

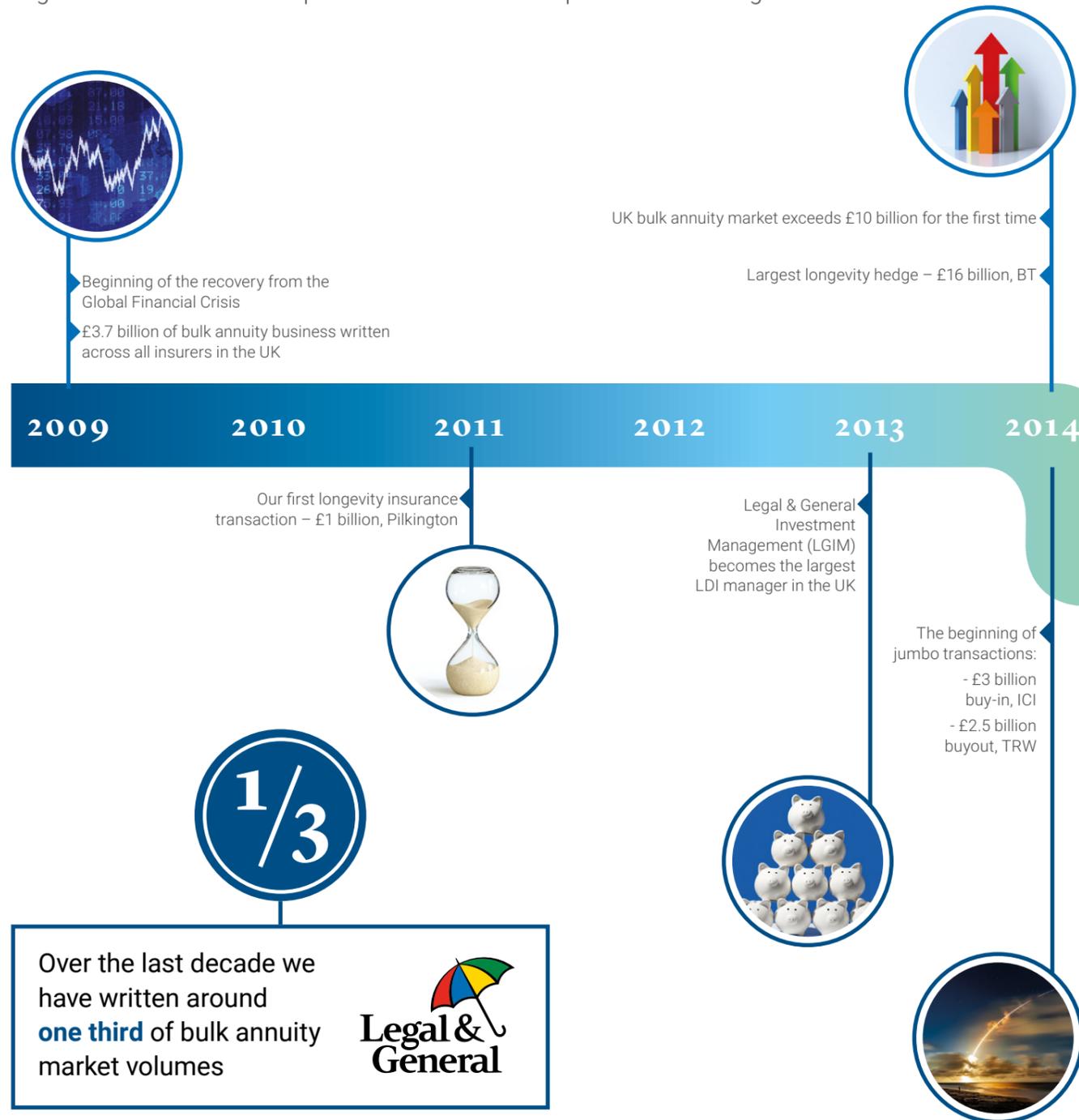


Overview of the pension risk transfer market

Looking back

2019 marks the third consecutive year of growth in the bulk annuity market and another record breaking year for both Legal & General and the market as a whole. Market volumes exceeded £40 billion, with us and one other insurer completing over £10 billion of transactions each.

To mark the beginning of a new decade we have taken a look back at how both the market and Legal & General have developed and the trends we expect to see looking ahead.



Summary of 2019

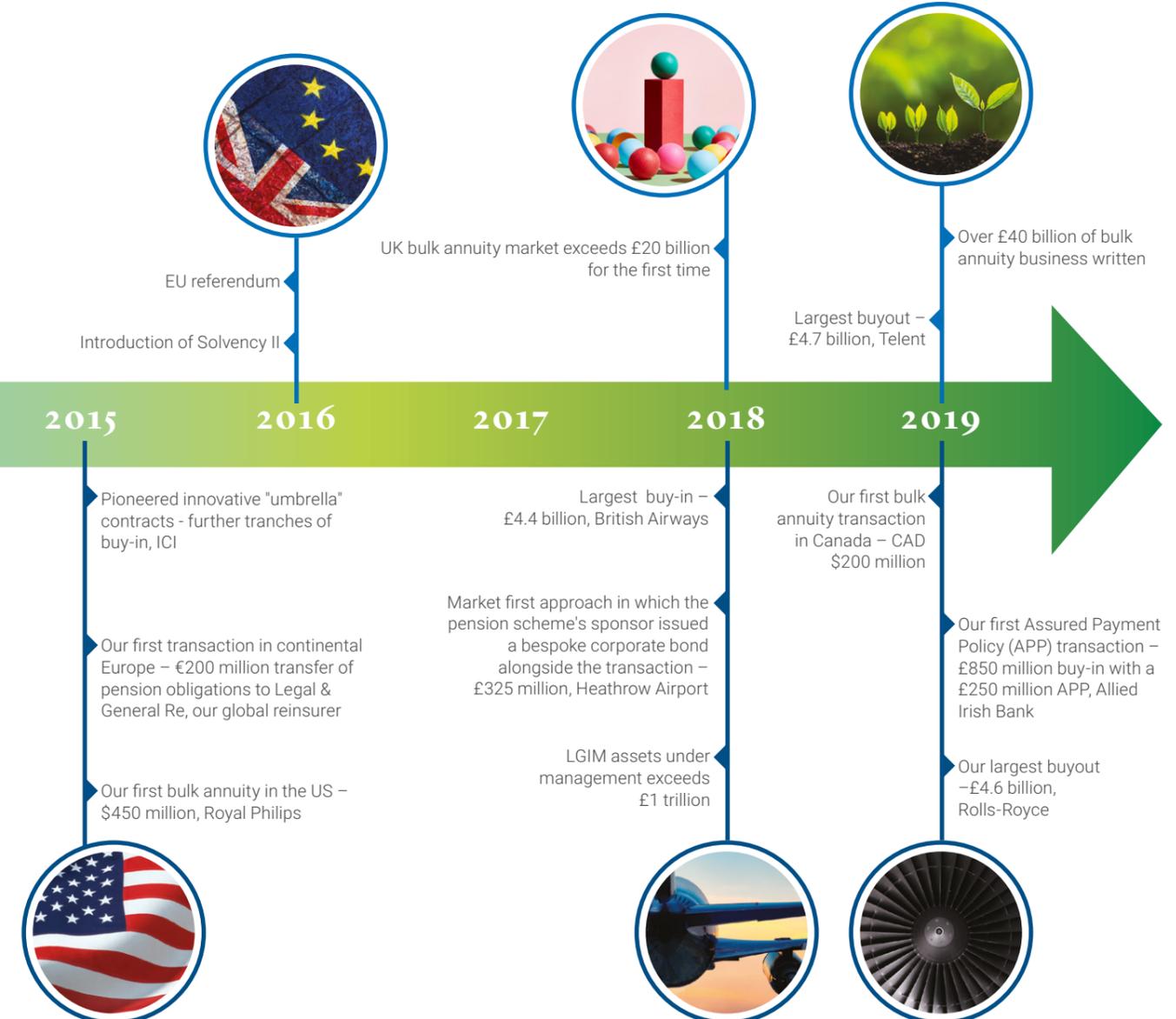
New business volumes

During 2019 we wrote 31 bulk annuity policies in the UK and received £10.3 billion of premium in respect of new business, including balancing premiums. This compares to 18 bulk annuity policies and £8.4 billion of premium received during 2018.

Bulk annuity sales 2019	£0m – £100m	£100m – £1,000m	£1,000m+
Total size (£m)	643	2,072	7,610
Average size of transaction (£m)	28	414	2,537
Number of transactions	23	5	3

Smaller pension schemes: Our streamlined process for pricing smaller transactions has enabled us to more than double the number of policies we've written that are under £100 million from 11 in 2018 to 23 in 2019. This highlights our success in using technology and process improvements to support this important segment of the market.

Global opportunities: 2019 was an outstanding year for our international business – our US business transacted over \$1 billion of transactions for the first time, bringing the total volume written since entering the market in 2015 to more than \$3.5 billion.



Looking forward



Innovation

We wrote our first transaction including an Assured Payment Policy (APP) in 2019, which is covered in more detail on page 5.

Our bespoke solutions such as APP and Insured Self-Sufficiency (ISS) can be used to help pension schemes accelerate their de-risking journeys. These solutions can be accessed by trustees not yet able to afford buyout, and help to create a lower risk and more certain path through to buyout.



Sourcing assets to back growing buy-in and buyout volumes

Asset sourcing will continue to be an important factor for pricing as insurers seek to increase capacity. Working closely with LGIM and Legal & General Capital (LGC), we are uniquely placed to source investments to support our bulk annuity business. Through these relationships we'll continue to deliver on our commitment to making economically and socially useful investments.



Growth of the UK market

Individual insurers are now transacting bulk annuity volumes each year that are equal to entire market volumes from only a few years ago. This growth looks set to continue, with the Pensions Policy Institute expecting a potential UK buyout market of up to £770 billion over the next decade. We will continue to innovate and invest in technology to help us support this increasing demand.



Global market opportunity

We expect to see continued growth in international markets with only 5% of the US and Irish defined benefit markets currently insured, and only 2% of Canadian and Dutch markets. There is a huge opportunity for development in global business in the next ten years and beyond.

Innovation in action: our £1.1 billion de-risking transaction with the AIB Group UK Pension Scheme

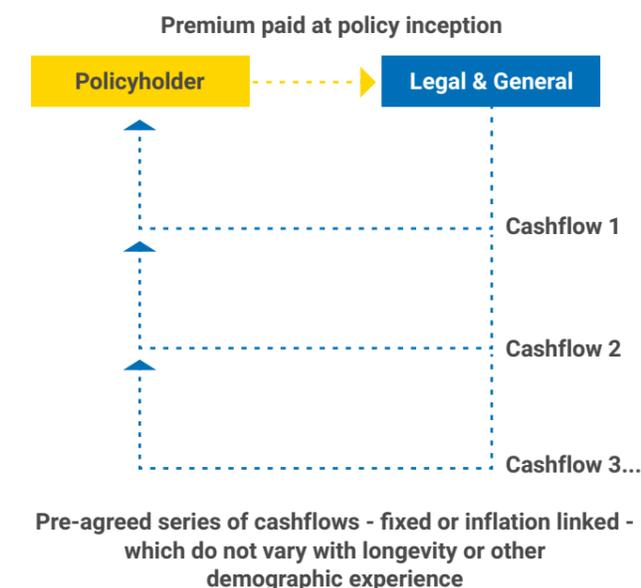
In February we announced an innovative de-risking transaction with the AIB Group UK Pension Scheme that involved the first use of a new solution developed by Legal & General – an Assured Payment Policy or APP.

<p>£850m buy-in</p> <ul style="list-style-type: none"> covers pensioner members converts an existing longevity insurance contract 	<p>£250m APP</p> <ul style="list-style-type: none"> covers deferred members structured to facilitate future conversion to buy-in
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A bespoke solution addressing specific needs: APP

Our APP solution allows pension schemes to selectively insure certain risks.

It can be used to protect against changes in asset yields, interest rates and inflation – by locking these down, pension schemes have a lower risk and more certain path through to full risk cover over time.



This transaction illustrates the flexibility of APPs. Pension schemes can use them in combination with other de-risking solutions to optimise their bespoke de-risking journey, for example if full risk cover is not yet affordable for deferred members.

Benefits of this transaction

- All pension-related risks removed for pensioners
- Investment and inflation risk removed for deferred members
- Longevity insurance successfully converted into a buy-in
- Sponsor balance sheet volatility reduced
- Improved visibility of de-risking progress, with a clear path created through to buyout

Partnering on a journey

This transaction is a significant milestone in a de-risking journey that has showcased the strength of the relationship between the pension scheme, its sponsor and Legal & General. This journey has included:

- Drawing on the pension scheme's longstanding relationship with LGIM. This helped to facilitate the collaborative approach and smooth execution of the transaction.
- Converting an intermediated longevity insurance agreement in respect of the pensioner members – a transition supported by our structuring team's expertise.



"The de-risking market has come a long way in the past decade. Whilst bulk annuities will remain the cornerstone of our business, we're committed to playing a leading role in innovation too."

Through our APP and ISS solutions - coupled with client led innovation - we're using our Group's unique toolkit to deliver greater access to de-risking for many more pension schemes."

Frankie Borrell, Head of Client Solutions

The investments behind annuities

We asked Sumit Mehta, our Head of Investment Solutions, to share his views on the past, present and future of investing to support our bulk annuity business.

Setting the investment strategy to back annuities has always been a complex endeavour. But three key themes have rewritten the investment rulebook in the last decade:

- The spectacular collapse of interest rates and yields across the globe, limiting opportunities in asset markets that retain competitiveness;

- The profound growth witnessed in the bulk annuity market, with market volumes rising from £3.7 billion in 2009 to over £40 billion last year, that has created an insatiable demand for attractive assets; and
- The introduction of Solvency II in 2016 that, while linking risk and capital more closely, has placed additional constraints on asset eligibility.



"We believe that our unique approach to dealing with this challenging environment is a key differentiating factor behind us maintaining our market-leading position in bulk annuities, while continuing to deliver long-term value to pension schemes and security to members."

Sumit Mehta, Head of Investment Solutions

The future: the three S's of our investment philosophy

Social impact

We believe that we have an incredible opportunity to deliver social impact on two fronts: helping members have a financially secure retirement, and using our investments to support the wider economy. This vision has underpinned our investment strategy, as we have made direct investments in socially and economically important sectors such as clean energy, commercial and residential real estate, infrastructure and SME Finance.

We rely on the expertise of our in-house asset manager LGIM, and our principal balance sheet investing group LGC, to source and manufacture these investments, a proposition that is unique to Legal & General. We believe that these assets are a source of attractive risk-adjusted return against publicly available assets, but sourcing them isn't enough. We then use our in-house expertise to structure them to ensure they are capital efficient, thus ensuring we provide maximum value for bulk annuity pricing.

Solutions

We pride ourselves on our capabilities to offer innovative and bespoke solutions that allow pension schemes to continue on their de-risking journey, from tailored portfolio locks to seamless asset transitions, even during times of unprecedented market volatility. We are able to draw on our extensive experience of facilitating complex in-specie asset transfers, which have included the novation of a variety of derivative structures, in order to meet each client's needs.

Sophistication

To maintain our pricing competitiveness in response to the changing landscape, we have transformed our approach to investment strategy. We are proactive users of technology enabling us to optimise portfolio construction, provide key pricing inputs efficiently and manage our risks dynamically. This, when combined with the diverse subject matter expertise ranging from actuarial to trading skill sets that we have harnessed in our people, allows us to respond to the market environment and deliver bespoke solutions to pension schemes.

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