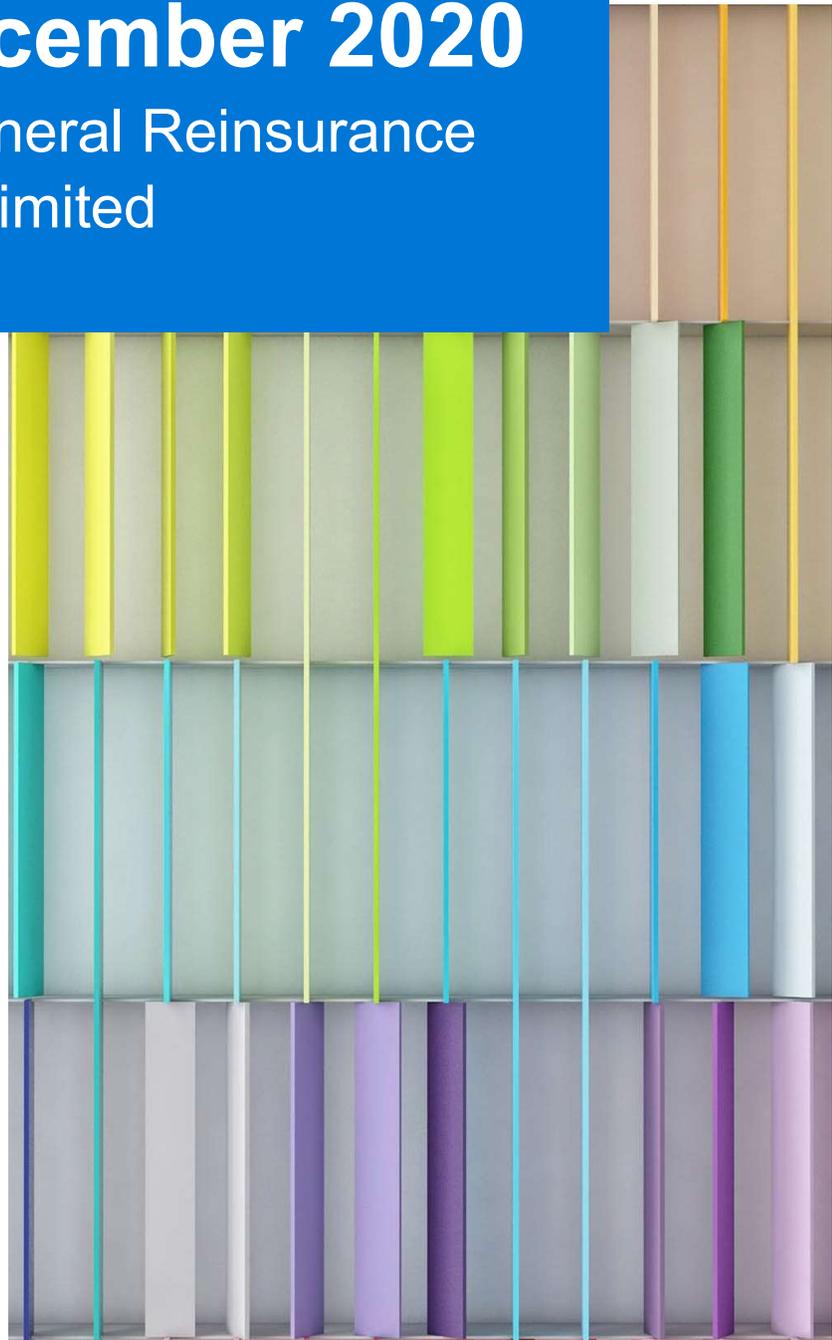




# Financial Condition Report

## 31<sup>st</sup> December 2020

Legal & General Reinsurance  
Company Limited



**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

# CONTENTS

A.	Business and Performance .....	4
A.1	Name of insurer .....	4
A.2	Name and contact details of the insurance supervisor and group supervisor .....	4
A.3	Name and contact details of the Approved Auditor .....	4
A.4	Ownership details .....	4
A.5	Where the insurer is part of a group, a group structure chart showing where the insurer fits within the group structure .....	4
A.6	Insurance business written by business segment and by geographical region during the reporting period .....	6
A.7	Performance of investments during the reporting period .....	6
A.8	Any other material information .....	7
B.	Governance Structure .....	9
B.1	Board and Senior Executives .....	9
B.2	Fitness and Propriety Requirements .....	11
B.3	Risk Management and Solvency Self-Assessment .....	16
B.4	Internal Controls .....	20
B.5	Internal Audit (IA) .....	21
B.6	Actuarial Function .....	22
B.7	Outsourcing .....	23
B.8	Any other material information .....	23
C.	Risk Profile .....	24
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 .....	24
C.2	How risks are mitigated including the methods used and the process to monitor the effectiveness of these methods .....	30
C.3	Material risk concentrations .....	30
C.4	How assets are invested in accordance with the prudent person principle as stated in Paragraph 5.1.2 of the Code .....	30
C.5	The stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used, and the outcomes .....	33
C.6	Any other material information .....	33
D.	Solvency Valuation .....	34
D.1	The valuation bases, assumptions and methods used to derive the value of each asset class .....	34

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

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: .....	34
D.3	Description of recoverable from reinsurance contracts, including special purpose insurers and other risk transfer mechanisms .....	37
D.4	The valuation bases, assumptions and methods used to derive the value of other liabilities .....	37
D.5	Any other material information .....	37
E.	Capital Management .....	38
E.1	Eligible Capital .....	38
E.2	Regulatory Capital Requirements .....	39
E.3	Approval Internal Capital Model used to derive the ECR .....	39
F.	Subsequent Event .....	40
F.1	Description of subsequent event .....	40
F.2	Approximate date or proposed timing of the subsequent event .....	40
F.3	Confirmation of how the subsequent event has impacted or will impact .....	40
F.4	Any other material information .....	40
	Glossary .....	41

# 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

	<b>Insurance Supervisor</b>	<b>Group Supervisor</b>
Name:	Bermuda Monetary Authority (“BMA”)	Prudential Regulation Authority (“PRA”)
Jurisdiction:	Bermuda	United Kingdom
Email Address:	rreid@bma.bm	prudential_Legal&General@bankofengland.co.uk
Phone Number:	+1 (441) 278 0211	+44 (0)20 3461 4444

## A.3 NAME AND CONTACT DETAILS OF THE APPROVED AUDITOR

Organisation:	KPMG Audit Limited
Jurisdiction:	Bermuda
Address:	Crown House 4 Par-la-Ville Road Hamilton, HM08
Phone Number:	+1 (441) 295 5063

## A.4 OWNERSHIP DETAILS

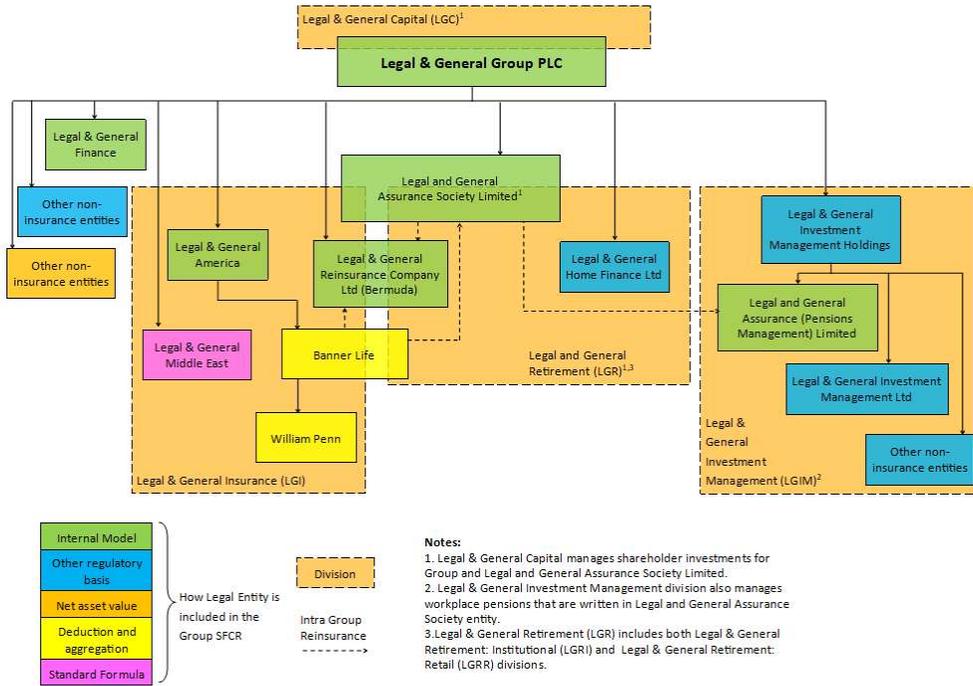
Number of owners:	One
Owner Name:	Legal & General Re Holdings Limited
Ownership Percentage:	100%

## 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 simplified structure chart, which shows the legal entity and divisional structure of Legal & General Group PLC (“L&G Group” or “Group”). The Company forms part of several divisions within the Group – Legal & General Retirement (“LGR”), Legal & General Capital (“LGC”) and Legal & General Insurance (“LGIL”). As part of the Group, the Company is required to comply with Group policy. Effective 1 January 2018, the LGR segment was subdivided into Legal & General Retirement – Retail (“L&G Retail”) and Legal & General Retirement – Institutional (“L&G Institutional”). The Company’s bulk annuity business sits within the L&G Institutional subdivision with all individual annuity business sitting within the L&G Retail subdivision.

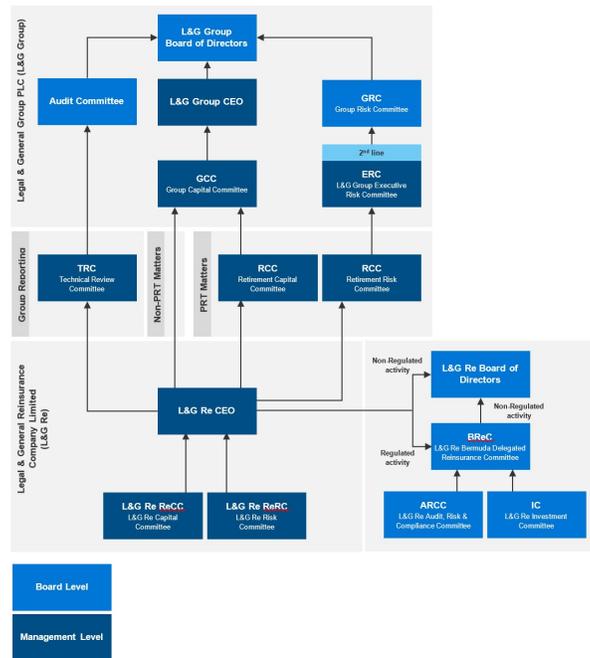
**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**Diagram 1: Division and Entity overview**



The Company has a local governance structure and is also required to satisfy divisional and Group level governance. This is demonstrated in the diagram below:

**Diagram 2: Governance Structure**



**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**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	Gross Premium Written	Net Premium Written
	2020	2020	2019	2019
	£'m	£'m	£'m	£'m
Long-Term Business	1,586	1,585	11,562	11,562
General Business	-	-	-	-
<b>Total</b>	<b>1,586</b>	<b>1,585</b>	<b>11,562</b>	<b>11,562</b>

**Geographical Location**

	Gross Premium Written	Gross Premium Written
	2020	2019
	£'m	£'m
Northern Europe	1,568	11,411
North America	18	151
<b>Total</b>	<b>1,586</b>	<b>11,562</b>

**A.7 PERFORMANCE OF INVESTMENTS DURING THE REPORTING PERIOD**

Type and Market Value	2020	2019	Commentary
	£'m	£'m	
<b>Government Securities</b>	<b>1,884</b>	<b>1,807</b>	Government securities held largely relates to UK Gilts, as in prior years. The increase in Government Securities during 2020 was partially due to assets received in-specie arising from new business annuity reinsurance premiums as well as a fall in interest rates which further increased the market value of Government Securities held.
<b>Other Fixed Rate Securities</b>	<b>12,651</b>	<b>11,089</b>	Holdings of other fixed rate securities primarily relates to corporate bonds. The increase during 2020 was partially due to assets received in-specie arising from new business annuity reinsurance premiums as well as a fall in yields over the year which increased the market value of other fixed rate securities held.
<b>Variable Rate Securities</b>	<b>1,953</b>	<b>1,869</b>	Holdings have increased due to in-specie assets received from new business premiums.
<b>Lifetime Mortgages</b>	<b>1,682</b>	<b>1,341</b>	Holdings have increased due to assets purchased to back new business premiums.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

<b>Accrued Interest</b>	<b>125</b>	126	Accrued interest held is broadly similar to 2019, after allowing for accrued interest received from assets received in-specie.
<b>Derivative Assets</b>	<b>(17)</b>	242	Changes in derivative asset holdings will be primarily due to market movements. Derivatives are held for asset and liability management.
<b>Cash and Cash Equivalents</b>	<b>37</b>	59	Cash held broadly similar to 2019.
<b>Unit Trusts</b>	<b>1,898</b>	1,088	Unit Trusts held relate to (1) holdings in LGIM pooled liquidity funds, where the Company's cash is typically swept into, and (2) to pooled equity and bond funds. The increase over 2020 has been primarily driven by a short term increase in cash holdings across the Company's funds.
<b>Other Assets</b>	<b>1,541</b>	1,336	Other assets contain certain alternative asset classes not captured in the above. Holdings have increased primarily due to in specie assets received, plus additional investments made.
<b>Total</b>	<b>21,754</b>	18,957	

Source: L&G Re Report and Accounts 2020

[Details on material income and expenses incurred](#)

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

The total investment return for the Company as reported in the financial statements in 2020 was £1,760m (2019: £655m). The total investment return comprises the expected return included in the IFRS operating profit plus the variance between actual and expected investment performance.

Investment income includes dividends, interest, rent and fair value gains and losses, excluding fair value movements attributable to available-for-sale ("AFS") investments. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accrual's basis. Interest income for financial assets which are not classified as Fair Value Through Profit-or-Loss ("FVTPL") is recognised using the effective interest method. Investment income is presented net of investment management fees and rebates.

Total expenses incurred by the Company as reported in the financial statements in 2020 were £15,164k (2019: £13,823k)

**A.8 ANY OTHER MATERIAL INFORMATION**

The Company executed a mortality reinsurance transaction with Banner Life, L&G Group's US insurance company. This is the third such mortality deal with Banner Life following transactions in 2018 and 2019. Covered business added in 2020 includes Banner Life insurance policies issued in January to February 2014 (inclusive), May to December 2015 (inclusive) and 2020, increasing the total face amount of the mortality business to \$326bn. The deal provides further risk diversification against existing risks and another revenue stream. With this transaction, the Company takes on additional mortality, lapse and

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

pandemic risk. The exposure to pandemic risk has been partially mitigated through a pandemic stop-loss reinsurance treaty with 3rd party reinsurers.

Since 31 December 2019, many countries have experienced an outbreak of the COVID-19 virus and, on 11 March 2020, the World Health Organization declared the disease to be a global pandemic. The situation continues to develop and the long-term impact of this pandemic is unclear at this time. The Company writes a mixture of annuity and term business, which is affected in different ways. L&G Re's management has been, and continues to, monitor the developments closely. Areas within the financial statements that could be materially impacted include the claims on the term business, as well as the values of the Company's investment portfolio and the Company's valuation of policyholder reserves. Over 2020, the Company saw claims of \$7.4m directly attributable to COVID-19, and experienced ratings downgrades of approximately £2.5bn (16% of the portfolio by market value), of which only £200m were to sub-investment grade assets (1.3%). Nearly half of the downgrades related to the ratings downgrade of the U.K. government. There were zero defaults. We have set up a COVID-19 provision to cover expected excess deaths in 2021 on the term business, but annuity reserves have not been reduced. COVID-19 continues to impact our customers, employees and society. Our business model has proved to be robust in the face of the pandemic. As well as having an unprecedented impact on our customers, employees and society at large, COVID-19 has resulted in considerable disruption to the global economy, and whilst vaccines and treatments offer hope for a return to economic growth there is potential that certain sectors will be disrupted for an extended period of time.

The Company's business continuity plans had been tested thoroughly prior to the lockdowns imposed due to COVID-19, and actions had been taken to extend the capability and capacity for employees to work from home, therefore the resilience of our business operations is clear and we have well established management procedures to respond to similar events in future.

L&G Group and its global subsidiaries ("Legal & General") recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free.

Legal & General's full modern slavery statement can be found at:

[www.legalandgeneralgroup.com/csr/modern-slavery-statement/](http://www.legalandgeneralgroup.com/csr/modern-slavery-statement/).

## B. GOVERNANCE STRUCTURE

### [Particulars of corporate governance, risk management and solvency self-assessment frameworks](#)

The Company's Board is accountable for the long-term success of the Company by setting the Company's strategic objectives and monitoring performance against those objectives. The Board is led by the Chairman, and as at 31 December 2020 comprised one executive director and five non-executive directors. The day-to-day management of the Company is led by the Chief Executive Officer ("CEO").

The Company Board meets formally on a regular basis and is responsible for setting Company strategy. The Company operates within a clearly defined delegated authority framework. The delegated authority framework ensures that there is an appropriate level of Board contribution to and oversight of key decisions and that the day-to-day business is managed effectively.

The Company's governance framework is intended to ensure that all decision making is appropriate and subject to robust controls and oversight. The Company 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	L&G Re Board Position
Tim Stedman	Chairman of the L&G Re Board, Bermuda Delegated Reinsurance Committee ("BReC") and Investment Committee ("IC"), Member of the Audit Risk and Compliance Committee ("ARCC")
Thomas Olunloyo	Board Member, Chief Executive Officer, Member of BReC and IC
Carl Moxley	Board Member
Laura Mason	Board Member
Lorna Shah	Board Member
Edward Houghton	Board Member

##### Committee Members

Name	L&G Re Committee Position
Derek Stapley	Independent Non-Executive BReC Member, Chairman of the ARCC
Johnny Chow	IC Member, ARCC Member
Beverley Alford	BReC Member, ARCC Member
Michael Walsh	Chief Financial Officer, BReC Member, IC Member

##### Officers

Name	Officer Position
Thomas Olunloyo	Chief Executive Officer ("CEO")
Michael Walsh	Chief Financial Officer ("CFO")
Thomas Ault	Chief Business Development Officer ("CBDO")
Zane Olivier	Chief Actuary ("CA")
Matthew Roche	Chief Investment Officer ("CIO")
Nick Burke	Chief Risk Officer ("CRO")

### [Description of segregation of these responsibilities](#)

There are six primary officers of the Company, the CEO, CFO, CBDO, CA, CIO, and CRO.

The CFO leads the finance function that is responsible for financial management, including financial reporting and valuation methodology and assumptions. The CBDO leads the new business function and retains responsibility for all new business related activities. The CA retains responsibility for capital management and optimisation, including the Bermuda Solvency Capital Requirement and Commercial

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED  
FINANCIAL CONDITION REPORT  
31 DECEMBER 2020**

Insurers' Solvency Self-Assessment. The CIO retains responsibility for the full asset portfolio of the Company, including investment manager oversight, ALM and investment strategy development across a variety of asset classes. The CRO leads the risk function and is responsible for the risk management framework of the Company.

Zane Olivier (CA) is the Approved Actuary ("AA"). The AA is independent from the calculation of the Best Estimate Liabilities ("BEL") and the underlying valuation basis. The AA is responsible for providing an opinion on the sufficiency of the long-term reserves of the company and supporting the regulatory requirements to the BMA.

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 Company 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 discretionary performance related bonus is paid annually reflecting the performance of the Group, the LGR division and the Company, as well as that of the senior executive or employee during the calendar year. Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years.

The Group operates a Share Bonus Plan ("SBP") which provides the vehicle for deferral of annual bonuses in the majority of cases and allows for a limited number of awards of shares to high potential individuals and those with critical skills.

The Group also operates a Performance Share Plan ("PSP") which is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. Participation in the plan for one year does not guarantee participation in future years.

The Board members that are employed by the L&G 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 the Company's 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 the Board members or senior executives outside of the Company's remuneration policies.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED  
FINANCIAL CONDITION REPORT  
31 DECEMBER 2020**

## **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 which applies to the Company, the purpose of which is to set out the procedures required by regulated companies 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 the Company 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**

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 taken before a notification is made to the regulators in relation to the appointment of a key function holder.

The Company will only support an application for approval or a notification if it is believed that the candidate meets all the elements 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 the Company 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 the individual.

The criteria are:

- 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 are also relevant in assessing the continuing fitness and propriety of approved persons.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**Maintaining Fitness and Propriety**

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.

L&G Group's policies and procedures place an obligation on approved persons to notify the Group Conduct Risk and Group 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, the Company 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.

The Company's performance management process is the primary mechanism for tracking on-going competency. The Company will take appropriate steps to monitor an individual's financial soundness on an on-going basis.

**B.2.2 DESCRIPTION OF THE PROFESSIONAL QUALIFICATIONS, SKILLS, AND EXPERTISE OF THE BOARD AND SENIOR EXECUTIVES TO CARRY OUT THEIR FUNCTIONS**

**L&G Re Board Members**

**Tim Stedman (Chairman of the L&G Re Board, BReC and IC, ARCC Member)**

Tim Stedman has been at L&G since 1997 and has over 30 years' experience in the life insurance sector.

During his time with L&G, Tim has held a number of different financial reporting and risk management roles. From 2007 until 2013, he was AFH for LGAS. LGAS is the entity through which the Group accepts the majority of its life assurance risks, including the c.£80bn annuity portfolio.

Tim became Group Actuary in 2010 and led the project to gain approval of the Group's Solvency II Internal Model ("IM") in 2015. He has responsibility for capital management and optimisation across the Group as well as the on-going operation and development of the Group's capital modelling and ensuring compliance with Solvency II. Since 2016, Tim has led the Group's work on Insurance Capital Standards.

Tim was appointed to the L&G Re Board in December 2018 and took over chairmanship in April 2019. He also chairs the BReC.

Tim is a Fellow of the Institute and Faculty of Actuaries and has a BSc in Mathematics from the University of Manchester.

**Thomas Olunloyo (CEO, L&G Re Board, IC, and BReC Member)**

Thomas has served as the CEO of L&G Re since 2017, having previously served as CA and CIO. Prior to joining L&G Re, Thomas was the Pricing and Product Development Actuary at MetLife Assurance Limited in the UK, a subsidiary of MetLife Inc.

Thomas has led L&G Re's development into new markets and new technologies, including the L&G Group's first PRT transaction in Canada, and the conception, design and launch of the world's first blockchain based platform for pensions risk management, estuare.

Thomas obtained a Master's Degree in Mathematics and Philosophy at the University of Oxford and is a Fellow of the Institute of Actuaries. Thomas was appointed to the L&G Re Board in March 2017.

**Laura Mason (L&G Re Board Member)**

Laura has been CEO of Legal & General's Institutional Retirement business since January 2018 and previously served as Managing Director of Direct Investment at LGC. L&G's institutional retirement business helps defined benefit pension schemes to settle their pension obligations and better secure their members' benefits through buyouts and other insurance solutions.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

Laura joined L&G in 2011 where she was initially responsible for Annuity Investment strategy.

Laura is a qualified Actuary and spent eight years at Towers Watson as consultant to all the major UK Life Insurers. Laura has a First Class Honours Degree in Engineering Science from University of Oxford, and a PhD in Engineering Science (Neural Networks and Signal Processing) also from the University of Oxford. Laura was appointed to the L&G Re Board in December 2019.

**Carl Moxley (L&G Re Board Member)**

Carl is the CFO for the Legal & General Retirement Institutional (“LGRI”) division. He is responsible for the ownership of their profit and loss account, balance sheet, capital and expenses of their c£80bn business. He joined the organization in 2017 as the CRO of the total Retirement business. He has over 15 years of experience in capital and balance sheet management.

Prior to this, he was the Group Capital Solutions Director at Aviva, having responsibility for leading large asset and liability transactions and their Group stress and scenario testing framework. He also spent 7 years at Swiss Re in a variety of reserving, capital, structuring and pricing roles. Carl is a Fellow of the Institute of Actuaries. Carl was appointed to the L&G Re Board in April 2019.

**Lorna Shah (L&G Re Board Member)**

Lorna has been at Legal & General since completing her master’s degree in Mathematics and Physics in 2003.

Lorna has held a broad range of actuarial and finance roles in the Group, and since 2018 has been the Chief Financial Officer for Legal & General Retail Retirement – one of L&G’s fastest growing divisions where the focus is on helping its thousands of customers enjoy a more ‘colourful retirement’. Lorna was appointed to the L&G Re Board in December 2020.

**Edward Houghton (L&G Re Board Member)**

Ed is currently Group Strategy and Investor Relations Director at Legal & General.

Prior to Legal & General, he was most recently Managing Director at Bernstein, where he covered European insurers and asset managers as a Senior Research Analyst, co-heading a highly ranked sector team. Prior to Bernstein, Ed worked at Aviva from 2003 to 2011, where he held a variety of senior roles in strategy and finance both at a Group level and for Aviva Europe across a variety of mature and emerging markets.

He began his career as a strategy consultant at Accenture in 2001. Ed was appointed to the L&G Re Board in December 2020.

**Committee Members**

**Derek Stapley (Non-Executive, ARCC Chair and BReC 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. He is a member of the Institute of Chartered Accountants of Scotland and of the Institute of Directors in Bermuda.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**Michael Walsh (CFO, IC and BReC Member)**

Mike is the CFO, following previous roles as Chief Actuary and Chief Business Development Officer for L&G Re. Since joining L&G Re, Mike has overseen execution of multiple PRT transactions, including the largest in Ireland in 2018 and Legal & General's inaugural transaction in Canada, in addition to Legal & General's award winning pandemic stop loss reinsurance.

Prior to joining L&G Re, Mike has held a variety of roles, beginning as an adviser to sponsors and trustees of pension funds before moving into senior roles within the UK pension risk transfer market. Mike oversaw the launch of Partnership into the bulk annuity market and completion of over 30 bulk annuity transactions. Across Mike's career he has been responsible for developing pricing capability in the innovative medically underwritten bulk annuity market; overseeing production of quotations; leading product development and implementing major improvements to systems, governance and processes.

Mike has a Masters in Mathematics with Statistics and is a Fellow of the Institute of Actuaries for which he has been a member of working parties and organizing committees of Member Interest Groups.

**Johnny Chow (IC and ARCC Member)**

Johnny Chow is currently the Chief Investment Officer for LGR, with responsibility for overseeing c£70bn asset portfolio backing annuitant liabilities, including setting investment strategy, asset liability management and portfolio oversight. Johnny has held this role since 2019 and prior to this served as the Head of Portfolio Construction for LGR. Before joining Legal & General Johnny worked at J.P. Morgan where he has held multiple roles including Exotic Credit Trading, Credit Correlation Trading and Counterparty Hedging Trading. Johnny is a CFA since 2016 and holds a Master in Mathematical Finance from the University of Toronto.

**Beverley Alford (BReC and ARCC Member)**

Beverley is currently Group Pensions Director for Legal & General Group, with responsibility for the overall management of all aspects of the Group's defined benefit pension arrangements, protecting both the company and scheme members by providing proactive direction and ensuring compliance with legislation and governance requirements. Prior to this role, Beverley held the position of Head of Longevity for Legal & General Retirement, a division of L&G Group, where she was responsible for the provision of mortality and demographic assumptions for the use in pricing, financial accounting, product design and solvency II. Product lines included bulk annuities, retail annuities and lifetime mortgages both in the UK and for International territories.

Beverley has been with the L&G Group for 6.5 years; before this she was a Scheme Actuary, working within the pension consultancy arena. Previous employers include Watson Wyatt (now Willis Towers Watson) and Aon Consulting. Beverley is a Fellow of the Institute of Actuaries in the UK and has a BSc in mathematics from Durham University.

**Primary Officers and Senior Management**

**Tom Ault (CBDO)**

Tom is the CBDO, responsible for new market strategy for the Canadian and European markets, with oversight of the pricing function.

Prior to joining L&G Re, Tom spent 19 years at Aon where he was a Partner within the retirement consulting practice in Canada and the UK. At Aon, he held a number of Canadian leadership roles, most recently with responsibility for retirement innovation, the pension risk settlement and longevity practice and the local Vancouver market.

Tom is a Fellow of the Canadian Institute of Actuaries and the Institute of Actuaries, and holds a Master of Mathematics and Statistics. He is a member of the Canadian Institute of Actuaries International Affairs Council.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**Zane Olivier (CA)**

Zane Olivier is the Chief Actuary of L&G Re. Zane has worked in the L&G Group since 2016 where he has headed the actuarial reporting teams both in Bermuda for L&G Re and in London for the L&G Retirement division. Prior to joining L&G, Zane worked in a variety of roles across consultancies and in industry, with particular focus on Solvency II and capital optimisation.

Zane graduated from the University of Warwick with a degree in Mathematics, Operations Research, Statistics and Economics and holds a Fellowship with the Institute and Faculty of Actuaries.

**Matt Roche (CIO)**

Matt is the CIO for L&G Re. In this role, he has responsibility for the full asset portfolio of the Company, including investment manager oversight, ALM and investment strategy development across a variety of asset classes.

This work enables the company to deliver its target returns within the desired risk appetite, with a large focus on asset optimization of new business transactions and associated structuring.

Matt has been with the L&G Group for over 10 years in a variety of roles, including at other international subsidiaries plus a period working in longevity risk. A substantial part of his career has been spent in PRT pricing and business development for L&G in the U.K.

He graduated from Edinburgh University with a Master's degree in Mathematical Physics, and holds the FIA and CERA designations.

**Nick Burke (CRO)**

Nick heads up the Risk function as CRO. Since joining L&G Re in 2014, Nick has held a variety of roles including Pricing Manager and Business Development Director. He was involved in the market entry for each of L&G Re's PRT territories. Prior to joining L&G Re, Nick worked for Irish Life.

Nick is a Fellow of the Institute and Faculty of Actuaries and also holds the Chartered Enterprise Risk Actuary accreditation. He has a Masters in Mathematics and Physics.

**Tina Yang (Head of Operations)**

Tina is the Head of Operations at L&G Re. Her core responsibilities include improving operational efficiency and management control to enable company deliver at its optimal capacity. In addition, she also leads the effort for blockchain application development and reporting digitization and automation at the company.

Prior to joining L&G Re, Tina was a consulting actuary with Milliman in Chicago. She has done extensive work with Variable Annuity products, experiences include liability modelling and analysis in the area of product pricing, in force business valuation and management, dynamic hedging program, and merger & acquisitions. She successfully led a number of outsourcing programs utilizing technology and highly streamlined processes to efficiently deliver solution to her clients.

Tina studied Actuarial Science and Computer Science at University of Waterloo, Canada. She has an MBA from University of Oxford and is a Fellow of the Society of Actuaries.

**Dennis Suhanovs (Chief Technology Officer)**

Dennis Suhanovs is the Chief Technology Officer. He is an IT veteran with over 20 years of experience and a career that spans systems architecture as well as software development disciplines. Microsoft-certified since age 16, Dennis became the youngest Microsoft engineer in his native Latvia at the time, and has been holding an array of vendor and industry certifications since, including CISSP and PMP.

During the formative years of his consulting career in Toronto, Dennis delivered IT system designs at many of the hospitals and municipalities in Ontario, eventually moving on to managing an engineering team and a multimillion dollar datacentre at Montpelier Re in Bermuda in 2007. On completion of the

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

Bermuda engagement in 2012, Dennis relocated to the Cayman Islands, where he has been writing software and providing Azure cloud related consulting services.

Dennis is an avid traveller and a racing enthusiast.

**Aleem Qureshi (Chief Strategy Officer)**

Aleem is the Chief Strategy Officer, responsible for helping develop strategic initiatives to grow L&G Re's business in its target market.

Prior to joining L&G Re, Aleem spent 6 years with Canada Life. In his most recent role there, he led the non-par life insurance solutions team responsible for the product development, pricing and inforce management of Term and UL products. Aleem also led Canada Life's Pension Risk Transfer team which was responsible for the pricing of group annuity business, longevity research, and development of a longevity only and LDI offering. Prior to that, Aleem spent 6 years in retirement consulting with Willis Towers Watson in their New York and Toronto offices serving US and Canadian pension plan sponsors.

Aleem is a Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a CFA Charterholder.

**B.3 RISK MANAGEMENT AND SOLVENCY SELF-ASSESSMENT**

**B.3.1 A DESCRIPTION OF THE RISK MANAGEMENT PROCESS AND PROCEDURES TO EFFECTIVELY IDENTIFY, MEASURE, MANAGE AND REPORT ON RISK EXPOSURES**

**Risk management system**

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

- The Company 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 CRO provide objective challenge and guidance on risk matters;
- with Group Internal Audit ("GIA") providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

Understanding the risks that we may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business. We seek to deeply embed the necessary capabilities to assess and price for those risks that we believe offer sustainable returns within the Company; as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes. The risk management framework supports informed risk taking by our business, setting out those rewarded risks for which we accept exposure; and the risks that we want to avoid; together with risk limits and standards of internal control to ensure exposures remain within our overall risk appetite.

**Risk appetite**

The Company's risk appetite statements set out the overall attitude to risk, and the ranges and limits of acceptable risk taking. The ARCC leads a 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 ARCC and the Company.

**Risk taking authorities**

The parameters of acceptable risk taking defined within the risk appetite are cascaded to senior managers through the 'LGRI Risk and Capital Mandate', 'LGRI Delegated Pricing Authorities' and 'the L&G Re CEO Delegated Authority Schedule', empowering the CEO and his management team to make decisions that are consistent with appetite for risk.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

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 Policies](#)

##### **Risk control**

The Company sets formal policies for the management of market, insurance, credit, liquidity and operational risks. The policies specify 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, and to ensure risk exposures are within the approved risk appetite. For example, derivatives are used to hedge unrewarded risks as part of the Company's asset liability management activity; and reinsurance programs 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**

The Company operates 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.

##### **Commercial Insurer's Solvency Self-Assessment**

The risk identification and assessment process forms part of the Company's broader 'Commercial Insurers' Solvency Self-Assessment' ("CISSA") process, the on-going assessment of the risks to which the Company 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 MI 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 CRO, who is independent of first line, supports the Board and the ARCC 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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED  
FINANCIAL CONDITION REPORT  
31 DECEMBER 2020**

**Risk committees**

The Board has ultimate responsibility for the risk management framework. The ARCC, supported by the CRO, serves as the focal point for risk oversight activities.

The Company Board:

- Owns the overall Risk Management system
- Owns the risk appetite statements
- Is the ultimate owner of the Company's regulatory relationships

The L&G Re Risk Committee ("ReRC") ensures the effectiveness of the overall risk management system and recommends to the Board any changes to the risk appetite. The ReRC meets on a quarterly basis.

The executives 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 which represents the second line of defence.

GIA 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 CISSA are to assess the Company's risks and to evaluate whether there are sufficient financial resources to sustain the business strategy over the plan horizon.

The Company's Internal Model brings together the underlying risk and capital management processes by which the Company assesses, monitors and measures the Company's risks, review the business against risk appetite and tolerances and project the solvency position over the business plan. 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 MI.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**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 Board is ultimately responsible for ensuring the continuous appropriateness of the design and operation of an 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 the Company.

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 the second and 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 (“GRC”).

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

The Group’s Internal Model Governance Policy sets out the governance framework in place for Group’s 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:

<b>Board / Committee</b>	<b>Responsibilities</b>
Group Board	Ensuring the on-going appropriateness of the design and operation of the Internal Model. This responsibility is discharged through the GRC, subject to certain matters being reserved for its direct attention.
L&G Re Board	Ensuring the on-going appropriateness of the design and operation of the L&G Re elements 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.
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 GRC discharges these responsibilities through acting on the receipt of recommendations, analysis and reports from the Group CRO team and the GIMC.
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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

### Internal Model Controls

First line business divisions are responsible for operating a robust control framework to manage exposures and mitigate unacceptable outcomes (according to the Company's risk appetite). This includes the implementation of robust controls to mitigate key risks associated with processes they are responsible for, ensuring senior management is responsible for the implementation of the controls 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"). 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. There is 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 the Company's parts of the Internal Model, this has been performed as part of the production of the Capital Requirement as at 31 December 2020. The objective is to produce a robust, proportionate and demonstrably complete approach to validation overseen by the Company CRO and, ultimately, the Group CRO.

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. As part of the annual planning exercise, outcomes from the processes above will feed into the Internal Model cycle.

## B.4 INTERNAL CONTROLS

### B.4.1 DESCRIPTION OF THE INTERNAL CONTROLS SYSTEM

#### Internal control system

The Company's internal control framework 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

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

- 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 ARCC oversees the adequacy and effectiveness of the internal control framework, primarily through the receipt of reports from GIA, external auditors, and risk teams in the second line of defence.

#### **B.4.2 DESCRIPTION OF HOW THE COMPLIANCE FUNCTION IS EXECUTED**

The Company CRO retains all compliance responsibilities, including fraud, anti-money laundering and anti-terrorist financing (“AML/ATF”), and anti-bribery and corruption (“ABC”) responsibilities. The Company compliance policies have been approved by the Company Board and are reviewed periodically. All local policies comply with Group compliance policy and consider regulatory requirements. The 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 ARCC.

#### **B.5 INTERNAL AUDIT (IA)**

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

Group Internal Audit (“GIA”) is an independent and objective assurance and advisory function whose primary role is to support the Group Board and Executive Management in the protection of the assets, reputation and sustainability of the group.

GIA also supports group Executive Management in accomplishing business objectives by adopting a systematic and disciplined approach to the evaluation and improvement of the design and effectiveness of the group’s risk management, control and governance processes.

Group Internal Audit 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 in conjunction with senior management;
- reviews of major business change initiatives; and
- reviews of the risk management and internal control processes.

GIA’s work may also include reviewing relevant post-mortem or ‘lessons learned’ analyses following significant adverse events at an organisation. The role of GIA’s involvement in any events will generally be determined as part of the audit planning process or on an ad hoc basis, where required.

GIA is responsible for the development of an internal audit plan, with a corresponding delivery timetable and budget. The plan typically details proposed audits over the next twelve months. GIA reviews the plan regularly and advises the Board, through the Group Audit Committee, of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the Board.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

The Internal Audit plan is developed using a risk-based methodology, including input from executive and non-executive senior management. Any significant deviation from the approved internal audit plan is communicated through the activity reporting process.

Internal control objectives considered by Group Internal Audit include:

- effectiveness of design and operation of processes and their actual outcomes, assessed against the group's established values, ethics, risk appetite and policies;
- the appropriateness of the organisation's risk and control culture, including the attitude and approach taken by all levels of management to risk management and internal control
- 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 Group Chief Internal Auditor 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 the group. This includes the choice of business areas to audit, procedures, frequency, timing, or the content of the Group Internal Audit reports. This ensures that 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 will 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.

The Group Chief Internal Auditor confirms to the Group Audit Committee, at least annually, the organisational independence of internal audit activity.

## **B.6 ACTUARIAL FUNCTION**

### **Description of how the actuarial function is implemented**

The Company has its own actuarial team that is supported by the wider Group Actuarial Function for the Company's Solvency II reporting. The Solvency II BEL is currently also used as Economic Balance Sheet ("EBS") BEL for annuities.

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

The requirements covering the calculation of TP are addressed through various activities, in particular, Actuarial Function review of the calculations and the membership of oversight committees. A number of reports during the year are provided to the Board on the data, models, methodologies, assumptions and results of the EBS TP calculation.

The Actuarial Function contributes 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

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

modelling (including MA 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**

The Company has an outsourcing policy that has been approved by the Board. The Company follows the L&G 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 the Company 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 the Company 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 the Company is reliant. Contracts must also ensure access to the providers premises, business management and any data relating to the outsourced activity, by GIA, 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 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 cover critical or important operational functions or activities and is monitored in line with the policy.

<b>Service providers</b>	<b>Goods/services</b>	<b>Jurisdiction</b>
Cohort- Company Secretarial	Services	Bermuda
Expertise - HR	Services	Bermuda

### **B.7.2 DESCRIPTION OF MATERIAL INTRA-GROUP OUTSOURCING ("INSOURCING")**

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

- investment management services provided by LGIM;
- actuarial reporting calculation services by LGR and LGA's finance teams;
- treasury services by Legal & General Finance Plc;
- 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;
- Reporting services provided by Accounting Services team as per the SLA agreement set in place; and
- Accounts Payable services provided by Financial Accounting Operations service ("FAO") as per the SLA agreement set in place

## **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 IM provides 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. The IM is used to assess significant transactions, including large pension risk transfer deals. The key output from the IM 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 absorb 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, covers 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.

Principal risk	Risk Mitigations
<p><i>Longevity risks</i></p> <p>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 assets also has some exposure to the life expectancy of borrowers.</p> <p>Long-term mortality experience and rates of improvement for annuitant business has increased uncertainty as a result of the ongoing COVID-19 global pandemic. At present it is generally accepted to be too early to determine with any accuracy the long-term likely effects of the pandemic on longevity estimates.</p>	<p>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 longevity risks, including enhanced annuities, are placed with reinsurers. The Company regularly reviews its longevity experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. For 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.</p>

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

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*Mortality risks*

For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. Higher than expected incidence would increase costs over the level currently assumed in the calculation of liabilities.

The pricing of protection business is based on assumptions of future trends in mortality having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable. Mortality experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation. Adverse mortality stop loss reinsurance is used to mitigate the risk of extreme concentration of deaths over a short period of time, for example during a pandemic.

Uncertainty over mortality experience is somewhat elevated at present due to the ongoing COVID-19 global pandemic. However, experience has been relatively benign to date and the situation is being monitored closely.

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*Persistency risk*

Lapses may result in a loss of future profits and anti-selection risk.

This risk relates to mortality risk business only. The pricing basis for protection reinsurance includes provision for persistency which has due regard for past experience and expected future trends.

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*Expense risk*

Pricing long term insurance business requires assumptions regarding 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 business plan, 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.

Whilst 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 the Company's new business strategy and for investments held for existing business. Market risk is the exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

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Principal risk	Risk mitigations
<p><i>Investment performance risk</i></p> <p>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.</p>	<p>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.</p>

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

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*Currency risk*

To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in currencies not directly matched to the liabilities. 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 assets 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. This residual risk is monitored against defined limits and tolerances.

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*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 annuity 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 where available. Annuity contracts also typically provide 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.

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*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 benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the 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. The sensitivity to interest rate changes of the Company's profits and balance sheet equity on an International Financial Reporting Standards ("IFRS") basis is included in the Company's analysis and disclosed within the financial statements.

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**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 reinsurance 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 the new business strategy and the investments held for existing business. Credit risk is risk of a financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

a result of changes in expectations related to those risks. Detailed below are the principal credit risks which the Company is exposed to:

Principal risk	Risk mitigations
<p><i>Bond default risk</i></p> <p>A significant portfolio of corporate bonds and commercial loans is 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.</p>	<p>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 may be used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments that are judged to have an elevated risk of default.</p>
<p><i>Reinsurance counterparty risk</i></p> <p>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.</p>	<p>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 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. For pandemic mortality risk transactions, default risk is mitigated through spreading exposure over multiple strongly rated reinsurers.</p>
<p><i>Property lending counterparty risk</i></p> <p>As part of the asset diversification strategy, property lending and sale and leaseback investments are held. The Company is inherently exposed to the risk of default by a borrower or tenant.</p>	<p>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.</p>
<p><i>Banking counterparty risk</i></p> <p>The Company is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. The Company is also exposed to counterparty risks in respect of the providers of settlement and custody services.</p>	<p>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.</p>

**Risk concentration**

A significant portfolio of corporate bonds is held to back the liabilities arising from writing annuities and other 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 Company's Investment Committee 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 within the relevant portfolio to manage the exposure.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**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.

The Company's 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 and reinsurance contracts which requires the Company to post eligible assets.

Principal risk	Risk mitigations
<p><i>Derivative Collateral risk</i></p> <p>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.</p>	<p>Liquidity requirements to meet potential derivative 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.</p>
<p><i>Reinsurance Collateral risk</i></p> <p>The Company's existing business and anticipated new business is collateralised with the cedant. By the terms of collateral agreements linked to reinsurance contracts written, the collateral must meet certain requirements on amount and quality of assets. An appropriate pool of assets must either be held or readily available to post as additional reinsurance collateral under stress events</p>	<p>Asset requirements to meet potential reinsurance collateral calls are actively managed. The amount of reinsurance collateral required and posted is monitored by management on a regular basis. A Collateral Management Fund (CMF) is ring-fenced in cash and cash equivalent to fulfil any top-up requirement to external reinsurance collateral account. The calibration of the CMF references to a 1 in 200 shock over a three month period: the quantum of the fund as of YE 2020 is £40.9 million to protect c£0.7 billion of external business.</p>
<p><i>Investment liquidity risk</i></p> <p>Direct lending, sale 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.</p>	<p>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.</p>
<p><i>Insurance liquidity risk</i></p> <p>Liquidity risk can arise due to the mortality risk described in the Underwriting Risk section. For contracts providing death benefits an extreme concentration of deaths over a short period of time, for example during a pandemic, will lead to higher than normal claims costs which will need to be met with cash. Assets must either be held or be readily available over appropriate timeframes to meet these claims.</p>	<p>Liquidity requirements to meet potential insurance claims are actively monitored and sources to meet those requirements are managed. The company uses a range of measures including access to liquidity facilities as well as shareholder assets which can readily be sold as required. The company employs adverse mortality stop loss reinsurance further mitigating the liquidity risk for extreme concentration of claims. The contractual terms for timing of settlement of claims have been designed to provide a material period of time for disinvestment of assets thereby reducing the risk of selling assets under stress.</p>

**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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

The Company seeks to manage its 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, the Company ensures that, even under stress scenarios, the Company has access to the funds necessary to cover all outgoing collateral requirements and liabilities. 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 are cash and government securities.

**Liquidity stress testing**

The exposure to liquidity risk is measured by a liquidity coverage ratio ("LCR") under 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.

**Operational risk**

**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. The Company has also adopted the culture whereby each area of the business and a member of the Senior Management Team are responsible for the operational excellence and control within that area.

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 aims 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. Risk events and issues are logged to provide management the visibility. These data are analysed frequently to identify repetitive instances and instruct the company to address them promptly.

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.

Dependency on a single supplier (both internal and external to the Group) to provide a product or service supporting a critical business function can give rise to a concentration of operational risk. Techniques deployed to mitigate this include business continuity and recovery plans in the event of a supplier failure, a defined mechanism to resolve disputes relating to a contract, and orderly exit and termination plans. Further details are provided in section B7: Outsourcing.

**Sensitivities**

As part of the CISSA, the Company 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

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED  
FINANCIAL CONDITION REPORT  
31 DECEMBER 2020**

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 behaviour of the credit portfolio.
- Market Risk: Interest rate and inflation stress tests to help understand the interactions and the hedging arrangements.
- Insurance Risks: Longevity and pandemic mortality stress tests.

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.

The Company is able to meet the capital requirement following the stress testing performed.

**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**

The Company 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.

The Company 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.

The Company 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.

The Company has the following risk management strategy to manage the investment portfolio of the company.

**Market risk**

The Company'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 Company is exposed to these risks are:

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

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

The Company 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.

The Company is ultimately responsible for the management of market risk. The Company has chosen to outsource the execution of the LGAS Funds Withheld investment risk policy, as noted below, to LGAS. The Company manages market risk using the following methods:

#### Asset liability matching

The Company manages its assets and liabilities in accordance with 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.

The Company 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 the Company to devise an investment strategy which maximises risk-adjusted returns to its shareholders.

#### Derivatives

The Company uses derivatives to reduce the market risk arising in the long term fund. 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 the Company'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

Please refer to C.1.

#### Inflation risk

The Company 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. The Company seeks to manage the risk of movements in price indices through the use of inflation swaps.

#### Currency risk

The Company is potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. The Company 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.

The Company 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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**Credit risk**

Exposure to loss if another party fails to perform its financial obligations to the Company.

The Company 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.

The Company 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.

The Company's portfolio includes property lending and sale & leaseback investments. The Company 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. The Company protects its interests through taking security over the underlying property associated with the investment transaction.

**Liquidity risk**

The Company follows the L&G Group Liquidity Risk Policy which defines the overall framework for the management of liquidity risk. The Company 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 the Company may be exposed, primarily stem from low probability events that if not adequately planned for, may result in unanticipated liquidity requirements.

In using derivatives to manage market risk (particularly for FX and interest rates), the Company accepts exposure to liquidity risk arising from posting of initial and variation margins to clearing houses and investment bank counterparties. These liquidity requirements are modelled under low probability, extreme stress events with liquid assets being held in our asset portfolio to meet these requirements in line with the Group Liquidity Risk Policy.

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Company 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. The Company uses pandemic stop loss reinsurance, and access to internal credit facilities, to support management of contingent liquidity risk.

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 MI provided by the investment manager on the actual holding relative to the fund benchmark.

The Company manages its banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends, with support from its ultimate holding company, L&G Group's Treasury function. L&G Group 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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED  
FINANCIAL CONDITION REPORT  
31 DECEMBER 2020**

**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 and C.4 above.

**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

##### Assets

The Company's assets as at 31 December 2020 under EBS are £21,678,779k (2019: £18,972,138k), including £979,164k (2019: 707,394k) of shareholder fund assets.

The total shareholder fund assets have been adjusted in order to reflect the capital constraint described in section E.1.2.

Unless otherwise stated, assets and liabilities have been recognised in accordance 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 ("Article 75") (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.

Where the valuation of assets and liabilities is the same under IFRS, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of the Company's annual Report and Accounts. Where there are material differences in valuation, these are described in the relevant sections below. Insurance and intermediary receivables are valued at fair value, in accordance with their treatment in IFRS.

### 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 SII BEL is currently used as the best estimate liabilities which forms part of the TPs for the 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 2020 (£'000)	Long-Term Business BEL	General Business BEL	Risk Margin	Total
L&G Re	18,849,070	-	412,400	19,261,470

Technical provisions 2019 (£'000)	Long-Term Business BEL	General Business BEL	Risk Margin	Total
L&G Re	16,629,010	-	383,329	17,012,339

Source: 2020 and 2019 L&G Re BSCR

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

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, "MA", 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 TP consider the time delays and costs applicable to their implementation.

The BEL is calculated gross, i.e. without deduction of the amounts recoverable from reinsurance contracts and reinsurance special purpose vehicles, but includes expenses in respect of these arrangements. The BEL is calculated at a level deemed appropriate for homogeneous risk groupings.

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 non-market risk 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 the Company. The discount rate used in the cost of capital calculation is the relevant basic risk-free rate (excluding MA). The cost of capital rate is set to 6% as prescribed by the BMA.

Where investment management agreements are in place between various entities and LGIM, at a legal entity level 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 TPs.

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

**Best Estimate Liabilities (BEL)**

The BEL is calculated using deterministic and stochastic actuarial projection models, in line with the methodology described above.

In addition, insurance undertakings are permitted to apply a 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. The Company has been approved by the PRA to use a MA when calculating the BEL for the majority of its annuity business. Subsequently, the Company has received approval from the BMA to use the Solvency II BEL in its calculation of the TP. This has been applied in the YE 2020 calculation, in line with the approved application.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

### Risk Margin

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 RM capital requirement is projected using a proxy approach i.e. the projected capital requirements are estimated using appropriate “carrier” functions.

### 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. The Company uses a continuously compounding version of this rate. A deduction of 11 basis points is applied to the risk-free yield curve to allow for credit risk.

The Company has received approval from the PRA to apply a MA to use in calculating the Solvency II BEL (the Company has 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 MA eligible liabilities. No other adjustments have been made to the risk-free rate. A separate MA is applied for each currency.

### 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 and claims 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 carried out from time to time (typically every three years) to review the fit of the experience

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

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).

A provision has been set up at 31 December 2020 to allow for expected excess death claims, relating to COVID-19, on the reinsured US term assurance business. This provision, which is included in the BEL, has been calculated with reference to actual excess death claims over 2020 and projections sourced from the Institute for Health Metrics and Evaluation. No reduction in the annuity BEL has been made for expected excess COVID-19 deaths in 2021.

**Spouse assumptions**

The Company 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 RECOVERABLE 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. As at 31 December 2020, the reinsurance recoverable balance amounts to £Nil (2019: £Nil).

**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**

The Company declared a dividend payment of £98m for 2020 (2019: £36m), this was paid indirectly to Group prior to 31 December 2020. The impact of this dividend payment is already included in the EBS coverage ratio as at 31 December 2020.

## 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 Company 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 capital requirements. The Board sets a quantitative risk appetite for regulatory capital requirements and the Company monitors the capital resources relative to the risk appetite.

The Board is responsible for setting Company strategy.

Each year the Company prepares a five-year business plan which incorporates capital planning and dividend projections, consistent with the Group's 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

	2020 £'000	2019 £'000
Tier 1	2,098,179	1,656,063
Tier 2	302,986	293,420
Tier 3	-	-
Total	2,401,165	1,949,484

Source: 2020 and 2019 L&G Re BSCR

The Company has issued share capital, contributed surplus and retained earnings as its available capital. Tier 2 capital has been reduced by £4.1m, applied as a reduction to the Company's assets.

#### E.1.3 ELIGIBLE CAPITAL BY REGULATORY LIMITATIONS

When determining the Company's eligible capital requirements, the Tier 2 capital has been reduced as described in E.1.2.

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 BMA.

#### 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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**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**

	2020	2019
	£'000	£'000
Minimum Margin of Solvency	<b>328,556</b>	287,113
Enhanced Capital Requirement	<b>792,082</b>	728,216
Enhanced Capital Requirement Ratio	<b>303%</b>	268%

Source: 2020 and 2019 L&G Re BSCR

**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. SUBSEQUENT EVENT

## F.1 DESCRIPTION OF SUBSEQUENT EVENT

On 25 February 2021, the Company declared an interim dividend of £65m and paid £35m on 15 March 2021 to its parent company. The dividend per share was 16.74p per share.

## F.2 APPROXIMATE DATE OR PROPOSED TIMING OF THE SUBSEQUENT EVENT

Refer to F.1.

## F.3 CONFIRMATION OF HOW THE SUBSEQUENT EVENT HAS IMPACTED OR WILL IMPACT

Refer to F.1.

## F.4 ANY OTHER MATERIAL INFORMATION

There is no other material information to report on at the date of the FCR filing.

### Declaration

We, the undersigned, declare that to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of the insurer in all material respects.

DocuSigned by: <i>Thomas Olunloyo</i> 227A6E587CA3441	4/27/2021
Thomas Olunloyo, CEO	Date
DocuSigned by: <i>Nick Burke</i> 36C7D01386474E3	4/27/2021
Nick Burke, CRO	Date

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**GLOSSARY**

**A**

**AA**

Approved Actuary

**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.

**ARCC**

L&G Re Audit, Risk and Compliance Committee.

**B**

**Best estimate liabilities (“BEL”)**

The probability-weighted average of best estimate future cash flows, discounted using risk-free term structure of interest rates (adjusted for a MA 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 BMA’s regulatory capital requirement.

**C**

**CA**

Chief Actuary

**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.

**CBDO**

Chief Business Development Officer.

**CEO**

Chief Executive Officer.

**CFO**

Chief Financial Officer.

**IMC**

Internal Model Controller.

**CISSA**

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

**COMPANY**

Legal & General Reinsurance Company Limited.

**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 represents the regulatory capital balance sheet, comprising 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

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

eligibility requirements as defined by the Solvency II Delegated Regulations.

**F**

**FVTPL**

Fair Value Through Profit and Loss.

**G**

**GAV Committee**

Group Asset Valuation Committee.

**GCIA**

Group Chief Internal Auditor.

**GIMC**

Group Internal Model Committee.

**GIA**

Group Internal Audit.

**GRC**

Group Risk Committee.

**I**

**Internal Model (“IM”)**

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**

**LCR**

Liquidity Coverage Ratio.

**LGA**

Legal & General America, Inc.

**LGAS**

Legal and General Assurance Society Limited.

**LGC**

Legal and General Capital.

**LGIL**

Legal & General Insurance.

**LGIM**

Legal & General Investment Management.

**LGR**

Legal & General Retirement division.

**LGRB**

Legal & General Resources Bermuda Limited.

**LGPL**

Legal & General Pensions Limited.

**L&G Re**

Legal & General Reinsurance Company Limited.

**L&G Re Board**

Legal & General Reinsurance Company Limited’s Board of directors.

**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.

**LEGAL & GENERAL REINSURANCE COMPANY LIMITED**  
**FINANCIAL CONDITION REPORT**  
**31 DECEMBER 2020**

**M**

**Matching adjustment (“MA”)**

An adjustment to the risk-free interest rate term structure used to calculate the best estimate present value 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.

**Outsourcing Policy**

Legal & General Group’s Outsourcing and Essential Supplier Services Policy.

**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**

In effect since 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.