Legal & General Reinsurance Company Limited

Financial Condition Report

31.12.2016

Table of Contents

A. Business and Performance

Particulars regarding the organisational structure, insurance business activities and financial performance

A.1 Name of insurer

Legal & General Reinsurance Company Limited (“L&G Re” or “the Company”)

A.2 Name and contact details of the insurance supervisor and group supervisor

	Insurance Supervisor	**Group Supervisor**
Name:	Bermuda Monetary Authority	Prudential Regulation Authority
Jurisdiction:	Bermuda	United Kingdom
Email Address:	amellish@bma.bm	Terrence.Venables@bankofengland.co.uk
Phone Number:	+1 (441) 278 0320	+44 (0)20 3461 8013

A.3 Name and contact details of the Approved Auditor

Organisation:	PricewaterhouseCoopers Ltd.
Jurisdiction:	Bermuda
Email Address:	pwc.bermuda@bm.pwc.com
Phone Number:	+1 (441) 295 2000

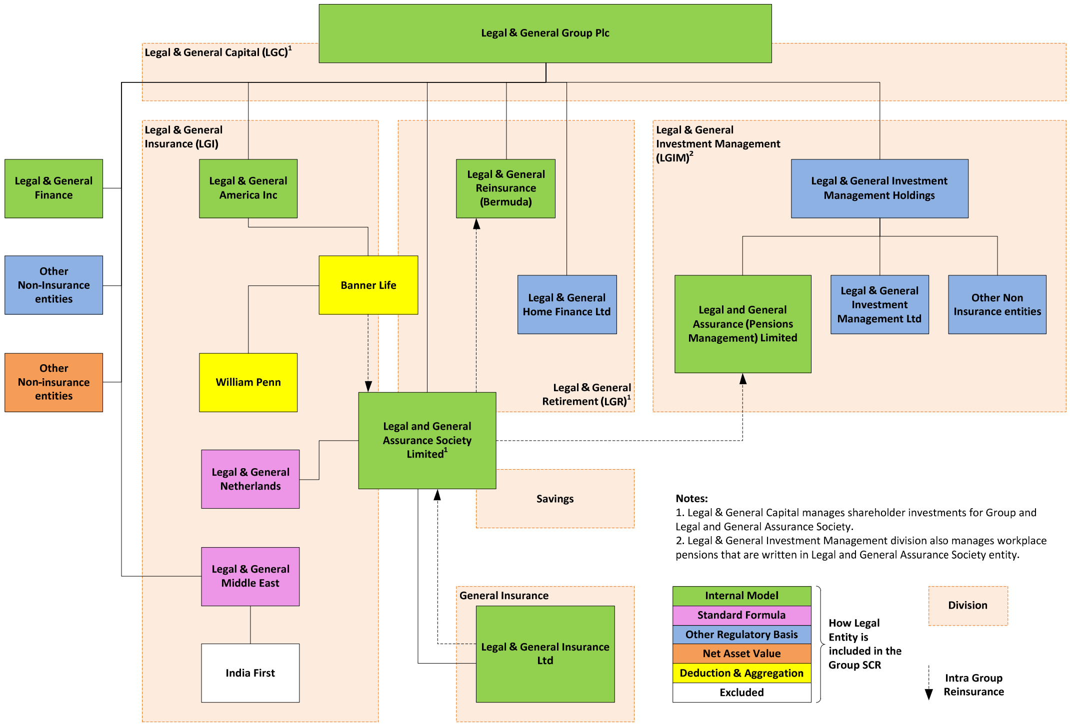
A.4 Ownership details

Number of owners:	One
Owner Name:	Legal & General Re Holdings Limited
Ownership Percentage:	100%

A.5 Where the insurer is part of a group, a group structure chart showing where the insurer fits within the group structure

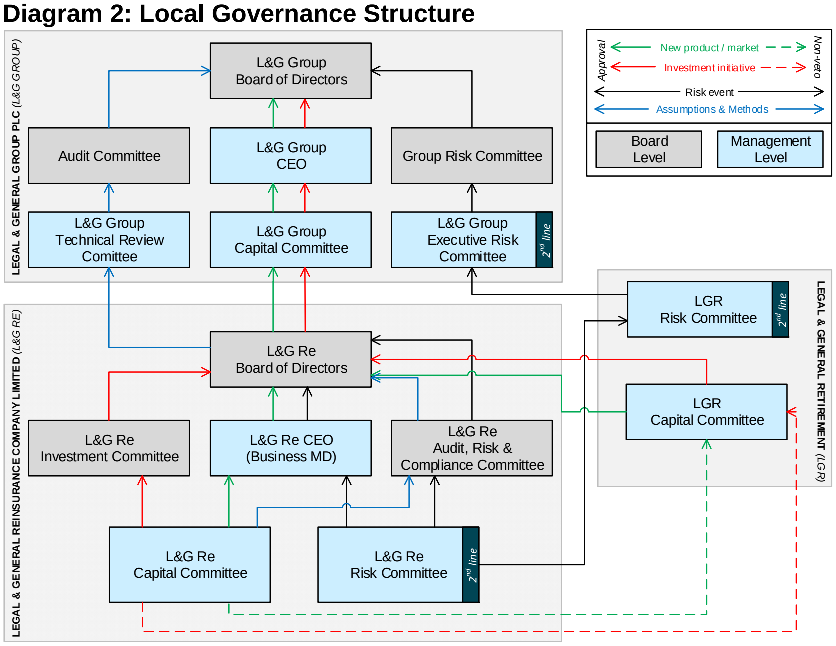
Below is a structure chart which shows the legal entity and divisional structure of Legal & General Group. L&G Re is part of the Legal and General Retirement (“LGR”) division. As part of the Group, L&G Re is required to comply with Group policy.

Diagram 1: Division and Entity overview



L&G Re has a local governance structure, but items not within the delegated authority of the L&G Re Board are referred to divisional and Group level committees. This is demonstrated in the diagram below:

Diagram 2: Local Governance Structure



A.6 Insurance business written by business segment and by geographical region during the reporting period

Line of Business

	Gross Premium Written	Net Premium Written
	£'000	£'000
Longevity	604,405	604,405

Geographical Location

	Gross Premium Written
	£'000
Western Europe	604,405

A.7 Performance of investments during the reporting period

	YE16 £m	YE15 £m		Commentary
U.S. Government Federal	92	81	USD Government	Exposure to U.S. Government bonds has increased over 2016 due to new business.
Non-U.S. Government	732	588	Non USD Government (Mainly Gilts)	Exposure to Non-U.S. Government bonds largely relates to UK Gilts. Great British Pound interest rates have fallen over 2016 leading to an increase in the market value of UK Gilts. The 2016 new business premiums received have also increased the UK Gilt holdings.
Corporate Securities - Other	4,194	3,015	Credit (Non Government & Non Floating Rate Notes (FRNs))	Exposure to Corporate bonds has increased over 2016 due to: 1) New Business Premium received over 2016; 2) GBP interest rates falling over 2016 leading to an increase in the market value of UK bonds; & 3) internally rated residential non-subprime investments have been reclassified as Corporate bonds following advice from the BMA.
Mortgage-backed Securities: Residential Non-subprime	-	111		Following advice from the BMA, internally rated residential non-subprime investments have been reclassified as Corporate bonds.
Others (Briefly describe)	159	65	Floating Rate Notes (FRNs)	Approximately £100m of Collateralized Debt Obligations (CDOs) has been restructured and are now classified as Floating Rate Notes (FRNs).
Total	**5,177**	**3,860**		

Table above shows investment assets for YE15 & YE16 and excludes items such as cash, derivatives, receivables, tradable etc.

Details on material income and expenses incurred

Investment performance is reported by L&G Re as investment return in the financial statements. The Company earns an investment return from holdings in financial instruments which are held to back insurance contracts on behalf of policyholders and as Company capital.

The total investment return for the Company over 2016 was £767m as reported in the financial statements.

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at fair value through profit and loss ("FVTPL") and realised gains and losses from all financial assets.

Investment income includes dividends, interest and rent. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as FVTPL is recognised using the effective interest method. Investment income is presented net of investment management fees and rebates.

There were no material investment performance gains and losses recognised directly in equity all gains and losses recognised directly in equity are disclosed in the Company's report and accounts statement of comprehensive income.

A.8 Any other material information

None.

B. Governance Structure

Particulars of corporate governance, risk management and solvency self-assessment frameworks

L&G Re's governance framework is intended to ensure that all decision making is appropriate and subject to robust controls and oversight. L&G Re operates a three lines of defence structure to ensure appropriate segregation of responsibilities.

B.1 Board and Senior Executives

B.1.1 Directors and Officers

Directors

Name	Board Position
Kerrigan Procter	Chairman of the Board, Investment Committee Chairman
Bryan Blunt	Board Member, Investment Committee Member, Audit Risk and Compliance Committee Member
Troy Thompson	Board Member, Audit Risk and Compliance Committee Member
Derek Stapley	Independent Non Executive Board Member, Chairman of the Audit Risk and Compliance Committee
Thomas Olunloyo	Board Member, Investment Committee Member, Chief Executive Officer

Officers

Name	Board Position
Thomas Olunloyo	Chief Executive Officer and Chief Actuary
Brendan Kemp	Chief Financial Officer
Caspar Young	Chief Business Development Officer
Andrew Sooboodoo	Chief Risk Officer
Neil Burt	Approved Actuary & Head of Actuarial Reporting

Description of segregation of these responsibilities:
There are four primary officers of the Company, the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), Chief Business Development Officer (“CBDO”) and Chief Risk Officer (“CRO”). The Approved Actuary (“AA”) is separate to all of these roles.

The CFO leads the finance function which is responsible for all statutory and reporting and also has reinsurance administration responsibilities. The valuation assumptions are owned by the CFO. The CBDO leads the new business function and retains responsibility for the pricing assumptions and all new business related activities. The CRO retains responsibility for the risk and governance framework, and provides independent, second line opinion and challenge on all relevant back-book and front-book activity.

The Approved Actuary is independent from the calculation of the Best Estimate Liabilities and the underlying valuation basis. The Approved Actuary is responsible for providing an opinion on the sufficiency of the long-term reserves of the company and supporting the regulatory requirements to the Bermuda Monetary Authority.

Only one member of the Board, the CEO, is directly involved with the day to day management of the Company.

B.1.2 Description of remuneration policy and practices and performance-based criteria governing the board, senior executives and employees

The remuneration policy is set by the L&G Re Board taking into consideration the Group remuneration policies. Senior executives and employees are remunerated in the same way. Base salary is set to be competitive within the local Bermuda market. A housing allowance is paid to compensate non Bermudian employees in respect of the costs incurred in residing in Bermuda. A discretionary performance related bonus is paid annually reflecting the performance of the business as well as that of the senior executive or employee during the calendar year.

L&G Re Board members that are employed by the Legal & General Group Plc (“L&G Group” or “the Group”) are remunerated in line with Group remuneration policies. Non-executive directors are remunerated consistent with local market practice. Compensation is not made in the form of shares in the Company or parent company.

B.1.3 Description of the supplementary pension or early retirement schemes for members, the board and senior executives

The Company provides the option to all employees to participate in a defined contribution pension plan in line with local Bermuda market practice. The Company does not have additional supplemental pension schemes nor any early retirement schemes. There is no pension plan for non-executive Board members.

B.1.4 Any material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives

There are no material transactions with Board members or senior executives outside of the Company's remuneration policies.

B.2 Fitness and Propriety Requirements

B.2.1 Description of the fit and proper process in assessing the board and senior executives

Application of the Policy
The L&G Group has in place a fit and proper policy, the purpose of which is to set out the procedures required by regulated firms within the L&G Group to assess the fitness and propriety of individuals who run these undertakings or who hold other key functions in them.

Key Requirements
In summary the policy requires that each insurance regulated entity shall establish, implement and maintain documented policies and adequate procedures to ensure that all persons who are responsible for running the entity or are responsible for other key functions are at all times fit and proper.
The assessment of fitness and propriety covers the following factors:

- Honesty, integrity and reputation
- Competence and capability
- Financial soundness

L&G Re Assessment Procedures
In support of the Group policy, defined processes are in place to ensure that the fitness and propriety of applicants is carefully considered before an application to the regulators to grant approval is submitted. An assessment will also be made before a notification is made to the regulators in relation to the appointment of a key function holder.
L&G Re will not support an application for approval or a notification if it is believed that the candidate fails to meet any element of the fit and proper test.

Each application will be looked at on its own merits, on a case-by-case basis, but the following principle generally applies to all applications:

- Has the candidate been open and honest with L&G Re and disclosed all relevant matters.

If the candidate has disclosed any incidents pertaining to their fitness and propriety, the following will be considered:

- The seriousness of the issue and the relevance to the specific role applied for;
- The passage of time since the incident occurred;
- Whether the issue relates to an isolated incident or whether there is a pattern of adverse behaviour.

Fit and proper assessment criteria have been developed and each application will be considered against these criteria, regardless of the current approved status of individual.
L&G Re's assessment of an individual's competence and capability will be based around the following factors:

- knowledge – does the individual have generic knowledge of the industry sector and specific knowledge of the firm;
- qualifications – does the individual have prerequisite or supporting relevant qualifications;
- skills – does the individual demonstrate the appropriate level of business and interpersonal skills;
- behaviour – does the individual demonstrate the appropriate attitudes and standards of ethical behaviour; and
- expertise – does the individual achieve positive and fair outcomes and meet performance standards expected of the post.

The assessment criteria for each of the three key factors are also relevant in assessing the continuing fitness and propriety of approved persons.
From time to time, individuals will be required to certify that there has been no change to the information provided at the point of approval and consequently, the fitness and propriety status is unchanged.

Maintaining Fitness and Propriety
L&G's Group Policies and Procedures place an obligation on approved persons to notify the Group Conduct Risk and HR Director in the event of any pending or actual criminal, civil or other disciplinary charges, judgements, petitions for bankruptcy, or other actions or disciplinary measures whatsoever, against them or any entity, body or other entity with which he / she is, or has been associated. Should such a notification occur, L&G Re will assess the information to decide whether the individual remains fit and proper. If the assessment ultimately concludes that the individual can no longer remain as an approved person, a notification will be made to the regulators in line with the regulatory requirements.

L&G Re's performance management process is the primary mechanism for tracking ongoing competency. L&G Re will take appropriate steps to monitor an individual's financial soundness on an ongoing basis.

B.2.2 Description of the professional qualifications, skills, and expertise of the board and senior executives to carry out their functions

Board Members

Kerrigan Procter (Chairman of the L&G Re Board)
Kerrigan Procter has been Managing Director of Legal & General Retirement, a division of L&G Group, since January 2013. He oversees a retirement business that helps over one million customers achieve financial security in retirement and invests nearly £40bn of assets to back the Group's promises to pensioners. He was previously Head of Solutions at Legal & General Investment Management from 2006 to 2012 where he was responsible for Liability Driven Investment and multi-asset funds for defined benefit and defined contribution pension schemes across Europe and the US. Prior to joining L&G Group, Kerrigan worked at RBS in the financial markets division where he held several roles including Head of Pensions Advisory, Head of Credit Risk Measurement and Director of Interest Rate Derivative Structuring. Kerrigan started his career in 1994 with Ernst & Young Corporate Finance before moving to Mercer where he was both an investment consultant and responsible for asset liability management ("ALM") in Europe.

He is a Fellow of the Institute of Actuaries and has a PhD in number theory from King's College, London.

Troy Thompson (L&G Re Board member)
Troy Thompson is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. Troy studied a BS Mathematics and received High Honors at the University of Texas. Troy joined Legal & General America in July 2014, initially as the Vice President of Product Management but most recently promoted to SVP Product Management and Interim Chief Actuary. Prior to this Troy has held various actuarial and senior management positions with USAA, Genworth, American National Insurance Company and Columbia Universal Life Insurance Company. In these roles he has developed plans to deliver life insurance product portfolios to achieve targeted growth and profitability, product development, valuation, financial reporting, pricing and capital management.

Bryan Blunt (Board member)
Bryan is currently CFO for Legal & General Retirement, with responsibility for managing the financial performance of the division, delivering statutory, regulatory and management financial reporting, and overseeing the pricing framework for pension risk transfer business. He was responsible for Legal & General Retirement's ("LGR") Solvency II submissions to the Prudential Regulation Authority ("PRA"), including the matching adjustment applications across the division. Prior to this role, Bryan held a variety of roles within the Group functions at Legal & General, with a focus on risk based capital models and reporting. This included the design and implementation of the Group Economic Capital and Solvency II models, and the embedding of capital management in decision making. Bryan has been with the L&G Group for 11 years; before this he worked at PricewaterhouseCoopers and Zurich Financial Services. Bryan is a Fellow of the Institute of Actuaries in the UK, and has an MA in mathematics from Cambridge University.

Derek Stapley (Non-Executive Board member)
Derek is a Chartered Accountant with thirty years' experience in the Financial Services Industry. Derek currently serves as an independent director on the boards of several private or listed investment funds, insurance companies and private client structures. He chairs the Audit and Risk Committee for several of these companies.

Derek is a former partner in Ernst & Young's Financial Services Office. He spent 20 years with Ernst & Young, Bermuda holding a number of positions including several years as the leader of the Investment Funds Practice. In 2006 he joined Ernst & Young's Global Asset Management Group where he specialized in the Alternative Investment Industry before leaving the Firm in 2009.

Derek, who is Scottish and Bermudian, holds a Bachelor of Arts degree in Accounting from the Caledonian University in Glasgow and is a member of the Institute of Chartered Accountants of Scotland, the Chartered Professional Accountants in Bermuda and the Canadian Institute of Chartered Accountants.

Thomas Olunloyo (CEO and Board member)
Thomas Olunloyo is currently the CEO of L&G Re having previously served as Chief Actuary and Chief Investment Officer with responsibility for pricing, structuring and investments. Prior to joining L&G Re, Thomas was the Pricing and Product Development Actuary at MetLife Assurance Limited in the UK, a specialist provider of Bulk Purchase Annuity solutions. He was responsible for the management of the pricing systems and controls, the development of the pricing Terms of Trade as well as the management of the product development process. Thomas was also responsible for new business origination, contract negotiation and client management. Thomas studied Mathematics and Philosophy at the University of Oxford and is a Fellow of the Institute of Actuaries.

Primary Officers

Brendan Kemp (Chief Financial Officer)
Brendan is the Chief Financial Officer and Principal Representative of L&G Re and also acts as the Segregated Accounts Representative of Legal & General SAC Limited. Initially Brendan held a dual role of Chief Financial Officer and Chief Risk Officer during a 12 month startup of the Company. He is responsible for the full finance function, compliance and control policies as well implementing good control processes. Prior to this, Brendan was VP of Finance at Northstar Financial Services Bermuda Limited, a provider of investment contracts to high net worth individuals including direct life, fixed annuity, variable annuity and other long term insurance products ("UL/VUL"), including segregated accounts. Prior to Northstar, Brendan worked for PricewaterhouseCoopers in Bermuda and BDO South Africa.

Brendan is a Chartered Accountant in both South African and Bermuda and has a Bachelor's of Commerce - Honours & Certificate in the Theory of Accounting Science.

Caspar Young (Chief Business Development Officer)
Caspar Young is the Chief Business Development Officer responsible for new market strategy and business expansion in carefully selected geographies. Prior to working at L&G Re, Caspar worked at Aurigen Reinsurance Limited (Bermuda) for seven years as the Managing Director and Chief Risk Officer. Caspar was also National Partner at Mercer in Toronto, Canada.

Caspar holds a Chartered Enterprise Risk Analyst ("CERA") Certification. He is also a Fellow of the Canadian Institute of Actuaries ("FSA/FCIA"). In addition, he holds a Bachelors in Math, Double Major in Actuarial Science and Statistics from the University of Waterloo.

Neil Burt (Head of Actuarial Reporting and Approved Actuary)
Neil Burt is the Approved Actuary and Head of Actuarial Reporting for L&G Re. He is responsible for reporting the actuarial liabilities of the Company, working closely with the financial function. As Approved Actuary, he is responsible for providing an opinion on the sufficiency of the long-term reserves of the company and supporting the regulatory requirements to the Bermuda Monetary Authority.

Prior to L&G Re, Neil transferred from within the L&G Group in the UK where he worked within the Legal & General Retirement Finance team. In the UK, Neil supported the development of the Solvency II reporting, strategic planning and the international expansion of the Retirement division. Prior to L&G Group, Neil was an actuarial manager at Deloitte working on a number of Solvency II and M&A projects.

Neil is a Fellow of the Institute of Actuaries ("FIA") and has a First Class Honours degree in Mathematics.

Andrew Sooboodoo (Chief Risk Officer)
Andrew has worked at L&G Group since 2008 and qualified as a Fellow of the Institute of Actuaries in 2012. Between 2008 and 2014 Andrew gained experience in pricing and Solvency II across the Individual protection and Annuities products, in the UK and US. In 2014 Andrew joined L&G Re as a Pricing and Capital Actuary and was instrumental in the pricing of Project Servo, an intragroup quota share reinsurance deal, and Project Energy, the Company's first Dutch PRT deal. Andrew has since moved into the Risk function and has assumed the role of CRO.

B.3 Risk Management and Solvency Self-Assessment

B.3.1 Description of the risk management process and procedures to effectively identify, measure, manage and report on risk exposures

Risk management system
L&G Re follows a 'three lines of defence' risk governance model which is in line with the L&G Group policy, whereby:

- L&G Re is responsible for risk taking within the parameters of the approved risk appetite and accountable for managing risks in line with the Company's risk policies;
- Risk functions led by the Chief Risk Officer provide objective challenge and guidance on risk matters; with
- Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

Risk appetite
L&G Re's risk appetite statements set out the Company's overall attitude to risk, and the ranges and limits of acceptable risk taking. The L&G Re Audit, Risk and Compliance Committee leads an regular review of the risk appetite, assessing the continued appropriateness of the Company's key measures and tolerances relative to the risk exposures of the Company. Additionally, as part of the planning cycle, assessment is made of the level of risk taking proposed in the plan and the capacity for risk taking within the overall appetite framework.
The risk appetite is approved by the Board on the recommendation of the Risk Committee and the Chief Executive Officer ("CEO"). The regular management information received by Board and Risk Committee includes a risk appetite dashboard setting out actual positions relative to the key targets and limits set in the risk appetite.

Risk taking authorities
The parameters of acceptable risk taking defined within the risk appetite are cascaded to senior managers through the 'LGR Risk and Capital Mandate' and 'LGR Delegated Authority Schedule', empowering the CEO and his management team to make decisions that are consistent with appetite for risk.
Mandates articulate the product types and features that may be written; the asset classes that may be held; the target capital positions and ranges of earnings volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in a business operating outside agreed parameters require formal approval.

Risk control
L&G Re sets formal policies for the management of market, insurance, credit, liquidity and operational risks. The policies specifies the overall strategies for ensuring each risk type is managed in line with the Company's risk appetite and the minimum control standards that should be applied in managing significant risk exposures.

Risk mitigation
The Company deploys a range of risk management techniques to manage and mitigate risks, so as to control risk exposures in line with approved risk limits. For example, derivatives are used to hedge unrewarded risks as part of L&G Re's asset liability management activity; and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures. The framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of the liabilities, guarantees and other embedded options given to policyholders.

Risk identification and assessment

Review process
L&G re operate a risk identification and assessment process under which the Company regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in all products as well as those that are presented from changes in the environments that the Company operates in.

Own risk solvency assessment
The risk identification and assessment process forms part of the Company's broader 'own risk and solvency assessment' process, the ongoing assessment of the risks to which L&G Re is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Group plan.

Risk management information
The risk management information framework is structured to report and support the review of ongoing and emerging risks and assess actual risk positions relative to the risk limits and targets that are set.

Risk oversight
The Chief Risk Officer ("CRO") supports the Board and its Risk Committee in articulating acceptable risk taking and ensuring the effective operation of the risk and capital framework. This includes ongoing assessment of the Company's capital requirements to confirm that they meet regulatory solvency requirements.
The CRO also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with the Company's overall risk appetite.

Risk committees
The L&G Re Board has ultimate responsibility for the risk management framework. The Audit, Risk and Compliance Committee, supported by the CRO, serves as the focal point for risk management activities. The Board:

- Owns the overall risk management system
- Owns the risk appetite statements
- Is the ultimate owner of the regulatory relationships

The Risk and Compliance Committee ("RCC") ensures the effectiveness of the overall risk management system and recommends to the Board material changes in risk appetite. The RCC meets on a quarterly basis.

The Executive Directors are accountable for:

- The implementation and operation of the risk management system
- Identifying, measuring, managing, monitoring and reporting risks within the business
- Ensuring all business decisions are informed by risk-based measures by reference to the agreed risk appetite statements wherever appropriate
- Ensuring appropriate risk taking and risk assurance resources are in place

The CRO leads the risk management function for the Company which provides the second line of defence.

Group Internal Audit provides the third line of defence across the Group. It provides assurance to the Group Audit Committee, Executive Directors and risk management function that the design and operation of the risk management system is appropriate for all risk types.

B.3.2 Description of how the risk management and solvency self-assessment systems are implemented and integrated into the insurer's operations; including strategic planning and organizational and decision making process

This item has been included in B.3.1. above.

B.3.3 Description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The purposes of the Commercial Insurer's Solvency Self-Assessment ("CISSA") is to assess the Company's risks and to evaluate whether there is sufficient financial resources to sustain the business strategy over the plan horizon.

L&G Re's CISSA process brings together the underlying risk and capital management processes by which the Company assesses, monitor and measure the Company's risks, review the business against risk appetite and tolerances and project the solvency position over the business plan. L&G Re has continued to integrate the CISSA with business as usual risk and capital management. The CISSA cycle is aligned with the strategic and business planning process so that the key elements can interact and inform forward looking decision-making.

Integration of CISSA processes
Regular CISSA processes are aligned with the strategic and business planning process, providing key CISSA inputs in line with the plan.

Throughout the year, the Company monitors its performance against the current plan as well as monitoring risk and capital management information ("MI").

B.3.4 Description of the solvency self-assessment approval process including the level of oversight and independent verification by the board and senior executives

Governance of the internal model
The L&G Re Board is ultimately responsible for ensuring the continuous appropriateness of the design and operation of the internal model ("the Internal Model") for use within the CISSA. This responsibility is discharged through the Group Internal Model Committee ("GIMC") which oversees Internal Model activities for the wider L&G Group, including L&G Re.

The overall appropriateness and effectiveness of the Internal Model depends upon the effective operation of the Group's established internal control system.

First line business management are responsible for implementing adequate and effective controls over the Internal Model as well as the Company's material product risk exposures, with the ongoing application and effectiveness of these overseen by second line risk teams and by Group Internal Audit in the third line of defence. Material concerns are escalated to operational and senior management for resolution. The status of remediation activity is monitored by risk teams, with significant issues escalated to the GIMC and where necessary to the Group Risk Committee. Group Internal Audit provide independent oversight of the effectiveness of the internal control system.

This approach has ensured the implementation of adequate controls to ensure the ongoing appropriateness of the design and operation of the Internal Model, and these controls are subject to effective governance and oversight.

The Groups Internal Model Governance Policy sets out the governance framework in place for Group's partial Internal Model designed to mitigate model risk. This complements the Company's existing system of governance, highlighting specific requirements in respect of the Internal Model to ensure that it operates properly on a continuous basis, including ensuring that controls relating to the Internal Model are implemented in accordance with the Group Internal Control Policy and are adequate and effective at all times.

The Group Internal Model governance framework is outlined in the table below:

Board / Committee	Responsibilities
Group Board	Ensuring the ongoing appropriateness of the design and operation of the Internal Model. This responsibility is discharged through the Group Risk Committee, subject to certain matters being reserved for its direct attention.
Legal entity boards	Ensuring the ongoing appropriateness of the design and operation of their parts of the Internal Model; discharged by use and challenge of the model in decision making; ensuring that the model's scope remains appropriate; and ensuring that appropriate validation is performed.
Group Risk Committee (GRC)	Monitoring the performance and appropriateness of the Internal Model, including ensuring that related controls are adequate, effective, and implemented in line with the Group's Internal Control Policy. Primarily, the Group Risk Committee discharges these responsibilities through acting on the receipt of recommendations, analysis and reports from the Group CRO team and the Group Internal Model Committee ("GIMC")
Group Internal Model Committee (GIMC)	Overseeing the design, development and operation of the Internal Model to ensure that it operates as expected on a continuous basis to meet the Group's regulatory and economic requirements for risk-based capital management. This includes reviewing the effectiveness of internal controls as they relate to the Internal Model through the receipt of relevant reports and MI.
Group Board	Ensuring the ongoing appropriateness of the design and operation of the Internal Model. This responsibility is discharged through the Group Risk Committee, subject to certain matters being reserved for its direct attention.

The Company is responsible for operating a robust control framework and appropriate controls to manage exposures and mitigate unacceptable outcomes (per the Company's risk appetite). Senior management is responsible for implementing robust controls to mitigate key risks associated with processes they are responsible for, and to ensure that these are regularly reviewed and remain fit for purpose. Day to day responsibility for ensuring that robust internal controls are in place and are operating effectively over Internal Model related processes is delegated to Internal Model Controllers ("IMCs"). IMCs provide first line management coverage of the internal model across all relevant legal entities and business units. Key responsibilities include ensuring compliance of their area with the requirements of the Group Internal Model Governance Policy and Internal Control Policy.

Oversight of the internal control system is provided by the Group Risk and Divisional risk teams.

Solvency II regulations necessitated the implementation of additional financial reporting and governance processes, and 2016 was the first year of full live operation of these processes. There has been close scrutiny by the second and third line teams to ensure that the processes are fully embedded in the Company's governance and that they are being operated robustly and effectively. The Company has responded to supervisory requirements to provide greater levels of evidence in areas such as model change and validation.

Internal model validation
Reliance is placed on Group for the validation of the internal model.

The Group's validation policy and associated standards define the Group's validation framework. The framework requires an annual validation cycle for the Group's Internal Model. For L&G Re's parts of the Internal Model, this has been performed as part of the production of the Economic Capital Requirement ("ECR") as at 31 December 2016. The objective is to produce a robust, proportionate and demonstrably complete approach to validation overseen by the CRO and, ultimately, the Group Chief Risk Officer.

There is an annual assessment of which aspects of the Internal Model must be independently validated. Independent validation is carried out mainly by the second line, sometimes by a first line team from a different business division, or sometimes by an external party. Independent validators must demonstrate how independence is met and state any limitations on independence.

Requirements for each annual cycle are specified in the Validation Terms of Reference. Respective validators outline approach, activities, tools and aspects of the model in Validation Work Programmes. The results, conclusions and consequences including remediation are detailed in independent validation reports or validation reports prepared by the first line. These are presented to GIMC for approval but ultimate responsibility for internal model results rests with the Company.

Validation Activity
Internal Model validation activity for the reporting period covered the whole of the Internal Model. The level of validation undertaken was consistent with the level of risk incurred. Independent validation was performed on those areas identified as most material to the Internal Model's operation and results. The outputs are validation reports, highlighting key findings, strengths, weaknesses, limitations and remediation actions.

B.4 Internal Controls

B.4.1 Description of the internal controls system

Internal control system

The system of internal controls seeks to ensure that:

- An organisational structure is defined, with clarity of roles, responsibilities and reporting lines
- Appropriate management information and reporting processes are defined
- Frameworks for decision making (including the delegation of authority) are articulated
- Clear segregation of duties is in place
- Conflicts of interest are managed
- Administrative and accounting procedures are aligned with requirements
- Personnel have sufficient skills, knowledge and expertise to discharge their responsibilities (including those relating to the regulatory environment)
- Adequate and orderly records of business are maintained
- The security of customer data and other internal records is ensured
- Business procedures combat financial crime
- Processes are in place to deal with policyholder claims and complaints
- The integrity of manual and computerised business systems is ensured
- Processes ensure assessment of the possible impact of any changes in the legal environment

The Audit, Risk and Compliance Committee oversees the adequacy and effectiveness of the internal control framework, primarily through the receipt of reports from Group Internal Audit, external auditors, and risk teams in the second line of defence.

B.4.2 Description of how the compliance function is executed

The L&G Re CRO retains all compliance responsibilities, including fraud, anti-money laundering and anti-terrorist financing ("AML/ATF"), and anti-bribery and corruption ("ABC") responsibilities. L&G Re compliance policies have been approved by the Board and are reviewed periodically. All local policies comply with Group compliance policy and consider regulatory requirements. The L&G Re CRO ensures that:

- All staff have annual training on compliance policies
- All staff read and sign the compliance policies upon commencement of their employment
- Company policies are kept in-step with Group and regulatory requirements

All compliance activity is reported to the Audit, Risk and Compliance Committee, which is a Board level committee.

B.5 Internal Audit

Description of how the IA function is implemented and how it maintains its independence and objectivity when conducting its functions

L&G Group's Internal Audit function carries out the Company's internal audit role and reports to the Audit Risk and Compliance Committee. The Group Internal Audit ("GIA") provides the ARCC with an internal audit plan on an annual basis for consideration and receives direction from the ARCC. All business areas are within scope for an audit if GIA chooses to do so. The GIA team carries out:

- independent reviews and audits of the controls mitigating the key risks in all areas of the business, prioritised according to the relative risk of each assignment as determined by the Group Chief Internal Auditor ("GCIA") in conjunction with senior management;
- reviews of major business change initiatives; and
- reviews of the risk management and internal control processes.

Internal control objectives considered by GIA include:

- consistency of operations or programmes with the risk appetite, objectives and goals;
- effectiveness and efficiency of operations, and use of resources;
- compliance with policies, plans, procedures, laws and regulations;
- reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
- safeguarding of assets.

The GCIA reports functionally to the Chair of the Group Audit Committee and administratively to the Group Chief Executive Officer.

The internal audit activity remains free from interference by anyone within L&G Re or the wider Group. This includes the choice of business areas to audit, procedures, frequency, timing, or the content of Group Internal Audit reports. This ensures that the Group Internal Audit can maintain a necessary independent and objective perspective.

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditors' judgement.

Internal auditors are expected to exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and will not lose their objectivity when forming judgements.

B.6 Actuarial Function

Description of how the actuarial function is implemented

L&G Re have their own actuarial team but are supported by the wider Group Actuarial Function for its Solvency II reporting. The Solvency II Best Estimate Liability ("BEL") is currently used as the best estimate liability which forms part of the Technical Provisions for L&G Re's Economic Balance Sheet ("EBS").

The Approved Actuary presents an annual report to the L&G Re Board providing an opinion on the reasonableness of the calculation of the technical provisions ("TPs") and its compliance with Bermuda Regulations.

The requirements covering TPs calculations were addressed through various activities, including, in particular, actuarial function review of the calculations and the membership of oversight committees. A number of reports during the year were provided to the Board on the data, models, methodologies, assumptions and results of the EBS TP calculations.

The actuarial function contributed to the effective implementation of the risk management system through various activities and the membership of a number of key Committees with risk and financial reporting responsibilities. Areas of focus, both within the responsibility of the risk function and more generally, with significant levels of actuarial function involvement include: the Internal Model and the Bermuda Solvency Capital Requirement ("BSCR"); the CISSA; identifying, measuring and monitoring risks; Asset Liability Modelling (including Matching Adjustment and liquidity management); product pricing; financial reporting and business plans.

B.7 Outsourcing

B.7.1 Description of the outsourcing policy and information on any key or important functions that have been outsourced

L&G Re houses the outsourcing policy within the Operating Guidelines of the Company. The Company follows the Legal & General Group's Outsourcing and Essential Supplier Services Policy ("outsourcing policy"). The outsourcing policy sets out the framework and minimum standards of control and governance that L&G Re expects to be applied in the management of risks associated with outsourced and essential supplier service arrangements in line with regulatory requirements. The policy specifies that an activity should not be outsourced where it would materially impair the quality of the Company's system of Governance; unduly increase the Company's exposure to operational risk; impair the ability of supervisory authorities to monitor the Company's compliance with its obligations; or undermine continuous and satisfactory service to the Company's policyholders.

The policy requires that for all outsourced arrangements a rigorous evaluation and supplier selection process is undertaken having regard for the financial stability, expertise, ability and capacity of the supplier to deliver the required service. The policy also specifies that a written contract must be in place which must include: a service level agreement; the conditions under which the arrangement may be terminated; provision for the orderly transition of services to another provider or Legal & General if the contract is terminated; a defined mechanism to resolve disputes arising out of/or relating to the contract; appropriate contingency plans should the supplier be unable to provide the required service; and provision for the continued availability of any software upon which Legal & General is reliant. Contracts must also ensure access to the providers premises, business management and any data relating to the outsourced activity, by Legal & General's Internal Audit, Risk and Compliance functions, its external auditors and Supervisory Authorities; and appropriate warranties that Legal & General and client data is adequately protected against unauthorised access at all times. All outsourced arrangements must be managed under the direction of a named Legal & General relationship manager. The risk function maintains oversight of the management of outsourcing arrangements established by the first line business operations.

The following external outsourcing arrangement is considered to be critical or important operational functions or activities and is monitored in line with the policy.

Service providers	Goods/services	Jurisdiction
ACT - IT Support	Services	Bermuda

L&G Re partners with Applied Computer Technologies ("ACT") for management of their IT platform. ACT has been responsible for providing L&G Re with services to support the infrastructure in Bermuda and the disaster recovery site in Canada. Included in this agreement is support of the IT platform, network/telephony, cyber security and collaboration.

B.7.2 Description of material intra-group outsourcing ("insourcing")

Insourcing is the use by one Legal & General Group company of another company within the Group for the supply of business facilities or services. The Group's core insourced relationships are as follows:

- investment management services provided by Legal & General Investment Management Limited ("LGIM");
- treasury services by Legal & General Finance Plc; and
- the provision of employees and procurement services by Legal & General Resources Limited, this incorporates mortality advice, legal advice, risk advice and investment advice as required.

B.8 Any other material information

None.

C. Risk Profile

Particulars on exposures on underwriting risk, market risk including off balance sheet exposures, credit risk, liquidity risk, operational risk and other material risks

C.1 Material risks that the insurer is exposed to, including how these risks are measured and any material changes that have occurred during the reporting period

The L&G Re risk-based capital model (the "Internal Model") seeks to provide a quantitative assessment of the Company's risk exposures. It forms part of the suite of tools that are used to evaluate the Company's strategic plans, set risk appetite, allocate capital and evaluate product pricing. Capital models are also used to assess significant transactions, including large pension risk transfer deals. The key output from the capital model is the generation of capital requirements. The model is calibrated to a 99.5% value at risk confidence level over one year, equivalent to ensuring that sufficient capital is held to survive an assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit and insurance (longevity) risks remain the most significant risks. Market risk, which includes equity, property and interest rate risks, includes other more material risks for which capital is held.

Underwriting risk

Risk exposure and controls

The Company is exposed to underwriting (also known as insurance) risk as a consequence of the reinsurance products offered. Underwriting risk is the exposure to loss arising from insurance risk experience being different to that anticipated. Detailed below are the risks the Company is exposed to and the associated controls operated.

Principle risk	Risk Mitigations
Longevity risks For annuity contracts, the Company is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Company regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Expense risk In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.

Risk concentration

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the Company.
While exposure to concentration risk is an inherent aspect of writing insurance business, there is limited appetite for the scale or frequency of events anticipated in product pricing materially diverging from expectations as a consequence of significant accumulations of exposure to a single event or counterparty. Where required, limits are set on the aggregate values for individual lives that will be insured. Reinsurance arrangements are also used to mitigate the risk.

Market risk

Risk exposure and controls

The Company is exposed to market risk as a consequence of offering the principal products outlined in previous sections. Market risk is the exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Principle risk	Risk mitigations
Investment performance risk The Company is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.

Principle risk	Risk mitigations
Currency risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-Sterling currencies. The Company also invests in overseas assets. Fluctuations in the value of, or income from, these assets relative to profits reported in Sterling could result in unforeseen loss.	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. In all cases, it is not possible to perfectly hedge currency risk, leaving some residual risk.
Inflation risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities, leaving some residual risk.
Interest rate risk Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.	Asset liability matching significantly reduces the Company’s exposure to interest rate risk. International Financial Reporting Standards (“IFRS”) sensitivity to interest rate changes is included in the Company’s analysis and disclosed within the financial statements.

Risk concentration

The Company holds a significant portfolio of investment assets to meet obligations to policyholders. Investment classes include equities, bonds, properties and cash. Some exposure to concentration risk is an inherent aspect of operating significant portfolios of investment assets. However, the Company has limited appetite for the scale or frequency of events anticipated in investment management strategies materially diverging from expectations as a consequence of significant accumulations of exposure to a single event or counterparty. Where required, limits are set on the maximum aggregate exposures to investment, banking and reassurance counterparties, sectors and geographies.

Concentrations of risk are reported as part of the Company’s risk monitoring and reporting framework. The risk management reports presented provide both qualitative and quantitative information on concentration risks, as well as on material risk drivers and mitigating actions taken where exposures are outside acceptable tolerances.

Credit risk

Risk exposure and controls

The Company is exposed to credit risk as a consequence of offering the principal products outlined in previous sections. Credit risk is the exposure to loss if another party fails to perform its financial obligations to the Company.

Principle risk	Risk mitigations
Bond default risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing annuities and general insurance business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with financial loss.	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Company's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in an increased exposure to insurance risk. Credit risk syndication also exposes the Company to counterparty default risks with the Company being required to carry an element of associated credit risk capital requirement on its balance sheet should the business not be re-broked on the same terms.	For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. For longevity and credit risk syndication transactions, the Company targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of the asset diversification strategy, property lending and sale and leaseback investments are held. L&G Re is inherently exposed to the risk of default by a borrower or tenant.	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. The Company's interests are protected through taking security over the underlying property associated with the investment transaction.
Banking counterparty risk The Company is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. L&G Re are also exposed to counterparty risks in respect of the providers of settlement and custody services.	The Company controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the Company may have. Limits are subject to regular review with actual exposures monitored against limits. The Company has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Risk concentration

A significant portfolio of corporate bonds is held to back the liabilities arising from writing annuities and general insurance business. The Company can be exposed to concentrations of credit risk within the portfolio from events impacting a specific sector or geography or through concentrations of exposure to an individual counterparty. Accumulations of exposures to credit risk in relation to individual counterparties can also arise through holdings in cash, equities, bonds and property and through reinsurance and as a result of delegated premium collection arrangements.

The Company manages the credit concentration risk by setting quantitative limits on maximum exposures to counterparties. The Board is responsible for reviewing the aggregate exposures for the Company and the extent to which specific limits are required for concentrations by counterparty, sector and geographic areas. Where exposures are identified as being outside acceptable ranges, it will initiate action with the relevant business firm(s) to manage the exposure.

Liquidity risk

Risk exposure

Liquidity and collateral risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. For L&G Re this means an amalgamation of:

"Liquidity risk" the exposure to liquidity risk primarily arises from contingent events including timing difference of cash flows, such as claims due to policyholders and other operational cash flows. The Company is also exposed to "Collateral risk" under its derivatives contracts which could require the firm to post assets eligible as collateral on a short notice.

Principle risk	Risk mitigations
Collateral risk Within the annuities businesses, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	Liquidity requirements to meet potential collateral calls are actively managed. Typically within the overall fund of investment assets held to meet the long term liabilities arising from annuity business is held in cash and other highly liquid investment types for general liquidity purposes.
Investment liquidity risk Direct lending, sales and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.	Given the illiquid nature of the annuity and other liabilities, the Company is able and willing to take advantage of the premium offered by illiquid assets. The Company, however, sets limits on the overall exposure to illiquid investment types taking account of the nature and type of liabilities that the assets are held to meet.

Liquidity risk management

The Company does not seek exposure to liquidity risk as a part of its business model, but accepts that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

Overall, the Company maintains sufficient funds for business as usual purposes. It is the Company's policy that the business remains self-sufficient from a liquidity perspective by maintaining sufficient liquid assets and assessing the appropriateness of the composition of the assets in terms of their nature, duration and liquidity to meet obligations as they fall due. The Company also maintains sufficient eligible assets to meet collateral requirements that arise from their normal business conduct and under the two defined stressed scenarios.

The primary sources of liquidity across the Company is cash and gilts.

Liquidity stress testing

The exposure to liquidity risk is measured by a liquidity coverage ratio ("LCR") under the two prescribed liquidity stress scenarios. The main purpose of the model is to measure the compliance to the approved risk appetite defined in the Liquidity Risk Policy. As a Company standard the liquidity stress testing is performed monthly or more frequently if needed.

LCR is defined as total sources of liquidity divided by total liquidity requirements.

<u>Operational risk</u>

Risk exposure and management

Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. Potential for exposure to operational risk extends to all the Company's businesses. The Company has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action, or reputational damage.

Mitigation techniques are deployed via the internal control framework, which comprises the systems, processes and procedures that ensure business operations are conducted so as to meet all obligations to all stakeholders, comply with regulation and legislation, and minimise the risk of material error or fraud. The Company aim to implement effective controls (both preventative and detective) to reduce operational risk exposures, except where the costs of such controls exceed the expected benefits. It is accepted that no system of control will eliminate the risk of financial loss or reputational damage, and all employees are expected to report weaknesses and deficiencies as soon as they are identified.

A variety of sensitivity tests have been undertaken within the calibration of the operational risk SCR, including: using alternative distribution shapes for operational risk scenarios; applying different techniques to combine scenarios; and varying correlation assumptions. The sensitivity tests employed have identified no material concerns with the results of the standard calibration.

We have not identified any material risk concentrations for operational risk.

Sensitivities

As part of the Commercial Insurer's Solvency Self-Assessment ("CISSA") L&G Re performs a number of stress tests. The stresses are carried out looking at the impact of a move in one or a small number of risk factors over a one year time horizon. The stresses are chosen to focus on areas where greater understanding is considered more beneficial and are also chosen to ensure that the key risks are well represented. The stresses do not allow for management actions when calculating the sensitivities.

The stresses include:

- Credit Risk: Default and downgrade tests to better understand the behavior of the credit portfolio.
- Market Risk: Interest rate stress tests to help understand the interactions and the hedging arrangements.
- Insurance Risks: Longevity stress test.

The stresses demonstrate that the most material risks are credit and longevity. To mitigate these risks management monitor the credit quality of the portfolio and focus on improving their understanding of future longevity trends.

C.2 How risks are mitigated including the methods used and the process to monitor the effectiveness of these methods

Refer to C.1 above and C.4 below.

C.3 Material risk concentrations

Refer to C.1 above and C.4 below.

C.4 How assets are invested in accordance with the prudent person principle as stated in Paragraph 5.1.2 of the Code

L&G Re is capitalised sufficiently to meet its ongoing business objectives from a local regulatory perspective. The shareholder funds supporting this business, as well as the assets that back the insurance liabilities, require a robust investment strategy that adheres to the BMA regulations.

L&G Re holds a broad range of investment assets to meet the obligations arising from its business. The performance and liquidity of investment markets and movements in interest rates, exchange rates and inflation can impact the value of these assets as well as the value of the underlying obligations. A potential mismatch of assets and liabilities may impact the earnings, profitability and the capital requirements of the Company.

L&G Re seeks to match the asset and liability cash flows to reduce the impact of changing economic conditions, in line with the prudent risk management principles applied by the Company and regulation. Additionally, a range of risk management strategies are used to manage volatility in returns from investment assets and the broader effects of adverse market conditions.

L&G Re has the following risk management strategy to manage the investment portfolio of the company.

Market risk
Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

L&G Re's exposure to market risk is influenced by one or more external factors, including changes in specified interest rates, financial instrument prices, foreign exchange rates and indices of prices or rates.

Significant areas where the L&G Re is exposed to these risks are:

- assets backing insurance contracts;
- assets and liabilities denominated in foreign currencies; and
- other financial assets and liabilities.

L&G Re follows the Group market risk policy. The Group market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

L&G Re is ultimately responsible for the management of market risk. L&G Re has chosen to outsource the execution of the investment risk policy, as noted below, to Legal & General Assurance Society Limited ("LGAS") (2015: Legal & General Pensions Limited ("LGPL") which novated in 2015 to LGAS). The Company manages market risk using the following methods:

Asset liability matching
L&G Re manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has.

For business such as immediate annuities, which is sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. Interest rate risk cannot be completely eliminated, due to the nature of the liabilities and early redemption options contained in the assets.

L&G Re holds a range of asset types to meet liabilities and it uses stochastic models to assess the impact of a range of future return scenarios on investment values and associated liabilities. This allows L&G Re to devise an investment strategy which maximises risk- adjusted returns to its shareholders.

Derivatives
L&G Re uses derivatives to reduce the market risk arising in the long term funds. The most widely used derivatives are exchange traded swaps. The Company may use futures to facilitate efficient asset allocation within the long term funds. In addition, derivatives within the long term fund are used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is L&G Re's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets and that swaps are collateralised as appropriate to reduce counterparty risk.

Interest rate risk
Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

L&G Re is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non- linked insurance contracts, in that the proceeds from the assets may not be sufficient to meet its obligations to policyholders.

To mitigate the risk that guarantees and commitments are not met, L&G Re purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance liabilities, the expected risk-adjusted rate of return and the expected impact on the capital requirement.

Asset liability matching significantly reduces L&G Re's exposure to interest rate risk.

Inflation risk
Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. L&G Re is directly exposed to inflation risk in respect of inflation-linked contracts. Contracts in payment may also include an annual adjustment for movements in prices indices, subject to an annual floor. L&G Re seeks to manage the risk of movements in price indices through the use of inflation swaps.

Currency risk
L&G Re is potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. L&G Re manages its currency risk exposure in respect of assets denominated in currencies other than the liability currency by backing obligations with investments in the same currency and through hedging using derivatives.

Other price risk
Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. These changes may be as a result of features of the individual instrument, its issuer, or factors affecting all similar financial instruments traded in the market.

L&G Re controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments.

Credit risk
Exposure to loss if another party fails to perform its financial obligations to L&G Re.

L&G Re follows the L&G Group Credit Risk Policy. The Group credit risk policy defines the overall framework for the management of credit risk. Credit risk exposures primarily arise in relation to corporate bonds.

L&G Re holds fixed and variable rate securities to back part of its insurance liabilities. Significant exposures are managed by the application and regular review of concentration limits, with allowance being made in the actuarial valuation of the insurance liabilities for possible defaults.

L&G Re's portfolio includes property lending and sale & leaseback investments. L&G Re is inherently exposed to the risk of default by a borrower or tenant. Each property lending and sale & leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that the risk of default has been appropriately mitigated. L&G Re protects its interests through taking security over the underlying property associated with the investment transaction.

Liquidity risk
The risk that L&G Re, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

L&G Re follows the L&G Group Liquidity Risk Policy which defines the overall framework for the management of liquidity risk. L&G Re does not seek exposure to liquidity risk in its own right, but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

The liquidity risks to which L&G Re may be exposed, primarily stem from low probability events that if not adequately planned for, may result in unanticipated liquidity requirements.

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, L&G Re seeks to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity to be maintained by insurance funds is identified using techniques including cash flow analysis for ranges of extreme scenarios and stress tests for shock events.

To ensure an appropriate pool of liquid assets are maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business are structured to include an appropriate proportion of cash and other readily realisable assets. The required profile is formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmark.

L&G Re manages its banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends, with support from its ultimate holding company, Legal & General Group Plc's Treasury function. Legal & General Group Plc seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

C.5 The stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used, and the outcomes

Refer to C.1 above and C.4 below.

C.6 Any other material information

None.

D. Solvency Valuation

Particulars of the valuation bases, methods and assumptions on the inputs used to determine solvency

D.1 The valuation bases, assumptions and methods used to derive the value of each asset class

D.1.1 Valuation for Solvency Purposes

D.1.1.1 Assets

L&G Re’s assets as at 31 December 2016 under EBS are £ 5,796m including £319m of shareholder fund assets.

Unless otherwise stated, assets and liabilities have been recognised in conformity with IFRS.

Individual assets and liabilities have been valued separately and can offset each other, where permitted, in accordance with IFRS accounting principles.

Assets and liabilities have been valued:

- on a going concern basis;
- in accordance with Article 75 of the Solvency II Directive (or where specifically provided for by Delegated Acts);
- where IFRS valuation is consistent with Article 75 this shall be adopted, therefore EBS economic value is equal to IFRS fair value in line with IFRS unless otherwise stated; and
- where more than one valuation method is prescribed by IFRS, only valuation methods that are consistent with Article 75 shall be applied.

Under IFRS, held for sale assets (as defined under IFRS 5) are valued at the lower of carrying amount and fair value less costs to sell, and may therefore need to be revalued to fair value in the EBS balance sheet.

Equities

Equity investments are measured at fair value in accordance with IFRS. The fair values of quoted financial investments are based on bid prices. If the market for a financial investment is not active, L&G Re establishes fair value using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models (see section Alternative methods for valuation below for further information on valuation techniques).

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis. There is no valuation difference from IFRS.

Bonds

Bond investments are measured at fair value in accordance with IFRS. Where available, valuations are based on quoted market prices. Where quoted prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial investment. There is no valuation difference from IFRS.

Collective Investment Undertakings

Collective Investment Undertakings are measured at fair value in accordance with IFRS. Where available, valuations are based on quoted market prices. Where quoted prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial investment. There is no valuation difference from IFRS.

Derivatives

Derivatives are measured at fair value in accordance with IFRS. Where available, valuations are based on quoted market prices. Where quoted prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial investment. There is no valuation difference from IFRS.

Deposits other than cash equivalents

Deposits other than cash equivalents are measured at fair value, and there is no valuation difference from IFRS.

Assets held for index-linked and unit-linked funds

Investment assets held for index-linked and unit-linked contracts are measured at the fair value of the underlying assets and liabilities (other than technical provisions) held within such funds. There is no valuation difference from IFRS.

Receivables (trade not insurance)

Trade receivables are short term in nature and are valued in line with IFRS on a cost basis on materiality grounds.

Cash and cash equivalents

Cash and cash equivalents are valued at fair value in accordance with IFRS.

D.1.1.2 Alternative methods for valuation

L&G Re follows the Group's valuation policy. Legal & General Group has in place a group-wide valuation policy, which sets out the policy to ensure that for all assets across the Group, valued using alternative valuation methods, are governed, controlled and valued in a manner that is appropriate and consistent with the requirements of Article 263 of the Delegated Regulation. These policies include a requirement for ensuring models are reviewed on a timely basis and that independent review of the models and outputs is obtained on a regular basis.

A Group Asset Valuation Committee ("GAV Committee") monitors the application of the processes and compliance with the Group policy. This includes setting the policies to ensure appropriate documentation, including documentation of the models, significant assumptions, sensitivities and an assessment of the resulting valuations.

The GAV Committee reviews all asset valuation submission from each of the Solvency II regulated entities, Legal & General Capital Investments Limited, and Legal & General America Inc. ("LGA") to confirm its assets values for the deduction and aggregation methodology. Whilst the GAV Committee will review all asset valuations, its main focus is on assets or liabilities where alternative methods for valuation have been used. These assets include:

- **Commercial real estate loans** These are illiquid private assets and valuations are derived by using a discounted future cash flow approach with yields based on selected comparator bonds with similar durations and investment grades, combined with an assumption on the initial spread of the investment. Valuation Uncertainty is assessed by adjusting the initial spread to calculate a plausible range of valuation scenarios to ensure that a fair value is reflected.
- **Income strips** These are property investment assets with lease durations typically in excess of 30 years. This asset class is valued using a discounted future cash flow approach based on comparator bond durations and investment grades, combined with assumptions on initial spread and future inflation factors. The valuation uncertainty element has been assessed by comparing the valuation against independent valuations performed by Royal Institute of Chartered Surveyors approved external valuers as a reasonableness check.
- **Lifetime Mortgages loans** There is no market-observable value for Lifetime mortgage assets. However, the amount paid to acquire the assets at outset is objective, and is assumed to be the market value of the loan at the start date.

Each Lifetime mortgage loan is valued by projecting the expected proceeds and discounting at an appropriate discount rate. The main component of the spread is an estimate of the expected spread if the loan were issued on terms currently offered on new loans (with comparable LTVs). This spread will change over time, and aims to capture movements in the illiquidity premium available from investing in such Lifetime mortgage assets.

To project the expected proceeds, the following assumptions are derived: expected future property prices, volatility of property price growth, costs of selling the properties, decrement rates (mortality, morbidity and prepayment, as well as timing lags), running expenses.

The asset valuation has been subjected to a variety of sensitivity tests covering reasonable ranges. The Lifetime mortgage portfolio is immature, and credible experience is yet to emerge.

- **Investment property** Due to the non heterogeneity of the property portfolio, the valuation of the Group's property assets are provided by external valuation experts on a quarterly basis which are calibrated to recent precedent transactions in the market place. The external valuations are performed in line with professional valuation standards as prescribed by the Royal Institute of Chartered Surveyors.
- **Sale and Leaseback arrangements** For the Group these are valued as property.
- **Any non traded or illiquid bonds and equities** For illiquid Fixed Income the Company will consume a price from the counterparty broker to the deal where possible, or the Company will utilise the purchase price or issue price.

For illiquid equities, valuations are made, in line with the IPEV guidelines, by establishing a valuation with reference to relevant market, income and cost factors. These valuations are subject to internal review through independent asset valuation committees. Valuations are reviewed by independent expert valuation companies.

The Group Valuation Uncertainty Committee receives management information from each significant entity on their assessments of valuation uncertainty and provides oversight and challenge to these.

Following the completion of these processes the Group has concluded that its assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

D.2 The valuation bases, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate. The amount of the risk margin as well as the level of uncertainty to determine the value of the technical provisions should be included:

A summary of the TPs is set out below. The Solvency II Best Estimate Liability ("BEL") is currently used as the best estimate liability which forms part of the TPs for the Economic Balance Sheet ("EBS") position. The TPs are calculated as the sum of the BEL and risk margin ("RM") plus any outstanding monies owed to Legal & General Resources Bermuda Limited ("LGRB").

Technical provisions (£m)	**BEL**	**Risk Margin**	**LGRB Liability**	**Total**
L&G Re	5,133.6	163.8	6.8	**5,304.2**

The BEL reflects the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows) using the relevant risk-free interest rate term structure (including the matching adjustment where relevant). Deterministic and stochastic valuation techniques are used to calculate the BEL.

The main cash flows cover premiums, future financial obligations of policyholder benefits, and expenses of running the business (including investment expense and commission payments). Future management actions are allowed for, where these are deemed to be objective, realistic and verifiable. The management actions used in the calculation of the TPs consider the time delays and costs applicable to their implementation.

The BEL is calculated net of reinsurance, allowing for deduction of the amounts recoverable from reinsurance contracts including expenses in respect of these arrangements. The BEL is calculated at a level deemed appropriate for homogeneous risk groupings. The BEL is based on exposures as at 31 December 2016.

Future premiums are only considered for the period up to where the policyholder or the Company has the option to establish, renew, extend, increase or resume the insurance contract.

Business not included in the full cash flow projections on materiality grounds is explicitly allowed for in the BEL through manual adjustments.

The RM is the cost that would be incurred in holding the Bermuda Solvency Capital Requirement (“BSCR”) necessary to support the insurance and reinsurance obligations over their lifetime, determined using a cost of capital rate. The RM is calculated separately from the BEL. The RM is the present value of the cost of capital required, to cover the BSCR for certain defined risks (referred to here as the RM capital requirement), to meet adverse deviations on the underlying best estimate cash flows over the full run-off of the business. The RM capital requirement covers underwriting risk, credit risk associated with reinsurance contracts and operational risk. Future new business is not allowed for in the RM capital requirement.

The RM is calculated allowing for diversification between the risks within L&G Re. The discount rate used in the cost of capital calculation is the relevant basic risk-free rate (excluding matching adjustment). The cost of capital rate is set to 6% as prescribed by the Bermuda Monetary Authority.

Where investment management agreements are in place between various entities and Legal & General Investment Management Limited, the TPs are calculated using investment expenses on a fees (rather than costs) basis.

The calculation of the TPs is dependent on the quality of the data underlying the calculations. The data quality has been assessed in line with Bermuda Regulations. This assessment has concluded that the quality and sufficiency of data used in the preparation of the above TPs is such as to enable a reliable and adequate calculation of the technical provisions.

Further information on material elements of the technical provisions is set out below:

Best Estimate Liabilities

Deterministic actuarial projection models are used, in line with the methodology described above.

In addition, insurance undertakings are permitted to apply a matching adjustment (MA) to the relevant risk-free interest rate term structure when calculating the best estimate of a portfolio of life insurance obligations, subject to prior approval by the supervisory authorities. L&G Re has been approved by the PRA to use a MA when calculating the BEL for the majority of annuity business held within L&G Re. Subsequently, L&G Re has received approval from the Bermuda Monetary Authority (“BMA”) to use the Solvency II BEL in its calculation of the technical provisions. This has been applied in the YE 2016 calculation, in line with the approved application.

Risk Margin (“RM”)

The RM capital requirement is projected forward for each future year over the run-off of the business.

Longevity is the most material component of the RM capital requirement. Best estimate and stressed future cash flows are projected to capture the capital requirement at future points in time and the discounted cost of capital is applied. The capital requirements are projected using a proxy approach i.e. the projected capital requirements are estimated using appropriate carrier variables.

Main assumptions

This section covers the assumptions used in the calculation of the BEL.

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. The assumptions used in the valuation of the BEL are the same best estimate assumptions as the basis for calculating IFRS assumptions, excluding the margin for prudence included within the IFRS assumptions.

The best estimate assumptions are derived by reference to the most recent experience and any relevant market data (e.g. future mortality improvement factors issued by the Continuous Mortality Investigation Bureau).

Assumptions are set by following an established methodology which has been discussed with the Board. In some cases assumptions can vary significantly from year to year.

Assumptions are set for homogeneous risk groups to avoid introducing distortions that might arise from combining business with different characteristics.

Economic assumptions

The economic assumptions have been set such that they reflect the economic conditions at the valuation date.

Risk free yield curve

The valuation interest rate is based on a risk-free yield curve. The risk-free rate used is calculated based on the methodology specified by EIOPA, which is applied to construct zero coupon base rates from the underlying swap rates. L&G Re use a continuously compounding version of this rate.

L&G Re has received approval from the PRA to apply a matching adjustment to use in calculating the Solvency II BEL (L&G Re have approval from the BMA to use the Solvency II BEL for the EBS BEL), which allows for an increase to be applied to the risk-free yield curve for the MA portfolios. No other adjustments have been made to the risk-free rate.

Inflation

Expense and unit cost inflation rates have been set by reference to external indicators as at the valuation date. Claims inflation, such as for RPI linked annuities, is set using an assessment of inflation implied by UK government bond yields or inflation swap curves.

Non economic assumptions

Expenses

The cash flow projection used to calculate the BEL takes into account administrative, investment, claims and acquisition expenses, allowing for future expense inflation. The assumptions for long term maintenance costs are set based on the forecast expenses, suitably adjusted where necessary, and include overhead expenses in line with the approved methodology.

Mortality

Regular investigations of mortality experience against appropriate base tables are conducted, with the portfolio segmented by groups of contracts that are expected to exhibit similar mortality trends. An investigation is normally carried out from time to time (typically every three years) to review the fit of the experience to an appropriate base mortality table. In other years, assumptions are compared to the results of the most recent experience investigations and revised where the experience implies a shift that is likely to be due to more than random fluctuation. The best estimate assumption allows for claims incurred but not reported by the investigation date.

The assumption for annuitant mortality is set as a combination of a base table (i.e. the rate of mortality currently experienced by annuitants) plus future improvements (i.e. how the rates of mortality will change over time).

Spouse assumptions

L&G Re performs a demographic analysis and develops spousal assumptions biannually. The Company develops their proportion married assumption as a percentage of the UK Office for National Statistics 2008 proportion married population projections.

D.3 Description of recoverables from reinsurance contracts, including special purpose insurers and other risk transfer mechanisms

The calculation of the reinsurance recoverable asset is consistent with the calculation of the gross BEL described above. The reinsurance recoverable asset is adjusted for the best estimate probability of reinsurer default, and includes an allowance for the timing difference between recoveries and reinsurance payments.

D.4 The valuation bases, assumptions and methods used to derive the value of other liabilities

Provisions other than TPs

Provisions are valued in accordance with IFRS, at an amount representing the best estimate of the expenditure required to settle the obligation or to transfer it to a third party at the balance sheet date.

Derivatives

All derivative contracts are measured at fair value in accordance with IFRS by reference to market transactions or using valuation models incorporating market based assumptions. There is no valuation difference between IFRS and Solvency II.

D.5 Any other material information:

L&G Re declared a dividend payment of £25m for 2016, this was paid to Group prior to 31 December 2016. The impact of this dividend payment is already included in the EBS coverage ratio as at 31 December 2016.

E. Capital Management

Particulars regarding an assessment of capital needs and regulatory capital requirements.

E.1 Eligible Capital

E.1.1 Description of the capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period.

The Board has established Risk Appetite statements to set the objective for capital management. The Company aims to maintain an appropriate buffer of capital resources over the minimum regulatory and economic capital requirements. The Board sets a quantitative risk appetite for Bermuda Capital Coverage Ratios and these are used to monitor the position relative to the Risk Appetite.

The L&G Re Board, considers and approves matters such as capital allocation, new product lines, large transactions and capital investments, direct investment and other material matters that may arise.
Each year the Company prepares a five year Business Plan which incorporates capital planning and dividend projections, consistent with the Group's strategic Plan and Business Plan, to forecast how the capital position is expected to develop over the business planning period and consider the impact of the strategy on the capital position. Performance against the capital plan is monitored on a regular basis and is used to inform decisions on the capital structure and dividend policy.

E.1.2 Eligible Capital

	£'000
Tier 1	490.538
Tier 2	1,180
Tier 3	0
Total	**491,748**

Description of the eligible capital categorised by tiers in accordance with the Eligible Capital Rules.

The Company has issued share capital, contributed surplus and retained earnings as its available capital. The Company classifies this capital as Tier 1 capital.

E.1.3 Eligible Capital by Regulatory Limitations

	Limits	MSM	ECR	Applied to MSM	Met –Y/N	Applied to ECR	Met –Y/N
Tier 1	min	80%	50%	490,538	Yes	490,538	Yes
Tier 2	max	25%	50%	1,180		1,180	
Tier 3			15%	0		0	
Total				**491,718**	**Yes**	**491,718**	**Yes**

Description of the eligible capital categorised by tiers, in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement ("ECR") and the Minimum Margin of Solvency ("MSM") defined in accordance with section (1) (1) of the Act

The Company has classed share capital, contributed surplus and retained earnings as Tier 1 Basic capital. The company has posted collateral supporting policyholder obligations which results in some Tier 1 Basic capital reclassified as Tier 2. The Company has met all of its eligible capital requirements for both ECR and MSM.

E.1.4 Confirmation that eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules

Eligible capital has allowed for transitional arrangements as approved by the Bermuda Monetary Authority.

E.1.5 Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR

Additional encumbered assets that are posted to reinsurance counterparties are governed by the reinsurance agreements in place. The ability to transfer this capital is limited in accordance with the stated agreements.

E.1.6 Identification of ancillary capital instruments that have been approved by the Authority

None.

E.1.7 Identification of differences in shareholder's equity as stated in the financial statements versus available statutory capital and surplus

No differences are noted between the shareholder's equity as stated in the financial statements and the available statutory capital and surplus.

E.2 Regulatory Capital Requirements

E.2.1 Amount of the ECR and MSM at the end of the reporting period

Minimum Margin of Solvency	89,727
Enhanced Capital Requirement	257,672
Enhanced Capital Requirement Ratio	191%

E.2.2 Identification of any non-compliance with the MSM and the ECR

None.

E.2.3 Description of the amount and circumstances surrounding the non-compliance, the remedial measures taken and their effectiveness

None.

E.2.4 Where the non-compliance has not been resolved, description of the amount of the non-compliance at the end of the reporting period

None.

E.3 Approval Internal Capital Model used to derive the ECR

E.3.1 Description of the purpose and scope of the business and risk areas where the internal model is used

The company does not use an approved internal model.

F. Significant Event

F.1 Description of significant event

No significant events noted during the 2016 calendar year or the first half of 2017.

F.2 Approximate date or proposed timing of the significant event

No significant events noted during the 2016 calendar year or the first half of 2017.

F.3 Confirmation of how the significant event has impacted or will impact

No significant events noted during the 2016 calendar year or the first half of 2017.

F.4 Any other material information

No significant events noted during the 2016 calendar year or the first half of 2017.

Glossary

A

ALM
Asset liability management.

Annuity
A regular payment from an insurance company made for an agreed period of time (usually up to the death of the recipient) in return for either a cash lump sum or a series of premiums which the policyholder has paid to the insurance company during their working lifetime.

B

Best estimate liability ("BEL")
The probability-weighted average of best estimate future cash flows, discounted using risk-free term structure of interest rates (adjusted for a matching adjustment where appropriate).

BMA
The Bermuda Monetary Authority was established by statute in 1969. It supervises, regulates and inspects financial institutions operating in the jurisdiction. It also issues Bermuda's national currency, manages exchange control transactions, assists other authorities with the detection and prevention of financial crime, and advises Government on banking and other financial and monetary matters.

Bermuda Solvency Capital Requirement ("BSCR")
This is the capital required to withstand a 1 in 200 stress event, calculated in line with the BMA regulations.

C

Capital coverage ratio
Also known as the solvency coverage ratio. The eligible Own Funds on a regulatory basis divided by the Bermuda Solvency Capital requirement. This represents the number of times the BSCR is covered by eligible Own Funds.

CEO
Chief Executive Officer.

CISSA
Commercial Insurer's Solvency Self-Assessment, a forward-looking assessment of own risks.

CRO
Chief Risk Officer.

D

Deduction and Aggregation ("D&A")
A method of solvency consolidation, where approved non-EEA entities' contribution to the group Solvency II balance sheet is based on the entity's local regulatory basis.

E

EBS
The Economic Balance Sheet, this shows the Technical Provisions, Assets and Capital Requirements as set out by the BMA regulations.

EEA
European economic area.

EIOPA
European Insurance and Occupational Pensions Authority.

Eligible Own Funds ("EOF")
The amount of Own Funds available to meet the BSCR. This includes any adjustments for eligibility requirements as defined by the Solvency II regulations.

G

GIMC
Group Internal Model Committee.

I

Internal Model
A solvency calculation model tailored to the individual risk profile of a specific firm.

International financial reporting standards ("IFRS")
These are accounting guidelines and rules that companies and organisations follow when completing financial statements. They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

L

LGA
Legal & General America.

LGAS
Legal and General Assurance Society Limited.

LG Re
Legal & General Reinsurance Company Limited.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement division.

Liability driven investment ("LDI")
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

Lifetime Mortgages
An equity release product aimed at people aged 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long-term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

Liquidity coverage ratio ("LCR")
The measure of exposure to liquidity risk. The LCR is defined as total sources of liquidity divided by total liquidity requirements.

Longevity
Risk associated with increasing life expectancy trends among policyholders and pensioners.

M

Matching adjustment ("MA")
An adjustment to the risk-free interest rate term structure used to calculate the best estimate of a portfolio of eligible insurance obligations. Its use is subject to prior supervisory approval where certain eligibility criteria are met.

MI
Management information.

Mortality rate
Rate of death, influenced by age, gender and health, used in pricing and calculating liabilities for future policyholders of life and annuity products, which contain mortality risks.

O

Own Funds
The amount of capital available to cover a firm's BSCR.

P

Pension risk transfer ("PRT")
PRT represents bulk annuities bought by entities that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

PRA
Prudential Regulation Authority was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of insurance companies in the UK.

R

Risk appetite
The aggregate level and types of risk a company is willing to assume in its **exposures and** business activities in order to achieve its business objectives.

Risk margin ("RM")
The cost of providing funds to cover the Bermuda Solvency Capital requirements over the lifetime of the associated insurance policies. The approach for calculating the risk margin is prescribed in BMA regulations.

S

Solvency coverage ratio
Also known as the capital coverage ratio. The eligible Own Funds on a regulatory basis divided by the Bermuda Solvency Capital Requirement. This represents the number of times the BSCR is covered by eligible own funds.

Solvency II
Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholders.

Solvency II Delegated Regulation
Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Solvency II Directive
Directive 2009/138/EC of the European Parliament (Solvency II Directive).

T

Technical provisions ("TP")
The sum of the best estimate liabilities and the risk margin.

V

Value-at-risk ("VaR")
The estimated loss for a given probability over a one-year period.

Y

Yield
A measure of the income received from an investment compared to the market value of the investment. It is usually expressed as a percentage.