

# Legal & General

## Fixed income roadshow presentation

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Andrew Palmer – Group Director (Finance)

John Whorwood – Group Treasurer

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- Legal & General at a glance
- Capital strength
- Issue rationale & structure
- Summary
- Q&A
  
- Appendix

# Legal & General at a glance

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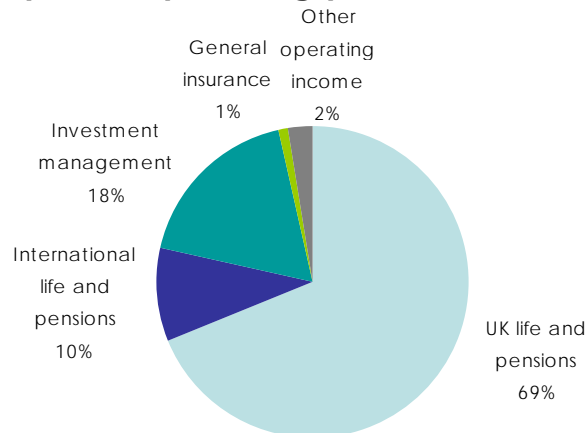


Legal & General  
Assurance Society:  
**AA+**

### 2006 Results

EEV operating profit	<b>£1,233m</b>	<b>+13%</b>
IFRS operating profit	<b>£752m</b>	<b>+16%</b>
EEV shareholders' equity	<b>£7.9bn</b>	<b>+14%</b>
Dividend	<b>5.55p</b>	<b>+5%</b>

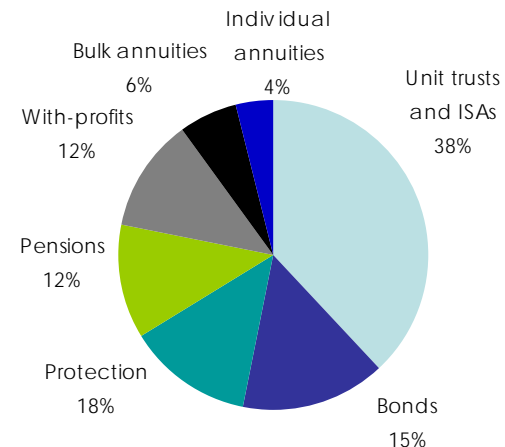
### Group IFRS operating profit – 2006



### L&G summary

- Market capitalisation £10.4bn
- Strong presence in the UK market
- Strong balance sheet
- A wealth of skill and experience
- Broad product offering
- Multi channel distribution
- Strong pricing discipline

### UK sales profile – 2006



### New business contribution and margin

	Market Share %		Contribution £m		Margin %	
	2006	2005	2006	2005	2006	2005
<b>Protection</b>	<b>20</b>	17	<b>131</b>	82	<b>10.9</b>	7.8
<b>Annuities</b>	<b>15</b>	16	<b>191</b>	177	<b>11.0</b>	11.5

	Market Share %		Contribution £m		Margin %	
	2006	2005	2006	2005	2006	2005
<b>Unit linked bonds</b>	<b>9</b>	9	<b>51</b>	49	<b>2.0</b>	2.3
<b>Pensions</b>	<b>6</b>	6	<b>(10)</b>	(18)	<b>(0.7)</b>	(1.9)

	Market Share %		Contribution £m		Margin %	
	2006	2005	2006	2005	2006	2005
<b>With-profits</b>	<b>-</b>	-	<b>17</b>	16	<b>1.4</b>	1.6

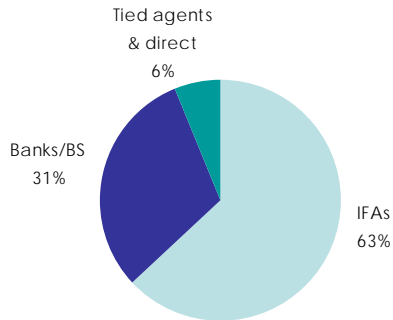
### UK life & Pensions

- Continuing to build protection share
- Higher margins – PS 06/14
- Mix driving annuity margins
- Legal & General Pensions (LGP) cost of capital impact
- Focus on platform
- Driving IFA platform usage
- Establishing market share
- Improving pension margins
- In-force focus
- Increased bonus payouts

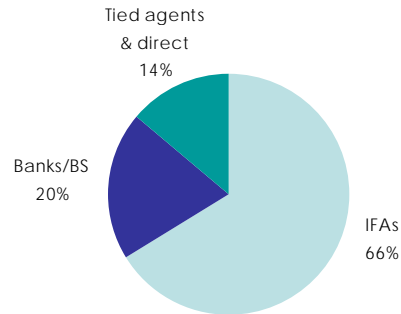
# L&G at a glance

## Distribution – Capturing the opportunities

### Legal & General



### Market



### Multi-channel distribution



## A strong, flexible distribution network

	L&G 2006 APE £m	Growth %	Market Share %	2006 Rank
IFA	1,059	38%	11	3rd/4th
IFA Banks	37	15%	16	1st
Banks	539	64%	19	1st
Tied agents	59	13%	5	1st
Direct	43	26%	5	3rd/4th
<b>Total</b>	<b>1,737</b>	<b>43%</b>	<b>12</b>	<b>Top 3</b>

NB: All market totals are estimates

- Strong position in banks and tied agents
- Relatively stable business flows
  - Supports investment in product/systems
- Nationwide distribution to come



## L&G at a glance

### Investment management

#### IFRS profitability

	2006 £m	2005 £m
Managed pension funds	96	74
Ventures	4	4
Property	6	4
Retail investments	11	7
Other external income	6	5
Other income	10	9
IFRS operating profit	133	103

<b>Funds under management</b>	<b>£233bn</b>	<b>£204bn</b>
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#### UK pension funds under management

	2005 £bn	Change %
Legal & General	128.5	25
BGI	92.7	12
Hermes	61.1	24
UBS	37.4	11
Capital	34.8	20

Source: Hymans Robertson Market Briefing 2006

## Built on scale and efficiency

### LGIM

- £21bn of new funds
- Existing client base a key asset
- External funds' cost income ratio 37%
- Continuing to invest in the business
  - Structured solutions team
  - Opening of Chicago fixed income office

### Retail investments

- Over £6bn in single premium sales
- Mix of retail and institutional growth



Investment manager of the year  
Pooled manager of the year  
Group risk provider of the year





## L&G at a glance

### Financial highlights

Financial highlights	2006 £m	2005 £m
UK with-profits	95	66
UK non profit/SNW	388	312
UK subordinated debt interest	34	37
<b>UK life and pensions</b>	<b>517</b>	<b>415</b>
International life and pensions	75	74
Investment management	133	103
General insurance	9	14
Other operating income	18	41
<b>Operating profit</b>	<b>752</b>	<b>647</b>
<b>Non profit business contribution</b>		
Contribution from:	2006 £m	2005 £m
Investment return	303	387
Net capital released from NP	1,255	478
Distribution to shareholders	(422)	(349)
Non profit movement pre-tax	1,136	516
Profit from continuing operations pre-tax	2,018	1,383

### Strong underlying flows

Post-tax breakdown	2006 £m	2005 £m
New business strain	(546)	(466)
Change to FSA rules	278	-
Impact of Fin Re	-	125
Expected release	555	499
Termination of Fin Re	(125)	-
Experience/non economic assumptions	-	239
Effect of corporate restructuring	502	-
Annuity investment policy	422	-
Change to FSA rules	363	-
Non-cash movements & other	(69)	(62)
<b>Total Society NP contribution (post-tax)</b>	<b>1,380</b>	<b>335</b>
<b>Contribution from LGP (post-tax)</b>	<b>(502)</b>	<b>-</b>
<b>Total NP business contribution (post-tax)</b>	<b>878</b>	<b>335</b>

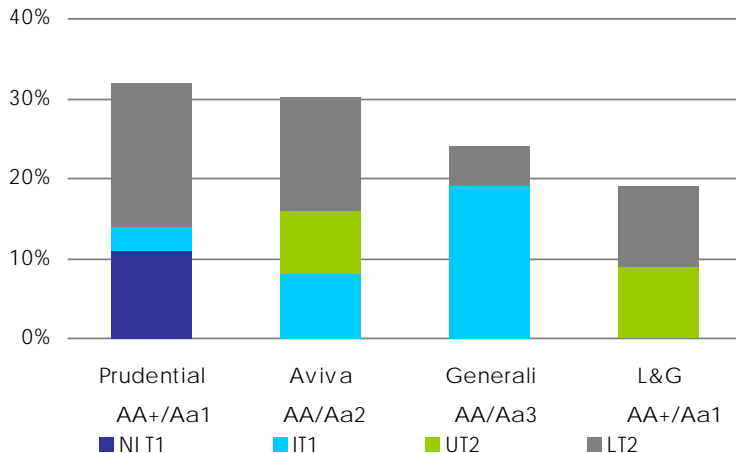
Gross up for tax

## Ratings and peer group

### Peer group rating comparison

	S&P	Moody's
Legal & General	AA+ (Stable)	Aa1 (Stable)
Prudential	AA+ (Stable)	Aa1 (Stable)
Assicurazioni Generali	AA (Stable)	Aa3 (Negative)
Aviva	AA (Stable)	Aa2 (Stable)
Clerical Medical	AA (Stable)	Aa2 (Stable)
Allianz AG	AA- (Positive)	Aa3 (Stable)
Axa	AA- (Stable)	Aa3 (Stable)
ING Verzekeringen	AA- (Stable)	Aa3 (Stable)
Friends Provident	A+ (Stable)	A2 (Stable)
Zurich Insurance Company	A+ (Positive)	A1 (Stable)
Standard Life	A (Positive)	A1 (Stable)

### Hybrid split as a % of Core Capital



## Ratings strength & capital base

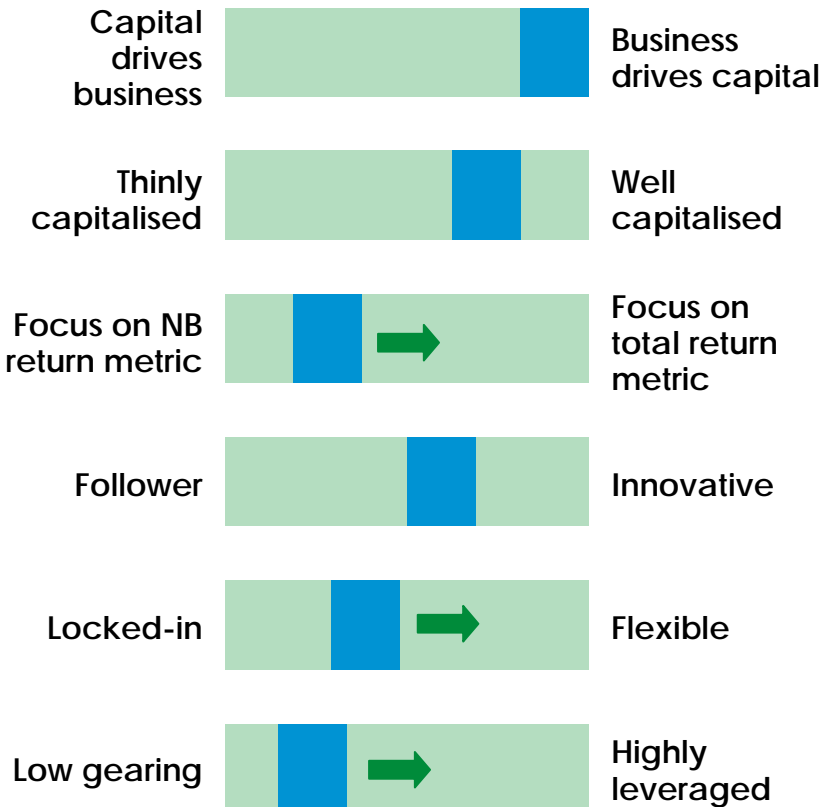
- One of two European insurance companies with AA+ financial strength rating
- Maintaining FSR rating a priority and a competitive advantage
- L&G lower % of hybrid debt than peers

# Capital strength

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## Capital strength

### Capital management philosophy



## Open and transparent capital management

- AA capital strength – a key competitive advantage
  - Customers and business partners value a strong capital base
- Business opportunities drive capital needs
- Innovative, with appropriate risk
- Opportunity to increase capital flexibility with a focus on...
  - Continuing to grow the business
  - Maintaining strong credit rating or rating advantage
  - Generating shareholder value

## Management of capital and cash flow is a core competency

## Capital strength

Strong across all measures

### IGD surplus capital

31 December 2005	£2.4bn
31 December 2006	£2.1bn*

### Society surplus capital

31 December 2005	£4.4bn
31 December 2006	£4.9bn

### Economic capital

31 December 2005	AA+
31 December 2006	AA+

### Return on EV

31 December 2005	12.6%
31 December 2006	12.5%

\* As a result of temporary capital inefficiency from ongoing balance sheet restructuring

## Balanced scorecard update

- Creating shareholder capital whilst maintaining capital strength
- Regular disclosure
  - Capital and cash flow presentation
  - Balanced scorecard updates
- Rolling analysis of capital
  - Capital Committee
  - Ongoing scenario and stress testing projection process
- Update in July
  - Quantum of excess capital
  - Basis of return to shareholders

# Capital strength

## Economic capital

### L&G capital requirements

#### Asset Risks

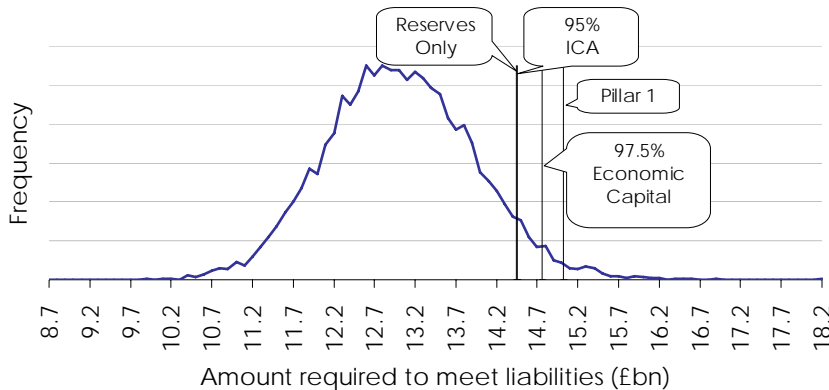
- Equity
- Bond volatility
- Property

#### Liability Risks

- With-profits
- Protection
- Immediate annuities
- Deferred annuities



### Economic capital for Annuities



Source : L&G Analysis

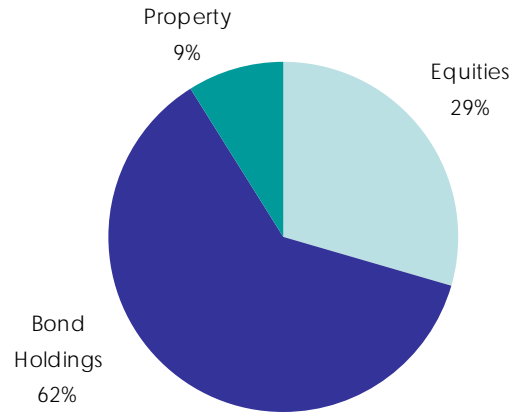
## Economic capital management

- Key Risks driving capital requirement
  - Longevity risk
  - Market risk
- Mitigating actions
  - Large and diversified portfolio of lives insured
  - Investment policy to match cash flows
  - Derivatives to manage negative inflation risk
  - Strong credit management
  - Diversification between Annuities and Protection

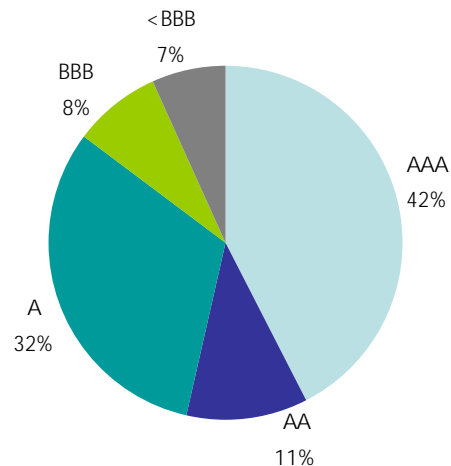
# Capital strength

## Non-linked asset mix – 2006

### Financial assets



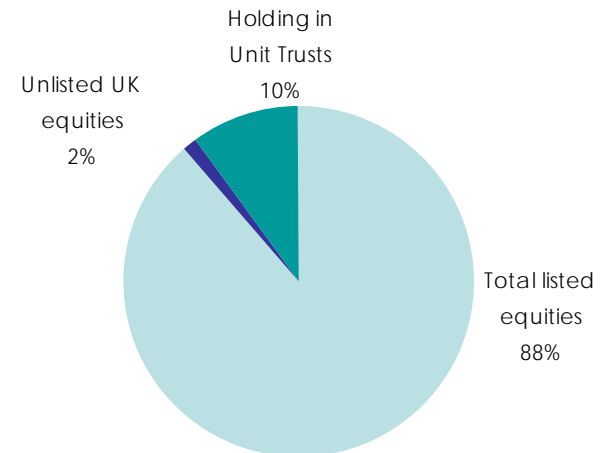
### Bond holdings - £27.0bn



### Strong asset mix

- Diversified asset base
- 75% of listed equity exposure from the UK – reflecting liabilities
- 42% of bond holdings in AAA-rated assets

### Equity exposure - £12.8bn



# Issue rationale & structure

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## Issue rationale & structure

### Key 2007 cash requirements

£m

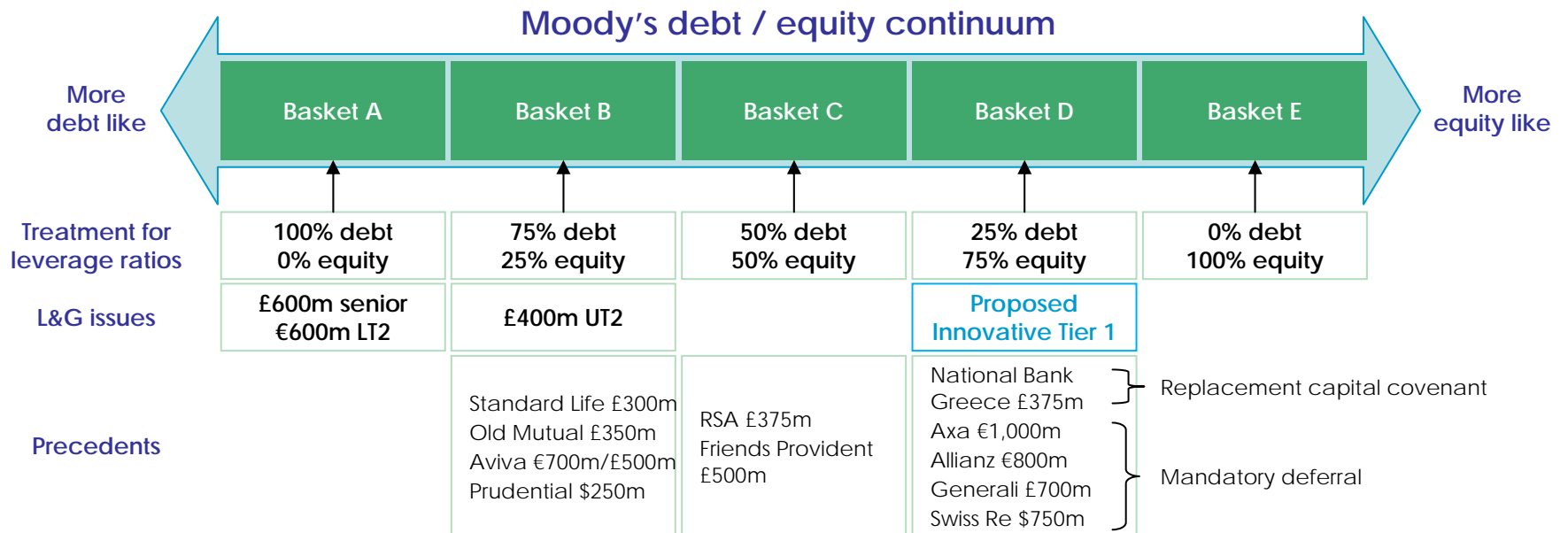
**Refinancing of commercial paper** **250**

**Acquisition of Nationwide Life and  
Nationwide Unit Trust** **285**

## Capital features

- Regulatory
  - Innovative Tier solo and consolidated capital (allowable within 15% innovative Tier 1 limit)
- Accounting
  - Financial liability under IAS 32
- Tax
  - Coupons are tax deductible under Finance Act 1996
- Equity Credit
  - Moody's: Basket D (75% equity credit)
  - S&P: Equity credit within 25% hybrid limit
- Issue rating: A3 / A
  - Moody's 2 notches from senior
  - S&P: 2 notches from senior

# Rating agency debt/equity classification system



- Moody's – Characteristics of basket D instruments
  - No maturity – perpetual security
  - Loss Absorption – junior to Upper Tier 2
  - No ongoing payments – optional deferral of coupon payments, AISM, non-cumulative
  - Replacement capital covenant or mandatory deferral feature
- Standard & Poor's – proposed issue and existing Tier 2 issues will be treated as equity in S&P gearing ratios provided in total they do not exceed 25% of shareholders equity as adjusted by S&P

# Issue rationale & structure

## Structural summary

Issuer	<b>Legal &amp; General Group Plc (the "Issuer")</b>
Security	STG [x]m [x]% Perpetual NC [2017] ("Capital Securities")
Subordination	Subordinated to Senior Creditors Capital Securities rank as junior most capital (senior only to equity)
Step-up	100bps at first call date
Optional Interest Deferral	Issuer has the option to defer interest payments at anytime Non-cash cumulative deferral: Issuer must settle deferred interest payments by operation of an Alternative Interest Satisfaction Mechanism (AISM). No interest will accrue on deferred interest payments
Payment of Deferred Interest	Any deferred interest payments may be settled at anytime at the Issuer's election, provided that the Issuer must satisfy such deferred interest payments at the earlier of: <ol style="list-style-type: none"> <li>1. Redemption of the Capital Securities at the option of the Issuer; and</li> <li>2. At redemption, substitution or variation of the terms of the Capital Securities due to taxation or regulatory purposes (see Issuer early call provision)</li> </ol> In the event of winding-up of the Issuer, any deferred interest payments and any excess above the caps will rank as equity
Restrictions During Period of Deferral	If interest payments have been deferred, the Issuer shall not: <ol style="list-style-type: none"> <li>1. Declare or pay any distribution or dividend on junior or parity securities; or</li> <li>2. Redeem, purchase or acquire any junior or parity securities</li> </ol>
Alternative Interest Satisfaction Mechanism (AISM)	Deferred interest payments must be settled through funds raised by: <ol style="list-style-type: none"> <li>1. Issuance of ordinary shares subject to a cap of 2% per annum of number of ordinary shares in issue (i.e. cap refreshes annually); or</li> <li>2. Issuance of non-cumulative perpetual preference shares subject to a cap of 25% of the aggregate principal amount of the Capital Securities; or</li> <li>3. Issuance of PIK Securities (meaning further Capital Securities issued as securities) subject to an aggregate limit of 15% of the aggregate principal amount of the Capital Securities. The PIK limit is within, and not in addition to, the 25% cap on non-cumulative perpetual preference shares (in 2 above)</li> </ol> Issuer <i>may</i> also satisfy current interest payments through operation of the AISM, but settlement of current interest payments is not subject to the above caps
Issuer Early Call Provisions/Substitution	Tax Event at par (Issuer is obliged to pay additional withholding tax, loss of deductibility or group relief), Capital Disqualification Event at Make Whole (Capital Securities no longer eligible for Tier 1 FSA capital recognition) Upon occurrence of Early Call Events, the Capital Securities may be substituted for Qualifying Tier 1 or Qualifying Upper Tier 2 Securities Should the issuer breach its capital adequacy ratios, the Issuer may substitute the Capital Securities for preference shares
Capital Replacement Covenant	The Issuer intends to enter into a replacement capital covenant for the benefit of the Lower Tier 2 investors, under which the Issuer agrees not to redeem the Capital Securities if it has not replaced the securities with like or better securities issued in the 6 months prior to redemption

# Summary

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- Focus on UK
- Broad product offering
- Multi channel distribution
- Strong pricing discipline
- Strong Balance Sheet
- AA+ competitive advantage
- Capital and cash flow

# Appendix

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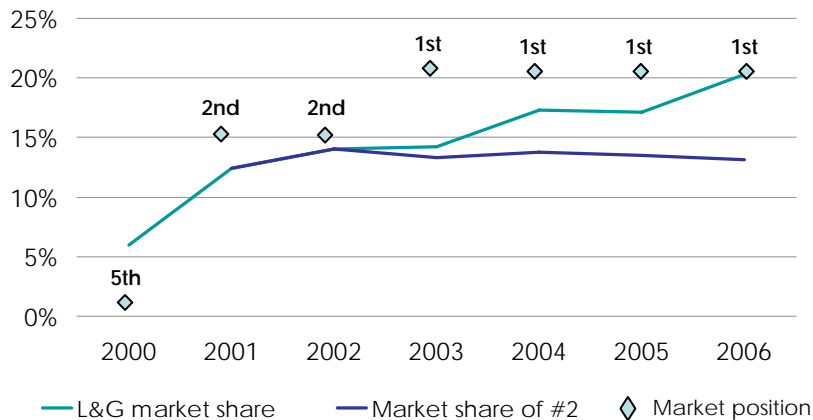
## Protection

### New business contribution and margin

Full Year	PVNB <sup>†</sup> £m	Market Share* %	Contribution £m	Margin %
<b>2006</b>	<b>1,201</b>	<b>20</b>	<b>131</b>	<b>10.9</b>
2005	1,051	17	82	7.8
2004	1,016	17	71	7.0

\* Combined individual protection and group risk business  
Source: ABI

### Position in individual protection strengthens further



Source: Company financial reports, Swiss Re

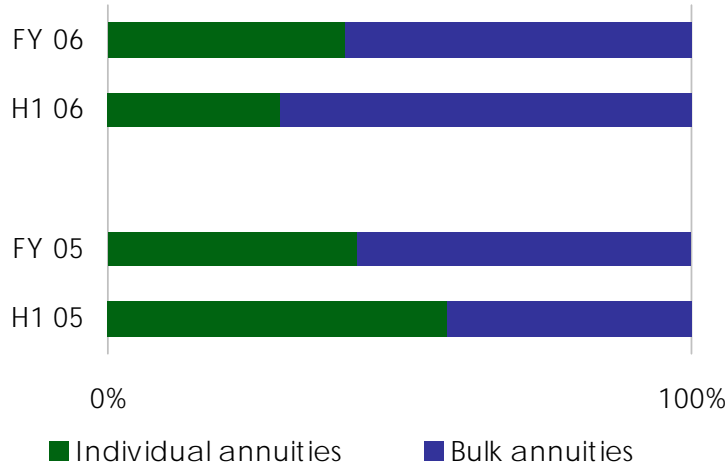
## Continuing to build

- Extending distribution reach
  - Increased market share
  - Banks and Building Societies important
- Higher margins
  - PS 06/14 benefits
  - Higher individual sales
  - Lower acquisition costs
- Allowance for higher in-force unit costs
- Mortality and persistency favourable
- Scale brings further growth opportunities
- Credible experience data
  - 12m customer years of protection experience

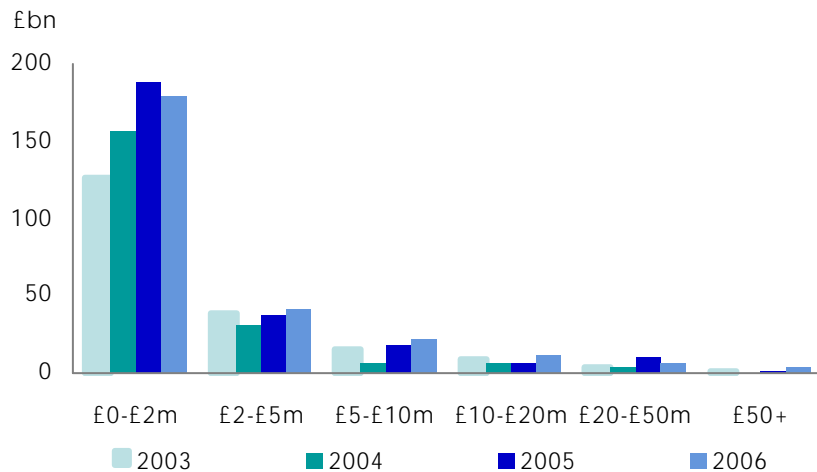
# L&G at a glance

## Annuities

### Mix of business (non profit annuities)



### New L&G BPA number of schemes 2003 – 2006



Source: L&G

## Mix driving margin

- Similar mix to 2005, similar margin
  - Additional cost of capital from LGP
- BPA: record new business
  - Sales **up 17%**
- Individual: competition more rational in H2
  - Sales **up 8%**
- Current mortality experience neutral
- BPA core business remains strong
- Prepared for 'new market' opportunities
- Credible experience data
  - > 3m annuitant years experience



Legal & General



## L&G at a glance

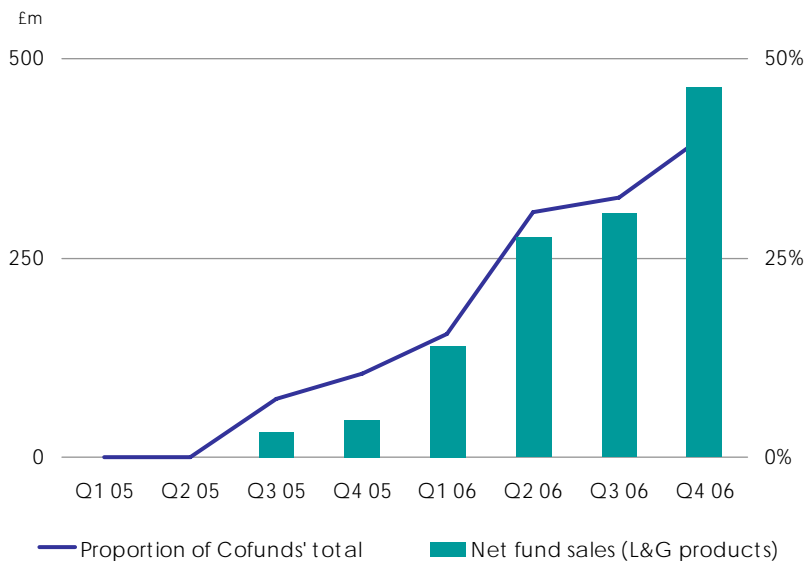
### Unit linked bonds

#### New business contribution and margin

Full Year	PVNBP £m	Market Share* %	Contribution £m	Margin %
<b>2006</b>	<b>2,612</b>	<b>9</b>	<b>51</b>	<b>2.0</b>
2005	2,082	9	49	2.3
2004	1,418	8	26	1.9

\* All non profit bonds. Source: ABI

#### L&G's share of Cofunds' net sales (all products)



Source: Cofunds

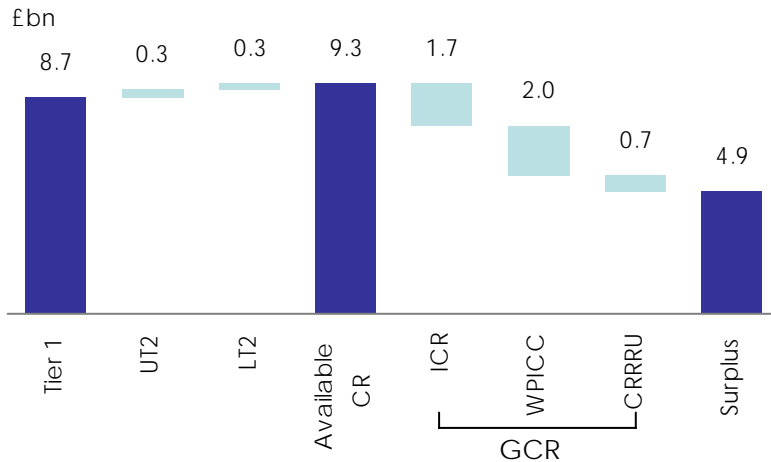
## Focus on platform

- Strong open architecture proposition
- Building coherent wrapped product range
- Designing products with mass affluent in mind
- Bringing platform to bank partnerships
- Competing to build our business
  - Significant volume growth
  - Driving IFA platform usage

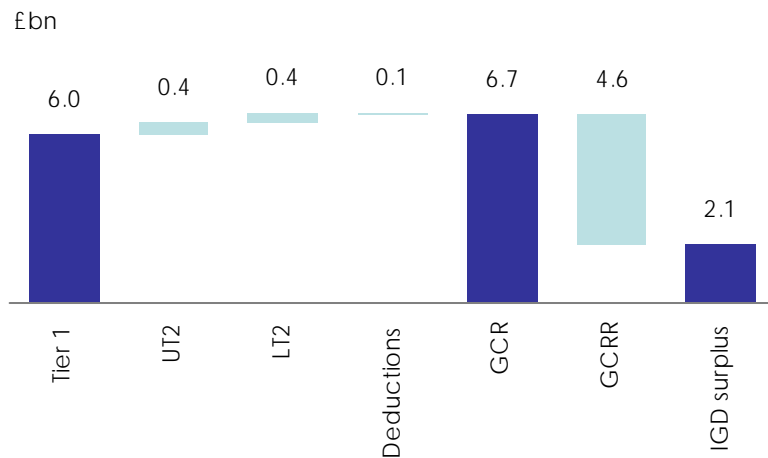
## Capital strength

### Society capital and Group IGD capital

#### Society regulatory capital - 2006



#### Group IGD capital - 2006



## Financial strength measures

### Legal & General Assurance Society

- £4.9bn regulatory surplus
- Includes
  - Tier 1 capital of £8.7bn
  - Total available capital resources of £9.3bn
  - Capital resource requirement of £4.4bn

### Legal & General Group Plc

- £ 2.1bn IGD surplus
- Continue progress to optimise capital mix

**£2.2bn of surplus within the long term fund disallowed for Group IGD calculation**

## Capital strength

### Key capital events

1996	Capital restructure
1998	Sale of L&G Australia
2001	Transfer of L&G Investment Management Convertible bond issue
2002	Rights Issue Transfer of L&G America
2004	US Triple X financing £400m Upper Tier 2 issue
2005	Financial reinsurance on protection business €600m Lower Tier 2 issue
2006	US Triple X financing Balance sheet restructure, creation of LGP
2007 – 8	Reduce capital inefficiency / review SRC

Continued progress

### Actions to date...

- Benefit of PS 06/14 implemented
- Change to annuity investment strategy
- Establishment of LGP
- Relocation of internal subordinated debt from SRC to SSC

### Effective capital management considerations

- Range of flexible financing solutions
- Efficient capital structure supports strong, profitable capital growth
- Anticipation of strong growth
- Maintained progressive dividend

## Capital strength

### Establishment of LGP

	Effect £bn
<b>FSA regulatory impact</b>	
Society surplus reduced	-0.5
IGD surplus reduced	-0.5

	Effect £m
<b>IFRS impact</b>	
Impact on consolidated PBT	-
Deferred tax asset arising in LGP	+171

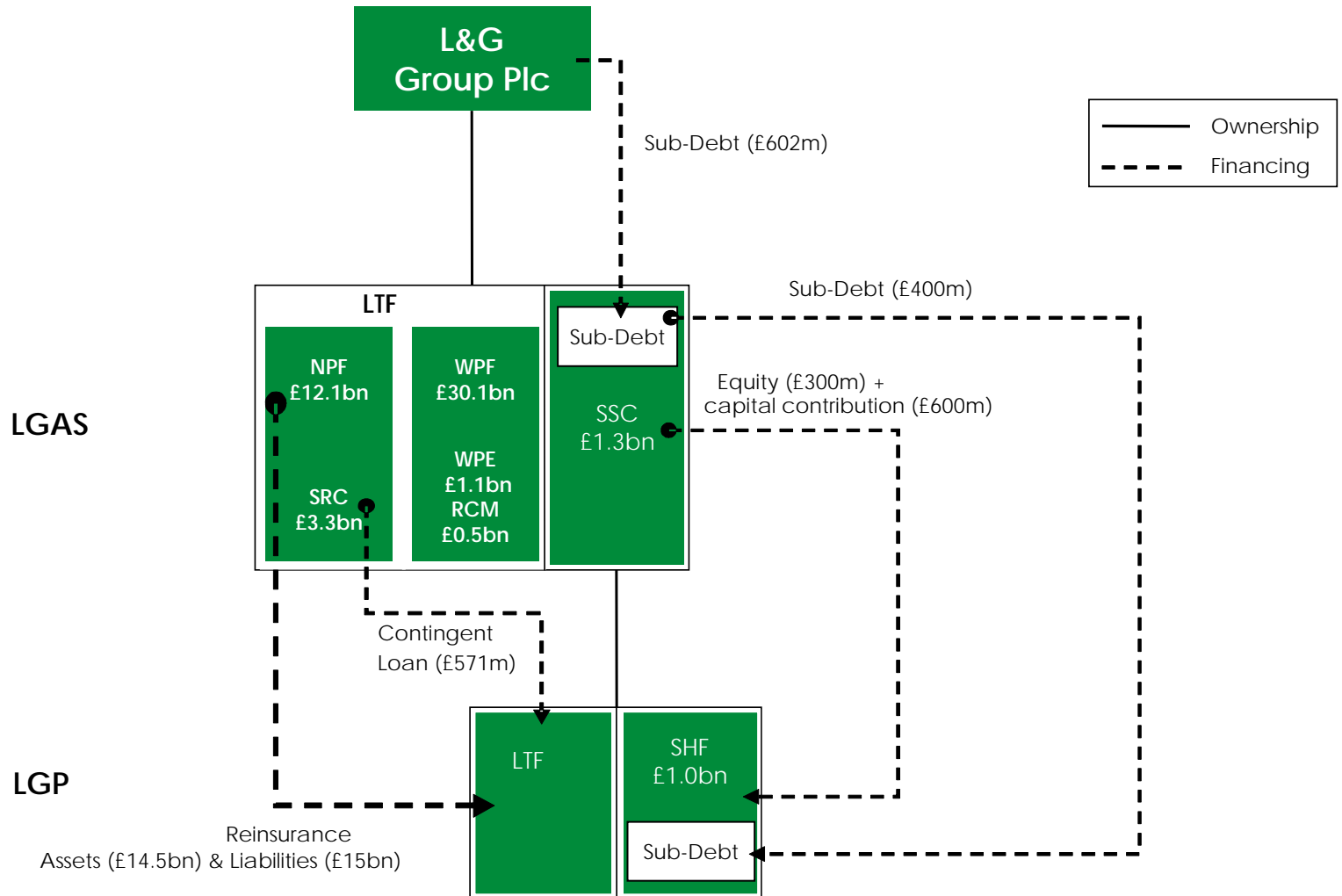
	Effect £m
<b>EEV impact</b>	
Cost of solvency capital (pre-tax profit)	-216
Tax credit	+65
Tax impact of corporate restructure	+322
<b>Total impact (net of tax)</b>	<b>+171</b>

## A more efficient structure

- Motivation
  - Increased transparency
  - Easier access to external capital
  - Mitigate impact of 2005 tax changes
- Stage 1: 2006
  - Legal & General Pensions Limited established
  - Reinsurance of non-linked non profit pension and annuity business
  - Financed by SRC/SSC
- Stage 2: 2007-08
  - Reduce capital inefficiency
  - Review SRC

# Capital strength

## Legal & General Pensions Limited



Note: As of 12 Dec 2006