
Legal & General

**2008
Preliminary
Results**

Wednesday 25 March 2009



Forward-looking statements

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2008 Preliminary Results

Agenda



Introduction

Tim Breedon
Chief Executive



Financial Review
Balance Sheet & Capital

Andrew Palmer
Group Director (Finance)



Asset Quality and Defaults
Operational Cash Flow
Summary and Conclusion

Tim Breedon
Chief Executive

2008 Preliminary Results - Overview

- **Business fundamentals sound**
 - Resilient trading in weakened economy
- **Balance sheet impacted by extreme market conditions**
 - Outside plan tolerances
 - IGD surplus £1.9bn (before £120m final dividend) at 31/12/08
- **Asset quality and robust reserves**
 - Diversified, high quality asset base
 - 99% of rated bonds investment grade
- **Focus on cash generation**
 - Reducing new business strain and cost
 - Final dividend reduced by 50% to 2.05p

Actions Underway

- **Strategy**
 - Execution moved to 'cautious' mode
 - Further acceleration in Savings transformation
- **Balance sheet - De-risking actions continue**
 - Sold £1.1bn of shareholder equities across 2008 and Q1 2009
 - Default reserves increased to £1.2bn
- **Cost reduction**
 - 10% headcount reduction in 2008 and further 10% in 2009
- **New business strain**
 - Re-priced annuities
 - Savings – new product shapes and reduced commission terms

2008 Preliminary Results

Financial Review



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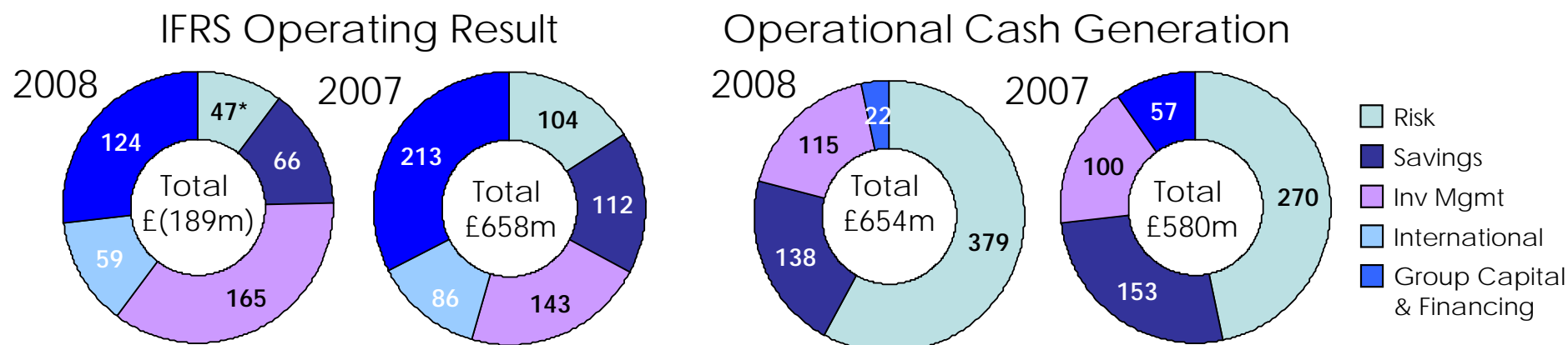
Tim Breedon
Chief Executive



2008 Financial Results

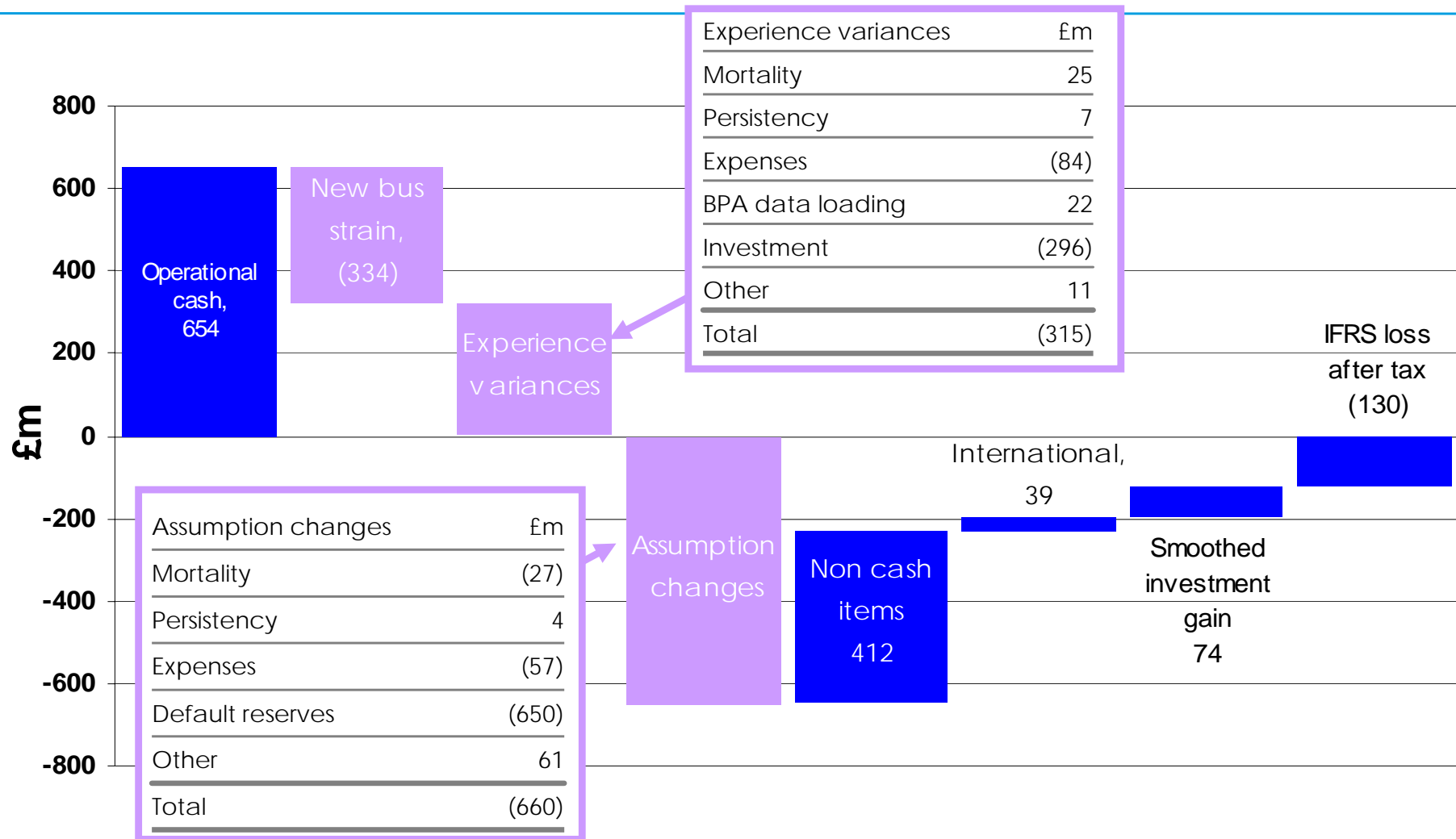
	2008	2007
IFRS operating result before tax	(£189m)	£658m
IFRS operational cash generation	£654m	£580m
IFRS new business strain	(£334m)	(£344m)
EEV operating result before tax	£870m	£848m
IGD surplus*	£1.8bn	£4.1bn

*After deduction of proposed final dividend



*Risk 2008 Operating Result Before £650m default charge

IFRS Operating Result After Tax 2008

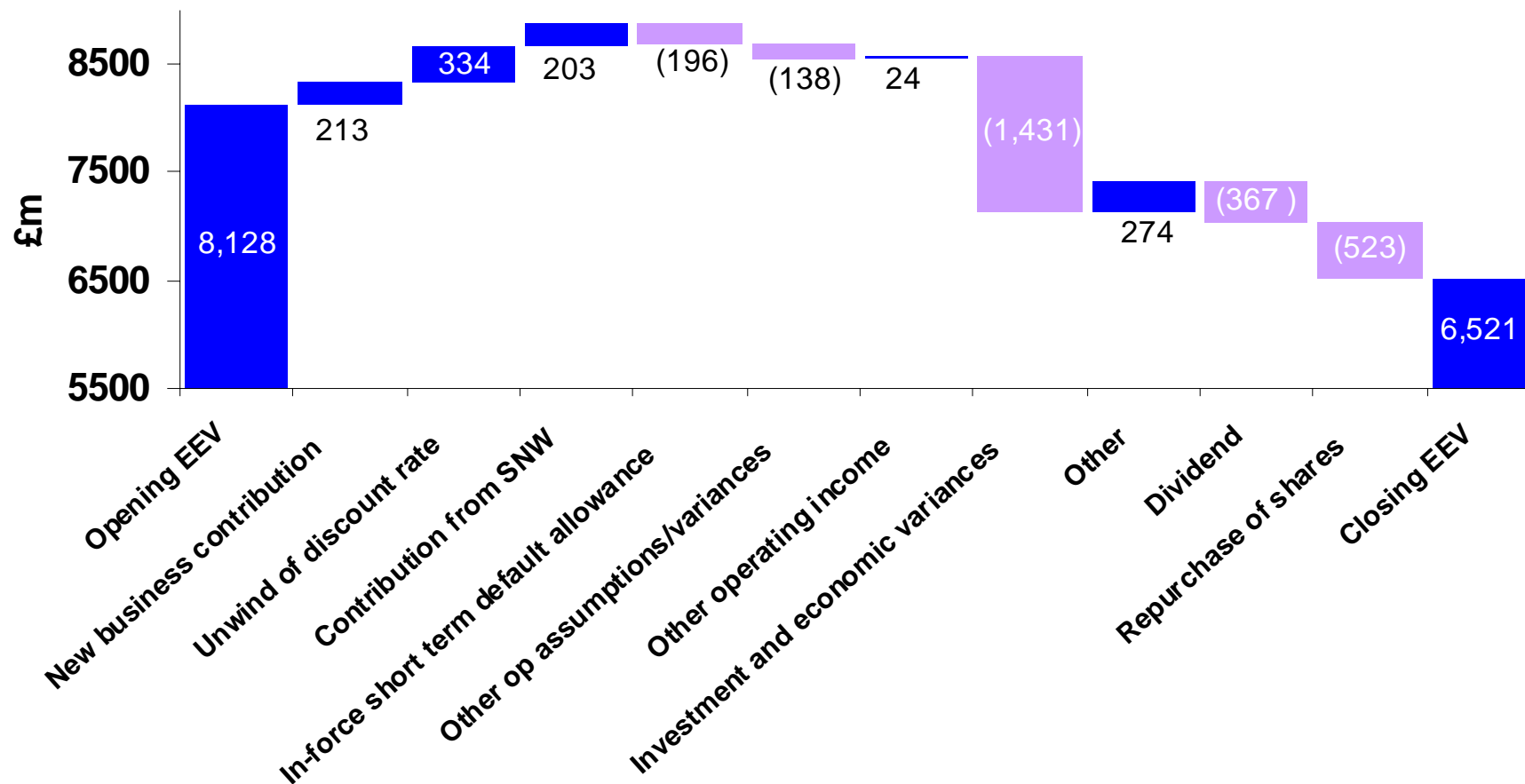


2008 Financial Results – EEV Basis

	PVNBP (£m)		Margin (%)	
	2008	2007	2008	2007
Protection	1,005	1,161	6.2	9.3
Annuities	2,806	2,045	7.4	9.1
Unit Linked Bonds	1,306	2,512	(1.0)	0.8
Non Profit Pensions	2,183	1,674	(0.4)	(0.8)
With-profits	1,233	1,500	1.2	1.3
Total UK Risk & Savings	8,533	8,892	3.1	3.6
Total Group	9,429	9,807	3.1	3.7

Analysis of EEV Shareholder Funds

EEV per share at 31/12/07 = 129p, at 31/12/08 = 111p



2008 Preliminary Results

Balance Sheet & Capital



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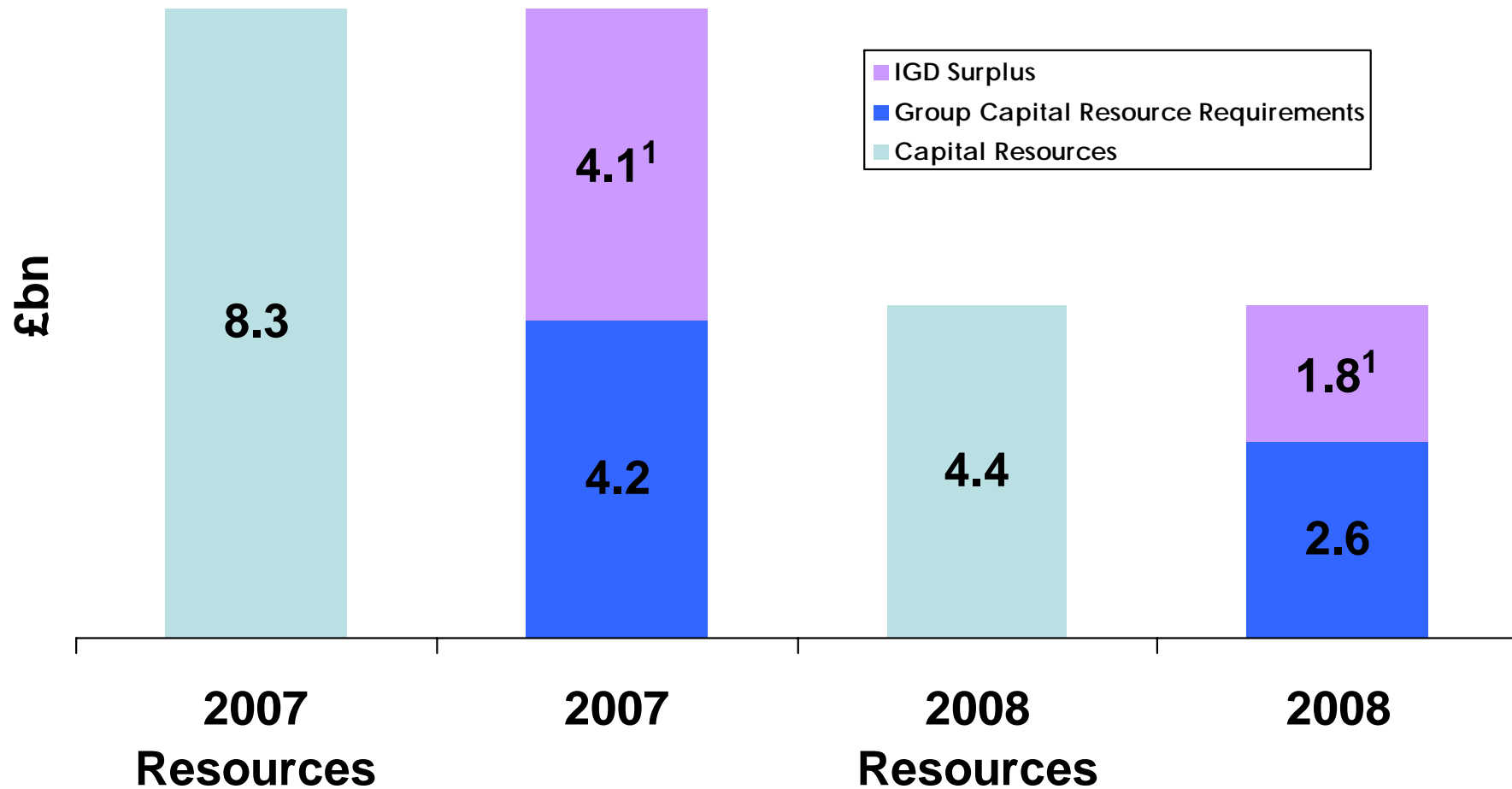
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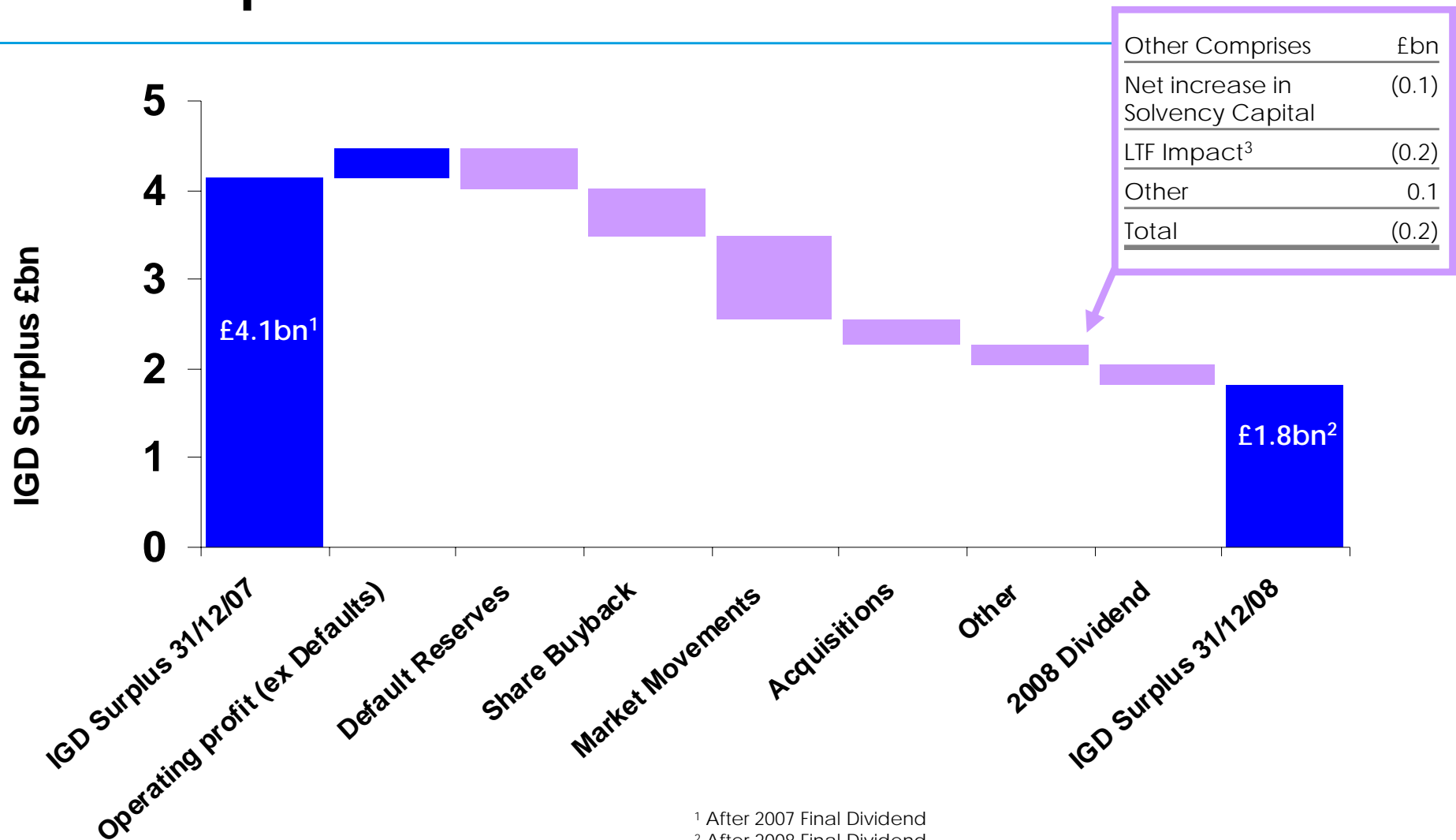
Tim Breedon
Chief Executive

Capital Overview



¹ After final dividend

IGD Surplus 31/12/07 to 31/12/08



¹ After 2007 Final Dividend

² After 2008 Final Dividend

³ Society Long Term Fund capital requirement of £2.1bn is met by £1.9bn of capital resources in the long term fund and £0.2bn of other Society Shareholder capital

IGD Update

	£bn
IGD Surplus at 31/12/08 ¹	1.8
IGD Surplus – current estimate ^{1,2}	1.5
Impact from 31/12/08 of:	Impact (£bn)
20% fall in equities (FTSE 3,547)	(0.4)
40% fall in equities (FTSE 2,660)	(0.7)
15% fall in property	(0.1)
100bps decrease in interest rates	(0.2)

1. After accruing for the final dividend of £0.1bn

2. Current estimate as at 23/03/09 includes: equity -11%, property -7.5%, 10 year gilt yield -30 bps, credit spreads +25 bps

Liquidity – Group Asset & Debt Maturity Profile

Maturity Profile as at 23/03/09

Years / £m	< 1	1-5	5-15	>15
Cash	219			
Short Term Assets	93	340	12	8
Short Term Debt	(386)	-	-	-
Long Term Debt	-	-	(1,400)	(600)

Cash/Short Term Assets

Comprise bank deposits, bank senior FRNs and AAA rated UK ABS portfolio with average maturity of circa 3 years.

Short Term Debt

Commercial Paper maturities (£386m due within 1 year) are covered by circa £1bn undrawn syndicated committed facility that matures in December 2012.

Long Term Debt

The Group does not have any outstanding bonds that mature or have a call date before 2015. None of the Group borrowing facilities/outstanding bond issues contain any restrictive covenants or rating triggers.

Capital & Liquidity - Summary

- **IGD Surplus stressed**
 - £1.8bn¹ at 31/12/08, £1.5bn¹ at 23/03/09
 - Management actions undertaken
 - Equity sales
 - Increased default reserves
 - Reduced final dividend
- **Sensitivity to further shocks reduced**
 - 40% fall in equities from 31/12/08 would reduce IGD by £0.7bn
 - Further de-risking actions underway
- **Priority is strengthening capital base**

¹ After 2008 Final Dividend

2008 Preliminary Results

Asset Quality & Defaults



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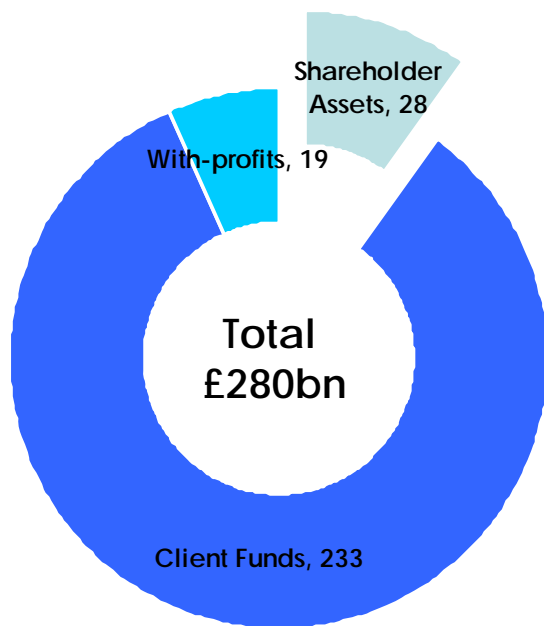


Asset Quality and Defaults
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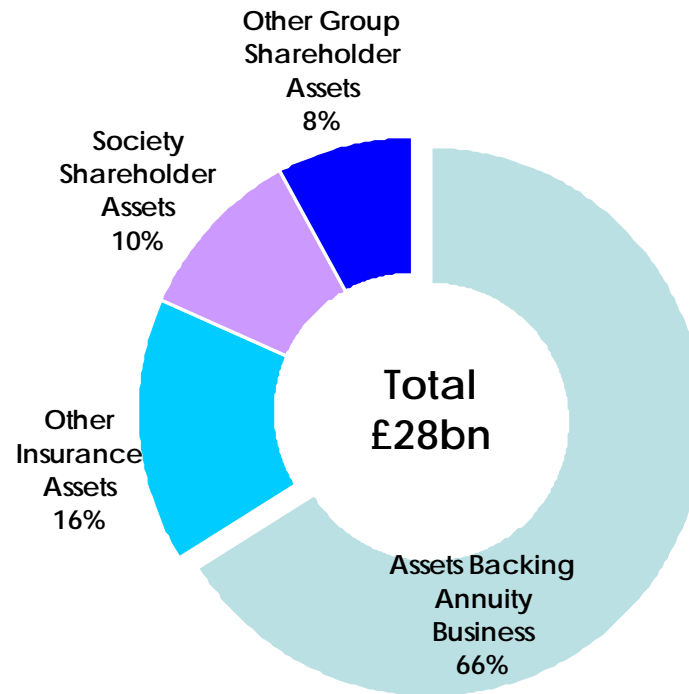
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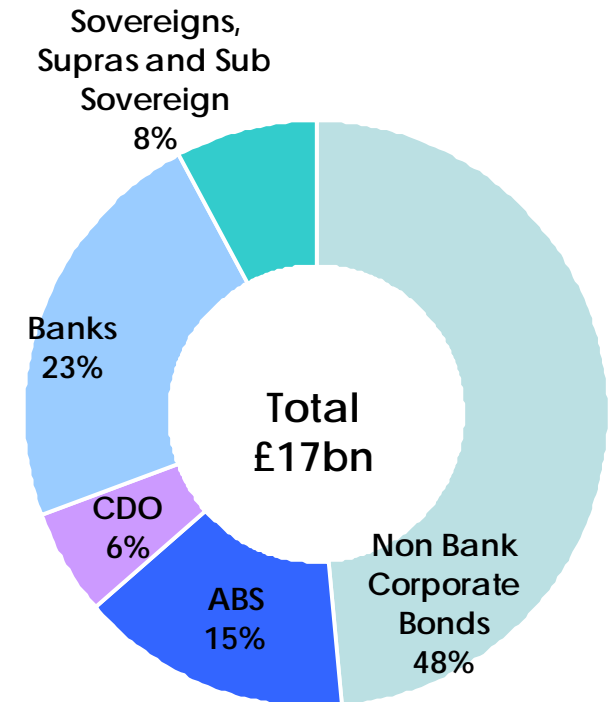
Shareholders' Assets



Worldwide Funds Under Management at 31/12/08 (£bn)



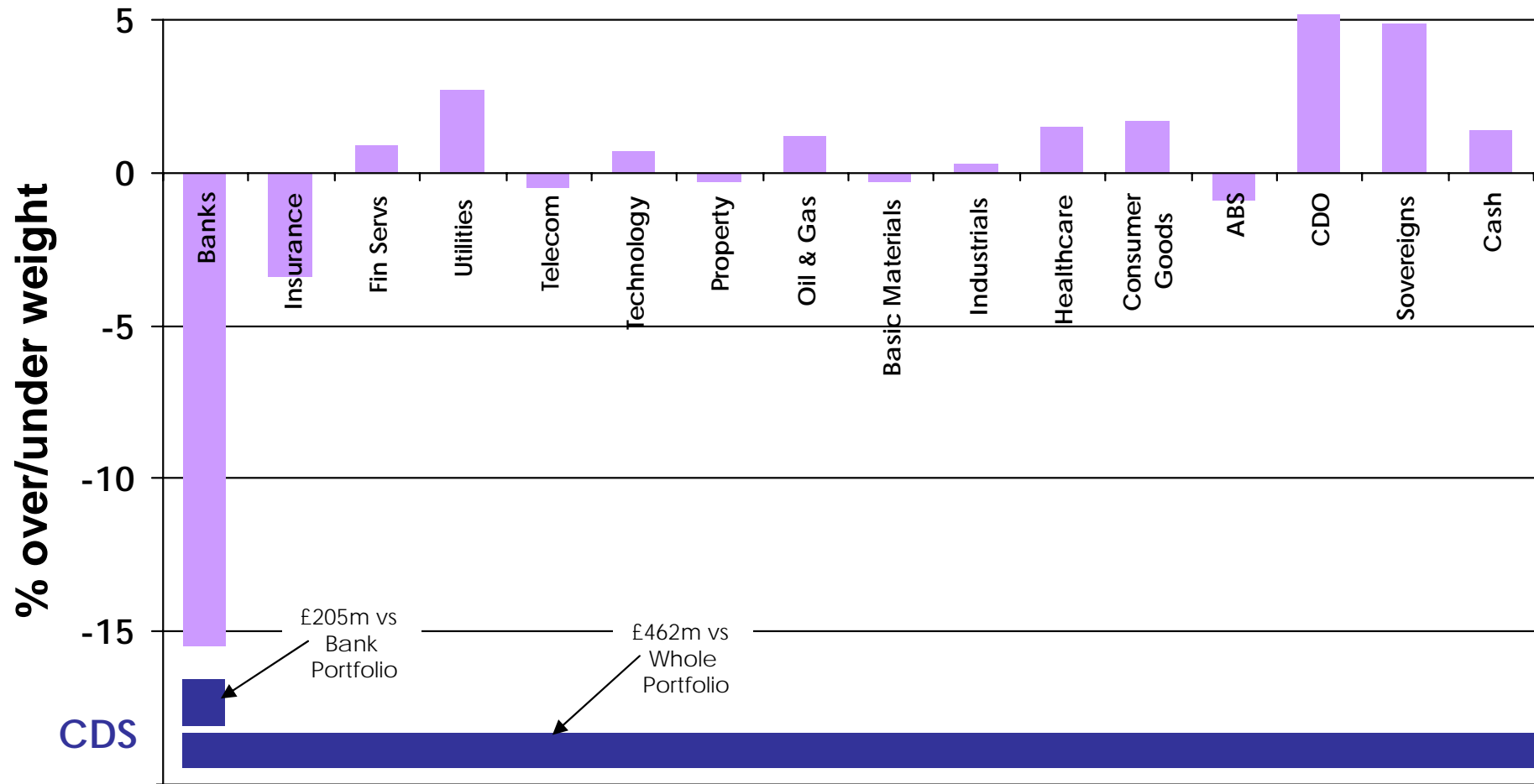
Shareholder Assets at 31/12/08



Bonds Backing non Profit Annuities at 31/12/08

Annuity Bond Holdings vs Index

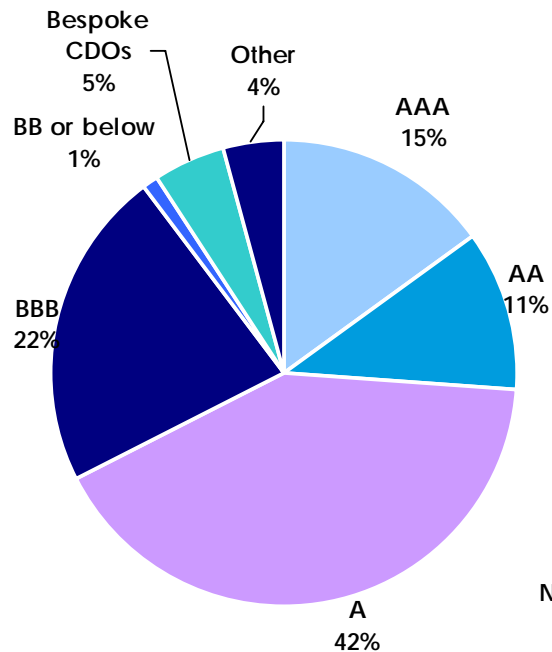
Relative Weighting of LGPL Bond Portfolio vs £ iBoxx Corporate and Collateralised All Share Index



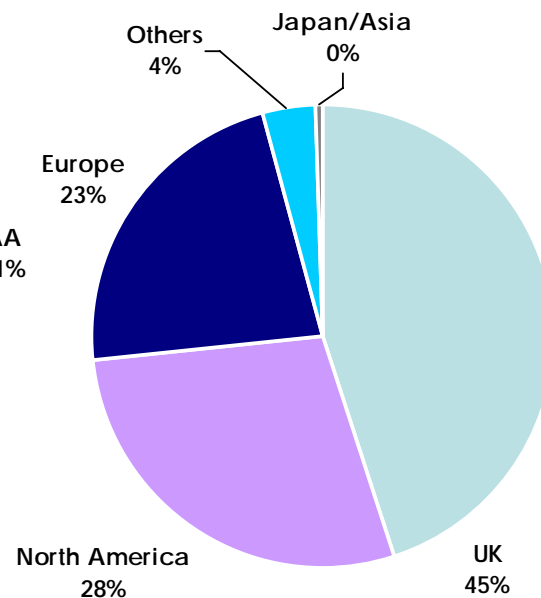
Annuity Portfolio Diversification

Bonds backing non profit annuities at 31/12/08 totalled £17bn

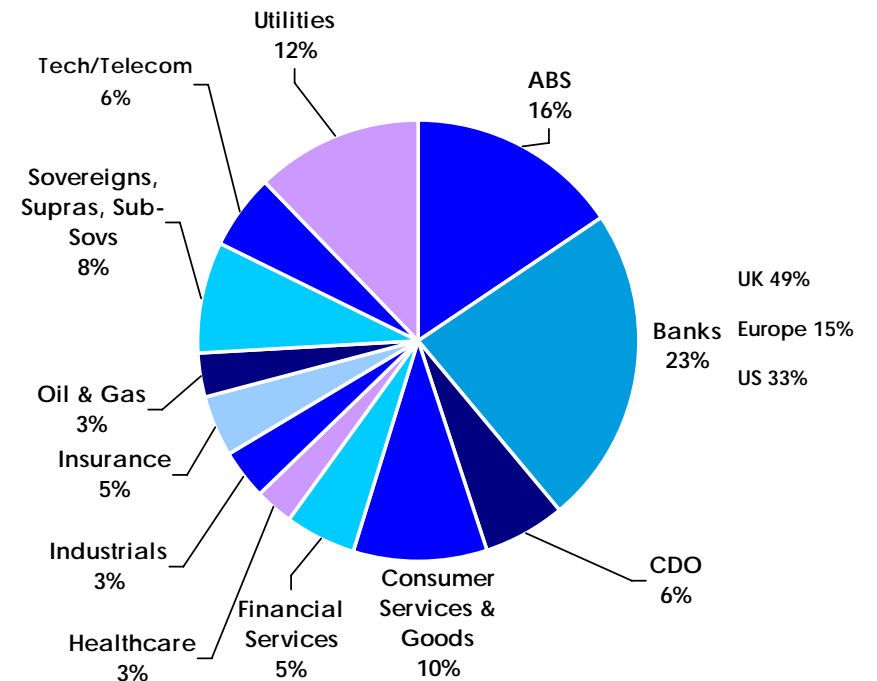
Ratings Breakdown



Geographic allocation



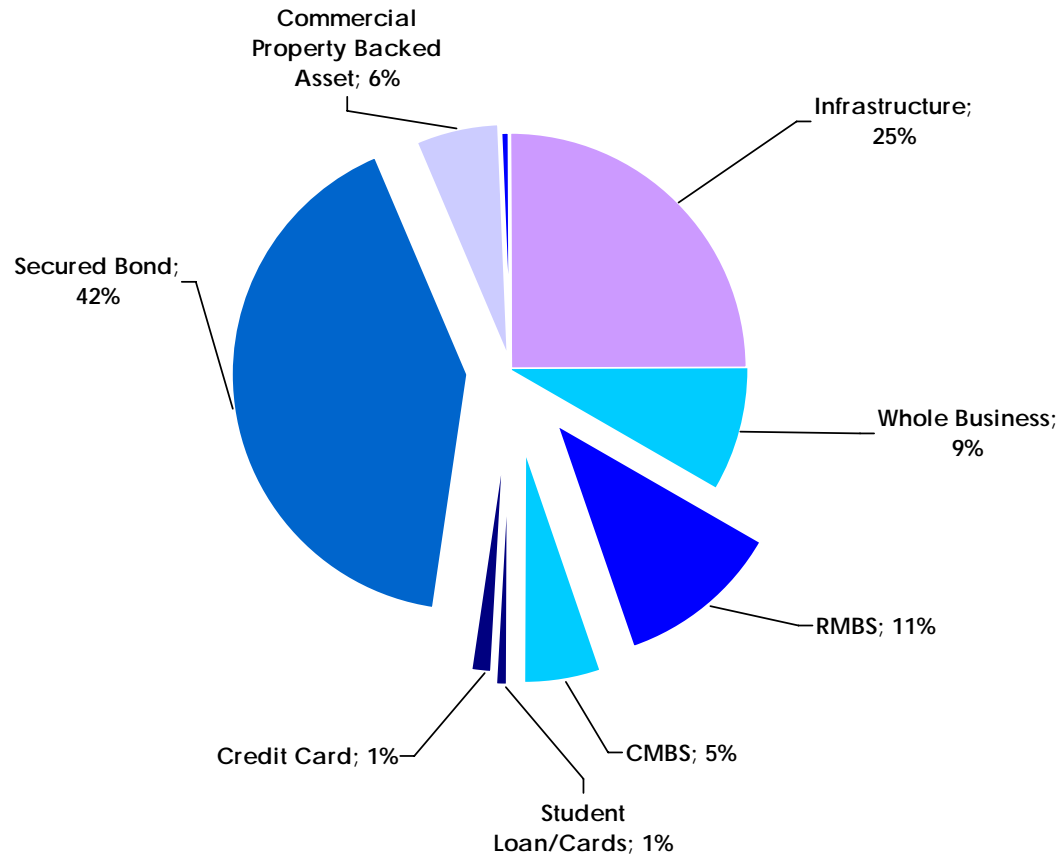
Sector Breakdown



All charts are market value at 31/12/08

ABS Analysis

LGPL ABS assets split by asset class
Total £2.6bn at 31/12/08

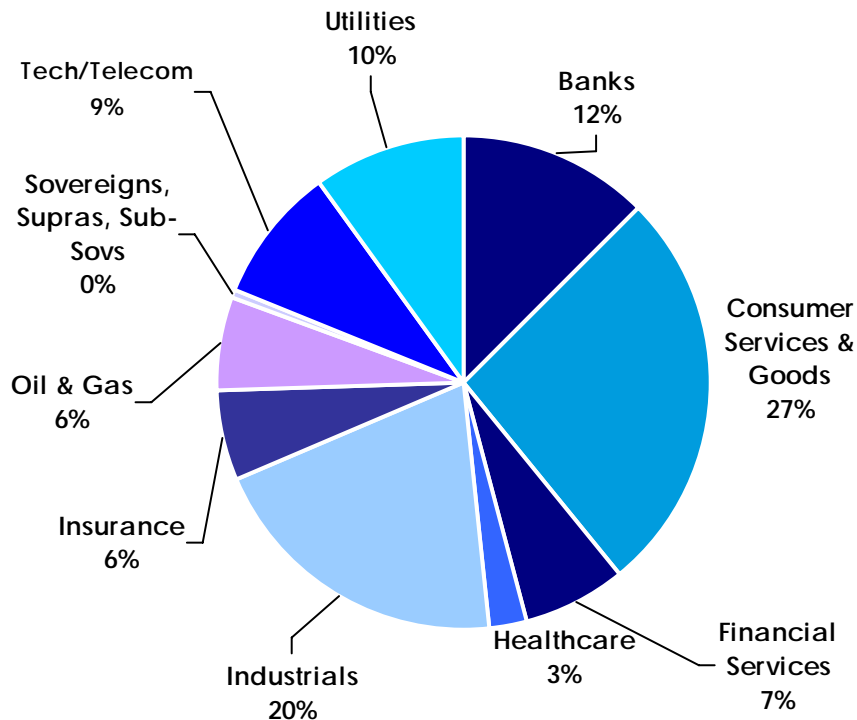


ABS Top 6 Underlying Exposures
40% of Total

Top Names	Sector	Rating
Channel Tunnel Rail Link	Infrastructure	AAA
DWR	Water	A-
Artesian Finance	Water	A-
Anglian Water	Water	A-
Land Securities	Property	AA
Southern Water	Water	A-

CDO Analysis

Breakdown of Underlying
Reference Portfolio at 31/12/08



Super-senior CDO tranches - £844m

- **Internally constructed structure**
 - High quality assets, managed by Legal & General
 - 324 names, 99%+ investment grade
- **Heavy subordination**
 - Over 40% losses (before recoveries) over 10 years before we incur losses
- **Independent valuation review**

Default Reserve Methodologies

1. Historic long term trends analysis

- £1.2bn equates to 68bp pa loss rate for the lifetime of the portfolio
- Long term UK average is 15bp pa

2. 1930s Depression analysis

- 1930s average investment grade losses was 71bp pa

3. Five year peak analysis

- £1.2bn equates to 550bp over 5 years and 30bp pa thereafter
- Five year post war peak experience was 1986-1990 of 250bp

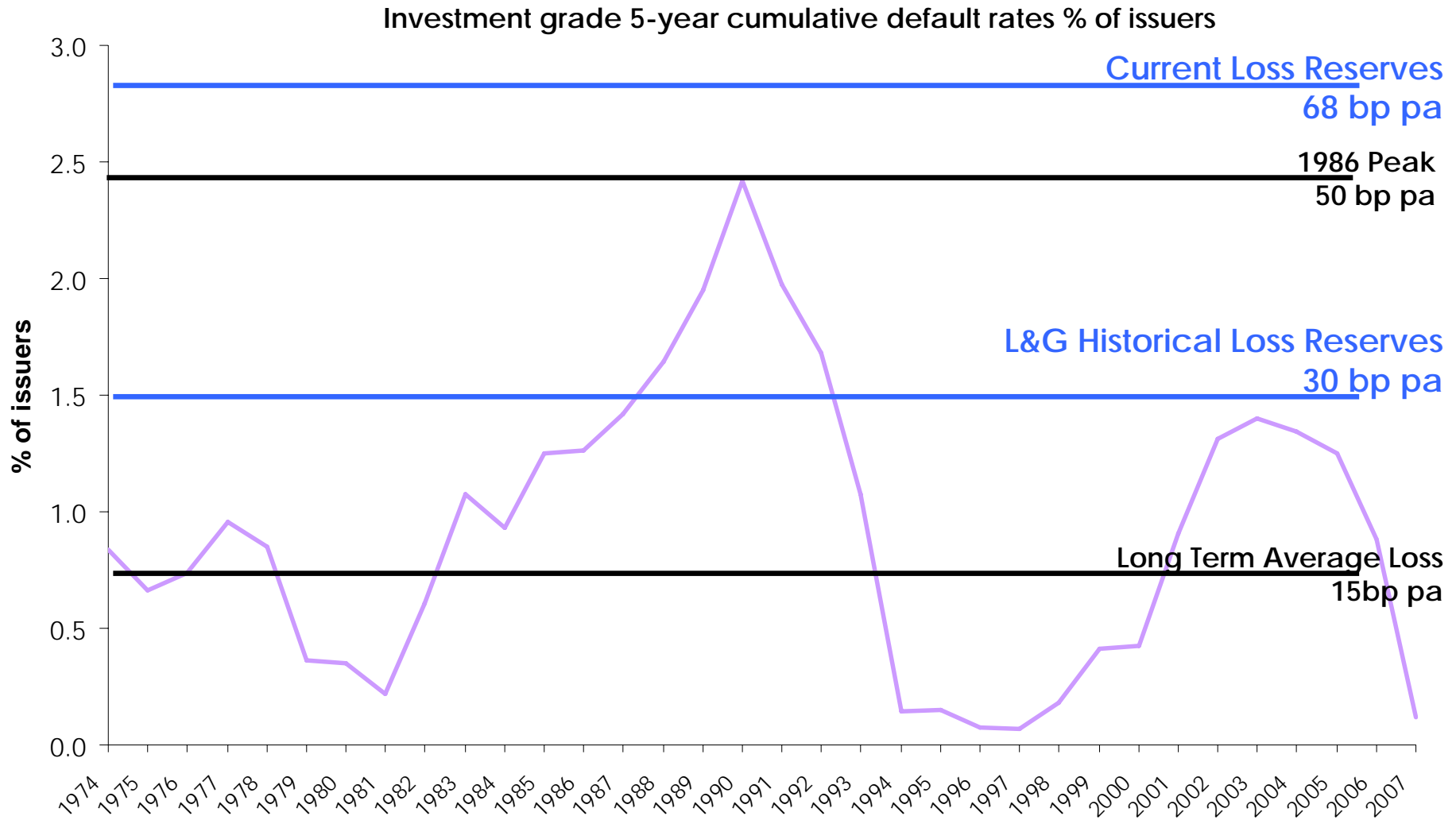
4. Sector by sector analysis

- Referenced to sector by sector experience from 1930s

5. Special bank analysis

- Mark bank T1 and UT2 to LT2 market prices (after haircut for liquidity)
- Stress all debt for worse than 1980s experience

Historic Default Rates



Default Reserve Methodologies

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Operational Cash Flow



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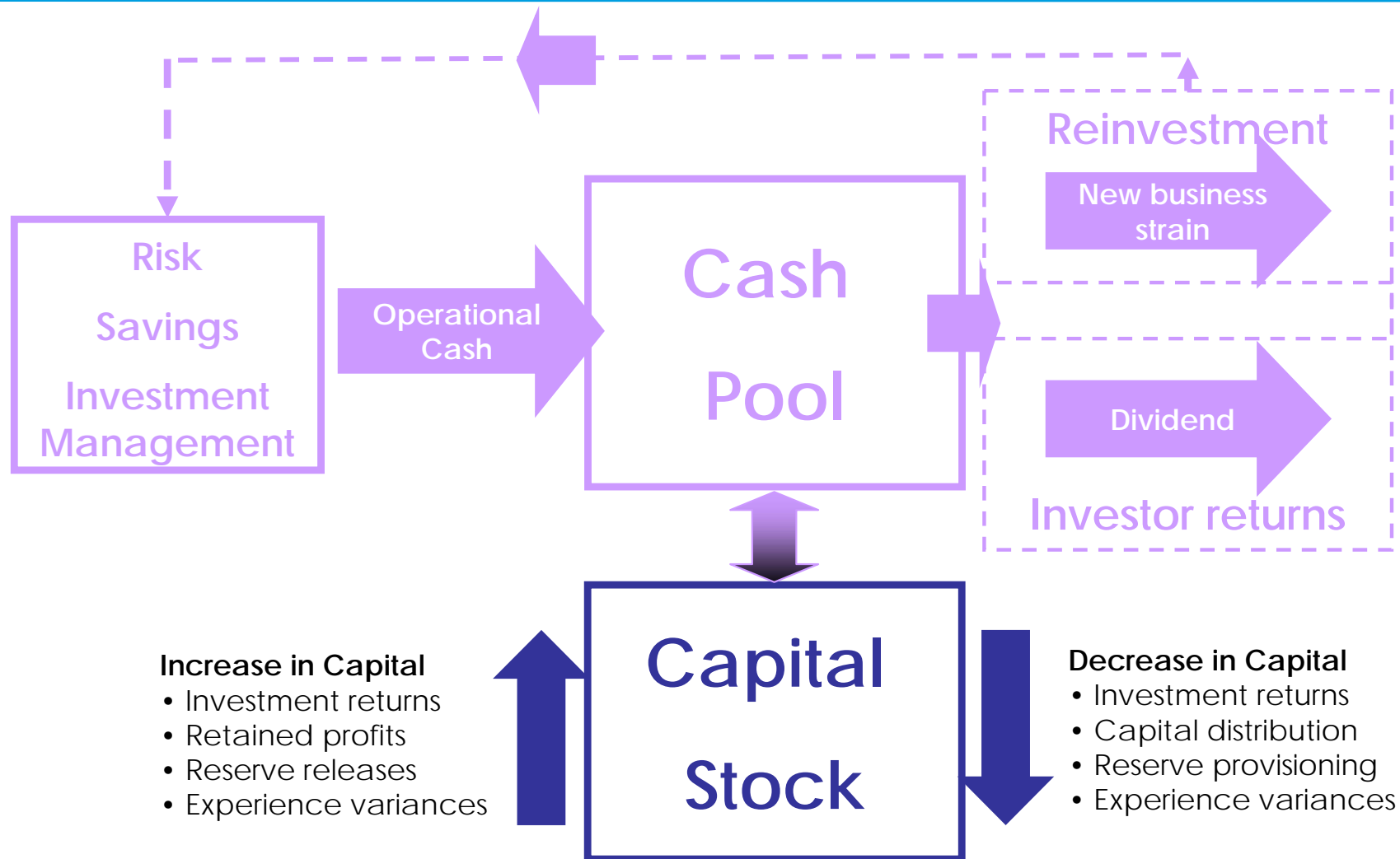


Asset Quality and Defaults
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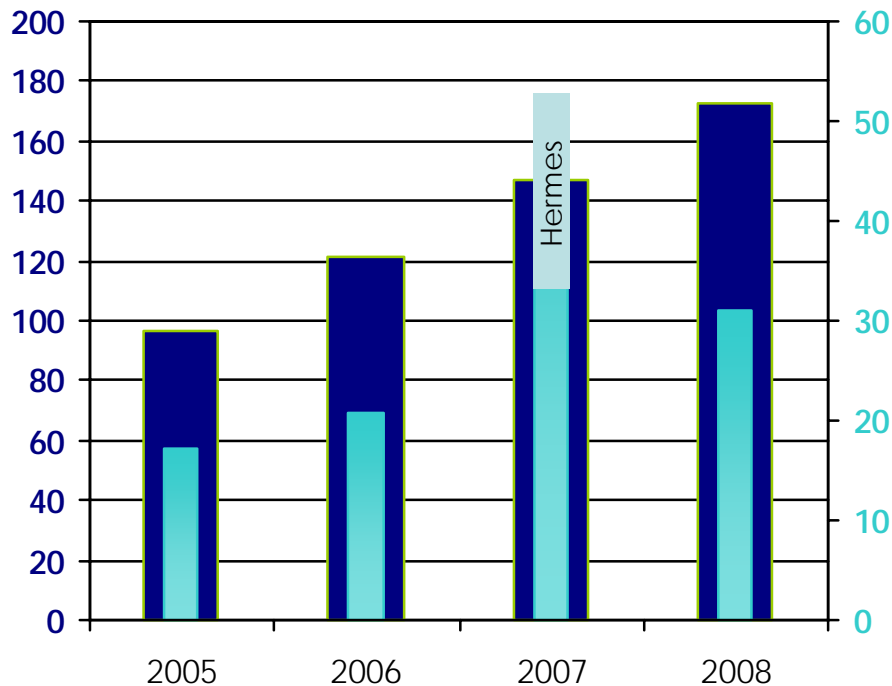


Financial Model



Investment Management

LGIM 2005-2008 - IFRS Profits (£m)
- New Business (£bn)



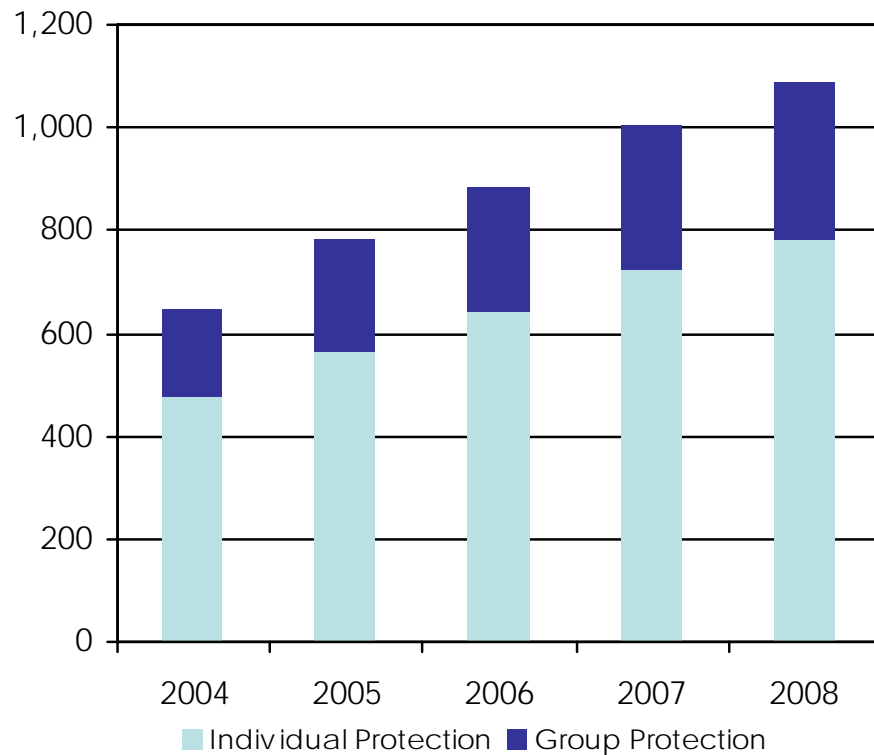
Excellent Franchise

- UK's leading corporate pensions asset manager
- £264bn Assets under management at 31/12/08
- Rising IFRS profits trend
- Strong cash flow remittance to Group

Operational Cash Generation to Group = £115m

Risk - Protection

Protection Gross Premiums (£m) 2004-2008



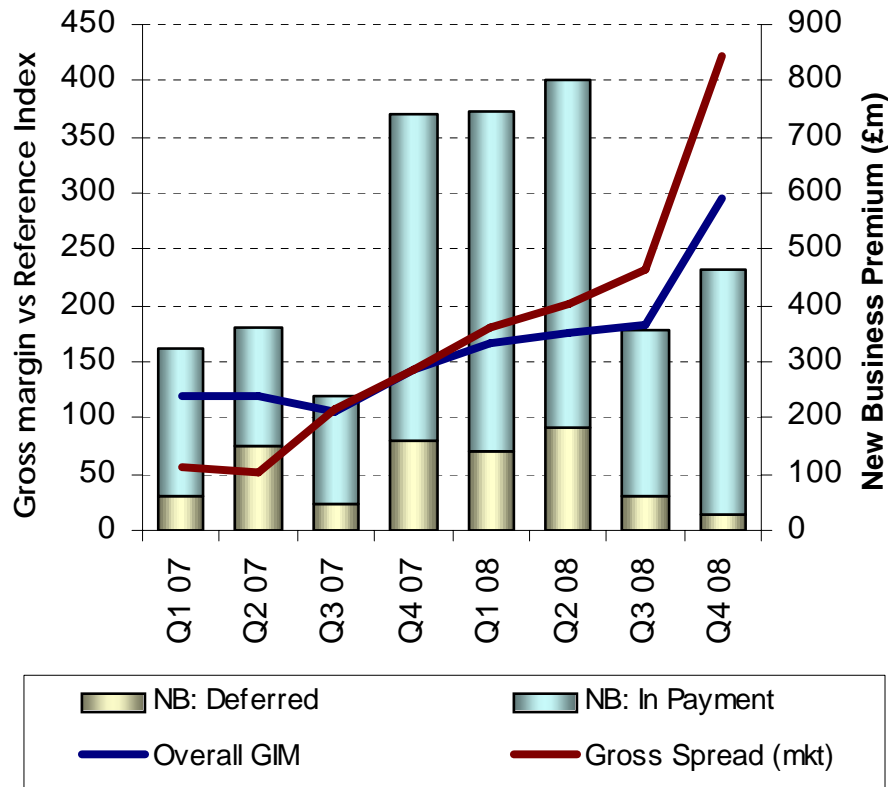
Market Leader

- UK's leading protection provider
- £1.1bn of gross premiums in 2008
- Strong and resilient in-force flows
- Investing to reinforce leadership

Operational Cash Generation to Group = £219m

Risk - Annuities

Annuity Volumes and Gross Margins 2007-8



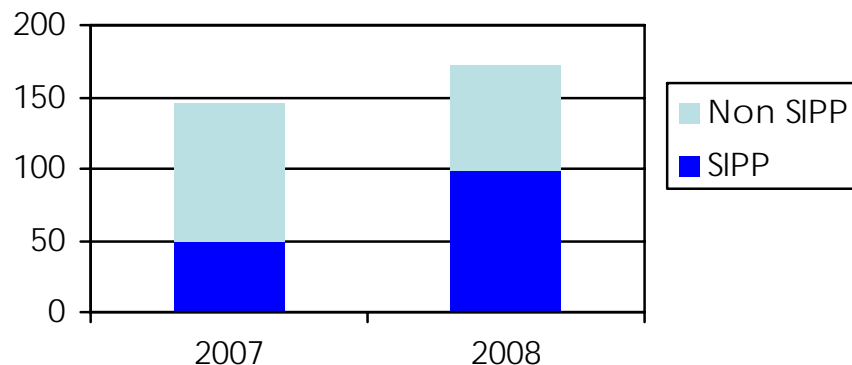
Significant Opportunities

- Leading mortality and asset management capability
- Abundant new business opportunities – highly selective approach
- Sharply rising gross margins more than compensating for risk

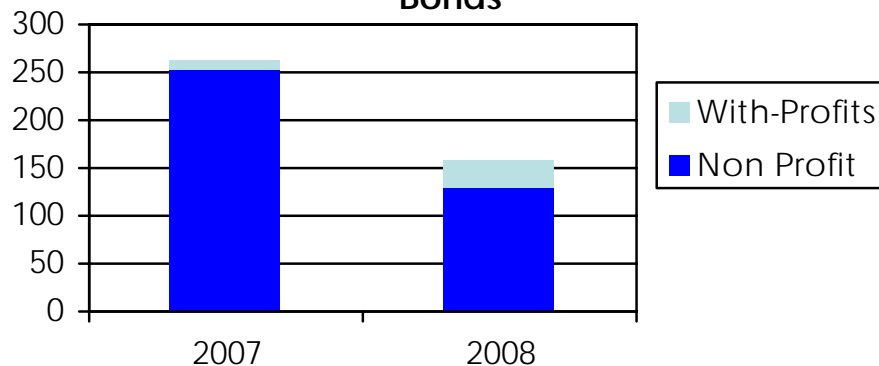
Operational Cash Generation to Group = £157m

Savings

New Business APE (£m) 2007-8
Individual NP Pensions



Bonds



Progress in 2008

- Reduced strain and costs
- Improved product mix
- Changing product shapes – commission and charging
- Acceleration of changes underway

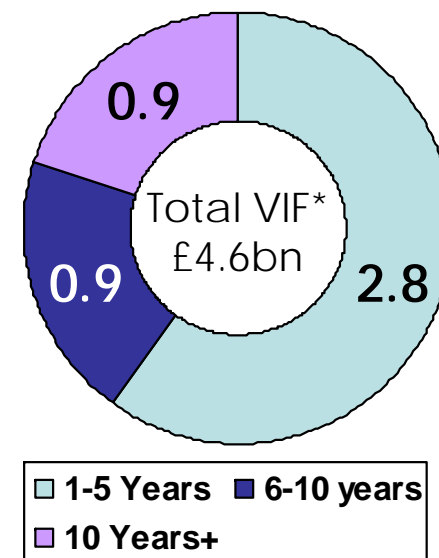
Operational Cash Generation to Group = £154m

Sources of Cash Flow 2008

Risk release	£376m
NP Savings release	£77m
WP shareholder transfer	£77m
Investment Management	£115m
Net investment income	£42m
Other IFRS results	(£33m)

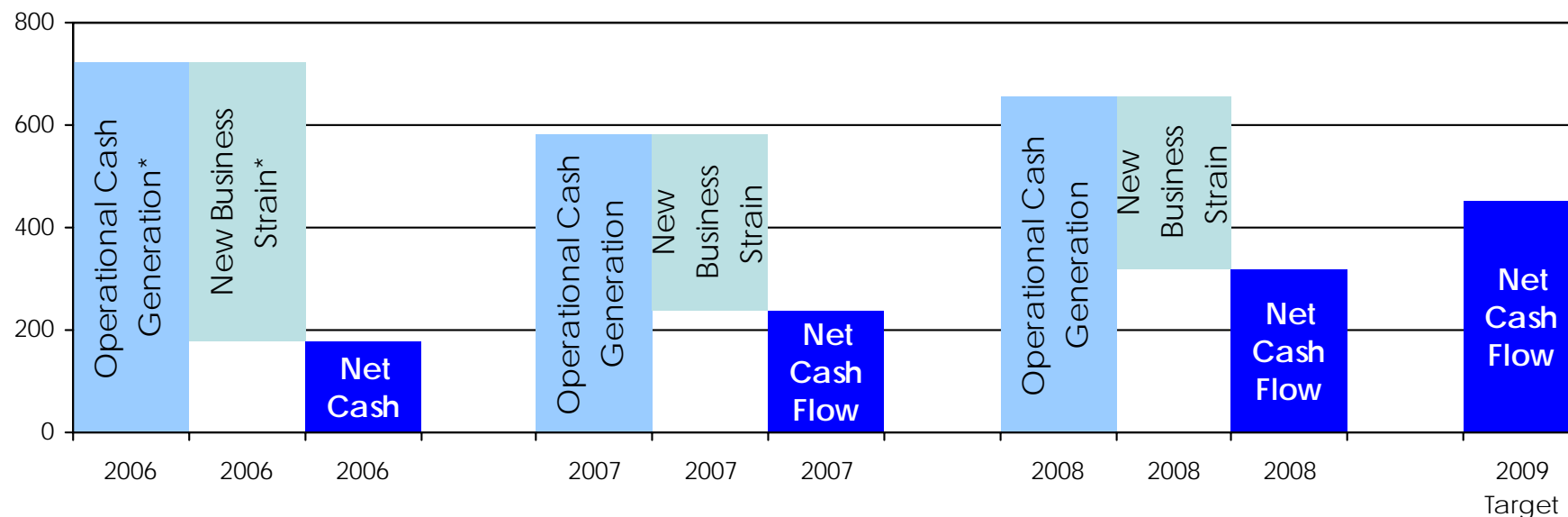
Operational cash generation **£654m**

VIF Monetisation Profile 2008



*Value of In Force before cost of capital

Operational Cash Generation 2006-2008



	2006	2007	2008	2009 Target
Operational cash generation	£723m*	£580m	£654m	
New business strain	(£546m*)	(£344m)	(£334m)	
Net cash flow	£177m	£236m	£320m	£450m

* 2006 Operational Cash Generation and New Business Strain affected by PS 06/14 effects

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2008 Preliminary Results – Summary

- **Operationally strong**
 - Difficult trading conditions
 - Operational cash flow prospects robust
 - Management action on costs and new business strain
 - Net cash generation in 2009 to be greater than £450m

- **Balance Sheet de-risking and capital strengthening actions undertaken**
 - Equity sales
 - Increased default reserves
 - Reduce final dividend to 2.05p

Questions