AN INTRODUCTION TO UNITISED WITH PROFITS.

This is an important document that you should read and keep.
We’ve developed this guide to give you an introduction to unitised with profits savings and investment plans with Legal & General.

This guide sets out our current approach and objectives in managing our unitised with profits business. One of our key objectives is to make sure that we have appropriate flexibility in managing our business. The approach described in this guide may therefore change in the future. If we make any significant changes that affect your plan we’ll let you know.

This guide describes the main points from our Principles and Practices of Financial Management document (PPFM) relevant to unitised with profits plans. We have a separate guide for our non unitised with profits business (‘conventional’ business). The PPFM contains a more detailed description of how we manage our with profits business. If there are any differences between the PPFM and this guide, the PPFM will apply. If this guide doesn’t answer your questions please refer to your plan documents or speak to your adviser.

If you would like more detailed information, you can obtain a copy of our PPFM by calling 0370 0500 263 or by visiting our website at www.legalandgeneral.com/with-profits. Please note call charges will vary and we may record and monitor calls.

This is an important document that you should read to help you understand how we manage our unitised with profits business. You may also want to refer to your plan documents and statements. This guide doesn’t change the terms of your plan with us. If there are any differences between this document and your plan documents, your plan documents will apply.

If you have any questions or suggestions on how we could improve this guide please let us know.
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>What is with profits?</td>
<td>4</td>
</tr>
<tr>
<td>How does unitised with profits work?</td>
<td>5</td>
</tr>
<tr>
<td>What are your aims when managing your with profits business?</td>
<td>6</td>
</tr>
<tr>
<td>What are guarantees?</td>
<td>7</td>
</tr>
<tr>
<td>How do bonuses work?</td>
<td>8</td>
</tr>
<tr>
<td>What are Contractual Annual Interest and Contractual Minimum Addition?</td>
<td>10</td>
</tr>
<tr>
<td>How do you invest my money?</td>
<td>11</td>
</tr>
<tr>
<td>How do you decide how much to pay out?</td>
<td>13</td>
</tr>
<tr>
<td>What is smoothing?</td>
<td>15</td>
</tr>
<tr>
<td>What happens if I move out of with profits at non contractual points?</td>
<td>16</td>
</tr>
<tr>
<td>Other information</td>
<td>18</td>
</tr>
<tr>
<td>Where can I find out more?</td>
<td>19</td>
</tr>
</tbody>
</table>
An introduction to unitised with profits

The money that you pay into a with profits plan, in the form of contributions or premiums, is pooled with the payments of other customers in our With Profits Sub Fund (please see page 18 for information on the With Profits Sub Fund). The pooling of money that’s paid into the Fund allows the cost of managing with profits plans and meeting claims to be shared. These pooled payments are usually then used to buy a range of assets or investments such as shares, fixed interest securities and commercial property.

A key 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. It does this by evening out the effect of investment returns so that in good years returns to customers may be less than the investment return on the assets held by the With Profits Sub Fund, but in poor years they may be more. The aim of smoothing is to reduce significant fluctuations in the value of your plan. This is covered in more detail in ‘What is smoothing?’ on page 15.

The value of with profits plans normally grows when bonuses are added. For most plans there are two types of bonus, annual bonus and final bonus. Each year we decide how much these bonuses will be. Bonuses will depend on a number of factors, including how the assets backing the with profits plans have performed and the overall financial position of the With Profits Sub Fund.

With profits plans may also contain guarantees that may be specified at the outset of the plan or may build up over its lifetime.

WHAT IS WITH PROFITS?
The value of with profits plans normally grows when bonuses are added. For most plans there are two types of bonus, annual bonus and final bonus. Each year we decide how much these bonuses will be. Bonuses will depend on a number of factors, including how the assets backing the with profits plans have performed and the overall financial position of the With Profits Sub Fund.

With profits plans may also contain guarantees that may be specified at the outset of the plan or may build up over its lifetime.

Under a unitised with profits plan, each contribution or premium you pay in is used to purchase units at a cost of £1* per unit. Every year we aim to increase the value of the plan by adding units, either as a result of paying bonuses or, in some cases, due to contractual payments and/or guarantees.

Depending on the terms of your plan we may also pay a final bonus (see ‘How do bonuses work?’ on page 8).

If you choose to withdraw from your plan or move to another type of investment or savings product before the end of your plan’s term or at a non contractual point, the value of your plan may be reduced to maintain fairness across all customers in the With Profits Sub Fund. For more details please see ‘What happens if I move out of with profits at non contractual points?’ on page 16.

*The cost of buying units may be more than £1 depending on the terms of the plan. This may be, for example, to take into account certain expenses and charges that may apply to plans.

The guarantees offered under unitised with profits plans may be valuable and hard to replace. You should consider seeking financial advice before withdrawing, switching or otherwise surrendering any plan benefits.
WHAT ARE YOUR AIMS WHEN MANAGING YOUR WITH PROFITS BUSINESS?

When managing your with profits plan and the investments we make on your behalf, we follow a number of key principles. These principles include the following:

- To manage our with profits business so that it doesn’t need financial support from outside the With Profits Sub Fund.
- To balance the interests of different groups of planholders fairly.
- To provide returns to planholders at contractual points that even out some of the short-term fluctuations in the value of investments.
- To incorporate sharing of experiences between planholders, such as the costs of paying claims.

We’ll summarise how we aim to do this over the following pages.

Legal & General Assurance Society Limited is authorised and regulated by the Financial Services Authority. We are required to comply with the relevant laws and regulations when managing our with profits business and in making investments on behalf of our customers.
Unitised with profits plans may contain guarantees. For example, some plans such as endowments guarantee a minimum payment to planholders at the maturity date or when the planholder dies. Many of these guarantees only apply at contractual points, which are set dates or certain events such as death. Any guarantees are detailed in your plan documents.

Some examples of contractual points for different plans are as follows:

- **Endowments (savings and mortgages)** – the defined maturity date or, if earlier, the date of death.
- **Pension plans** – normal/selected retirement date or, if earlier, the date of death.
- **With profits bonds** – the date of death or any other date referred to in your plan documents on which a guarantee applies. Regular withdrawals up to certain limits may also be allowed.

This is not an exhaustive list. To find out exactly what guarantees apply to your plan and when, you’ll need to refer to your plan documents.
HOW DO BONUSES WORK?

We have discretion in how we calculate and declare bonuses on with profits plans. When we are deciding on the rates of bonus to declare, we consider past experience as well as the prospects for the future. Financial and other conditions may change and therefore future bonus rates are not fixed, meaning they may be higher or lower than current rates or even zero. The extent of any guarantees applicable or other amounts to be added to with profits plans will be taken into account when declaring bonuses.

Not every with profits planholder receives the same rate of bonus. The bonus rates depend on a number of factors that include:

- When you started your with profits investment.
- When you paid in your contributions.
- The type of with profits plan you have and the terms of your plan.
- The mix of assets your plan is invested in and how well these assets have performed.
- Past bonus rates and our view of future market conditions.
- The effects of smoothing.
- Any guaranteed additions such as Contractual Annual Interest or Contractual Minimum Addition.
- The expenses of running the With Profits Fund.

THERE ARE VARIOUS TYPES OF BONUS THAT MAY APPLY TO YOUR UNITISED WITH PROFITS PLAN. THESE INCLUDE:

ANNUAL BONUS

Your annual bonus is represented by the number of units we may add to your with profits investment at the end of each year. Each annual bonus added to a plan increases the guaranteed amount we’ll pay out under your plan at certain contractual points. Once we’ve added an annual bonus, we cannot withdraw it for payments made to you at contractual points. To find out what happens if you take your money out of with profits, other than at a contractual point, please see ‘What happens if I move out of with profits at non contractual points?’ on page 16.
INTERIM BONUS

An interim bonus may also be paid to allow for any period for which an annual bonus has not yet been declared. We’ll normally use the interim bonus rate to calculate the value of your plan in between annual bonus declarations.

The interim bonus rate may be changed without notice.

FINAL BONUS

A final bonus acts as a balancing item. It is paid to make up any difference between the amount we have guaranteed to pay and the overall amount we decide is fair to pay to planholders (see ‘How do you decide how much final bonus to add to my plan?’ on page 13).

The final bonus rate may be changed without notice. If we decide that there’s no balancing payment to be made, there will be no final bonus.

IMPORTANT POINTS ABOUT YOUR BONUSES

Interim and final bonus rates can be changed without notice. This means they can be increased, reduced or withdrawn immediately.

By maintaining the right to change or withdraw the rates of these types of bonuses we:

• Can maintain a greater degree of investment flexibility.

• Are able to adjust payouts so they more accurately target payout levels that are fair to both continuing planholders and those whose plans, for example, are maturing.
Depending on when you took out your plan and the type of plan you have, you may be entitled to Contractual Annual Interest or Contractual Minimum Addition (see below). These increase the value of your plan each year by the addition of units, as described in your plan documents.

The addition of these units to plans eligible for them will be taken into account when calculating any bonuses. For example, those planholders who receive Contractual Annual Interest or Contractual Minimum Addition will normally receive a lower annual bonus (or no annual bonus at all) than those who do not, in order to treat all of our with profits planholders fairly.

**WHAT ARE CONTRACTUAL ANNUAL INTEREST AND CONTRACTUAL MINIMUM ADDITION?**

**CONTRACTUAL ANNUAL INTEREST**

On some plans we guarantee to add Contractual Annual Interest to certain contributions or premiums. This means we’ll add units to the plan each year, having a value equal to a set percentage amount on these contributions or premiums, until a set contractual point (for example maturity or retirement date). This addition is only guaranteed if benefits are taken at a contractual point.

The amount of Contractual Annual Interest depends on the year in which contributions or premiums were paid and the type of plan. To see if your plan is eligible for Contractual Annual Interest please refer to your plan documents.

**CONTRACTUAL MINIMUM ADDITION**

For some plans, we add a Contractual Minimum Addition at the end of each year. This increases the guaranteed amount we’ll pay at contractual points.

We set a rate of Contractual Minimum Addition for the year at the beginning of each calendar year. This is done by using a formula that depends on a number of factors. The formula may be changed depending on market conditions. Currently the rate depends on yields on certain UK government stocks, on dividend yields on UK shares, and on the maximum Contractual Minimum Addition rate set out in the terms and conditions of the plan. To see if your plan is eligible for a Contractual Minimum Addition please refer to your plan documents.

The amount of Contractual Annual Interest/Contractual Minimum Addition that we add to your plan each year will be shown on your annual bonus statement.
AN INTRODUCTION TO UNITISED WITH PROFITS

HOW DO YOU INVEST MY MONEY?

For most of our with profits plans, investment returns are the most important factor in deciding how much we pay out. The majority of our with profits investments are managed by Legal & General Investment Management Limited (LGIM) and the With Profits Sub Fund pays LGIM a fee set by taking into account the typical market rate for this service.

To help us maintain investment flexibility we have the discretion in certain circumstances to appoint different investment managers for all or part of our with profits investments. We currently use two external investment managers, Lazard Asset Management Limited and Marathon Asset Management LLP, to manage some of the With Profits Fund’s Japanese equity investments.

We regularly review the performance of all assets, both externally placed and with LGIM, to ensure they are invested in the best interests of planholders.

ASSET ALLOCATION

When you pay money into your with profits plan it is pooled with money from other with profits planholders. While everyone is invested together in the With Profits Sub Fund, the return paid to different groups or pools of planholders may be based on different proportions of each type of investment than are held within the With Profits Sub Fund as a whole. This may be done for a number of reasons, including to reflect the features and purposes of different groups of plans.

The proportions of each type of investment we hold are not fixed for different groups of plans or for the With Profits Sub Fund as a whole. We may change them for the following reasons:

- To reflect changes in the characteristics of groups of plans, such as the term to maturity.
- To manage the impact of plan features such as guarantees.

This may mean, for example, that the proportion of assets invested in shares may reduce over time, while the proportion invested in fixed interest securities may increase.
INVESTMENT MIX

Pooling your investment with that of other with profits planholders allows you to invest a fairly small amount while still enjoying the benefits of a larger fund. One of the benefits of this is that we would normally be able to spread the With Profits Sub Fund across investment types, or asset classes as they are sometimes called. Investment returns for the fund as a whole therefore do not depend on the performance of just one type of investment.

With profits investment decisions are based on the strategy we consider to be appropriate, taking into account our aim to treat planholders fairly. Money is invested with the aim of balancing risk and reward. When reviewing the investment mix for particular groups of planholders or for the With Profits Sub Fund as a whole we consider, amongst other things, whether the investment risks taken are appropriate for that particular group and for the With Profits Sub Fund as a whole.

We currently invest mainly in the following asset types:

- Shares (UK and overseas).
- Fixed interest securities.
- Commercial property.

To help us manage the investments of the With Profits Sub Fund more efficiently we may invest in financial securities known as derivatives. Derivatives are often used to manage investment risk and provide an efficient way of managing our with profits investments.

The way the assets are currently split for the overall With Profits Sub Fund and for different groups of plans is covered in the Bonus Factsheet, which is available online at www.legalandgeneral.com/with-profits or can be requested by calling 0370 0500 263.

Please note call charges will vary and we may record and monitor calls.
HOW DO YOU DECIDE HOW MUCH TO PAY OUT?

We take into account a number of factors when deciding how much to pay out to with profits planholders. In particular, we consider how the investments backing the with profits plans have performed and our aim to treat all with profits planholders fairly.

HOW DO YOU CALCULATE THE NUMBER OF UNITS HELD ON MY PLAN?

The total number of units built up by your plan will depend on a number of factors such as:

- The money you pay in less money we pay out to you (for example, if you take an income from your plan).
- Declared annual bonuses and any other contractual additions made to your plan.
- Any deductions made for expenses or to provide other benefits such as life cover.

HOW DO YOU DECIDE HOW MUCH FINAL BONUS TO ADD TO MY PLAN?

When deciding how much final bonus to add to your plan, we consider the value of your units and how much we need to add to this to achieve a payout that is fair. In deciding this, we take account of the need for us to stay financially sound for the benefit of those who remain invested in with profits.

To achieve a fair payout, we would normally group your plan with similar plans when setting bonuses. This enables planholders to share the impact of experience, such as the sharing of expenses, claims and investment returns. This is a feature of with profits which we call pooling.

We then consider a number of factors including:

- The value of the premiums or other contributions paid into the group of plans.
- The investment return (allowing for tax) achieved over the period of investment on the assets supporting that group of plans.

As described in ‘How do you invest my money?’ on page 11, the mix of assets used to back different groups of plans may vary between groups of planholders. A use of different combinations of assets would provide different investment returns for different groups of plans.

EXPENSES

We also consider any outgoings such as money paid out to planholders and expenses. When considering the impact of the expenses, we allow for the cost of administering plans similar to yours. The expenses also include the cost of commission payments we may have made to advisers, the costs...
of managing the assets held on behalf of planholders (including the costs of buying and selling assets), and a fair share of the other costs of running our business.

If the actual expenses are lower than we had previously assumed, this may lead to an increase in your final bonus rate. On the other hand, if the actual expenses are higher than we had previously assumed, this may lead to a reduction in your final bonus rate.

We may also make other deductions in our calculation of a fair payout, including for example:

- To reflect any increase in the actual and expected costs of guarantees and options, and other expenses and liabilities in the With Profits Sub Fund. Any deduction made in relation to guarantees and options is subject to limits on the amount that can be charged each year. Full details are given in our PPFM.

- To reflect the cost of providing other benefits that may be provided under the terms of with profits plans, such as life cover and critical illness cover. When considering this cost we compare the actual cost of providing these benefits with what we had previously assumed that cost would be.

- To cover the payments we make to shareholders.

Please note that all actual and assumed expenses, charges and deductions may change over time.

**SMOOTHING**

The result of the calculation described above is known as the asset share for your plan. This is then subject to smoothing. See ‘What is smoothing?’ on page 15. The smoothed calculation is then used to determine the level of final bonus we add to your plan when you make a claim.

If you move out of with profits at a contractual point, we aim to pay out between 80% and 120% of the asset share for your plan, unless the effect of guarantees leads to a higher payout. In the longer term, we aim to make total payouts at maturity or normal retirement date generally amount to 100% of the related asset shares. In each case these are aims, so it is possible that not all payouts will satisfy these targets. This approach will be subject to the overriding need to ensure that the With Profits Sub Fund remains financially sound.

However, there may be times when it is appropriate to change our approach. For example, we may decide to incorporate more or less sharing of expenses, claims, investment return and other experience of the With Profits Sub Fund between different classes of our planholders, or to adjust our approach to smoothing. This may be appropriate in order to ensure fair treatment of all of our planholders or to protect the financial position of the With Profits Sub Fund as a whole.

The rates of final bonus set will apply to payments made at contractual points until revised rates of final bonus are declared.

The amount you may receive if you are moving out of with profits at a non contractual point is covered in ‘What happens if I move out of with profits at non contractual points?’ on page 16.
WHAT IS SMOOTHING?

Smoothing is a feature of a with profits business that 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. This means that following years with strong investment returns, the bonuses declared on your plan may be less than they would otherwise have been. Likewise, following years when investment returns have been less strong, the bonuses declared on your plan may be more than they would otherwise have been.

As a result of the smoothing process, some of the short-term fluctuations in the value of investments and other factors that affect the value of the Fund, such as our expenses and the number of planholders making claims (for example in the event of ill health or death), are not necessarily immediately reflected in the payments we make.

Typically, less smoothing will apply if you withdraw from your plan before the end of the plan term, for example, at a non contractual point. We explain this in more detail on page 16.

GRAPH TO ILLUSTRATE HOW SMOOTHING WORKS

This graph is for illustration only, to give you an idea of how smoothing works. It does not show smoothing for any specific plan or time period.

Some of the previously held back returns are used to make up for the recent falls in investment performance.

Some of the investment returns are held back to reduce the short-term effects of falls in investment performance.
WHAT HAPPENS IF I MOVE OUT OF WITH PROFITS AT NON CONTRACTUAL POINTS?

The values of with profits plans are subject to market fluctuations, changes in expenses and other factors. With the aid of smoothing we aim to reduce the ups and downs that may be experienced when investing directly in the stock market and some other types of investments. However, the value of your plan is also subject to the terms set out in your plan documentation.

If you choose to withdraw all or part of your investment from your plan, or move to another investment choice other than at the time or times set out in your plan terms, we may reduce the amount we will pay you. The amount that you will receive in these situations is based on your fair share of the assets that make up the With Profits Sub Fund, but may be subject to some smoothing. If we paid out more than this amount, this may disadvantage remaining planholders. This means that the value you receive may be lower than the basic guaranteed amount that may be payable at contractual points.

We may also adjust the amount we pay to reflect changes in the costs of providing guarantees and options in the With Profits Sub Fund. Options are contract features that give some customers the ability to take benefits in different forms.

We aim to pay out between 75% and 120% of the asset share for your plan, although we may pay out more or less than this.

Common types of situations in which a reduced amount may be payable include:

- Pension plans – transfer out, early retirement (including income drawdown before the selected/normal retirement date), switching to another investment option.
- Bonds – partial or full surrender, income drawn above the agreed limit.
- Endowment plans – surrender before the agreed maturity date.

WHAT THIS MEANS IN PRACTICE

There are a number of instances in which we could reduce a payment to protect the remaining investors. The following is one example.

Suppose five people have been paying the same premiums into the Fund, the value of which (including investment gains that have been added to the plans in the form of extra units) now amounts to a total of £100,000.
An introduction to unitised with profits

Although we may pay out more or less than this.

Common types of situations in which a reduced amount may be payable include:

- Pension plans – transfer out, early retirement (including income drawdown before the selected/normal retirement date), switching to another investment option.
- Bonds – partial or full surrender, income drawn above the agreed limit.
- Endowment plans – surrender before the agreed maturity date.

What this means in practice

There are a number of instances in which we could reduce a payment to protect the remaining investors. The following is one example.

Suppose five people have been paying the same premiums into the Fund, the value of which (including investment gains that have been added to the plans in the form of extra units) now amounts to a total of £100,000.

What happens if I move out of with profits at non-contractual points?

If investment values fell by 20%, the total Fund would fall to £80,000. So each investor’s individual share would fall by 20% to £16,000.

If an investor chose to leave, and their payment was not adjusted to take account of the fall in investment values, they would receive £20,000. The amount remaining for the other four investors would then be just £60,000 amounting to £15,000 each.

So that the amount we pay does not unfairly reduce the amount available to the remaining investors, we make an adjustment. If we pay the leaver £16,000, the amount remaining for the other investors would be £64,000 amounting to £16,000 each.

What are market value reductions (MVRs)?

For many plans, we make the adjustment illustrated by applying a market value reduction.

If we apply a market value reduction this means that we may pay less than the value of your units and any declared bonuses. We would normally apply a market value reduction where investment performance means that the value of assets backing your policy is lower than the value of units held under your plan together with any declared bonuses. We would normally apply a market value reduction when investments have not performed well enough to pay the level of bonuses declared.

MVRs will not be applied to payments made at contractual points, or for some plans, on regular withdrawals up to the limit set out in your plan terms.
THE WITH PROFITS SUB FUND AND THE INHERITED ESTATE
When you pay money into your with profits plan, we invest it in the With Profits Sub Fund, which is part of our Long Term Insurance Fund.

Currently the With Profits Sub Fund has more assets than we expect will be needed to meet all of its liabilities. This positive balance is called the Inherited Estate.

The Inherited Estate provides financial support that allows the Fund to operate more effectively. Among other things, the Inherited Estate can be used to:

- Give us flexibility in managing investments.
- Allow us flexibility to smooth plan payments.
- Absorb the financial strains of writing new business.
- Help us to meet some costs that planholders would otherwise have to pay.

KEEPING THE WITH PROFITS SUB FUND OPEN TO NEW BUSINESS
When we write new business in the With Profits Sub Fund we only do so on terms that we believe are unlikely to have an adverse impact on existing planholders.

We have not set a level of new business below which we would close our With Profits Sub Fund to new planholders.

If the With Profits Sub Fund closed to new business, we would keep you informed of actions taken that significantly affect your plan, including the management of the Inherited Estate. These actions would depend on the reasons for closure and the circumstances at that time.

SHAREHOLDERS AND PLANHOLDERS

Legal & General is a company owned by shareholders.

Both planholders and shareholders have an interest in our with profits business. At least 90% of the profits arising from the With Profits Sub Fund that we distribute are allocated to with profits plans by way of bonuses. The remainder (no more than 10%) is paid out to shareholders. By contrast, profit and losses on business in other sections of our Long Term Insurance Fund pass only to shareholders.

To distinguish between with profits business and other business, we maintain separate accounts for the With Profits Sub Fund.

RISK AND COMMITMENT

The value of your investment can go down as well as up, and you may not get all your money back. With profits is a medium to long-term investment that you should be prepared to hold for at least five years, ideally longer.
WHERE CAN I FIND OUT MORE?

This document covers the main points of our Principles and Practices of Financial Management document (PPFM). The PPFM is a more detailed description of how we manage with profits.

The Board at Legal & General Assurance Society Limited provides a Report to Policyholders on compliance with the PPFM that can be found at www.legalandgeneral.com/with-profits. We also appoint an independent person to report on our compliance with the PPFM and how we have addressed conflicting rights and interests of planholders and shareholders. A summary of this independent assessment is included in the Report to Policyholders.

Call us on 0370 0500 263 if you’d like a copy of our PPFM. You can also get a copy from your adviser or from our website at www.legalandgeneral.com/with-profits

Your plan documents contain more information:

- If you’re in the process of making an application, you can refer to your Key Features document, your personal illustration and your plan document. We’ll send you your plan document when your application is accepted. A copy is available in advance on request.

- If you already hold a with profits plan, you can refer to your plan document and regular statements. You may also have a Key Features document and a plan or fund brochure.

Your usual adviser should be able to provide you with further information on with profits. You can also call us on 0370 0500 263. We’ll be happy to answer any questions you may have.

Call charges will vary and we may record and monitor calls.