

Half Year Script 2009

1. SLIDE – TITLE
2. SLIDE – FORWARD LOOKING STATEMENTS
3. SLIDE – AGENDA

This morning's agenda follows the format we set out in March – we will once again focus on the balance sheet and capital, asset quality, especially as it pertains to the assets backing the annuity business, and business performance in the context of operational cash generation.

4. SLIDE – STRATEGY

Legal & General is a diversified group of inter-related businesses with shared customers, brand, infrastructure, and values that clearly benefit from the existence of multiple layers of synergy. And we are very clear on the characteristics of the businesses we want at the heart of the company. I've laid out some of these on this slide. We like high scale operations in large markets. We like strong client and distribution franchises. In Savings we aim to be an investment management led manufacturer and assembler of modern, flexible and capital light products. In Risk we target risks we are able to understand and an appropriate return on the capital we deploy. In both areas we favour rapid cash generation and enduring client relationships driven by the long term nature of our contracts or the quality of our service and

continued appeal of our products. And all of our businesses have a very clear sense of the value they add to people's lives and the purpose they serve. We take pride in those businesses that successfully and responsibly align the interests of shareholders and customers whilst meeting a wider social and economic need.

Most of our businesses already possess these characteristics. Others are on a journey to get there. Those that do not fit the model already have increasingly small parts to play in today's L&G. You have already seen how the Group has shifted emphasis in the last three years. In the last twelve months there has been an acceleration of that strategy. We already have a number of big successful businesses in big markets where scale economies really count. And our aim is to focus on developing more of these.

5. SLIDE – RESULTS OVERVIEW

In March we set out a course for 2009 which centred around three things; improving operational cash flow and reducing the capital tied up in new business, reducing costs and improving balance sheet resilience. I'd like to update on each of these areas.

Market conditions have been widely commented on elsewhere. The combination of an economy in recession and extreme volatility in financial markets has created tough trading conditions in the first half

of the year. Despite this cash flow was strong. Operational cash generation in our UK businesses was £333m in the first six months. Significantly, new business strain was down to only £31m reflecting the impact of a series of management actions taken with respect to pricing, sales mix, commission, and product terms. Despite these actions, sales have been resilient. UK new business APE is down only 10 % compared with the pre-credit crisis first half of 2008. Net cash flow improved to £302m, well on track to achieve our £450m target for 2009

Next, costs. Following a fall in UK headcount of 10% in 2008, I indicated that I expected to achieve a similar 10% reduction in headcount this year. In the first half we have delivered a further 7% cut, and, based on announcements already made, we expect to exceed our 10 % target for the year. It is expected that the annualised cost savings of actions implemented in 2009 will be of the order of £50m.

Investment market confidence has improved somewhat since we reported in March. Narrowing corporate bond spreads and stability in equity markets have eased balance sheet and capital pressures. After accrual of the interim dividend, and including the recent issue of £300m of lower tier two securities, IGD surplus at end July is estimated at £2.2bn, up from £1.6bn at the end of March. Our capital resources now represent 192% of our regulatory capital requirement, up from 169% at the year end. .

EEV operating profits are up 12% to £657m, with the contribution from new business broadly unchanged at £196m. Whilst underlying business performance and cash generation were strong in the first half, there are some material one-off investment effects which have reduced both IFRS and EEV reported profits. Andrew will take you through the detail but the major impact is that reported IFRS operating profit is down to £31m.

Ultimately, it is sustainable cash flow which pays our dividends. Against a backdrop of extreme and uncertain market and economic conditions, we indicated last time that the Board had decided to direct a higher proportion of available cash flow to strengthening the capital base of the company. We are continuing with this policy. The interim dividend is therefore reduced by 45% to 1.11p per share, at a cost of £65m. This decision reflects progression from the year end and indicates growing confidence in cash flow generation which has not been undermined by one-off investment variances. In the medium term, we expect to grow the dividend in line with the increase in operational cash flow.

I'd now like to hand over to Andrew who, as you know, is delivering his last results presentation today before he retires from Legal & General later this year. Before I hand over, I'd like to express my thanks to

Andrew for his contribution to the Group over the last 23 years. Thank you and over to you, Andrew.

6. SLIDE – FINANCIAL REVIEW

Thank you Tim. I'd like to spend some time reviewing the overall results today, focussing on the IFRS numbers but still covering the EEV results. After that I'll go on to talk about balance sheet and capital matters.

7. SLIDE – FINANCIAL RESULTS

Here are the financial headlines.

Operating profit on an EEV basis is £657m up 12%. However, on our preferred IFRS measure, we are reporting an IFRS operating profit of £31m. The segmented breakdown of this result is also shown on the slide

The Risk IFRS headline result is affected by the investment effects that Tim has mentioned and which I will cover in more detail. We have made strong progress in underlying cash flows helped by good cost management, the benefits of further technology deployment in protection and attractive market prices in annuities. EEV new business margins have benefited from these effects, with protection margin up to 7.0% Annuity new business gross interest margin was in the region of 250bp. Within the Risk result, the general insurance business has

returned to profitability, reflecting our actions on pricing, claims and cost management.

In Savings, we have made good progress on costs, commission, product charges and product mix benefiting the cash result. The IFRS result is affected by a lower with-profits transfer and a challenging prior year comparator, which benefited from one-off reserve effects.

Negative EEV new business margins on non profit savings product lines reflect a higher discount rate and higher unit expenses, where volumes have fallen but where the full impact of cost management initiatives are yet to feed through to margin. We expect margins to improve in the second half, and into 2010, as the full effects of management actions are felt. Improving IRRs and paybacks will follow; the latest results are in your packs.

We believe we have 'turned the corner' in Savings in the first half, with material progress on the cash position but still need to deliver the benefits of cost and headcount reduction initiatives and make further changes to product mix and structures.

Investment Management delivered £70m of IFRS profit in the first half, down 23% from twelve months ago. This reflects the effect of falling asset values on income and the costs of our investments to diversify the

LGIM business into other core investment markets to complement index tracking:- which is beginning to yield returns.

The International business IFRS result of £65m reflects the positive impact of strain and expense management in the US and Netherlands offset by lower margins in our French business.

The final segment is Group Capital and Financing where we made a £29m profit on an IFRS basis. The reduction from prior year principally reflects lower average asset balances which have been invested with a higher proportion in fixed interest and cash.

8. SLIDE - SOURCES OF CASHFLOW

In summary, total cash generation in the first half was £333m which compares with £654m for the whole of 2008. This cash generation is broadly based across our Risk, Savings and Investment Management businesses and the monetisation profile of the VIF demonstrates strong prospects for continued cash generation at these levels for the immediate future. The life and pensions businesses are performing strongly but we need to grow the contribution from the other businesses to complement the established strong cash profile in LGIM.

9. SLIDE – IFRS OPERATING PROFIT 2008

This slide shows our reconciliation of operational cash generation to reported post tax IFRS profits. Here we have broken out the effects of experience variances and assumption changes. You can also see the other reconciling items including the profit from our International businesses, which we do not include as part of operational cash flow.

The business generated £302m of net cash after funding an investment of £31m in new business in the first half of 2009. The other significant item is the IFRS experience variance which arose predominantly from negative investment variances of £351m.

10. SLIDE – ASSETS/DEFAULTS

That IFRS experience variance is explained by three principal factors.

First – risk mitigation and credit sales impacts which accounts for £75m. We have taken a lot of action to reshape the portfolio and remove some specific credit exposure from our portfolio. In particular, bank junior subordinated debt exposure has been reduced considerably with overall exposure to banks T1 and UT2 debt falling to 2.5% of the portfolio from 6.5% at the year end. There has been a small reduction in portfolio yield associated with this exercise, the negative impact of which is estimated at £45m. In contrast, the market value effect was positive as the replacement purchases have outperformed the sales by roughly the same amount. In addition, there has been a further small

reduction in yield effect from other bonds being either sold or removed from the yield calculation which is estimated at a further £30m. We could have charged these effects to the short term default provision that we established at the end of last year, but we have chosen to charge them straight to profit.

The second effect is stronger default provisioning which accounts for a further £55m. The portfolio suffered defaults amounting to just £1m in the first half. However we have seen many downgrades on the portfolio over the last six months with the proportion of the LGPL portfolio invested in single A rated or better bonds falling from 68% at the end of December to 61% at the end of June. This level of downgrades - which is less than has been experienced by the major UK corporate bond indices - because of our underweight position in banks and financials - has been recognised in our calculation of default provisions and we have increased the long term default assumption from 30bps to 36bps.

Once again we have chosen to reflect the net impact of this strengthening as a charge against profit and in doing so we have maintained the short term default provision at £650m. No release from the short term provision is included in our cash flow measures. Overall the total provision for credit default has increased to £1.3bn and now represents 74bp per annum of assets in the annuity fund. These

measures have had a small negative impact on our IFRS result, but predictably a larger one on EEV.

Finally, and most significantly, there were three one off investment related effects. These effects are a feature of both IFRS and EEV reporting. Given the size of the portfolio, small yield effects, even if unrealised, will be magnified through the lens of the £20bn LGPL balance sheet as they are projected forward 10 years or more.

Specifically;

£85m related to settling forward foreign exchange hedging contracts by diverting cash which would otherwise have been invested in credit and thus lowering the yield. This reverses a broadly equivalent positive impact from the same underlying effect in 2008.

£88m was an unrealised effect from receiving large cash balances, partly associated with our FX hedging programme towards the end of the period. This cash is being invested into credit however spreads have narrowed over the period.

£30m is the result of earned cash interest rates being below modelling assumptions.

These negatives are largely one off effects, arising from extreme market conditions and spreads substantially narrowing in the first half of the year. They are not related to underlying profit and we will be considering the appropriateness of including these effects in our definition of operating profit. However, the currency hedges we have in place remain an essential risk management tool for our diversified global credit portfolio which has continued to outperform alternative sterling benchmarks. For example, we estimate that since the start of 2008 our global portfolio had outperformed a sterling portfolio of similar duration by over £400m

Finally on assets, we have repeated the disclosure on the asset portfolio that we provided in March and this is included in your packs. As you will see, the overall shape of assets has not changed dramatically since the year end. Including the derivative overlay used to hedge currency, interest rates and inflation, the assets backing the annuity portfolio represent £20bn of shareholder assets. We remain well diversified geographically and by sector.

11. SLIDE – EEV

Here is our usual reconciliation of opening and closing embedded value. EEV at the half year was 95p per share, down from 111p per share at the end of 2008. The moving parts are shown on the slide with the single biggest item being the £1.2bn reduction from investment

variances. This variance is summarised on the slide and described in detail in your packs; it is due to three principal reasons. Most importantly and, as you would expect, we've had some negative investment experience, against assumptions, which accounts for £508m mainly across the annuity, with profits and shareholder assets.

Secondly, there are two asset allocation effects totalling £511m. As we refocused management on IFRS profits and IGD surplus, we changed the cash flow matching basis for annuities. This action was neutral to IFRS/IGD and limited the volatility of these figures in stressed market conditions, but negative for EEV as we locked into a lower reinvestment rate than had previously been assumed in the EEV figures. It is just not possible to manage two profit reporting bases simultaneously and this resulted in a £335m variance. Furthermore, we made other asset allocation decisions to reduce the equity backing ratio for solvency capital and hold higher cash balances which resulted in a £176m variance.

Economic assumption changes of negative £630m reflect increases in the risk discount rate in both the UK and the US; the increased cost of capital on increased annuity reserves and the EEV effect of the increase in the default provision.

12. SLIDE – BALANCE SHEET

Next I'd like to move on to discuss balance sheet and capital matters and explain where we are on IGD surplus.

13. SLIDE – CAPITAL OVERVIEW

On this slide, I've laid out the Group's capital resources at the end of June. At that date the IGD surplus was £1.9bn, up from the £1.8bn at the end of December and the £1.6bn estimate we gave at the end of March. I've added to the slide the £0.3bn of lower tier two debt we raised in July which means, on a proforma basis capital coverage ratio is estimated at 192%, up from 169% at the year end. This is a comfortable level of capital given the size and risks of the business.

IGD has been relatively stable over the period with no major changes. The opening and closing IGD reconciliation is in your packs. In line with our approach at the end of the year we have accrued the £65m cost of the interim dividend in our IGD calculations.

14. SLIDE – IGD SENSITIVITY

On this slide I have laid out the usual IGD sensitivity calculations from the end of June. All these numbers include the effect of management actions that we have taken this year - and, those we have available to take in more extreme stresses. As you will be aware, the impact of combined stresses will not necessarily be additive.

We are giving you a 100bps spread widening sensitivity for the first time. Apart from this, the sensitivities are very similar to those we gave you in March, except that the dominant interest rate sensitivity is now a 100bps increase. Previously the 100bps reduction sensitivity was dominant. This switch reflects two factors. First our actions to more closely match the IFRS annuity position. Second, the with-profits business has moved to a Peak 1 basis, but this has no impact on IFRS earnings.

We are continuing to actively manage the balance sheet and have been successful in de-risking against a backdrop of severe economic conditions.

IGD surplus is robust and in line with the size and risks of the business. I'm pleased to be leaving my successor with a strong and resilient balance sheet.

So, for the 18th and final time, thank you for listening. I'd now like to hand back to Tim.

15. SLIDE – BUSINESS REVIEW

Thank you, Andrew. Finally, and most importantly I'd like to talk about the business.

16. SLIDE – LGIM

Our investment management business typifies the sort of business we like to develop and to hold within the group. Over the years we have built a high scale, high quality franchise with an unparalleled reputation for service amongst its large client base. It is by some distance the largest fund manager to UK pension funds. And it is still growing. Profit and cash flow is both predictable and strong and the capital employed in LGIM is low. To remind you, LGIM is held at a value of £369m in the balance sheet.

LGIM continues to perform well. Investment management new business flows of £15bn in the first half are down only slightly on last year's exceptional year. This represents a fantastic result in testing market conditions, where asset values have fallen sharply. Particularly encouraging is the progress being made by our core fixed income and LDI area. New business into these products is sharply higher and the pipeline is strong for the second half. This represents further evidence that our strategy is working. We are complementing our index tracking proposition with other core investment products aimed at our leading UK corporate pension fund franchise. We are also seeing strong interest from non UK clients, particularly in our index funds. The new business result, coupled with a level of persistency which is well ahead of industry norms contributed to funds under management of £271bn (up 3% from the end of 2008) and a £74m pre tax IFRS profit, down 21% on

the first half of 2008, a period in which market values (and hence revenue from ad valorem fees) were considerably higher than 2009 to date.

17. SLIDE- PROTECTION

Over recent years we have created the leading protection franchise in the UK. Scale and diversification are producing stable earnings. The maturity of the business means that it is generating cash. Excellence in underwriting and technology has improved returns whilst also enhancing customer and distributor experience. From a customer perspective, protection is all about claims – having the confidence that your provider will be around to pay claims in the future and the comfort that valid claims will be paid fully and efficiently – this responsibility is at the heart of our protection business.

Our focus on quality, efficiency and cost in new business have yielded a positive effect on margins which on an EEV basis are up to 7.0% in the first half. There are tax synergies arising from operating both protection and savings businesses. We are also consolidating our strong franchise – overall protection premiums have continued to grow to £561m in the first half, up 1% over 12 months. In individual protection, claims are down 7%, and total cost are down over 20%. As a result operational cash generation from in force protection amounted to £90m.

In the first half of 2009, the mortgage market remained weak with transactions some 52% lower than in the first half of 2008. There are now however some signs of recovery in the housing market which is a positive indicator for individual protection.

Our mortgage adviser network is performing well. Recruitment trends have turned positive here - both advisers and lenders are attracted by our reputation for quality and strong controls. Our Mortgage Club accounted for 12% of all intermediated mortgage lending in the first half of the year and remains a substantial force in the market.

We have continued to drive up life to mortgage ratios and to pursue our strategy of diversification away from mortgage related activity into other market segments. Our partnership with Nationwide Building Society is performing well, however corporate activity and reduced appetite to lend amongst some of our other partners has held back volumes. IFA business remains highly competitive, and we have distanced ourselves from some intermediaries where business quality did not meet our standards, accepting that this will reduce our market share. Overall, individual protection APE volumes are down 18% on the first half of 2008.

Underlying Group Protection premiums are up 6%. We continue to lead the market in group life assurance, although market volumes have

come under pressure from the impact of a weak economy on our corporate clients. Persistency remains good and we continue to retain over 90% of our group protection schemes every year.

18. SLIDE – ANNUITIES

Turning now to annuities. We have a high scale, high quality business generating consistent spread returns whilst delivering good value to customers. We pay income in retirement to 480,000 UK pensioners. We seek to satisfy our risk appetite in annuities through focussing on the most profitable segments across the bulk and individual markets. At the same time we are actively managing asset and liability risk through our significant commitment to understanding the drivers of human longevity and pro-active management of the portfolio backing our annuity liabilities.

Tougher economic conditions and volatile markets have affected the deal flow of bulk annuity schemes in the first half. Increasing pensions deficits have made it harder for pension trustees to bridge the gap to a buyout price and some schemes have moved straight to the Pension Protection Fund. Historically, we have not tended to compete in the large scheme market where pricing has been most aggressive; we have maintained our focus on the smaller end of the market, writing 41 new schemes in the first half representing £738m of bulk premiums. Over 50% of these new BPA schemes were existing LGIM clients seeking

to move to buyout, with many more following pre buyout investment strategies.

In the first half of the year, we have diverted our appetite to the individual annuity market where available returns were higher, writing £590m of premium. Maturing individual pensions schemes in the savings business generated more than £150m or about 25% of individual annuity sales - another example of the synergy which exists between the businesses.

Overall, pricing was favourable in the first half. New business margins were around 250bps in gross interest margin terms or 11.1% on an EEV basis in the first half. Strain in annuities was consequently a small negative and operational cash generation from the annuity business was £117m. Whilst we expect margins to remain attractive in the second half we do not anticipate the very high returns we have seen in the first half

19. SLIDE – SAVINGS

One of the longer term effects of the credit crisis should be to stimulate private saving – increasing longevity and reduced state support will create demand for fit for purpose savings businesses. This is a natural market for Legal & General; we have built scale and reputation, although our financial performance has been disappointing for a

number of years. In March, I promised to accelerate the transformation of Savings. The results we are announcing today demonstrate the solid progress new management is making in moving this business to a modern, capital efficient operating model.

Operational cash generation in savings was £43m in the first half including £21m release from the With Profits business. New business strain has been reduced from £161m for the whole of 2008 to only £44m in the first half of 2009. New business strain as a percentage of premiums has fallen to less than 2.5%. Overall savings EV margins are up to 0.3% despite the effects of lower volumes and a higher risk discount rate.

This turnaround has been achieved through aggressive action on product mix, commission and costs. In Q2, we have cut initial commission terms across unit linked bonds by 1.5% and stakeholder pensions by 1% as well as withdrawing from other less attractive product lines. This has the twin effects of reducing unit strain as well as reducing volumes in these products. This reduced volume has been compensated by increases in capital efficient SIPP and unit trust products which are both up over 30% on last year. With profit bonds are also selling well. We have made good progress in retailing LGIM's developing active fixed income capability in Savings with strong retail

sales into unit trust products such as our Dynamic Bond Trust and Diversified Absolute Return Trust.

And the prospects for savings are good. We are experiencing strong demand for our range of guaranteed life and unit trust products, and, in the workplace, group SIPPs continue to attract a lot of interest from employers. The trends in improving product mix and improving cash generation will continue in the second half of the year.

As distributors confront the challenges of the Retail Distribution Review we expect the UK savings market to mature to one which plays to the strengths of Legal & General; a focus on good quality, low cost products, sold through distribution channels which add real value to customers, and supported by strong retail manufacturing brands.

20. INTERNATIONAL

To remind you, our international portfolio comprises our mature businesses in the US, France and Netherlands alongside our stakes in businesses operating in the emerging markets of Egypt, India and the Gulf States.

We have a leading position in the US as a term assurance writer. New business progress has been good in the US with premiums up 21% to £29m. In addition we have implemented selected price rises which

have improved margin. In Europe new business was strong in France but depressed in the Netherlands where the unit linked market has continued to be weak.

We have built a leading position alongside our joint venture partner CIB, in the Egyptian market. In India we have received R1 approval from the local regulator and expect to be trading in the branches of Bank of Baroda and Andhra Bank early in the New Year. Our joint venture in the Gulf States has been launched with group life and credit life products on sale through our partner, Ahli United Bank. Our emerging market ventures are creating modern, bancassurance based savings businesses in economies with massive potential.

21. SLIDE – SUMMARY AND CONCLUSION

So in conclusion.

22. SLIDE - CONCLUSION

Our strategy execution is progressing well against the backdrop of a weak economy and a shrinking market. We're very clear on the sort of businesses we want to be in and we are making good progress in the markets that are important to us. The turnaround of the savings business is progressing well but there is still a lot more to do. Synergy benefits are strong. We are comfortably on track to deliver our cash flow target. The balance sheet is robust; IGD surplus has strengthened

and is resilient to further shocks. The medium term outlook for our core markets is positive.

23. SLIDE – SUMMARY

Thank you for listening.

Can you give your name and organisation before asking your questions. Let's start with