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Dear Sir,

**SHELL ADDITIONAL VOLUNTARY CONTRIBUTION ARRANGEMENT  
31 DECEMBER 2019 BONUS DECLARATION**

We have today announced our bonus rates for the year ending 31 December 2019 and we are writing to bring you up to date with these details at the earliest opportunity.

**2019 Market Commentary**

Global equities produced healthy gains in 2019. US equities performed well, rebounding from a turbulent end to 2018. US market confidence improved over the year as the expected interest rate rises from the US Federal Reserve did not take place and rates were reduced. The worldwide impacts of the trade dispute between US and China eased as a 'phase one' trade deal with China brought a sharp rally in equity markets across the globe during December.

UK equities underperformed global markets during 2019 as uncertainty over Brexit negotiations overshadowed the market for much of the year. However, a victory for the Conservatives in the December general election led to a year-end rally, while sterling also gained ground against other major currencies over the fourth quarter. Despite signs of slowing economic growth and manufacturing activity earlier in the year, European equities improved towards the end of 2019 following interest rate cuts from the European Central Bank and the positive progress on the US/China trade dispute.

Returns from bond markets were relatively modest during 2019. Aside from May and August when a marked rise in financial market volatility triggered demand for 'safe-haven' assets, government bonds underperformed equities. Although many major central banks have loosened monetary policy, underpinning bond markets, investors have preferred higher yielding alternatives to major government bonds. In the UK, inflationary pressures have remained subdued and index-linked gilts marginally underperformed conventional securities as a result.

In the UK commercial property sector, good industrial and office sector performance offset weakness in the retail sector. The latter seeing a decline in capital values on the high street and in shopping centres. In the industrial and office sectors, capital growth and total returns have been positive over the last 12 months. Overall, the investment market continues to attract capital from yield-driven international investors, particularly Asian investors focusing on London.

### With Profits Fund Performance

With profits invests in a mix of assets, which can help to reduce the impact of poor performance by any one asset type. As the assets react differently to economic factors, when one is not performing well another may be performing better. The performance is a combination of the returns received from all the investments. In 2019, the assets backing Legal & General's with profits policies returned 12% before tax.

Over the last eight years the investment returns for the assets underlying the policy have been as follows:

Year		2012	2013	2014	2015	2016	2017	2018	2019
Investment return*		+12%	+9%	+10%	+3%	+15%	+8%	-3%	+12%

\*Please note that investment returns are before we've taken off investment expenses, tax and any policy charges and are rounded to the nearest percent.

Past performance is not an indicator of future performance.

Please note that the returns or bonuses added to investors' policies over the years will not be the same as those shown above.

### Investment Overview

The Shell Additional Voluntary Contribution Arrangement invested in the following assets at the end of 2019:

UK Shares	15%
Overseas Shares	22%
Fixed Interest Securities	49%
Commercial Property	10%
Other	4%

**UK and overseas shares** – Over the short term, the value of a fund investing in shares can go up and down a lot. However shares are widely believed to provide the best long-term return, over a period of five years or more.

**Fixed interest securities** – These are a loan to a company or a government in return for a fixed rate of return over a set period. They are less risky than shares but are likely to provide a lower return over the long term.

**Commercial property** – This fits well in a balanced investment mix as it can offer good prospects for long-term growth, through any rises in the value of the property and through regular rental income.

## **2019 Bonus Rates**

### **Factors affecting the bonus rates**

Investment returns, less any tax applicable, are the most important factor in deciding how much bonus we pay. These depend on the mix of assets the policy is invested in and how these assets have performed. We also consider the following:

- Historic investment returns experienced over the period of the investment.
- Bonuses already declared.
- Our view of future investment conditions.
- The effects of smoothing.
- When the investor started their policy.
- The type of with profits policy they have and the terms of their policy, including the type and extent of any guarantees.
- Money built up in the With Profits Fund that is over and above what we expect to need for future obligations such as tax, expenses and future bonuses to policyholders.

Following the closure of the With Profits Fund to new business on 31 January 2015, we have considered annually whether to distribute part of this money. For the bonus declaration for 2019, we've added 0.5% to the value of the underlying assets. This value is not added directly to an investor's bonus rate but is allowed for when we work out what bonus they are entitled to.

- The costs of running their policy. With effect from 1 January 2018, most of the costs of their policies were fixed under an expense agreement. This agreement continues until 30 June 2020 but we may extend it beyond that date.
- Any other adjustments, for example to cover an increase in the cost of guarantees and options. For the bonus declaration for 2019, there will be no adjustments.

### **Annual and interim bonus rates**

For premiums with a Contractual Annual Interest (CAI) rate of 3.50% (01/01/94 – 31/12/99) or 5.00% (before 01/01/94), the annual bonus rate for 2019 will be zero as per 2018. There will be no interim bonus for 2020 for this tranche of premiums. This reflects the value of the CAI.

For premiums from 1 January 2000 which do not have CAI, the annual bonus rate for 2019 and the interim bonus rate for 2020 is 1.50%.

Please note interim bonus rates can be changed at any time.



## Final Bonus Rates

The new final bonus rates (with the previous rates effective from 21 February 2019 in brackets) are as follows:

Premiums Paid in	Final Bonus Rate
1980	1.15% (1.10%)
1981	1.15% (1.10%)
1982	1.10% (1.05%)
1983	1.00% (0.95%)
1984	1.05% (1.00%)
1985	1.15% (1.10%)
1986	1.25% (1.20%)
1987	1.25% (1.15%)
1988	1.25% (1.20%)
1989	1.15% (1.05%)
1990	1.45% (1.40%)
1991	1.95% (1.90%)
1992	1.85% (1.80%)
1993	1.40% (1.35%)
1994	2.75% (2.65%)
1995	3.00% (2.95%)
1996	2.80% (2.70%)
1997	2.45% (2.35%)
1998	2.05% (1.95%)
1999	1.65% (1.50%)
2000	2.90% (2.70%)
2001	3.85% (3.65%)
2002	5.45% (5.25%)
2003	5.95% (5.80%)
2004	5.25% (5.05%)
2005	4.25% (4.05%)
2006	3.40% (3.15%)
2007	3.30% (3.00%)
2008	4.90% (4.75%)
2009	6.35% (6.30%)
2010	5.35% (5.25%)
2011	5.15% (5.05%)
2012	5.15% (5.05%)
2013	4.45% (4.30%)
2014	4.00% (3.75%)
2015	3.80% (3.50%)
2016	3.25% (2.75%)
2017	1.70% (0.50%)
2018	2.15% (0.00%)
2019	2.20% (2.00%)
2020 and later	0.75% (2.00%)

Final bonus rates can be changed at any time.

These new rates apply to all claims received on or after 20 February 2020. The previous rates (shown in brackets) will apply to any claims received by us before 20 February 2020, or where the effective date is before 20 February 2020, (including claims for deaths that occurred before this date). Any immediate annuity rate guarantees given prior to 20 February 2020 are not affected by the bonus declaration.

Any illustrations that we give you will take account of the investment returns earned in 2019. All illustrations allow for past investment returns, and we make assumptions about future rates of return in accordance with the rules set by our regulator.

**Principles and Practices of Financial Management (PPFM)**

Every year in June the Board of Directors will report to with profits policyholders on compliance with our PPFM for the period 1 January to 31 December. The latest version of this report is available on our website at [legalandgeneral.com/with-profits](https://legalandgeneral.com/with-profits).

You can also download the latest version of our PPFM (which was amended in January 2020) and the Notification of Changes to our PPFM from the website.

If you would like more information on the with profits bonus declaration, please go to [legalandgeneral.com/bonus-declaration](https://legalandgeneral.com/bonus-declaration). If you have any questions, please contact us on the number at the top of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Sara Fox', written over the printed name.

Sara Fox  
Operations Manager, Mature Savings