</u>	<u>1,129.5</u>
Bonuses, net of reinsurance		612.5	449.6
		<u>5,240.1</u>	<u>1,579.1</u>
Net operating expenses	4	453.2	403.8
Investment expenses and charges	3(ii)	40.6	36.7
Unrealised losses on investments		-	3,503.1
Other technical charges	12	29.2	(14.0)
Tax attributable to the long term business	5	122.9	90.8
Transfers to (from) the fund for future appropriations		793.1	(1,569.7)
		<u>8,858.5</u>	<u>5,769.5</u>
BALANCE ON THE TECHNICAL ACCOUNT – LONG TERM BUSINESS		<u>150.4</u>	<u>117.6</u>

Consolidated Profit and Loss Account*For the year ended 31 December 1995*

NON-TECHNICAL ACCOUNT		1995	1994
PROFIT FROM CONTINUING OPERATIONS		£m	£m
<i>Profit from general insurance business</i>			
Balance on the general business technical account		42.2	20.6
<i>Profit from long term business</i>			
Balance on the long term business technical account		150.4	117.6
Tax credit attributable to balance on the long term business technical account		69.4	50.0
	2(i)	219.8	167.6
<i>Non insurance result</i>			
Investment income and realised gains	3(i)	90.9	76.3
Unrealised gains on investments		28.2	-
Investment expenses, charges and realised losses	3(ii)	(35.0)	(49.1)
Unrealised losses on investments		-	(37.0)
		84.1	(9.8)
Allocated investment return transferred to the general business technical account	3	(61.5)	3.0
		22.6	(6.8)
Other income		58.5	54.3
Other charges		(71.8)	(67.1)
	2(i)	9.3	(19.6)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		271.3	168.6
Tax on profit on ordinary activities	5	(76.1)	(57.6)
PROFIT FOR THE FINANCIAL YEAR		195.2	111.0
Dividends	6	(120.4)	(106.3)
RETAINED PROFIT	14	74.8	4.7
Earnings per share		p	p
Dividends per share		7	7
		39.72	22.68
		24.40	21.70

Statement of Total Recognised Gains and Losses*For the year ended 31 December 1995*

	1995	1994
	£m	£m
Profit for the financial year	195.2	111.0
Exchange gains (losses)	5.9	(2.6)
Total recognised gains and losses	201.1	108.4

Consolidated Balance Sheet*As at 31 December 1995*

	Notes	1995 £m	1994 £m
ASSETS			
<i>Investments</i>			
Land and buildings	8(i)	2,440	2,470
Other financial investments	8(ii)	20,016	16,623
		22,456	19,093
Securitised mortgages and related assets	9	124	149
Non-recourse funding	9	(124)	(149)
		-	-
Assets held to cover linked liabilities	10	13,990	10,569
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums		27	71
Long term business provision		114	101
Claims outstanding		76	91
Other technical provisions		14	6
		231	269
<i>Debtors</i>			
Debtors arising out of direct insurance operations – policyholders		60	62
– intermediaries		55	49
Debtors arising out of reinsurance operations		20	35
Other debtors		182	165
		317	311
<i>Other assets</i>			
Tangible assets	11	45	52
Cash at bank and in hand		43	50
Purchased interests in long term business	12	104	94
		192	196
<i>Prepayments and accrued income</i>			
Accrued interest and rent		293	288
Deferred acquisition costs		500	541
Other prepayments and accrued income		74	68
		867	897
TOTAL ASSETS		38,053	31,335

Consolidated Balance Sheet*As at 31 December 1995*

LIABILITIES	Notes	1995 £m	1994 £m
<i>Capital and reserves</i>			
Called up share capital	13	123	123
Share premium account	13	43	34
Profit and loss account	14	260	175
Shareholders' funds – equity interests		426	332
Subordinated liabilities – euro convertible debt	15	117	117
Fund for future appropriations		4,296	3,468
<i>Technical provisions</i>			
Provision for unearned premiums		247	259
Long term business provision		17,157	15,021
Claims outstanding		414	429
Other technical provisions		79	67
		17,897	15,776
Technical provisions for linked liabilities		13,990	10,569
<i>Creditors</i>			
Creditors arising out of direct insurance operations		74	55
Creditors arising out of reinsurance operations		24	29
Amounts owed to credit institutions	15	532	444
Other creditors including taxation and social security	18	697	545
		1,327	1,073
TOTAL LIABILITIES		38,053	31,335

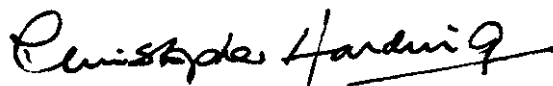
Reconciliation of Movements in Shareholders' Funds

	1995 £m	1994 £m
At 1 January	332	324
Total recognised gains and losses	201	108
Dividends	(120)	(106)
Value of shares issued in lieu of dividends	4	2
Issue of share capital	9	4
At 31 December	426	332

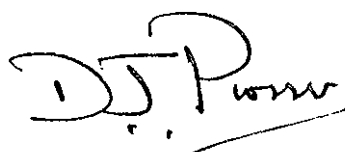
Company Balance Sheet*As at 31 December 1995*

	Notes	1995 £m	1994 £m
Fixed assets	19	637	566
<i>Current assets</i>			
Amounts owed by Group companies		95	88
Tax		1	1
Other debtors		15	9
<i>Creditors: amounts falling due within one year</i>			
Bank loans		(14)	(9)
Amounts owed to Group companies		(13)	(3)
Other creditors and accruals		(3)	(3)
Dividends	6	(82)	(72)
NET CURRENT (LIABILITIES) ASSETS		(1)	11
TOTAL ASSETS LESS CURRENT LIABILITIES		636	577
<i>Creditors: amounts falling due after more than one year</i>			
Euro convertible subordinated debt	13	117	117
Amounts owed to Group companies		93	128
		210	245
SHAREHOLDERS' NET ASSETS		426	332
<i>Representing capital and reserves</i>			
Called up share capital	13	123	123
Share premium	13	43	34
Revaluation reserve	20	64	(17)
Profit and loss account	20	196	192
SHAREHOLDERS' FUNDS		426	332

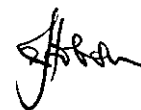
The notes and statements on pages 52 to 74 form an integral part of these financial statements.



SIR CHRISTOPHER HARDING
Chairman



D J PROSSER
Group Chief Executive



A J HOBSON
Group Director (Finance)

Consolidated Cash Flow Statement for Shareholders' and General Insurance Funds

For the year ended 31 December 1995

	Notes	1995 £m	1994 £m
Net cash inflow from operating activities	22(i)	100.6	76.3
<i>Servicing of finance</i>			
Interest paid on core debt*		(8.8)	(9.1)
Dividends paid		(106.3)	(98.8)
Net cash outflow from servicing of finance		(115.1)	(107.9)
<i>Tax</i>			
Corporation tax received		8.6	2.4
Foreign tax paid		(2.2)	(0.3)
Net cash inflow from tax		6.4	2.1
<i>Investing activities</i>			
Purchase of investments	22(ii)	(371.8)	(429.0)
Sale of investments	22(ii)	384.3	386.6
Purchase of tangible fixed assets		(17.5)	(8.2)
Sale of tangible fixed assets		13.1	2.8
Net cash inflow (outflow) from investing activities		8.1	(47.8)
Net cash outflow before financing		-	(77.3)
<i>Financing</i>			
Increase in core debt		45.4	11.3
Issue of share capital		8.7	4.6
Net cash inflow from financing		54.1	15.9
Increase (decrease) in cash and cash equivalents	22(iii)	54.1	(61.4)

FINANCING (SHAREHOLDERS' CAPITAL AND BORROWINGS)

ANALYSIS OF CHANGE AND RECONCILIATION TO BALANCE SHEET

	Share capital and premium		Borrowings	
	1995 £m	1994 £m	1995 £m	1994 £m
<i>Share capital and core debt</i>				
At 1 January	157	153	130	124
Increase in core debt			45	12
Issue of share capital	9	4		
Exchange revaluation			1	(6)
At 31 December	166	157	176	130
Mortgage related borrowings			346	342
Total borrowings at 31 December			522	472

*The Group's non-insurance operations include mortgage lending. All loans secured by mortgages, net of repayments, are funded by borrowings. The cash flows associated with this business are included in 'Net cash inflow from operating activities'.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

Both the Group and Company financial statements conform with applicable accounting standards and have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985.

The Group financial statements have been prepared in compliance with section 255A of the Companies Act 1985 and with the new Schedule 9A which has been amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 (the "1993 Regulations"); and conform with the Association of British Insurers' Guidance on Accounting for Insurance Business issued in December 1995. The requirements of the 1993 Regulations and of the ABI Guidance have been applied in full for the first time in these financial statements; and have resulted in extensive changes to the format and in certain changes to accounting policies. Amounts relating to prior years have been restated accordingly.

Advantage has been taken of the transitional provision within FRSS which permits the offset of balances arising from insurance broking transactions.

The Company financial statements have been prepared in compliance with Section 226 of, and Schedule 4 to, the Companies Act 1985 adopting the exemption of omitting the profit and loss account conferred by Section 230 of that Act.

Changes in accounting policies

For the purpose of preparing accounts in accordance with the new Schedule 9A two significant adjustments are required to be made to the statutory solvency basis of accounting where this was previously used for long term business:

- the deferral of new business acquisition costs incurred where the benefit of such costs is obtained in subsequent accounting periods.
- the reallocation of certain amounts included within the long term business fund to the extent that they should be regarded as reserves rather than provisions.

This adjusted basis of reporting is known as the "modified statutory solvency basis" and is accordingly adopted in these financial statements.

The changes have had no impact on profit for the financial year or on shareholders' funds in 1994 and 1995.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of the Company and all of its subsidiary undertakings drawn up to 31 December each year. 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 acquisition.

GOODWILL

Goodwill on the acquisition of subsidiaries is charged directly to reserves. The profit or loss on the disposal or closure of a business takes account of any goodwill previously charged to reserves.

LONG TERM BUSINESS

General

Profits for long term business are reported on a basis consistent with the modified statutory solvency method. In respect of the USA this is based on US GAAP.

Profits, long term business provision and the fund for future appropriations

For the UK and Australia, all revenue transactions are recorded in long term funds from which distributable transfers to shareholders can only be made following an actuarial investigation which includes the calculation of the long term business provision.

For the UK, the long term business provision is determined by the appointed actuary following an annual investigation of the long term fund in accordance with the requirements of the EU Directive 92/96/EEC. The calculation uses the net premium method and includes explicit provision for vested bonuses (including those vested following the current valuation). No explicit provision is made for future reversionary or terminal bonuses. Certain contingency and other reserves required by insurance company regulations are excluded from the long term business provision.

The long term provision for business transacted by overseas subsidiaries is calculated by actuaries on the basis of recognised actuarial methods which comply with local supervisory principles or, in the case of the USA, on the basis of US GAAP.

Surpluses arise in a long term fund from participating and non-participating business. The surplus remaining after the appropriation to participating policyholders of declared bonuses and the transfer to the Fund for Future Appropriations (FFA), is allocated as profit to shareholders, grossed up by attributable tax, using the full corporate tax rate applicable for the period. The long term business provision includes the non-unit liabilities in respect of unit linked business; the liability for the unitised benefit is calculated on the basis of the units notionally allocated to policyholders and is reported separately.

Funds which have not been allocated at the balance sheet date between participating policyholders and shareholders are included in the FFA which, for 1994 and 1995, and consistent with the relevant Articles of Association, includes all of the investment and other reserves of the UK and Australian long term funds.

Deferral of acquisition expenses

Acquisition costs comprise direct costs, such as acquisition commissions, and indirect costs of obtaining and processing new business. They are allocated to particular categories of policies based on available management information.

Acquisition costs which are incurred during a financial year but which relate to a subsequent financial year, are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the balance sheet and are determined explicitly, in respect of non-linked business, by means of a Zillmer adjustment applied to the net premium valuation.

Costs in respect of linked business are deferred as an explicit deferred acquisition cost asset which is amortised over the period in which the costs are expected to be recoverable out of, and in accordance with the incidence of, future related margins.

Acquisition costs in respect of the USA are deferred in accordance with US GAAP.

Premium income

Premiums from linked policies, and other technical income from pension fund management business, are recognised in the long term technical account when the liabilities arising therefrom are created. All other premiums including annuity considerations are accounted for when due for payment.

Claims

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. All other claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

INVESTMENTS

General

Investment return in respect of long term business, comprising investment income less related expenses, interest expense and investment gains and losses, is reported in the long term technical account. The investment return on other investments is included in the non-technical account and an allocation is made to the general business technical account.

Investment income

Investment income includes dividends, interest and rent; directly related investment expenses are reported separately within investment expenses and charges. Dividends are accrued for on an ex-dividend basis and include associated tax credits. Interest and rent are included on an accruals basis. Investment income arising in subsidiary undertakings in France, Holland and the USA includes the amortisation of certain redeemable fixed interest securities.

Interest expense

Interest expense reflects the underlying cost of borrowing and includes profits and losses arising from various interest rate management instruments. It is reported in investment expenses and charges. Payments and receipts made under interest rate swap

and option agreements are amortised over the interest period to which they relate.

Investment valuations

Listed investments are shown at market value, unlisted investments at directors' valuation and mortgages and loans at values based on current interest rates.

Land and buildings in the UK are valued as at the balance sheet date by Chartered Surveyors at open market values in accordance with the Statements of Asset Valuation Guidance Notes of The Royal Institute of Chartered Surveyors. Outside the UK valuations are provided by local managing directors in conjunction with qualified professional valuers in the countries concerned.

The Companies Act requires that land and buildings are depreciated over their estimated useful lives. However, in accordance with SSAP19, no depreciation is provided on land and buildings and the directors consider that this accounting policy is necessary for the accounts to give a true and fair view. Depreciation is only one of the factors reflected in the valuations and the amount which might otherwise have been shown cannot reasonably be separately identified or quantified.

Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost.

Unrealised gains and losses on investments are calculated as the difference between the carrying valuation of investments at the balance sheet date and original cost. Movements in unrealised gains and losses on investments arising in the year are shown in the profit and loss account.

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Shares in subsidiary undertakings are stated at the Company's share of their net assets. Gains or losses arising on investments in subsidiary undertakings are taken to revaluation reserves.

GENERAL INSURANCE

Results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting.

Premium income

Premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for subsequent lapses. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

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.

A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses.

Claims

Claims and related reinsurance amounts are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost including claims settlement expenses, of:

- claims reported but not settled, and
- claims incurred but not yet reported.

In addition to unearned premiums and after taking account of investment return, additional amounts are set aside where necessary for unexpired risks to meet future claims on business in force at the end of the year.

Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision, or prepayment, in the balance sheet.

Deferred tax in respect of pension costs is accounted for in accordance with the policy described above.

OTHER ASSETS

Capital expenditure

Expenditure on computers, motor cars and large items of equipment is depreciated over periods ranging up to four years, having regard to expected residual values. All other items of capital expenditure are charged to the profit and loss account as incurred.

Purchased interests in long term business

Blocks of in-force business purchased either directly or through the acquisition of a subsidiary undertaking, are capitalised at their actuarially determined fair value. These amounts are amortised over their effective lives.

FOREIGN CURRENCIES

Assets, liabilities and revenue transactions in foreign currencies are translated into sterling at rates of exchange ruling at the end of the year other than certain minor revenue transactions which are translated into sterling at the appropriate rates prevailing during the year. The resulting exchange adjustments are dealt with through reserves except for those arising on cash settlements which are included in the profit and loss account. Currency transactions which are covered by specific forward exchange contracts are translated into sterling at the contracted exchange rates. The interest differential reflected in forward contracts is taken to interest expense.

Revaluations of investments in subsidiary undertakings less revaluations of any related borrowings are taken directly to reserves.

DEFERRED TAX

Deferred tax is calculated on the liability method and is provided only to the extent that it is considered with reasonable probability that the liability will become payable within the foreseeable future.

PENSION COSTS

The Group charges the regular cost of its pension schemes against profits on a systematic basis over the service lives of the pensionable employees, variation from regular cost being allocated over the expected remaining service lives of current scheme members.

2. SEGMENTAL ANALYSIS
(i) PROFITS BEFORE TAX

	1995 £m	1994 £m
<i>Long term business (life and pensions)</i>		
- U.K.	181.5	131.1
- Australia	13.2	13.2
- U.S.A.	17.4	18.0
- France	6.0	4.4
- Netherlands	1.7	0.9
	<u>219.8</u>	<u>167.6</u>
<i>General insurance business</i>	42.2	20.6
<i>Non insurance result</i>		
Estate agencies	(4.0)	(4.2)
Mortgage lending	1.7	1.5
Fairmount group	0.5	1.1
Shareholders' other income (outgo)	<u>11.1</u>	<u>(18.0)</u>
	<u>9.3</u>	<u>(19.6)</u>
	<u>271.3</u>	<u>168.6</u>
<i>Shareholders' other income (outgo) comprises:</i>		
Investment return before interest expense	25.9	(2.7)
Interest expense on core debt	(8.8)	(9.1)
Unallocated corporate expenses	<u>(6.0)</u>	<u>(6.2)</u>
	<u>11.1</u>	<u>(18.0)</u>

(ii) TURNOVER AND NEW BUSINESS

	New business		New business		Premiums gross written	
	Annual 1995 £m	Single 1995 £m	Annual 1994 £m	Single 1994 £m	1995 £m	1994 £m
<i>Long term business</i>						
U.K.						
- Linked life	26.3	91.9	27.0	135.8	229.2	252.0
- Non-linked life	36.7	93.6	42.4	73.3	582.8	577.7
- Linked individual pensions	22.1	91.1	25.0	111.3	197.5	207.2
- Non-linked individual pensions	22.3	90.5	23.8	110.9	220.2	240.1
- Group pensions	12.6	175.8	14.2	248.9	303.8	379.5
- Permanent health	3.4	-	2.6	-	11.2	10.1
Total U.K.	<u>123.4</u>	<u>542.9</u>	<u>135.0</u>	<u>680.2</u>	<u>1,544.7</u>	<u>1,666.6</u>
Australia	24.7	53.2	28.6	100.3	159.4	210.7
U.S.A.	27.0	53.8	29.1	53.5	188.5	200.2
France	7.1	83.5	4.7	69.1	105.8	85.7
Netherlands	3.4	18.7	2.9	18.4	54.1	47.9
	<u>185.6</u>	<u>752.1</u>	<u>200.3</u>	<u>921.5</u>	<u>2,052.5</u>	<u>2,211.1</u>
<i>Other savings business</i>						
Unit trusts and PEPS						
- U.K.		177.4		105.4		
- Overseas		57.4		50.8		
U.K. managed funds*		<u>1,718.0</u>		<u>1,513.7</u>		
		<u>1,952.8</u>		<u>1,669.9</u>		
<i>General insurance business</i>						
U.K.					372.7	410.7
Overseas					1.7	3.2
					<u>374.4</u>	<u>413.9</u>

*Included in other technical income of £1,789.3m (1994, £1,566.2m) within the long term business technical account.

2. SEGMENTAL ANALYSIS *Continued*

(iii) PROFIT FROM UK LONG TERM BUSINESS

	1995 £m	1994 £m
<i>Net transfers from UK long term fund</i>		
With-profits – normal bonus	59.9	55.9
– special bonus	18.1	–
	<u>78.0</u>	<u>55.9</u>
Other business	43.6	32.0
Net transfers	<u>121.6</u>	<u>87.9</u>
Tax attributable to shareholders' profit	59.9	43.3
UK Total	<u>181.5</u>	<u>131.2</u>

(iv) ANALYSIS OF GENERAL INSURANCE RESULT

	Net premiums written £m	Underwriting profit (loss) £m	Investment return £m	Insurance profit (loss) £m
<i>Year ended 31 December 1995</i>				
Property*	260.2	6.6	23.9	30.5
Motor	26.0	(3.6)	7.1	3.5
Mortgage Indemnity	16.6	(16.5)	16.5	–
Other	14.5	2.4	10.9	13.3
UK Total	<u>317.3</u>	<u>(11.1)</u>	<u>58.4</u>	<u>47.3</u>
Overseas	1.5	(8.2)	3.1	(5.1)
	<u>318.8</u>	<u>(19.3)</u>	<u>61.5</u>	<u>42.2</u>
<i>Year ended 31 December 1994</i>				
Property*	188.7	32.9	(2.0)	30.9
Motor	37.3	0.3	(0.7)	(0.4)
Mortgage Indemnity	21.3	1.8	(1.8)	–
Other	17.5	0.7	(1.0)	(0.3)
UK Total	<u>264.8</u>	<u>35.7</u>	<u>(5.5)</u>	<u>30.2</u>
Overseas	1.3	(12.1)	2.5	(9.6)
	<u>266.1</u>	<u>23.6</u>	<u>(3.0)</u>	<u>20.6</u>

*During 1994 the Group had a 40% quota share reinsurance on its household property account which was reduced to 20% in 1995 and not renewed for 1996. The related effect on unearned premium provision is reflected in an adjustment to net premiums written.

(v) SHAREHOLDERS' NET ASSETS

	1995 £m	1994 £m
<i>Long term business</i>		
– U.K.	–	–
– Australia	63	17
– U.S.A.	264	250
– France	36	19
– Netherlands	16	12
	<u>379</u>	<u>298</u>
General insurance business	288	219
Other operations	17	17
Borrowings other than for mortgages	(176)	(130)
Proposed final dividend	(82)	(72)
	<u>426</u>	<u>332</u>

The net assets comprising the capital of the UK long term business are included in the fund for future appropriations, as are a major part of the net assets supporting the Australian long term business.

3. INVESTMENT RETURN

	Long term business technical account		Non-technical account	
	1995 £m	1994 £m	1995 £m	1994 £m
(i) INVESTMENT INCOME AND REALISED GAINS				
<i>Investment income</i>				
Income in respect of land and buildings	201.2	198.5	-	-
Income in respect of listed investments	1,507.1	1,042.6	41.1	37.0
Income in respect of other investments				
Received from group undertakings	0.7	-	6.5	3.0
Received from other sources	85.3	241.9	34.7	36.3
	86.0	241.9	41.2	39.3
Total investment income	1,794.3	1,483.0	82.3	76.3
Realised investment gains	525.7	687.2	8.6	-
	2,320.0	2,170.2	90.9	76.3
(ii) INVESTMENT EXPENSES, CHARGES AND REALISED LOSSES				
On borrowings repayable, otherwise than by instalments, in less than five years	(11.8)	(10.2)	(25.8)	(25.3)
On borrowings repayable in five years or more	-	-	(8.1)	(8.1)
Total interest expense	(11.8)	(10.2)	(33.9)	(33.4)
Investment management expenses	(28.8)	(26.5)	(1.1)	(0.8)
	(40.6)	(36.7)	(35.0)	(34.2)
Realised investment losses	-	-	-	(14.9)
	(40.6)	(36.7)	(35.0)	(49.1)
UNREALISED INVESTMENT GAINS/(LOSSES)	2,904.6	(3,503.1)	28.2	(37.0)
TOTAL INVESTMENT RETURN	5,184.0	(1,369.6)	84.1	(9.8)
Included in:				
Technical account for general business	-	-	61.5	(3.0)
Technical account for long term business (including linked business)	5,184.0	(1,369.6)	-	-
Non-technical account	-	-	22.6	(6.8)

Investment return has been allocated to the general business technical account in proportion to the size of the investible funds in the relevant subsidiaries.

4. NET OPERATING EXPENSES

	Long term business 1995 £m	General business 1995 £m	Long term business 1994 £m	General business 1994 £m
Acquisition costs	225.3	109.7	287.2	101.0
Administration expenses	183.4	39.6	173.2	36.4
Reinsurance commissions	(7.8)	(16.9)	(7.7)	(28.4)
	<u>400.9</u>	<u>132.4</u>	<u>452.7</u>	<u>109.0</u>
(Increase)/decrease in deferred acquisition costs (net of reinsurance)	52.3	(11.5)	(48.9)	8.9
	<u>453.2</u>	<u>120.9</u>	<u>403.8</u>	<u>117.9</u>

5. TAX CHARGE (CREDIT)

	Long term technical account 1995 £m	Non- technical account 1995 £m	Long term technical account 1994 £m	Non- technical account 1994 £m
UK corporation tax	71.0	4.2	53.8	11.9
Double tax relief	(8.1)	(0.5)	(5.8)	(0.3)
Prior year adjustment	0.6	(0.4)	(0.6)	(6.3)
Tax attributable to franked investment income	29.0	1.1	37.3	0.9
Foreign tax	15.4	1.7	6.1	1.4
Deferred tax	15.0	0.6	-	-
	<u>122.9</u>	<u>6.7</u>	<u>90.8</u>	<u>7.6</u>
Tax attributable to the balance on the long term business technical account		69.4		50.0
		<u>76.1</u>		<u>57.6</u>
Potential deferred tax not provided for:	1995 £m	1995 £m	1994 £m	1994 £m
Unrealised net gains of investments	312.4	16.5	215.5	12.4
Other timing differences	57.7	(6.2)	79.2	(3.9)
	<u>370.1</u>	<u>10.3</u>	<u>294.7</u>	<u>8.5</u>

The tax attributable to the balance on the long term business technical account is determined in respect of the UK and Australia by grossing up the transfers from life and pensions funds. The rate used for grossing up assumes that the transfer has borne tax at the full corporate tax rate rather than, as previously, at an appropriate average of the corporate and franked income tax rates. The 1994 figure has been restated accordingly. The effect of this change is to increase profit before tax by £5.2m (1994, £3.7m).

The shareholders' and general insurance tax charge includes a charge of £2.3m (1994, £1.8m credit) in respect of realised gains (1994, losses) but does not include any charge (1994, credit) in respect of unrealised gains (1994, losses). Potential deferred tax is computed at the relevant corporate tax rate according to existing law.

6. DIVIDENDS

	1995 £m	1994 £m
Interim dividend paid 1 December 1995 at 7.70p (1994, 6.95p)	35.7	33.4
Proposed final dividend at 16.70p (1994, 14.75p)	82.4	72.3
	<u>118.1</u>	<u>105.7</u>
Transfer to reserves for shares issued in lieu of interim dividend	2.3	0.6
	<u>120.4</u>	<u>106.3</u>

7. EARNINGS PER SHARE

Earnings per share (EPS) are calculated using the weighted average of 491.5m ordinary shares (1994, 489.4m) in issue during the year and profit for the financial year. The dilution in EPS attributable to the Euro convertible subordinated debt and the outstanding share options, for both of which further information is included in note 13, is not material.

8. INVESTMENTS

	Long term business	Shareholders' and general insurance business	Total business	Long term business	Shareholders' and general insurance business	Total business
	1995	1995	1995	1994	1994	1994
	£m	£m	£m	£m	£m	£m
<i>(i) Land and buildings (at current value)</i>						
Leasehold properties						
- Long leaseholds	593	-	593	614	-	614
- Short leaseholds	6	-	6	18	-	18
	599	-	599	632	-	632
Freehold properties	1,839	2	1,841	1,835	3	1,838
Total land and buildings	2,438	2	2,440	2,467	3	2,470
<i>(ii) Other financial investments*</i>						
Shares and other variable yield securities and units in unit trusts	9,272	136	9,408	7,328	124	7,452
Debt and other fixed income securities						
- British Government securities	3,977	269	4,246	3,589	237	3,826
- Other	4,354	189	4,543	3,765	198	3,963
	8,331	458	8,789	7,354	435	7,789
Loans secured by mortgages	244	346	590	248	342	590
Other loans						
- Policy loans	148	-	148	141	-	141
- Other loans	4	2	6	7	3	10
	152	2	154	148	3	151
Deposits with credit institutions	945	102	1,047	586	41	627
Other investments	14	14	28	4	10	14
Total other financial investments	18,958	1,058	20,016	15,668	955	16,623
TOTAL INVESTMENTS	21,396	1,060	22,456	18,135	958	19,093
Original cost of investments:						
- Land and buildings	1,961	5	1,966	1,828	4	1,832
- Other financial investments	14,843	987	15,830	13,165	912	14,077
Included in the current values above are investments which are:						
- Listed in the U.K.	13,944	574	14,518	11,787	538	12,325
- Listed on overseas stock exchanges	3,558	16	3,574	2,861	23	2,884

*At the end of December 1995 and 1994 the reported asset mix does not reflect the use of derivatives, but the effect was not material.

9. SECURITISED MORTGAGES AND RELATED ASSETS

During 1989 and 1991 Legal & General Mortgage Services Limited (LGMSL) sold £298m of mortgages, via Temple Court Originations Limited (TCO), to Temple Court Mortgages (No 1) Plc and Temple Court Mortgages (No 2) Plc (TCM1&2). TCM2 redeemed all of its securities during 1994. These companies issued debt to purchase the mortgages, the written terms of which provide no recourse to LGMSL. Neither LGMSL nor any other member of the Group is obliged, or intends, to support any losses in respect of the sold mortgages. Mortgage payments (interest and principal) in respect of the portfolio are used to pay the capital and interest due on borrowings and other administration expenses. Any residue is payable as deferred consideration to LGMSL. During 1995 this amounted to £1.5m (1994, £3.9m) and is reported as income in the non-technical account. TCO and TCM1&2 are quasi-subidiaries of the Group and their summarised financial statements at 31 December, which form the basis of the linked presentation in the consolidated balance sheet, are:

	Assets	Liabilities	Assets	Liabilities
	1995	1995	1994	1994
	£m	£m	£m	£m
Securitized mortgages	136	-	152	-
Other related assets	5	-	7	-
Non-recourse borrowings	-	(141)	-	(159)
Share capital and reserves	-	0	-	0
Amounts reported by quasi-subidiaries	141	(141)	159	(159)
TCM1 debt purchased by LGMSL*	(17)	17	(10)	10
Amounts shown in linked presentation	124	(124)	149	(149)

The quasi-subidiaries had gross financial income and expenses of approximately £12m (1994, £16m).

*These investments have been reported in the consolidated balance sheet as loans secured by mortgages; the related borrowings have been included in amounts owed to credit institutions.

10. ASSETS HELD TO COVER LINKED LIABILITIES

	1995	1994
	£m	£m
Managed funds	10,095	7,348
Other linked business	3,895	3,221
	13,990	10,569

The original cost of investments held to cover linked liabilities was £11,730m (1994, £9,650m).

11. TANGIBLE ASSETS

	Long term 1995 £m	Shareholders' and general insurance 1995 £m	Total 1995 £m	Long term 1994 £m	Shareholders' and general insurance 1994 £m	Total 1994 £m
Fixtures, fittings, tools and equipment (comprising principally computer equipment and cars)						
<i>Cost</i>						
At 1 January	111	33	144	101	31	132
Exchange revaluation	-	-	-	1	-	1
Additions	28	17	45	19	10	29
Disposals	(47)	(17)	(64)	(10)	(8)	(18)
At 31 December	92	33	125	111	33	144
<i>Depreciation</i>						
At 1 January	78	14	92	73	13	86
Provided during the year	14	7	21	13	6	19
Disposals	(29)	(4)	(33)	(8)	(5)	(13)
At 31 December	63	17	80	78	14	92
Net book value at 31 December	29	16	45	33	19	52

12. PURCHASED INTERESTS IN LONG TERM BUSINESS

	1995 £m	1994 £m
<i>Cost</i>		
At 1 January	168	177
Exchange revaluation	1	(9)
Additions	39	-
At 31 December	208	168
<i>Amortisation</i>		
At 1 January	74	93
Exchange revaluation	1	(5)
Provided during the year	29	(14)
At 31 December	104	74
Net book value at 31 December	104	94

The net value of purchased interests in long term business represents the remaining unamortised portion of the actuarially determined fair values of purchased blocks of business. In the USA traditional life business is amortised over its economic life in proportion to the projected premium income from that business and interest rate sensitive business is amortised in relation to the present value of estimated gross profits. In Australia, the purchased interest is amortised in equal instalments over 10 years, being a conservative estimate of its economic life.

13. SHARE CAPITAL AND SHARE PREMIUM

		1995 £m	1994 £m
<i>Authorised share capital</i>			
At 1 January and 31 December: 600,000,000 ordinary shares of 25p each		150	150
<i>Issued share capital</i>			
Fully paid ordinary shares of 25p each	Number of shares	Share capital £m	Share premium £m
At 1 January 1995	490,201,760	122.6	34.5
Options exercised under share option schemes			
– Executive share option scheme	1,961,567	0.4	7.1
– Save as you earn schemes	405,159	0.1	1.1
Shares issued in lieu of dividends			
– Final 1994	381,085	0.1	(0.1)
– Interim 1995	396,052	0.1	(0.1)
At 31 December 1995	493,345,623	123.3	42.5

Euro convertible subordinated bonds

In April 1993 the Company issued £120m of Euro convertible subordinated bonds, due 2008, which generated net proceeds, after expenses, of £117m. The bonds are callable in 1998 and thereafter at the option of the Company at par. A coupon of 6.75 per cent per annum is paid semi-annually and conversion is into the ordinary shares of the Company at 558 pence. The bonds would, if converted, give rise to the issue of 21,505,376 new ordinary shares, representing 4.35 per cent of the current issued share capital.

Options

Options over 12,331,972 shares are outstanding under executive and savings related share options schemes at 31 December 1995 as shown below:

Number of shares	Option price pence per share	Option period ending	Number of shares	Option price pence per share	Option period ending
239,921	251–372	1996	1,968,096	344–556	2001
1,204,881	256–364	1997	1,074,598	313–404	2002
1,015,820	233–378	1998	1,170,730	426–556	2003
1,007,805	256–432	1999	1,859,500	435–508	2004
1,298,864	233–404	2000	1,491,757	477–562	2005

Employee share ownership trust

In December 1994 the Company established an employee share ownership trust (ESOT) and entered into arrangements under which the ESOT has an option to acquire ordinary shares in the Company purchased by a bank. The Trust will acquire shares from the bank in order to deliver shares allocated under various incentive schemes to employees and the Company has provided the bank with a guarantee in respect of any shortfall between the cost of shares purchased, plus related financing costs, and the market value of the shares. As at 31 December 1995 the ESOT had not acquired any of the shares on which it held options.

As at that date the bank had acquired 2,862,000 shares at a total cost (including financing costs) of £13.7m. This amount has been reported as an asset within Other financial investments and as a liability in Amounts owed to credit institutions. The financing costs, net of dividends, incurred by the bank during 1995 were immaterial.

14. MOVEMENT IN CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1995	1994
	£m	£m
At 1 January	175	171
Retained profit	75	5
Value of shares issued in lieu of dividends	4	2
Exchange gains (losses)	6	(3)
At 31 December	<u>260</u>	<u>175</u>

15. BORROWINGS

	Long term 1995 £m	Shareholders' and general insurance 1995 £m	Long term 1994 £m	Shareholders' and general insurance 1994 £m
(i) Analysis by purpose				
Mortgage related borrowings	94	346	74	342
Other	22	173	8	128
Employee share ownership trust	11	3	7	2
TOTAL	<u>127</u>	<u>522</u>	<u>89</u>	<u>472</u>

Reported as:

	1995 £m	1994 £m
Subordinated liabilities	117	117
Amounts owed to credit institutions		
- Borrowings repayable, otherwise than by instalments, in less than five years	380	396
- Borrowings repayable in five years or more	152	48
	<u>532</u>	<u>444</u>
	<u>649</u>	<u>561</u>

(ii) Analysis by nature

Unsecured		
- 6.75 per cent Euro convertible subordinated debt 2008	117	117
- Medium term notes 1996/2001	212	255
- Guaranteed PEP Bond 2001	126	-
- Sterling Commercial Paper	45	108
- Euro Commercial Paper	78	41
- Bank loans 1996	57	30
- ESOT liability 2001	14	9
Secured		
- Secured mortgages 1996/1997	-	1
	<u>649</u>	<u>561</u>

15. BORROWINGS *Continued*

	1995 £m	1994 £m
<i>(iii) Maturity profile</i>		
In one year or less or on demand	219	254
Between 1 and 2 years	20	39
Between 2 and 5 years	141	103
In 5 years or more	269	165
	<u>649</u>	<u>561</u>

(i) The Group has committed revolving credit facilities amounting to £330m expiring between 1998 and 2000, arranged on a bilateral basis with a number of banks, which may be used to refinance existing borrowings.

(ii) The maturity profile above is calculated on the basis that a facility to refinance maturing loans should not be recognised unless the facility and loan are related. If refinancing under the Group's committed facilities were recognised then the amount shown as repayable within one year would be reclassified as repayable after more than one year.

(iv) Analysis by currency

After taking into account interest rate and currency swaps, the Group's borrowings at 31 December 1995 are as follows:

Currency	Nominal (currency millions)	Sterling equivalent £m	Maturity date	Rate of interest % pa
Sterling	324.2	324	1996/2001	Floating
United States dollars	103.3	67	1996/1999	Floating
United States dollars	92.0	59	1996/2000	4.34/7.21
Australian dollars	93.3	45	1996	Floating
Netherlands guilders	35.0	14	1996	Floating
French francs	50.7	7	1996	Floating
French francs	90.0	12	2002	6.45
Other	-	4	1996	Floating
		<u>532</u>		
Sterling (Euro convertible subordinated bonds)	117.3	117	2008	6.75
		<u>649</u>		

£125.6m of floating sterling debt represents the Guaranteed PEP Bond 2001, of which £76.1m is in zero coupon form and £49.5m pays fixed quarterly and annual coupons at 6.84% and 7.00% per annum respectively. The cash flows associated with these bonds have been swapped so that the net proceeds of the bonds issued carry a floating rate of interest based on 3 month Libor.

16. GENERAL INSURANCE PROVISIONS

	1995 £m	1994 £m
Provision for unearned premiums		
– Gross	247	259
– Reinsurance	(27)	(71)
	220	188
Claims outstanding		
– Gross	362	374
– Reinsurance	(61)	(79)
	301	295
Other technical provisions (provision for unexpired risks)		
– Gross	79	67
– Reinsurance	(14)	(6)
	65	61
Deferred acquisition costs		
– Gross	(66)	(68)
– Reinsurance	9	22
	(57)	(46)
Net general insurance provisions	529	498

General insurance provisions, together with related reinsurance recoveries, are fairly stated in aggregate on the basis of available information, but the establishment of provisions can never be definitive and reassessments take place regularly.

17. LONG TERM INSURANCE FUNDS

	1995 £m	1994 £m
Technical provisions		
Long term business provision – gross	17,157	15,021
Technical provision for linked liabilities	13,990	10,569
Claims outstanding – gross	52	55
	31,199	25,645
Reinsurers' share of provisions	(128)	(113)
Net long term provisions	31,071	25,532
Deferred acquisition costs	(443)	(495)
Fund for future appropriations	4,296	3,468
Total long term insurance funds	34,924	28,505

The long term business provision includes an amount of £613m (1994, £450m) for bonuses, as at the end of the year, to policies then in force.

The total long term insurance funds represent the total of the assets, less relevant creditors, associated with long term business valued in accordance with the provisions of Schedule 9A to the Companies Act 1985.

17. LONG TERM INSURANCE FUNDS *Continued*

The principal assumptions underlying the calculation of the UK long term business provision are:

<i>Rate of interest</i>	1995	1994
Life assurances	3.25-4.00%	3.25-4.00%
Bonuses on with profits life assurances	2.75%	2.75%
Pension assurances	3.5-6.0%	3.5-6.0%
Annuities in deferment	4.25-7.0%	4.25-8.0%
Vested annuities	7.0%	8.0%
<i>Mortality tables</i>		
Non-linked individual term assurances	A67/70 ult-3 yrs	A67/70 ult-2 yrs
Other non-linked assurances	A67/70 ult-2 yrs	A67/70 ult-2 yrs
Annuities in deferment	A67/70 ult-3 yrs	a(90) ult-4 yrs
Vested annuities	96%a(55) ult-3 yrs*	a(55) ult-4 yrs

*with allowance for secular trend

Other assumptions

Local generally accepted interest rates and actuarial tables are used in calculating the long term business provisions for overseas long term business operations.

18. ANALYSIS OF OTHER CREDITORS

	Long term	Shareholders' and general insurance	Total	Long term	Shareholders' and general insurance	Total
	1995	1995	1995	1994	1994	1994
	£m	£m	£m	£m	£m	£m
Tax	29	27	56	5	31	36
Dividends	-	82	82	-	72	72
Inter-fund balances	380	(380)	-	292	(292)	-
Other creditors	446	113	559	336	101	437
TOTAL	855	(158)	697	633	(88)	545

19. COMPANY FIXED ASSETS

	Shares in Group companies	Loans to Group companies	Total	Total
	1995	1995	1995	1994
	£m	£m	£m	£m
At valuation, 1 January	184	382	566	582
Additions and (disposals)	-	(14)	(14)	7
Revaluation	81	4	85	(23)
At valuation, 31 December	265	372	637	566
At cost, 31 December 1994	200	383	-	583
At cost, 31 December 1995	200	372	572	-

20. MOVEMENT IN COMPANY RESERVES

	Revaluation reserve	Profit and loss account	Revaluation reserve	Profit and loss account
	1995	1995	1994	1994
	£m	£m	£m	£m
At 1 January	(17)	192	38	133
Retained profit (loss) after tax and dividends	-	-	-	(15)
Increase in the net assets of subsidiaries	81	-	17	-
Realisation of profits on transfer of subsidiary	-	-	(72)	72
Value of shares issued in lieu of dividends	-	4	-	2
At 31 December	64	196	(17)	192

21. PROFIT FOR THE FINANCIAL YEAR

The profit for the financial year includes a profit of £119.4m (1994, £91.7m) dealt with in the accounts of the parent company, for which no profit and loss account is shown as permitted by Section 230 (4) of the Companies Act 1985.

22. CASH FLOW FOR SHAREHOLDERS' AND GENERAL INSURANCE FUNDS

(i) RECONCILIATION OF PROFIT BEFORE TAX

	1995	1994
	£m	£m
TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Profit on ordinary activities before tax	271.3	168.6
Interest expense other than on mortgage related borrowings	8.8	9.1
Realised and unrealised investment (gains) losses	(37.0)	51.7
Depreciation of tangible fixed assets	6.8	5.9
Profit on sale of tangible fixed assets	(0.5)	(0.3)
Increase in amounts owed by long term business funds	(104.5)	(28.3)
Increase (decrease) in net general insurance provisions	30.0	(85.1)
(Increase) decrease in operating debtors	(7.1)	36.6
Increase (decrease) in operating creditors	3.4	(31.0)
Tax on long term business profit and on franked investment income	(70.6)	(50.9)
Net cash inflow from trading activities	100.6	76.3
Net decrease (increase) in loans secured by mortgages	4.5	(31.7)
Net (decrease) increase in mortgage related borrowings	(4.5)	31.7
Net cash inflow from operating activities	100.6	76.3

(ii) INVESTMENTS (SHAREHOLDERS' AND GENERAL INSURANCE)
ANALYSIS OF CHANGE AND RECONCILIATION TO BALANCE SHEET

Investments other than loans secured by mortgages at 1 January	616.6	697.4
Exchange translation	3.9	3.9
Other movements	14.9	(13.0)
	18.8	(9.1)
Investments		
– Purchases	371.8	429.0
– Sales	(384.3)	(386.6)
– Realised and unrealised gains	37.0	(51.3)
Increase (decrease) in short term investments and deposits	54.4	(62.8)
At 31 December	714.3	616.6
Investment in loans secured by mortgages at 31 December	346.3	341.8
Total investments at 31 December	1,060.6	958.4

(iii) ANALYSIS OF CASH AND CASH EQUIVALENTS

	Total 1995 £m	Exchange revaluation £m	Cash inflow in year £m	Total 1994 £m
Short term investments and deposits*	103.3	2.8	54.4	46.1
Bank balances and cash	11.1	-	(0.3)	11.4
Total cash and cash equivalents	114.4	2.8	54.1	57.5

*Short term investments and deposits are cash equivalents having less than three months to maturity when acquired and are excluded from the figures for the purchase and sale of investments shown under investing activities in the consolidated cash flow statement.

23. DIRECTORS' REMUNERATION AND INTERESTS

	Basic salary/fees £'000	Benefits £'000	Cash bonus £'000	Pension contributions £'000	1995 Total £'000	1994 Total £'000
<i>Executive</i>						
D J Prosser	300	14	120	60	494	429
A J Hobson	190	14	80	38	322	285
D Rough	230	14	80	46	370	363
	<u>720</u>	<u>42</u>	<u>280</u>	<u>144</u>	<u>1,186</u>	<u>1,077</u>
<i>Non Executive</i>						
Sir Christopher Harding	90	-	-	-	90	63
Mrs H M R Chapman	20	-	-	-	20	20
Professor Sir Frederick Crawford	20	-	-	17	37	23
Sir John Egan	40	-	-	44	84	34
W J R Govett	20	-	-	10	30	22
Lady Howe	20	-	-	18	38	23
D Reid	3	-	-	-	3	-
A E Wheatley	20	-	-	-	20	20
Professor Sir James Ball (ret'd)	-	-	-	-	-	138
K H M Dixon (ret'd)	-	-	-	-	-	62
J S Kerridge (ret'd)	-	-	-	-	-	27
	<u>953</u>	<u>42</u>	<u>280</u>	<u>233</u>	<u>1,508</u>	<u>1,509</u>

The value of any shares received by directors under the Share Bonus Plan (SBP) and the Performance Share Plan (PSP) will be reported in the year that the shares are received and at the value at the time of vesting. Details of shares awarded under those schemes are shown in (iii) below. The value of the shares received by directors under the Restricted Share Plan (RSP) have previously been reported as part of Directors' Remuneration and included in Beneficial Share Interests with effect from the date of allocation, because the directors then become entitled to the dividends on these shares. The amounts included in the table above in 1994 for D J Prosser, A J Hobson and D Rough were £38,000, £18,000 and £40,000, respectively.

Sir Christopher Harding became Chairman on 18 May 1994 and his remuneration as Chairman for 1994 was £56,000. Sir James Ball, the previous Chairman, who retired on 18 May 1994, received total remuneration of £138,000 in calendar 1994. The remuneration of the highest paid director in 1995, D J Prosser, was £494,000 (1994, £429,000).

From 1 January 1996, all fees, which are the sole form of remuneration for non executives, are non-pensionable. The pension contributions shown for non-executive directors are the full and final cost of determining pension arrangements.

The table below sets out, within the bands stated, the number of directors whose emoluments, excluding pension contributions, were:

£	Number of directors		£	Number of directors	
	1995	1994		1995	1994
1 - 5,000	1	-	85,001 - 90,000	1	-
5,001 - 10,000	-	1	245,001 - 250,000	-	1
15,001 - 20,000	5	6	280,001 - 285,000	1	-
30,001 - 35,000	-	1	320,001 - 325,000	1	1
35,001 - 40,000	1	1	370,001 - 375,000	-	1
60,001 - 65,000	-	1	430,001 - 435,000	1	-

23. DIRECTORS' REMUNERATION AND INTERESTS *Continued*

SHARE INTERESTS

Directors' interests in ordinary shares of the Company can arise from the various share schemes described in the report of the Remuneration Committee and can take the form of:

- beneficial holdings – the number of shares held is shown in (i) below
- unexercised options acquired under either the executive share option scheme (1985) or the Company's SAYE share option scheme – details are shown in (ii) below
- share entitlements under the SBP or PSP long term incentive schemes – awards made are shown in (iii) below.

The Company's Register of Directors' interests (which is open to inspection) contains full details of directors' shareholdings and share options, and awards under other long term incentive schemes.

(i) Beneficial share interests

	At 31.12.95	At 1.1.96		At 31.12.95	At 1.1.96
Sir Christopher Harding	4,000	4,000	Lady Howe	1,028	1,028
Mrs H M R Chapman	1,266	1,266	D J Prosser	59,654	67,077
Professor Sir Frederick Crawford	4,290	4,160	D E Reid	1,000	–*
Sir John Egan	3,774	3,774	D Rough	41,007	23,844
W J R Govett	–	–	A E Wheatley	3,000	3,000
A J Hobson	23,915	17,378			

*on date of appointment

A W Palmer and R A Phipps, who were appointed as directors on 1 January 1996, had beneficial interests in 180 and 9,942 shares respectively at 31 December 1995.

(ii) Share options

The following options held by the executive directors were acquired under either the executive share option scheme (1985) (ESOS) or the Company's save as you earn scheme (SAYE).

	Grant Price (p)	D J Prosser	A J Hobson	D Rough	Dates between which individual options may be exercised	
					Earliest date	Latest date
Held at 1 January 1995	413*	265,275			12.4.92	9.10.2004
	424*		159,845		9.4.93	9.10.2004
	428*			186,298	9.4.93	9.10.2004
Granted during year (SAYE)	377	3,103			1.6.2002	1.12.2002
Exercised during year					Market price at the date of exercise	
SAYE:	280			(1,339)	(p)	683
	299			(2,408)		478
ESOS:	339	(50,000)				702
	365		(20,000)			684
	370		(40,000)			477
		(50,000)	(60,000)	(3,747)		
Held at 31 December 1995		218,378	99,845	182,551		

*Weighted average exercise prices for options allocated on various dates.

No options lapsed during 1995. As at 31 December 1995, there were no options outstanding where the exercise price exceeded the market price. The market price of the shares at 31 December 1995 was 670p and the range during 1995 was 415p to 718p.

A W Palmer and R A Phipps, who were appointed as directors on 1 January 1996, held 56,000 and 69,210 share options respectively at 31 December 1995.

23. DIRECTORS' REMUNERATION AND INTERESTS *Continued*

(iii) *Shares awarded under long term incentive schemes*

None of the executive directors at 31 December 1995 held shares awarded under the SBP. In respect of the 1995 bonus, DJ Prosser will be awarded shares on 9 April 1996 under the SBP to the value of £60,000; AJ Hobson to the value of £40,000; and D Rough to the value of £40,000. The number of shares represented by the awards will be based on the closing share price on 9 April 1996, and may be received in 1999.

At 31 December 1995, A W Palmer and R A Phipps, who were appointed as directors on 1 January 1996, held awards under the SBP scheme of 1,007 and 1,678 shares respectively, which may be received in 1998.

Under the terms of the Performance Share Plan (PSP), described in the Report of the Remuneration Committee on pages 40 and 41, executive directors may, in addition to shares awarded under the SBP, receive a multiple of up to a maximum four times the number of shares awarded under the SBP, if the total shareholder return over the three years from the date of the award achieved by Legal & General, compared with the FT-SE 100, reaches the twentieth percentile. The PSP will operate, subject to shareholder approval and at the discretion of the Remuneration Committee, in respect of SBP awards from 1996.

TRANSACTIONS AND ARRANGEMENTS

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company or of the Group during 1995.

24. PRINCIPAL SUBSIDIARIES

The principal subsidiaries consolidated in these financial statements, of which the Group holds all of the ordinary share capital and voting rights except for Gresham Insurance Company Limited in which the Group holds 90% of the ordinary share capital, are listed below:

Company name	Nature of business	Country of registration /incorporation
Legal & General Finance Plc*	Treasury operations	England & Wales
Legal & General Assurance Society Limited ("the Society")	Long term and general insurance	England & Wales
Legal & General Insurance Limited	General insurance	England & Wales
Legal & General Investment Management Limited	Investment management	England & Wales
Legal & General Assurance (Pensions Management) Limited	Pension fund management	England & Wales
Legal & General Mortgages Limited	Provision of mortgages	England & Wales
Legal & General Mortgage Services Limited	Provision of mortgages	England & Wales
Legal & General Property Limited	Property management	England & Wales
Legal & General (Unit Trust Managers) Limited	Unit trust management	England & Wales
Legal & General Estate Agencies Limited	Estate agency	England & Wales
Legal & General Ventures Limited	Venture capital management	England & Wales
Fairmount Group Plc	Financial services	England & Wales
Gresham Insurance Company Limited	General insurance	England & Wales
Legal & General Life of Australia Limited	Long term insurance	Australia
Legal & General (France) SA	Long term insurance	France
Legal & General Bank (France) SA	Financial services	France
Legal & General Nederland Levensverzekering Maatschappij NV	Long term insurance	Netherlands
Banner Life Insurance Company	Long term insurance	USA
William Penn Life Insurance Company of New York	Long term insurance	USA

*Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

The principal area of operation of subsidiaries registered in England & Wales is in the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. The principal activities of the Company and its subsidiaries are:

LONG TERM BUSINESS

Ordinary life and pensions business, where life covers individual life and annuity policies, including capital redemption and permanent health insurance and pensions, covers both individual pension arrangements and employers' schemes (including group life and permanent health insurance benefits).

INVESTMENT MANAGEMENT BUSINESS

Provision of a fund management service for the Group's insurance and shareholders' funds as well as clients' funds through managed and segregated funds, unit trusts and personal equity plans.

GENERAL INSURANCE BUSINESS

Property, motor, mortgage indemnity, liability, pecuniary loss, accident and health, marine, aviation and transport insurance.

OTHER

Provision of advisory services to both companies and individuals, banking, investment management, stockbroking, pension fund trustee services, property agency services and mortgage lending.

25. OFFICERS' LOANS

At 31 December 1995 there were loans outstanding amounting to £110,211 (1994, £110,211) made to 3 (1994, 3) officers of the Company.

26. PENSION COSTS

The Group operates a number of pension schemes, both defined benefit and defined contribution, in the UK and overseas. The assets of all the defined benefit schemes are held in separate trustee administered funds and all significant schemes have been subject to regular valuation or formal reviews, by qualified actuaries, who were employees of the Group. The total pension costs for the Group, none of which is attributable to amortisation of past service liabilities, were:

	1995	1994
	£m	£m
Defined benefit schemes	13.0	16.1
Defined contribution schemes	0.9	0.2

At 1 July 1995 L&G Australia closed its defined benefit scheme with existing members being transferred over to defined contribution schemes.

As at 31 December 1995 the major schemes are in the UK and are of the defined benefit (final salary) type; these UK defined benefit schemes cover 66 per cent (1994, 77 per cent) of pension scheme members throughout the Group.

The defined benefit UK schemes were valued at December 1994 using the projected unit method. The principal assumptions adopted in the latest actuarial valuations were that the investment return would be 9 per cent per annum, pensionable earnings growth 7 per cent per annum, pensions in payment 4.5 per cent and dividend growth 5 per cent per annum. The market values of the assets of these schemes at the date of the latest valuations were £402m and the actuarial value of the assets was sufficient to cover 128 per cent of the benefits that had accrued to members, after allowing for expected future increases in earnings. The employer's contribution rates over the average remaining service lives of the members of the schemes take account of the surpluses disclosed by the valuations.

The Group has no liability for post retirement benefits other than for pensions.

27. POST BALANCE SHEET EVENT

The Articles of Legal & General Assurance Society relating to the UK Long Term Fund were amended on 1 February 1996 to:

- (i) give directors discretion to allocate to with-profits policyholders more than 90%, rather than exactly 90%, of the profits derived from the with-profits business.
- (ii) limit directors' discretionary allocation rights over profits derived from non-profit business, to profits derived from a new £200m sub-fund.

These amendments enable distributions to be made to shareholders which will better reflect their interest in the life and annuity business. Following these amendments, an amount held in the Fund for Future Appropriations at 31 December 1995, but outside the with-profits part of the Society Long Term Fund, and amounting to approximately £1.4bn (excluding the sub-fund), will be classified as reserves within shareholders' funds in the 1996 accounts.

28. GOODWILL RESULTING FROM ACQUISITIONS

The cumulative goodwill charged against the Group's reserves arising from acquisition of subsidiaries that are still part of the Group amounted to £90m at 31 December 1995 (1994, £89m).

29. CONTINGENT LIABILITIES, GUARANTEES AND INDEMNITIES

	1995 £m	1994 £m
The Group has contingent liabilities for uncalled stock exchange and other investments:		
Long term	5	7
Shareholders' and general insurance	-	-
	<u>5</u>	<u>7</u>

Group companies may give guarantees and indemnities as a normal part of their operating activities or in relation to capital market transactions. In particular the Company has given a guarantee in relation to £30.0m (1994, £30.0m) of loanstock issued by Legal & General Life of Australia Ltd and to the general insurance provisions of Victory Reinsurance Company of America Inc. (now renamed Melbourne Reinsurance Corporation).

In 1975 the Society was required by the Institute of London Underwriters (the 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 Holdings nv, as part of the arrangements under which it acquired Victory, 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. 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.

30. COMMITMENTS

	1995 £m	1994 £m
Authorised and contracted commitments not provided for in respect of investments, including property development and mortgage lending, payable after 31 December		
Long term	25	146
Shareholders' and general insurance	-	-
	<u>25</u>	<u>146</u>

31. ASSOCIATED UNDERTAKINGS

The Group entered into an arrangement with the Woolwich Building Society (Woolwich) with effect from 29 September 1995 relating to the provision of household insurance to Woolwich customers. The Group acquired a 10% minority interest in Woolwich Insurance Services (WIS), at the same time Woolwich acquired a minority interest of 10% of the share capital of the Group's subsidiary, Gresham Insurance Company Limited (Gresham), an authorised general insurance company. The minority interest of Woolwich in Gresham has not been separately disclosed as it is not material. The Group's 10% holding in WIS is included as an associated undertaking within investments.

As well as the investment in WIS, described above, the Group has other trade investments which exceed 10 per cent of the equity share capital in a number of undertakings. These investments are not material to the Group and hence no details have been provided. The Group also has investments where its holding exceeds 20 per cent of the equity share capital. None of these are treated as associated undertakings as either the Group does not exercise any significant influence over them, or their operations are not significant in relation to the financial statements of the Group.

32. AUDITORS' REMUNERATION

Fees paid to Price Waterhouse in relation to the audit of these financial statements amounted to £1.0m (1994, £1.0m). Other fees paid to Price Waterhouse, which comprised mainly fees for the audits of regulatory returns and other audit related work in the UK, amounted to £0.5m (1994, £0.3m).

33. EXCHANGE RATES	1995	1994
Principal rates of exchange used for translation into sterling at the end of the year:		
Australian dollars	2.09	2.02
French francs	7.59	8.35
Netherlands guilders	2.49	2.71
United States dollars	1.55	1.56
34. EMPLOYEE INFORMATION	1995	1994
<i>Average number of employees</i>		
United Kingdom		
- Life and pensions	3,975	4,213
- General insurance	1,291	1,316
- Investment management	402	396
- Financial services	974	1,189
- Other	174	192
Total UK employees	6,816	7,306
Australia	610	689
France	188	199
Netherlands	67	68
USA	300	298
Worldwide employees	7,981	8,560
<i>Aggregate gross remuneration</i>	£m	£m
Wages and salaries	163.0	172.5
Social security costs	16.2	15.9
Other pension costs	13.0	14.0
	192.2	202.4

Included in the UK figures are 652 (1994, 688) part-time employees with aggregate gross remuneration of £5.2m (1994, £5.2m).

Shareholder Information

SHAREHOLDINGS AT 31 DECEMBER 1995

Categories of ordinary shareholders and ranges of shareholdings at 31 December 1995 are:

CATEGORY OF SHAREHOLDER	Shareholders		Shares	
	Number	%	Number	%
Individuals	25,412	72.2	67,018,414	13.6
Banks and nominee companies	8,034	22.8	342,160,017	69.4
Trustee companies	881	2.5	20,010,604	4.1
Insurance companies	406	1.2	45,540,948	9.2
Pension funds	20	0.1	9,768,749	2.0
Other corporate bodies	426	1.2	8,846,891	1.7
	<u>35,179</u>	<u>100.0</u>	<u>493,345,623</u>	<u>100.0</u>

RANGE OF HOLDINGS	Shareholders		Shares	
	Number	%	Number	%
1 - 5,000	31,015	88.2	41,592,842	8.4
5,001 - 100,000	3,643	10.4	60,554,527	12.3
100,001 - 500,000	353	1.0	82,808,959	16.8
500,001 - 999,999	81	0.2	57,785,471	11.7
1,000,000 and over	87	0.2	250,603,824	50.8
	<u>35,179</u>	<u>100.0</u>	<u>493,345,623</u>	<u>100.0</u>

ORDINARY SHAREHOLDERS

Registrars: The Company's share register is administered by the Legal & General Registrar, CMG Share Registration Division, Astra Centre, Edinburgh Way, Harlow, Essex CM20 2BE (Tel 01279 444422). All shareholder enquiries should be addressed to the Legal & General Registrar.

Dividend: The record date for the proposed final dividend for 1995, payable on 3 June 1996, is 2 April 1996 and the shares will trade ex-dividend on the London Stock Exchange from 25 March 1996.

Multiple Share Certificates: Shareholders with more than one certificate for shares arising either from the Scrip Dividend Scheme or by any other means may arrange for them to be consolidated into one certificate by contacting the Legal & General Registrar.

Personal Equity Plan (PEP): The Legal & General Single Company PEP is managed by Legal & General (Portfolio Management Services) Ltd, a wholly owned subsidiary of the Company. The PEP provides a method by which persons, aged 18 years or more and resident in the UK for tax purposes, can hold shares in the Company.

CAPITAL GAINS TAX

For the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each of the shares, after adjusting for the 1986 capitalisation issue, was 79.959p.

CLOSE COMPANY PROVISIONS

The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988.

Five Year Financial Review

	1995	1994	1993	1992	1991
	£m	£m	£m	£m	£m
CONSOLIDATED PROFIT AND LOSS					
Long term business	219.8	167.6	151.7	150.7	127.2
General insurance business	42.2	20.6	27.3	(61.0)	(157.3)
Other operations	(1.8)	(1.6)	(2.7)	(5.0)	(10.7)
Shareholders' other income (outgo)	11.1	(18.0)	4.7	(0.2)	(1.9)
Profit on transfer of businesses to the UK Life Fund	-	-	-	31.6	81.5
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	271.3	168.6	181.0	116.1	38.8
Tax	(76.1)	(57.6)	(32.2)	(26.4)	4.5
PROFIT FOR THE FINANCIAL YEAR	195.2	111.0	148.8	89.7	43.3
Dividends	(120.4)	(106.3)	(98.4)	(92.9)	(91.2)
RETAINED PROFIT (LOSS)	74.8	4.7	50.4	(3.2)	(47.9)
LIFE AND PENSIONS BUSINESS					
New business premiums					
Annual	185.6	200.3	199.2	196.3	223.2
Single	752.1	921.5	1,196.3	874.6	1,030.8
GROSS PREMIUM INCOME					
Life and pensions	2,052.5	2,211.1	2,414.1	2,058.8	2,143.6
General insurance	374.4	413.9	458.9	454.6	420.0
CONSOLIDATED BALANCE SHEET					
Investments	36,383	29,623	29,449	21,635	18,315
Other assets	1,670	1,712	951	1,021	1,071
TOTAL ASSETS	38,053	31,335	30,400	22,656	19,386
Share capital	123	123	122	121	121
Share premium	43	34	31	26	24
Profit and loss	260	175	171	115	96
Shareholders' funds	426	332	324	262	241
Subordinated loan	117	117	117	-	-
Technical provisions and FFA*	36,183	29,813	29,034	21,580	18,348
Amount owed to credit institutions	532	444	370	404	370
Creditors and other provisions	795	629	555	410	427
TOTAL LIABILITIES	38,053	31,335	30,400	22,656	19,386
SHARE STATISTICS	P	P	P	P	P
Earnings per share	39.72	22.68	30.53	18.50	8.96
Dividends per share	24.40	21.70	20.10	19.10	18.80
Market price at 31 December	670	432	503	414	374
Dividend cover ratio - profit for the financial year	1.62	1.04	1.51	0.97	0.47

*Includes estimated gross up for deferred acquisition costs and reinsurers' share of provisions in 1991 to 1993.

Glossary of Terms

Balance on the General Business Technical Account	The pre-tax profit (or loss) arising from general business, being the underwriting profit and loss and the investment return on the investible funds generated by general business.
Balance on the Long Term Business Technical Account	The profit or loss arising from long term business, after deducting tax attributable to long term business.
Claims Outstanding	The amount provided as a balance sheet liability to cover the estimated costs of settling claims in respect of events which have occurred by the year end, together with the expenses of handling such claims.
Deferred Acquisition Costs	Acquisition commissions and expenses which are carried forward as assets in the balance sheet and which are expected to be recoverable from future margins.
Fund for Future Appropriations	Funds relating to long term business, the allocation of which either to policyholders or to shareholders has not been determined by the end of the year.
Linked Liabilities	Liabilities in respect of long term business where the benefits payable to policyholders are wholly or partly determined by reference to the value of, or income from investments or by reference to fluctuations in an index of investments. Specific assets are allocated to such liabilities.
Long Term Business	This is defined in respect of the UK by Schedule 1 of the Insurance Companies Act 1982.
Long Term Business Provision	An actuarially estimated value of the Group's contractual long term business liabilities (excluding linked liabilities) after deducting the actuarial value of future premiums.
Managed Funds	These are defined in respect of the UK as comprising group pension funds which fall within Class VII of Schedule 1 to the 1982 Act, which the Group administers in its own name but on behalf of others and to which the Group has legal title.
Non-recourse Funding	Debt, the repayment and servicing of which relies exclusively on the assets for which the funding was raised originally.
Non-technical Account	The section of the profit and loss account reporting items which are not included in the general business and long term business technical accounts.
Provision for Unearned Premiums	The portion of general insurance contract premiums written relating to periods of risk after the year end which is deferred to future periods.
Provision for Unexpired Risk	An estimate of the amount over and above the provision for unearned premiums required to meet future claims and related expenses on business in force at the year end after taking account of future investment income. This is included in other technical provisions in the balance sheet.
Securitised Mortgages	A pool of mortgages which has been sold into a special purpose company which funds the purchase by issuing bonds or other debt instruments on non-recourse terms.

Notice of Annual General Meeting

Notice is hereby given that the 17th Annual General Meeting of Legal & General Group Plc will be held at Cinema 1, Barbican Centre, Silk Street, London EC2Y 8DS on Thursday 16 May 1996 at 11.30 am for the following purposes:

1. To receive and consider the Report and Accounts for the year ended 31 December 1995 and to declare a dividend.

2. To reappoint the following as directors of the Company:

- (A) Sir Christopher Harding
- (B) A.W. Palmer
- (C) R.A. Phipps
- (D) D.E. Reid
- (E) A.E. Wheatley

3. To reappoint Price Waterhouse as auditors and authorise the directors to determine their remuneration.

To consider and, if thought fit, to pass the following resolution, which will be proposed as an ordinary resolution:

4. **ORDINARY RESOLUTION** That the directors of the Company be and they are hereby generally and unconditionally authorised, pursuant to Section 80 of the Companies Act 1985, to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of that Act) up to an aggregate nominal amount of £26,624,028.50, in substitution for all previous such authorities, provided that this authority shall (unless renewed) expire on the conclusion of the Annual General Meeting of the Company to be held in 1997, except that the Company may at any time prior to the expiry of such authority make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority.

To consider and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:

5. **SPECIAL RESOLUTION** That, subject to the passing of resolution No. 4, the directors of the Company be and they are hereby authorised pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) under the authority conferred by resolution No. 4 as if Section 89(1) of that Act did not apply, provided that this authority shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue in favour of shareholders where the equity securities are offered to each shareholder in the same proportion (as nearly as may be) to the number of shares held by each shareholder (subject to such exclusions or other arrangements as the directors of the Company may think fit in connection with fractional entitlements or legal or practical problems arising in connection with the laws of, or requirements of, any recognised regulatory body or stock exchange in any territory); and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £6,168,798 and shall expire fifteen months following the passing of this resolution or, if earlier, on the conclusion of the Annual General Meeting of the Company to be held in 1997 except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

To consider as special business and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:

6. SPECIAL RESOLUTION That the directors of the Company be and they are hereby granted, pursuant to Article 1(L) of the Articles of Association of the Company and in accordance with Section 166 of the Companies Act 1985, general and unconditional authority to make market purchases of any of its ordinary shares upon, and subject to, the following conditions:

(a) the maximum number of ordinary shares in the Company hereby authorised to be acquired is 24,500,000 shares.

(b) the minimum price which may be paid for each ordinary share is 25p.

(c) the maximum price which may be paid for ordinary shares is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the ordinary shares are purchased.

(d) the authority hereby conferred shall (unless renewed) expire at the conclusion of the Annual General Meeting to be held in 1997 except that the Company may at any time prior to the expiry of such authority enter into a contract for the purchase of ordinary shares which would or might be completed wholly or partly after the expiry of such authority.

By Order of the Board

D W BINDING

Group Secretary

19 April 1996

Registered Office:

Temple Court,

11 Queen Victoria Street,

London EC4N 4TP.

Registered in England and Wales

No. 1417162

NOTES

- (1) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not also be a member.
- (2) Copies of executive directors' service contracts and the register of directors' share interests kept pursuant to Section 325 of the Companies Act 1985 are available for inspection during normal working hours at the registered office and 15 minutes prior to and at the Annual General Meeting.

Financial Calendar

16 May 1996

Annual General
Meeting

3 June 1996

Payment
of Final Dividend
for 1995
(to members
registered on
2 April 1996)

12 September 1996

Publication
of Half Year Results
for 1996
and Declaration
of Interim Dividend

2 December 1996

Payment
of Interim Dividend
for 1996
(to members
registered on
1 October 1996)

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Group subsidiaries are fully authorised as appropriate
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