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Good afternoon ladies and gentlemen. After three busy days of presentations, I would now like to talk you briskly through the approach taken to management of risk, growth and returns at Legal & General.

CLICK: FORWARD-LOOKING STATEMENT

I'll take you first, however, on an even brisker tour of our forward looking statements disclaimer.

CLICK: A BALANCED BUSINESS

First of all, it is worth setting the scene with a reminder of what L&G is today.

Our two largest businesses, as you can see from the chart on the upper left, are our UK protection and savings business, and our institutional fund management company – which largely serves a domestic pension scheme customer base.

So nearly 90% of our operating results are driven by businesses based in, and focused on, our core UK financial services markets.

Despite being highly focused on the UK, however, we are a uniquely balanced business within the UK. Balanced between risk, savings and investment businesses. Balanced between distribution channels. We also enjoy the benefits of scale in each of our core areas of operation. Both our UK protection and savings business and LGIM have shares in their respective markets of over 10%. LGIM has nearly 3000 pension scheme clients and had in total £211bn of assets under management at the half year stage, around 70% of which was managed for external ie non-L&G clients..

This scale and diversity have been driven through a long period of strategic continuity, and strategic commitment to the markets in which we operate. We believe this scale and commitment have delivered significant competitive advantages for the group. We know what we are about, our distribution partners know what we are about, our customers know what we are about. We have been working hard on a new approach to investor communication aimed at upping both the quality and quantity of disclosure – so hopefully the pool of potential and current investors in our shares increasingly know what we are about.

In pursuing growth, we have consistently endeavoured to balance our risks by selling many different products, through diverse channels, to a broad customer base, and – importantly – we have been doing so over very many years.

Financial strength is at the heart of our strategy because it is important to our customers and important to our distributors. They need to have confidence in our capability to meet our long term commitments – not only financial ones, but also in terms of the quality of our infrastructure and our service. If we earn margins which are superior to those of some of our competitors in the UK, then some of that is due the confidence which exists in the market in our long-term commitment to the UK and our financial strength.

Long term protection, savings and investment businesses which are too dependent upon specific channels and products can be prone to taking commercial pricing decisions in the short term that can be to the detriment of long-term profitability – often becoming evident only after many years on the books.

CLICK: A TRACK RECORD OF GETTING THE BALANCE RIGHT

So, is there any evidence that Legal & General has been successful in delivering growth, while balancing risk and reward to the benefit of shareholders? I think it is there in abundance.

If you look over the last decade, over which L&G has really transformed into the business that you see today, we have consistently built our UK protection and savings business from a market share of just over 4% in 1995 to one of over 10% in the first half of this year – based on data from the Association of British Insurers.

Combined with industry growth, we've seen compound annual sales growth averaging nearly 17% over a similar period.

Our assets under management have increased from £83bn at the end of 1998 to £211bn at the end of June this year, winning an average of over £1bn of new third party mandates per month, and £11bn in the first half of 2006.

However I believe that the success of our balanced, diversified growth strategy, and our ability to achieve that with the long-term interests of shareholders in the forefront of our minds, can be seen in the chart on the bottom left of the slide.

We understand that in the eyes of many investors, there is great confidence and comfort that can be drawn from a progressive, predictable dividend strategy. Our payout is set on each occasion after taking account of detailed medium and long term projections of capital and cash flow, and taking account of the growth prospects of our businesses.

At the end of last year the board, I believe, surprised the market by proposing acceleration in the rate of growth of the dividend, a rate maintained at the interim stage this year. This is underpinned, as you can see, by solid progression in operating profitability.

This has, of course, been delivered through a period which saw the impact of the bear markets, as well as a period of significant challenge in world-wide insurance markets.

CLICK: MANAGING HOW WE GROW

So, what are the key factors we see in managing the risks of our business? The first is a straightforward commitment to excellence in understanding, managing and pricing risk. We are continually reinvesting in refining and building our expertise and administrative infrastructure to make sure that we manage insurance and other risks as well as possible – and better than the competition.

A good example can be seen in our market-leading protection business, where we recently increased our underwriting expertise significantly by opening an office in Edinburgh, and have invested over £50m in developing our technology in recent years. As I will demonstrate later on, this continued focus on excellence has had a direct positive impact on our returns to shareholders.

In annuities our analysis of mortality trends in our business has given us understanding of risk pricing that we believe to be more granular, more statistically meaningful and therefore more competitively advantageous, than that of our competition.

The next aspect of managing our business risk is diversification – I mentioned earlier that we have diversity in product and distribution. However diversification goes deeper than this. Take, for example, the much-discussed annuities market. Within this segment we have a mix of retail and corporate business; immediate and deferred risks; males and females; mix by geography; by age; by socio-economic grouping.

Within our BPA business, although we wrote some half a billion pounds of new business in H1 – this was spread over 150 different policies. Such a depth of business spreads our risk and generates competitive advantages.

Furthermore, we have been writing BPAs for 20 years now – this means that our exposure to pricing risks in any one year is limited.

In managing our risks, you will understand that scale is critical again. Insurance is essentially based on statistical analysis – by having a huge database – ours with over 15 million customer years experience in risk products alone – we get better insights, and greater accuracy in our pricing conclusions.

So, we’ve avoided big point bets on products, channels, and individual policies. We’ve based our analysis on market leading expertise, and a huge database of information.

AND we’ve achieved all of this largely organically. We have not had to deal with the operational and financial risks inherent in M&A. As you can see, we’re focussed on doing what we do – and doing it better than the rest.

CLICK: ALIGNING SKILLS WITH RISK

As an organisation, however, we can never stand still. We are constantly looking for ways to improve our business practices, to improve our understanding and management of risk in the business.

It was to this end that in the earlier part of this year, we instigated a fundamental review of our core UK business. The most significant step to emerge from this so far was a realignment of management responsibilities.

This move reflected a recognition that each of our different products is exposed to different risk issues, commercial pressures, and has a distinct distribution model. It is also very important to remember that we are competing against distinct groups of competitors in different parts of the business – from retail investment companies to reinsurers and investment banks.

It is intended to ensure that our efforts in managing the business are focused appropriately, and with greater accountability.

So no longer are we a ‘life and pensions’ company – we think of ourselves in terms of two broad business operations.

Firstly, Risk – brings together our annuity, term life, group risk and general insurance businesses.

Secondly, Savings – or wealth accumulation – includes unit trusts, bonds and pensions.

Another clear indication of our commitment to the appropriate management of risk can be seen in the with profits part of the fund. This is a part of our traditional life business that is exposed to risks and issues distinct from those in the wider business, and as a result is, in our view, best managed separately, and we have put in a management team to do this. Indeed, over the last two years, management actions have substantially reduced the risk of burn-through to shareholders, as measured by the ratio of the free estate to the risk capital margin. And this has been done without a material impact on the equity backing ratio for asset shares for our mainstream with profit policies.

So, along with LGIM, which remains separately managed, I hope you can see more than ever our businesses are focused on managing their own risks and rewards to the greatest effect – from end to end.

CLICK: PROTECTION – SCALE IS CRITICAL

As I have discussed, our growth over the last decade has been driven by the consolidation of market share in the industry, driving business to stronger, more efficient companies and away from smaller, less dynamic companies. There is still further for this trend to run, and we are excellently positioned to benefit from it.

However I thought I'd take a moment to run through some key trends on a product by product basis.

The key to success in protection is to be excellent in risk management, and to be big. We set out a number of years ago to develop a clear, strong position in retail protection, and have been number one for three years – and widening the gap against the number two. We now have close to 20% market share in retail protection.

So, you say, a large share of a profitable market – surely that just makes you a target? Far from it – the scale we have achieved, and the risk expertise that comes from such scale are significant barriers to entry.

We take around 50,000 applications per month. We have the largest underwriting team in the UK, if not in Europe. We are continually reinvesting in our systems and risk analysis to enhance our pricing of risks – including in the last few weeks the launch of a new system to increase the proportion of protection business which can be accepted at the point of sale. This level of development is not easy to replicate from a standing start.

Also, in distribution, our breadth and diversity are a significant and hard to replicate advantage. Around half of our business comes through close partnerships with a large range of banks and building societies, and through our tied mortgage advisory business. These channels deliver a strong, profitable and relatively stable stream of new business.

This allows us to be more selective in our approach to the more competitive IFA market. So by managing our sales through different channels we can balance risk, reward and growth more effectively.

And our competitive advantages, in our view, position us excellently to build further growth, even from our current leading position. This year alone we have signed up Connell's – one of the largest UK estate agency firms – and Citibank as distribution partners for protection business.

CLICK: GROWTH FROM BOTH TRATIONAL AND NEW MARKETS

Moving on to annuities – our business has to date been built on two core products.

Firstly – the sale of individual annuities to retiring pension investors. This market is worth around £8bn per annum in sales to the industry – having grown by around 8% compound over the last five years. Independent studies have suggested this could increase to anywhere between £12bn and £18bn by 2012. Retirement savings continue to accumulate and people are ageing, there are more members of DC schemes – there is solid growth potential here.

Secondly – Bulk Purchase Annuities, or BPAs – have delivered around £1-2bn of sales to the industry per annum in recent years. Here, we are largely selling liability buyout schemes to the Trustees of pension schemes in the process of being wound up.

We have established a hugely effective business here – underwriting around 300 policies per year, of relatively small unit size – around £3m average per policy in the first half of this year. With over 500 man years of experience in this business, combined with a hugely sophisticated pricing and administrative infrastructure, this is likely to be a tough market for new competitors. Here again – there is plenty yet to go for, with an estimated pipeline of 4,000 wound-up schemes yet to come to the market.

So both of our existing annuity businesses have plenty of scope to progress strongly. BUT there are also exciting potential opportunities for us to leverage the annuity risk management skills that we have worked so hard and for so long to develop.

Firstly it is clear that the strictures of a newly strengthened pension regulator, the impact of accounting policies that bring the pension scheme onto a balance sheet, and increasing cost of benefits is, in our view, showing early signs of opening up the market for selling longevity products to open pension schemes. It’s early days, but with the bulk of £900bn of schemes out there this is a very big cake indeed.

Indeed here is another example of our approach to risk, reward and growth in action. There are schemes that have come to market – with case sizes ranked in the billions. This would be a multiple of our usual appetite for longevity risk. So how do we balance our growth opportunity with sound risk management? Well, we will certainly look at drawing in risk appetite from business partners – sharing the exposure to longevity, while capitalising on the value of our pricing and administrative model.

We may also consider similar arrangements if we participate further in the £100bn market of insurance company annuity portfolios. We’ve done one relatively modest deal – the purchase of the Skandia annuity portfolio. We keep our mind open to participating further as the market develops.

So there's lots to go for – but I would remind you: as a business we do not tend to over-expose ourselves to single products, or single policies – getting the pricing wrong on a £500m scheme is a much bigger issue than the risks of pricing 150 £3m schemes.

CLICK: INCREASING PROPENSITY TO SAVE

Earlier this year, I described trends in the market suggesting that saving was back in fashion. This has certainly proved to be the case, with figures reported across the industry illustrating strong growth in unitised bonds, non profit pensions and retail investments. We demonstrated 29%, 26% and 102% growth in these segments respectively in H1.

So, what's behind it?

Firstly, after the turmoil of the bear market, and subsequent volatility, the greater stability and confidence in the markets is feeding into confidence in investors looking for longer term returns.

Secondly, there has been extensive, and public, debate over the UK pensions system, the level of under-provision for retirement, and the Government’s plans to deal with it.

Thirdly, the legislative changes around A-day, and pensions simplification, have led to a unique opportunity for people to have another look at their savings, where they reside, and what they are invested in. This has led to a surge in business being transferred by individuals from existing pots of savings into one, more efficient, pot of money.

This is an effect that we expect to see continuing for some time yet.

So people are increasingly keen to save, but importantly they are looking at how they save. A-day has given significantly greater flexibility as to when individuals can contribute into a pension scheme – and we expect this to move the overall savings market further towards a single premium lump sum business – no longer does the average investor need to contribute a regular amount to take advantage of tax-deductible annual limits.

There still remains, however, an enormous array of choices and options for the individual when looking to save. We believe, however, that the industry is moving towards a model for savings business that can help to simplify the savings process.

CLICK: CHANGING THE WAY WE SAVE

And here, I am of course talking about the emergence of platform business models.

Traditionally, an individual with a range of investment needs would often end up with an array of contracts. An ISA, an old PEP, some unit trusts, one, two or even three pensions, one of which is open with small regular premiums being paid in, the others sitting relatively dormant. They may even be fortunate enough to have one or two investment bonds alongside – but often spread between different providers.

The upshot of this is that the unfortunate individual needs to keep track of perhaps a dozen different financial products, to review a number of different investment strategies, and keep track of a dozen different contact details.

And if the individual keeps track of these savings – perhaps looking at one of their investment bonds – and sees that investment performance has been disappointing – there is often little that can be done without selling one insurance company product, and purchasing a replacement with better performance credentials – an expensive undertaking.

The platform model can sweep away that complexity – and this is why we have developed our relationship with Cofunds, an existing platform business model in the IFA market. It recognizes that many investment products are essentially the same thing – and investment in unitised investment funds – simply wrapped in a different product and taxation regime. Instead of focusing on which insurance company to purchase from, it allows the investor one point of access to hundreds of competing investment funds – including of course our own.

With the adviser, an investment strategy can be devised that suits the individual, and then the funds invested can be allocated to any one of a number of product wrappers – dependent on customer needs and expectations – and ALL within one product. So money can be moved between asset classes, between investment companies, and between product types on a cost effective basis. A younger person may choose for example to invest in unit trusts and ISAs, until a large enough pool has been accumulated to consider locking some away for the longer term, and transfer capital en masse into a pension wrapper.

Eventually, we want investors and advisors to think about investment as a ‘continuum’, both over time and over different product classes. At present the Cofunds model covers unit trusts, alongside our bond and SIPP products. In time, we may see opportunities to extend this product range further.

CLICK: DELIVERING STRONG RETURNS

So, have our relentless pursuit of excellence in risk pricing and our strong historical growth been proven to deliver returns for shareholders? Absolutely – but you can only truly judge a life company’s success by looking over the medium term at its financial results.

I have already shown you the strong progress in statutory earnings and dividend that evidence our long-term financial success.

It can be seen in our margins too. Our margins have, we believe, been consistently attractive compared to industry levels.

This is in our view attributable to

- Scale, and unit cost efficiency in processing.
- Excellent risk selection and diversification
- An attractive mix of higher margin products.

And our business continues to refine itself, to seek new ways to improve margins further in markets where we have scale and competitive advantage. A great example can be seen in protection – the short red line on the upper chart. We have seen tangible evidence that our risk selection expertise is reducing the claims experience within the business, dropping as you can see by 20% over the last 5 years. This directly supports profitability.

CLICK: SUMMARY

In summary then, I will say something apparently unusual – what we are selling is nothing special. The contracts we write are essentially identical to those of any number of competitors' products.

We're simply focused on doing what we do BETTER

- Better than last year
- Better than the competition
- Better than our customers expect.

By pricing risk, selecting growth markets and managing our distribution dynamically, we are well positioned to grow strongly, and to continue to generate strong returns for our shareholders, on a sustainable basis.

Thank you.