LEGAL & GENERAL REINSURANCE COMPANY LIMITED

FINANCIAL CONDITION REPORT

31 DECEMBER 2018

CONTENTS

A. BUSINESS AND PERFORMANCE

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

A.1 NAME OF INSURER

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

A.2 NAME AND CONTACT DETAILS OF THE INSURANCE SUPERVISOR AND GROUP SUPERVISOR

	Insurance Supervisor	**Group Supervisor**
Name:	Bermuda Monetary Authority ("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

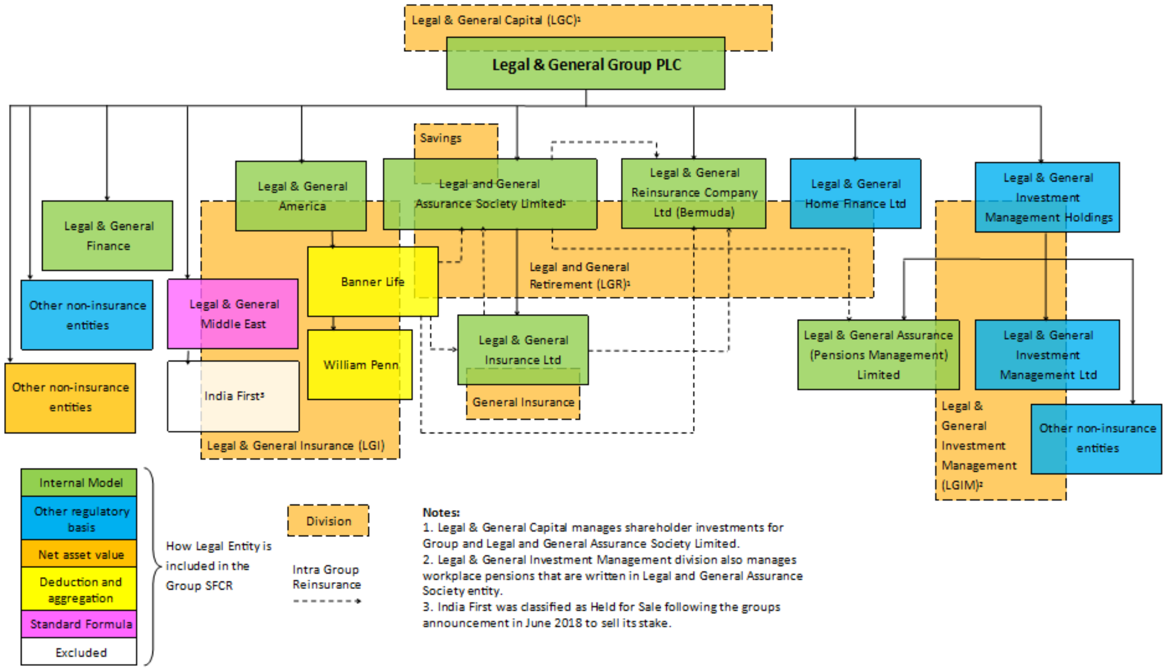
A.4 OWNERSHIP DETAILS

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

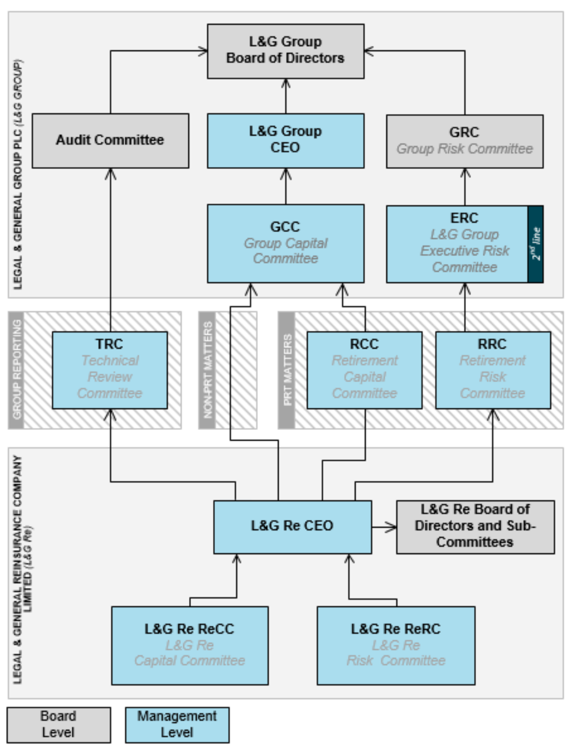
Below is a simplified structure chart, which shows the legal entity and divisional structure of Legal & General Group ("L&G Group" or "Group"). The Company forms part of numerous divisions within the Group – Legal & General Retirement ("LGR"), Legal & General Capital ("LGC") and Legal & General Insurance ("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.

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



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**
	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Long-Term Business	992,027	992,027	322,420	322,420
General Business	28,914	28,914	3,878	3,878

Geographical Location

	Gross Premium Written	**Gross Premium Written**
	2018 £'000	2017 £'000
Northern Europe	1,000,941	326,298

Source: 2018 and 2017 L&G Re BSCR (local capital statements)

A.7 PERFORMANCE OF INVESTMENTS DURING THE REPORTING PERIOD

Type and Market Value	**2018 £'000**	**2017 £'000**	**Commentary**
Government Securities	593,934	835,249	Government securities held largely relates to UK Gilts, as in prior years. Two changes have occurred in our UK Gilts holdings 1) GBP rates rose across the curve, particularly at terms below 12 years, leading to a fall in the market value of UK Gilts 2) 2018 new business premiums invested in Gilts partly offset this drop in market values.
Other Fixed Rate Securities	3,724,274	3,283,984	Holdings of other fixed rate securities primarily relates to corporate bonds. Corporate bond exposures have changed over 2018 due to : 1) Material new business premium received over the year; 2) MV decrease due to GBP and USD spreads widening in addition to rising rates.

Variable Rate Securities	764,873	654,150	Holdings in variable rate securities has remained broadly similar over 2018
Lifetime Mortgages	537,304	204,500	Holdings have increased due to additional assets purchased in line with investment strategy
Accrued Interest	50,322	45,075	Accrued interest held is broadly similar to 2017
Derivative Assets	88,922	162,543	Changes in derivative asset holdings will be primarily due to market movements
Cash and Cash Equivalents	73,767	28,493	Cash held broadly similar to 2017
Other Assets	334,123	343,496	Other assets held are broadly similar to 2017
Total	6,167,519	5,557,490	

Source: L&G Re Report and Accounts 2018

Details on material income and expenses incurred

Investment performance is reported by the Company as the 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 2018 was £(133,323k) (2017: £307,676k)

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 accruals basis. Interest income for financial assets which are not classified as FVTPL is recognised using the effective interest method. Investment income is presented net of investment management fees and rebates.

Total expenses incurred by the Company as reported in the financial statements in 2018 was £7,986k (2017: £6,786k)

A.8 ANY OTHER MATERIAL INFORMATION

In 2018 the Company executed its first mortality reinsurance transaction with Banner, L&G Group's US insurance company. Covered business includes Banner life insurance policies issued in 2005, 2006, 2013, 2017 and 2018, totalling $178bn of face amount. The deal provides risk diversification against existing risks and enables L&G Re to access another revenue stream. It also exposes the Company to mortality, lapse and pandemic risk.

During 2018 the Company entered into a transaction with the General Insurance division of L&G Group ("LGGI"), representing the 10% quota share of LGGI's retained risk. The treaty incepted on 1 April 2018 and expires on 31 March 2019. This deal complements the Company's existing weather catastrophe reinsurance.

Legal & General Group Plc 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 https://www.legalandgeneralgroup.com/ .

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 2018 comprised one executive director and four non-executive directors. The day-to-day management of the Company is led by the Chief Executive Officer through the L&G Re Capital Committee and the Reinsurance Risk Committee.

The Company Board meets formally on a regular basis and at each meeting, considers the strategy of the Company. The Company operates within a clearly defined delegated authority framework. The delegated authority framework ensures that there is an appropriate level of Board strategic oversight.

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

1) DIRECTORS AND OFFICERS

Directors

Name	L&G Re Board Position
Richard Lee	Chairman of the L&G Re Board
Tim Stedman	Board Member, Bermuda Delegated Reinsurance Committee ("BReC") Chairman, Investment Committee ("IC") Chairman, Audit Risk and Compliance Committee ("ARCC") Member
Kerrigan Procter	Board Member
Bryan Blunt	Board Member
Thomas Olunloyo	Board Member, IC Member, BReC Member and Chief Executive Officer
Derek Stapley	Independent Non Executive BReC Member, Chairman of the ARCC
Johnny Chow	IC Member, ARCC Member
Beverley Alford	BReC Member, ARCC Member

Officers

Name	Officer Position
Thomas Olunloyo	Chief Executive Officer
Brendan Kemp	Chief Financial Officer – for year ended 31 December 2018
Theresa Chew	Chief Financial Officer – subsequent to 2018 year end
Caspar Young	Chief Business Development Officer North America – for year ended 31 December 2018
Michael Walsh	Chief Business Development Officer Europe
Andrew Sooboodoo	Chief Risk Officer

Description of segregation of these responsibilities

There are five primary officers of the Company, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Business Development Officer – Europe ("CBDO - Europe"), Chief Business Development Officer – North America ("CBDO – North America") and Chief Risk Officer ("CRO"). The Approved Actuary ("AA") (Jonathan Malpas) is separate to all of these roles.

The CFO leads the finance function that is responsible for all reporting including statutory reporting and the valuation assumptions. The CBDOs lead the new business function and retain responsibility for the pricing assumptions and all new business related activities in their respective territories. The CRO retains responsibility for the risk and governance framework, and provides independent second line opinion and challenge on all relevant back-book and front-book activity.

The 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.

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 housing allowance is paid to compensate non-Bermudian employees in respect of the costs incurred in residing in Bermuda. A discretionary performance related bonus is paid annually reflecting the performance of the 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 also 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.

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.

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.

B.2 FITNESS AND PROPRIETY REQUIREMENTS

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 made 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.

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 matter that is not consistent with the fitness and propriety criteria.

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.

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

Richard Lee (Chairman of the L&G Re Board)

Richard Lee has been the Legal & General Investment Management CFO since November 2018. In this role he is responsible for driving financial performance across the Retirement, Insurance, Investment Management and Capital divisions. Prior to this Richard held the positions of Group Performance Director, Chief Financial Officer and Chief Risk Officer in Legal & General Retirement, a division that helps over one million customers achieve financial security in retirement and invests nearly £60bn of assets to back the Group's promises to pensioners. During this time Richard oversaw the global expansion of the retirement businesses, including the establishment of Legal & General Re in 2013. Richard has held various other positions since joining the company in 1997 including Group Commercial Development Director, Director of Financial Management for the Protection & Annuities businesses and Head of Actuarial Transformation for a large finance transformation programme. Richard has a First Class degree in Mathematics and Statistics and became a Fellow of the Institute of Actuaries in 2002.

Richard was appointed as CFO of LGIM late in 2018 effective 1 January 2019.

Tim Stedman

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 to 2013 he was Actuarial Function Holder for L&G Assurance Society (LGAS). LGAS is the entity which the Group accepts the majority of its life assurance risks including the c£60bn annuity portfolio. Tim became Group Actuary in 2010 and led the project to gain approval of the Group's Solvency II internal model 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 has a degree in Mathematics and is Fellow of the Institute of Actuaries.

Tim was appointed to the Company board in December 2018 and chairs the Bermuda Reinsurance Committee.

Kerrigan Procter (L&G Re Board Member)

Kerrigan has been Managing Director of LGR, a division of L&G Group, since January 2013. He oversees a retirement business that helps over one million customers achieve financial security in retirement and invests nearly c£58bn of assets to back the Group's promises to pensioners. He was previously Head of Solutions at Legal & General Investment Management from 2006 to 2012 where he was responsible for Liability Driven Investment and multi-asset funds for defined benefit and defined contribution pension schemes across Europe and the US. Prior to joining L&G Group, Kerrigan worked at RBS in the financial markets division where he held several roles including Head of Pensions Advisory, Head of Credit Risk Measurement and Director of Interest Rate Derivative Structuring. Kerrigan started his career in 1994 with Ernst & Young Corporate Finance before moving to Mercer where he was both an investment consultant and responsible for asset liability management ("ALM") in Europe. He is a Fellow of the Institute of Actuaries and has a PhD in number theory from King's College, London.

Kerrigan was appointed as CEO of LGC late in 2017 effective 1 January 2018.

Bryan Blunt (L&G Re Board member)

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

Thomas Olunloyo (CEO and L&G Re Board member)

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

L&G RE SUB-BOARD MEMBERS

Derek Stapley (Non-Executive Director, ARCC Chair, 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 and is a member of the Institute of Chartered Accountants of Scotland, the Chartered Professional Accountants in Bermuda and the Canadian

Johnny Chow (IC, ARCC Member)

Johnny Chow is currently the Head of Portfolio Construction for LGR, with responsibility for overseeing £62 billion asset portfolio backing annuitant liabilities, including setting investment strategy, asset liability management and portfolio oversight. Johnny has held this role since 2015 and prior to this served as the Head of Business Investment Pricing 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 an Master in Mathematical Finance from the University of Toronto.

Beverley Alford (BReC, ARCC Member)

Beverley is currently Group Pensions Director for Legal & General Group, with responsibility for the overall management of all aspects of the Groups' 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 Legal & General 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 4.5 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

Brendan Kemp (CFO)

Brendan was the CFO and Principal Representative of L&G Re and also acted as the Segregated Accounts Representative of Legal & General SAC Limited for the year ending 31 December 2018. Initially Brendan held a dual role of CFO and CRO during a 12 month start-up of the Company. He was responsible for the full finance function including capital management, liquidity, compliance, control policies and valuation assumptions. Prior to this, Brendan was VP of Finance at Northstar Financial Services Bermuda Limited, a provider of investment contracts to high net worth individuals including direct life, fixed annuity, variable annuity and other long term insurance products ("UL/VUL"), including segregated accounts. Prior to Northstar, Brendan worked for PricewaterhouseCoopers in Bermuda and BDO South Africa. Brendan is a Chartered Accountant in both South Africa and Bermuda and has a Bachelors of Commerce - Honours & Certificate in the Theory of Accounting Science.

Theresa Chew (CFO)

Since March 2019, Theresa has been the CFO L&G Re. Prior to her appointment, she was a consultant for over 15 years, including at Ernst & Young, Towers Watson and Hymans Robertson in London. In that time, she has worked on a wide variety of projects, including some of the largest and most high-profile transactions in the UK market. Her experience includes mergers and acquisitions, IPOs, corporate restructurings and risk transfer arrangements. She has also been heavily involved in the development and implementation of Solvency II for large global groups, particularly in her role as EMEA Head of Internal Models at Towers Watson.

She is a Fellow of the Institute and Faculty of Actuaries in the UK and is currently a member of its Life Board

Caspar Young (CBDO – North America)

Caspar was the CBDO responsible for new market strategy and business expansion in carefully selected geographies. Prior to working at L&G Re, Caspar worked at Aurigen Reinsurance Limited (Bermuda) for seven years as the Managing Director and CRO. Caspar was also National Partner at Mercer in Toronto, Canada. Caspar holds a Chartered Enterprise Risk Analyst ("CERA") Certification. He is also a Fellow of the Canadian Institute of Actuaries ("FSA/FCIA"). In addition, he holds a Bachelors in Mathematics, Double Major in Actuarial Science and Statistics from the University of Waterloo.

Michael Walsh (CBDO – Europe)

Mike is the Chief Business Development Officer - Europe, responsible for new market strategy with oversight of the pricing function and European operations. Prior to joining Legal & General 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. As Head of DB Solutions, Mike oversaw the launch of Partnership into the bulk annuity market and completion of 35 bulk annuity transactions. Mike was responsible for developing Partnership's pricing capability in the innovative medically underwritten bulk annuity market, leading quotation production, expansion of Partnership's proposition, and implementation of major improvements to systems, governance and processes. Following the merger between Partnership and Just Retirement, Mike was the Head of Proposition Development at Just with responsibility for the design and implementation of innovative product developments and the review and enhancement of pricing methodologies and processes. Mike has a Masters in Statistics and is a Fellow of the Institute of Actuaries for which he is a member of the 'Running Off Mature Schemes' working party.

Andrew Sooboodoo (CRO)

Andrew is a Fellow of the Institute of Actuaries (2012) and has a First Class degree in Mathematics. Andrew has worked for Legal & General for over ten years and has held roles across a number of products and disciplines. Andrew has worked in Life Insurance, Retail Annuities and Institutional Pensions Risk Transfer in pricing and capital roles. Andrew has worked in the US, UK and Bermuda during his time with Legal and General. Andrew has worked at L&G Re since 2014 and was most recently the Pricing and Capital Actuary of Legal and General Reinsurance Company Limited before being promoted to Chief Risk Officer in 2017.

B.3 RISK MANAGEMENT AND SOLVENCY SELF-ASSESSMENT

1) A DESCRIPTION OF THE RISK MANAGEMENT PROCESS AND PROCEDURES TO EFFECTIVELY IDENTIFY, MEASURE, MANAGE AND ERPORT 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. The regular management information ("MI") received by the Board and ARCC includes a risk appetite dashboard setting out actual positions relative to the key targets and limits set in the risk appetite.

Risk taking authorities

The parameters of acceptable risk taking defined within the risk appetite are cascaded to senior managers through the '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.

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.

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 executive directors are accountable for:

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

The CRO leads the risk management function 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.

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.

3) DESCRIPTION OF THE RELATIONSHIP BETWEEN THE SOLVENCY SELF-ASSESSMENT, SOLVENCY NEEDS, AND CAPITAL AND RISK MANAGEMENT SYSTEMS

The purposes of the CISSA is 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 Company has integrated the Internal Model with business as usual risk and capital management. The CISSA cycle is aligned with the strategic and business planning process so that the key elements can interact and inform forward looking decision-making.

Integration of CISSA processes

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

Throughout the year, the Company monitors its performance against the current plan as well as monitoring risk and capital MI.

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:

Board / Committee	**Responsibilities**
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 Boards	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.

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 2018. 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

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
- 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.

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, which is the Company Board level committee.

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

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.

GIA carries out:

- independent reviews and audits of the controls mitigating the key risks in all areas of the business, prioritised according to the relative risk of each assignment as determined by the Group Chief Internal Auditor ("GCIA") in conjunction with senior management;
- reviews of major business change initiatives; and
- reviews of the risk management and internal control processes 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 of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the Board.

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

Internal control objectives considered by GIA include:

- effectiveness of design and operation of processes and their actual outcomes, assessed against the Company'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 GCIA reports functionally to the Chair of the Group Audit Committee and administratively to the Group CEO.

Internal Audit activity remains fully independent of first and second line. This includes the choice of business areas to audit, procedures, frequency, timing, or the content of GIA reports. This ensures that GIA 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' judgment.

Internal auditors are expected to exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and will maintain objectivity when forming judgments.

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.

The AA 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, including, 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 calculations.

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 modelling (including MA and liquidity management); product pricing; financial reporting and business plans.

B.7 OUTSOURCING

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.

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

The Company partners with Applied Computer Technologies (“ACT”) for management of the IT infrastructure. ACT is responsible for providing the Company with services to support the infrastructure in Bermuda and the disaster recovery site in Canada. Included in this agreement is support of the IT infrastructure, platform, network/telephony, cyber security, cloud computing and business continuity.

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 Legal & General Investment Management Limited (“LGIM”);
- actuarial reporting calculation services by LGR and LGA’s finance teams;
- treasury services by Legal & General Finance Plc; and
- the provision of employees and procurement services by Legal & General Resources Limited
- this incorporates mortality advice, legal advice, risk advice and investment advice as required.

B.8 ANY OTHER MATERIAL INFORMATION

None.

C. RISK PROFILE

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

C.1 MATERIAL RISKS THAT THE INSURER IS EXPOSED TO, INCLUDING HOW THESE RISKS ARE MEASURED AND ANY MATERIAL CHANGES THAT HAVE OCCURRED DURING THE REPORTING PERIOD

The Internal Model ("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 survive an assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit and insurance (longevity) risks remain the most significant risks. Market risk, which includes equity, property and interest rate risks, covers other more material risks for which capital is held. The chart below shows the Company's risk exposure broadly split into risk categories.

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
Longevity risks	
For annuity contracts, the Company is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Company regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. 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.

Mortality risks	
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. Higher than expected incidence or duration 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 and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Mortality experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation
Persistency risk	
Lapses may result in a loss of future profits and anti-selection risk.	This risk relates to the reinsurance of mortality risk only. The pricing basis for protection reinsurance includes provision for persistency which has due regard for experience and expected future trends.
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 product pricing basis, with variances investigated.
Concentration (catastrophe) risk	
Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company.	For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk.
General Insurance Catastrophe risk	
Accumulations of claims can lead to claims	Significant weather events such as windstorms and coastal and river floods are the most likely perils that will cause higher claims than anticipated. This is managed through using appropriate models and assumptions to price the risk

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.

Principal risk	Risk mitigations
Investment performance risk	
The Company is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
Currency risk	
To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-Sterling currencies. The Company also invests in overseas assets. Fluctuations in the value of, or income from, these assets relative to profits reported in Sterling could result in unforeseen loss.	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to 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.
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.
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.

Risk concentration

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

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

Credit risk

Risk exposure and controls

The Company is exposed to credit risk as a consequence of 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 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**
Bond default risk	
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.	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.

Principal risk	Risk mitigations
Reinsurance counterparty risk	
Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in an increased exposure to insurance risk.	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.
Property lending counterparty risk	
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.	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. The Company's interests are protected through taking security over the underlying property associated with the investment transaction.
Banking counterparty risk	
The Company is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. The Company is also exposed to counterparty risks in respect of the providers of settlement and custody services.	The Company controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the Company may have. Limits are subject to regular review with actual exposures monitored against limits. The Company has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Risk concentration

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

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

Liquidity risk

Risk exposure

Liquidity and collateral risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost

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
Derivative Collateral risk	
Within the annuities businesses, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	Liquidity requirements to meet potential 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.
Reinsurance Collateral risk	
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	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. Shocks are applied to both the eligible assets (where relevant) and required reinsurance collateral to ensure the Company manages this risk.
Investment liquidity risk	
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.	Given the illiquid nature of the annuity and other liabilities, the Company is able and willing to take advantage of the premium offered by illiquid assets. The Company, however, sets limits on the overall exposure to illiquid investment types taking account of the nature and type of liabilities that the assets are held to meet.

Liquidity risk management

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

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 outgoings 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 the two prescribed liquidity stress scenarios. The main purpose of the model is to measure the compliance to the approved risk appetite defined in the Liquidity Risk Policy. As a Company standard the liquidity stress testing is performed monthly or more frequently if needed.

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

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.

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.

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 concentrations 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 contact, and order 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 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 stress tests to help understand the interactions and the hedging arrangements.
- Insurance Risks: Longevity stress test.

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

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

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

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.

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 investment risk policy, as noted below, to Legal & General Assurance Society Limited ("LGAS") (2015: Legal & General Pensions Limited ("LGPL") which novated in 2015 to LGAS). The Company manages market risk using the following methods:

Asset liability matching

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

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 underlyinginterest rates.

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 contracts, in that the proceeds from the assets may not be sufficient to meet its obligations to policyholders.

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

Asset liability matching significantly reduces the Company's exposure to interest rate risk.

Inflation risk

Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. 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.

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 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 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.

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.

C.5 THE STRESS TESTING AND SENSITIVITY ANALYSIS TO ASSESS MATERIAL RISKS, INCLUDING THE METHODS AND ASSUMPTIONS USED, AND THE OUTCOMES

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

C.6 ANY OTHER MATERIAL INFORMATION

None.

D. SOLVENCY VALUATION

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

D.1 THE VALUATION BASES, ASSUMPTIONS AND METHODS USED TO DERIVE THE VALUE OF EACH ASSET CLASS

1) VALUATION FOR SOLVENCY PURPOSES

Assets

The Company's assets as at 31 December 2018 under EBS are £6,710,823k (2017: £6,147,433k) including £370,408k (2017: £360,786k) of shareholder fund assets.

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 intermediaries receivables are valued at fair value, in accordance with their treatment in IFRS. Balances due for general insurance business are included in insurance receivables under IFRS but are shown as insurance recoverables under Solvency II.

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 TP is set out below. The BEL is currently used as the best estimate liability which forms part of the TP for the EBS position. The TP 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 2018 (£'000)	Long-Term Business BEL	General Business BEL	Risk Margin	Total
L&G Re	5,549,695	5,663	158,478	5,713,835
Technical provisions 2017(£'000)	**Long-Term Business BEL**	**General Business BEL**	**Risk Margin**	**Total**
L&G Re	5,330,3825	1,617	161,759	5,493,759

Source: 2018 and 2017 L&G Re BSCR

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 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 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 TP are calculated using investment expenses on a fees (rather than costs) basis.

The calculation of the TP 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 TP is such as to enable a reliable and adequate calculation of the technical provisions.

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

Best Estimate Liabilities (BEL)

Deterministic actuarial projection models are used, 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 technical provisions. This has been applied in the YE 2018 calculation, in line with the approved application.

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 capital requirements are projected using a proxy approach i.e. the projected capital requirements are estimated using appropriate carrier variables.

Main assumptions

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

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

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

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

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

Economic assumptions

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

Risk free yield curve

The valuation interest rate is based on a risk-free yield curve. The risk-free rate used is calculated based on the methodology specified by EIOPA, which is applied to construct zero coupon base rates from the underlying swap rates. The Company use a continuously compounding version of this rate. A deduction of 10 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.

Inflation

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

Non-economic assumptions

Expenses

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

Mortality

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

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

Spouse assumptions

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 RECOVERABLES FROM REINSURANCE CONTRACTS, INCLUDING SPECIAL PURPOSE INSURERS AND OTHER RISK TRANSFER MECHANISMS

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

D.4 THE VALUATION BASES, ASSUMPTIONS AND METHODS USED TO DERIVE THE VALUE OF OTHER LIABILITIES

Provisions other than TP

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 £29m for 2018 (2017: £27m), this was paid indirectly to Group prior to 31 December 2018. The impact of this dividend payment is already included in the EBS coverage ratio as at 31 December 2018.

E. CAPITAL MANAGEMENT

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

E.1 ELIGIBLE CAPITAL

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 these are used to monitor the position relative to the risk appetite.

The Board considers and approves matters such as capital allocation, new product lines, large transactions and capital investments, direct investment and other material matters that may arise.

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

2) ELIGIBLE CAPITAL

	2018 £'000	**2017 £'000**
Tier 1	1,002,958	651,323
Tier 2	(5,970)	2,350
Tier 3	0	0
Total	996,988	653,674

Source: 2018 and 2017 L&G Re BSCR

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

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

3) ELIGIBLE CAPITAL BY REGULATORY LIMITATIONS

2018 £'000	**Limits**	**MSM**	**ECR**	**Applied to MSM**	**Met –Y/N**	**Applied to ECR**	**Met –Y/N**
Tier 1	min	80%	60%	1,002,958	Yes	1,002,958	Yes
Tier 2	max	25%	66.67%	(5,970)		(5,970)	
Tier 3			17.65%	0		0	
Total				996,988	Yes	996,988	Yes

2017 £'000	Limits	MSM	ECR	Applied to MSM	Met –Y/N	Applied to ECR	Met –Y/N
Tier 1	min	80%	60%	651,323	Yes	651,323	Yes
Tier 2	max	25%	66.67%	2,350		2,350	
Tier 3			17.65%	0		0	
Total				653,674	Yes	653,674	Yes

Source: 2018 and 2017 L&G Re BSCR

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

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

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.

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.

6) IDENTIFICATION OF ANCILLARY CAPITAL INSTRUMENTS THAT HAVE BEEN APPROVED BY THE AUTHORITY

None.

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

1) AMOUNT OF THE ECR AND MSM AT THE END OF THE REPORTING PERIOD

	2018	2017
Minimum Margin of Solvency	203,539	194,875
Enhanced Capital Requirement	321,588	304,328
Enhanced Capital Requirement Ratio	310%	215%

Source: 2018 and 2017 L&G Re BSCR

2) IDENTIFICATION OF ANY NON-COMPLIANCE WITH THE MSM AND THE ECR

None.

3) DESCRIPTION OF THE AMOUNT AND CIRCUMSTANCES SURROUNDING THE NON-COMPLIANCE, THE REMEDIAL MEASURES TAKEN AND THEIR EFFECTIVENESS

None.

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

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 for local regulatory capital.

F. SUBSEQUENT EVENT

F.1 DESCRIPTION OF SUBSEQUENT EVENT

No subsequent events noted during the 2018 calendar year or the first three months of 2019.

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

No subsequent events noted during the 2018 calendar year or the first three months of 2019.

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

No subsequent events noted during the 2018 calendar year or the first three months of 2019.

F.4 ANY OTHER MATERIAL INFORMATION

No subsequent events noted during the 2018 calendar year or the first three months of 2019.

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.

23/4/19

Thomas Olunloyo, Chief Executive Officer

Date

23/4/2019

Andrew Sooboodoo, Chief Risk Officer

Date

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 liability (“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

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 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.

M

Matching adjustment ("MA")

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

MI

Management information.

Mortality rate

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

O

Own Funds

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

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 since1 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.