

UNDERSTANDING SMOOTHING.

As at 30 June 2011 our With Profits Fund had more than £15 billion of assets. AKG, a leading independent financial services consultancy, give our With Profits Fund their maximum 5 stars for financial strength, as at September 2011.

WHAT'S WITH PROFITS?

With Profits is an investment where money invested by customers is pooled and used to buy a range of assets. This includes shares, commercial property and investments that provide regular returns known as fixed interest securities.

With Profits is a medium to long-term investment option. As a guide you should expect to keep your money invested for at least five years, ideally longer.

With Profits aims to offer a better return than a typical savings or deposit account over the medium to long-term. We believe With Profits is less risky than investing directly in the stock market due to a mix of assets and the principle of 'smoothing'.

However, due to the nature of the investments held in the fund, it is more risky than a deposit account and you may get back less than you invested.

WHAT IS SMOOTHING AND WHY USE IT?

A particular feature of With Profits is 'smoothing'. Smoothing aims to even out some of the short-term ups and downs that may be experienced when investing directly in the stock market and other investments.

We smooth returns by holding back a proportion of the investment returns gained during years of good performance so that we can top up bonuses in years of poor performance.

HOW ARE RETURNS CALCULATED AND PAID?

Each year we work out how well With Profits Fund investments have done. Depending on how the investments have performed and taking account of the smoothing aims of the With Profits Fund, a bonus may be payable. Bonus rates are not fixed, they may be higher or lower than current rates and may be zero.

There are three types of bonus which may be applied to a With Profits investment:

ANNUAL AND INTERIM BONUS

An annual bonus may be added to a With Profits plan at the end of each year. Each annual bonus added increases the basic guaranteed amount we'll pay out at certain contractual points that will vary depending on the type of plan you have. Once we've added an annual bonus, we cannot withdraw it for payments made to you at your contractual points.

For periods between annual bonus declarations we will normally use the interim bonus rate to calculate the value of your plan. The interim bonus is set at the level we anticipate the annual bonus to be set for that calendar year, it's not guaranteed and may change without notice.

FINAL BONUS

A final bonus is a final addition to a plan and only applies when a claim is paid (or if you move to another fund). It's paid to make up any difference between the amount we have guaranteed to pay and the overall amount we decided is fair to pay planholders. Final bonus rates aren't guaranteed and can be increased, reduced or withdrawn without notice. Not all products are eligible for a final bonus.

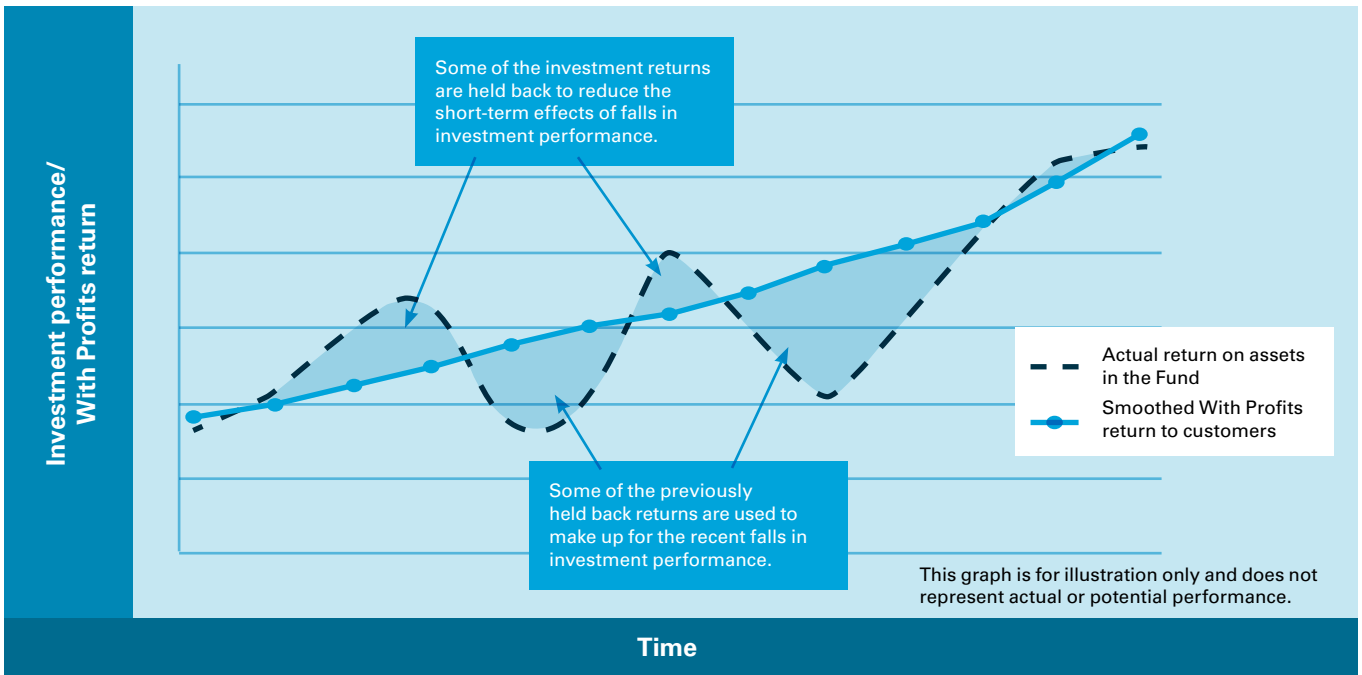
Not every With Profits planholder receives the same rate of bonus. Bonus rates will depend on things such as:

- When the With Profits investment was started.
- When premiums/contributions have been paid in.
- The type of With Profits plan held.
- Historic performance of assets backing the plan.
- Our view of future market conditions as well as past bonus rates.

MARKET VALUE REDUCTIONS (MVRS)

An MVR may be made to reduce the amount we pay you if you choose to withdraw from your investment. The amount you receive would be based on your fair share of the With Profits Fund and may mean you get back less than expected. Our factsheet 'Understanding Market Value Reductions' explains this in more detail.

GRAPH TO ILLUSTRATE HOW SMOOTHING WORKS



ABOUT LEGAL & GENERAL

The Legal & General Group, established in 1836, is one of the UK's leading financial services companies. As at 30 June 2011, we were responsible for investing £370 billion worldwide on behalf of investors, policyholders and shareholders. We also had over seven million customers in the UK for our life assurance, pensions, investments and general insurance plans.



The information on this factsheet is a summary. Full details are set out in our 'Principles and Practices of Financial Management' and our 'Introduction to With Profits'. For a detailed description of the facts and figures behind With Profits you may also want to read the '2011 bonus factsheet (incorporating PPFM Data Annex) 16 February 2012'. These documents are available on request and at <http://www.legalandgeneral.com/existing-customers/with-profits-information/with-profits-guides/>

Legal & General Assurance Society Limited
 Registered in England No. 166055
 Registered office: One Coleman Street, London EC2R 5AA

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Q27040 02/12 H0126297



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