

Registered Number 48340

**Legal & General Reinsurance Company Limited  
Report and Accounts 2018**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors of  
Legal & General Reinsurance Company Limited**

### **Opinion**

We have audited the financial statements of Legal & General Reinsurance Company Limited (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Matter**

The financial statements of the Company as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern; and

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG Audit Limited*

Chartered Professional Accountants

Hamilton, Bermuda

23 April 2019

**Statement of Profit or Loss and Other Comprehensive Income**

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Revenue</b>			
Gross written premiums	1F	1,021	326
Net change in provision for unearned premiums	1F	(6)	(2)
<b>Net premium earned</b>			
		1,015	324
Investment return	1L/1M/3	(133)	308
<b>Total revenue</b>			
		882	632
<b>Expenses</b>			
Claims and change in insurance liabilities	1F/4	672	524
Acquisition costs	1F/1O	6	1
Other expenses	1N	9	7
<b>Total expenses</b>			
		687	532
<b>Profit for the year attributable to equity holder of the Company before tax</b>			
		195	100
<b>Income tax expense attributable to equity holder</b>			
	1E	-	-
<b>Total comprehensive income for the year attributable to equity holder of the Company</b>			
		195	100

All of the profit for the year is attributable to continuing activities.

**Statement of Financial Position**

As at 31 December 2018

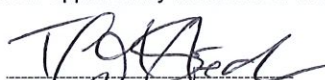
	Notes	2018 £m	2017 £m
<b>Assets</b>			
Investment in subsidiary	1D/15/16	1	1
Funds withheld	1G/7	6,104	5,547
Financial investments	1H/1J/8/9	555	578
Other assets	1O	20	9
Cash and cash equivalents	1I	70	27
<b>Total assets</b>		<b>6,750</b>	<b>6,162</b>
<b>Equity</b>			
Share capital	10	-	-
Contributed surplus		220	220
Retained earnings		432	266
<b>Total shareholder's equity</b>		<b>652</b>	<b>486</b>
<b>Liabilities</b>			
Insurance contract liabilities	1F/1G/11/12	6,058	5,654
Payables and other financial liabilities	1K	40	22
<b>Total liabilities</b>		<b>6,098</b>	<b>5,676</b>
<b>Total equity and liabilities</b>		<b>6,750</b>	<b>6,162</b>

The Notes on pages 10 to 34 are an integral part of these financial statements.

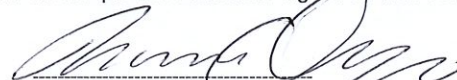
The financial statements on pages 6 to 9 were approved by the board of directors on 23 April 2019 and were signed on their behalf by:



R J. Lee  
Chairman



T Stedman  
Director



T Olunloyo  
Director

**Statement of Changes in Equity**

For the year ended 31 December 2018

<b>For the year ended 31 December 2018</b>	Notes	<b>Share capital £m</b>	<b>Contributed Surplus £m</b>	<b>Retained earnings £m</b>	<b>Total equity £m</b>
<b>As at 1 January</b>		-	220	266	486
Total comprehensive income for the year		-	-	195	195
Dividend	6	-	-	(29)	(29)
<b>As at 31 December 2018</b>		-	220	432	652
<b>For the year ended 31 December 2017</b>					
As at 1 January		-	220	193	413
Total comprehensive income for the year		-	-	100	100
Dividend	6	-	-	(27)	(27)
<b>As at 31 December 2017</b>		-	220	266	486



**Statement of Cash Flows**

For the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b>		<b>195</b>	100
<b>Adjustments for non-cash movements in profit for the year</b>			
Unrealised gains on financial investments		5	(10)
Accrued dividends and interest income		-	(1)
Foreign exchange gain		(1)	(1)
Income tax expense		-	-
<b>Net (increase) / decrease in operating assets</b>			
Funds withheld (increase)		(557)	(305)
Net decrease / (increase) in non profit non-unit linked investments		(22)	1
Net (increase) in other assets		(12)	(9)
<b>Net increase / (decrease) in operating liabilities</b>			
Net increase in insurance contract liabilities		404	278
Net (decrease) / increase in payables and other financial liabilities		18	(4)
<b>Net cash flows from operating activities</b>			
		<b>30</b>	49
<b>Cash flows from investing activities</b>			
Purchases of financial investments		(186)	(540)
Proceeds from sales and maturities of financial investments		226	521
Dividends and interest received		2	3
<b>Net cash flows from/ (used in) investing activities</b>			
		<b>42</b>	(16)
<b>Cash flows from financing activities</b>			
Dividend distributions to ordinary equity holder of the Company during the year	6	(29)	(27)
<b>Net cash flows used in financing activities</b>			
		<b>(29)</b>	(27)
<b>Net increase in cash and cash equivalents</b>			
		<b>43</b>	6
Cash and cash equivalents at the beginning of the year		27	21
<b>Cash and cash equivalents at 31 December</b>			
		<b>70</b>	27

The Company's statement of cash flows includes all cash and cash equivalent flows.

## 1. Accounting policies

### A Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'). The Company's financial statements also comply with International Financial Reporting Interpretations Committee ('IFRIC') interpretations as issued by the IASB. The financial statements have been prepared under the historical cost convention, with the exception of certain financial assets, financial liabilities and investments in subsidiaries, which are reported at fair value through profit and loss.

These financial statements contain information about Legal & General Reinsurance Company Limited as an individual company and do not contain consolidated financial information. The Company is included in the consolidated group accounts of Legal & General Group Plc, a UK domiciled publicly traded company.

The Company presents its Statement of Financial Position in order of liquidity. This is considered to be more relevant than a before and after 12 months presentation, given the long term nature of the Company's core business. However, for each asset and liability line item, which combines amounts expected to be recovered or settled before and after 12 months from the Statement of Financial Position date, disclosure of the split is made by way of a note.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the Company.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

### **New standards, interpretations and amendments to published standards that have been adopted by the Company**

#### **IFRS 15 – Revenue from Contracts with Customers**

IFRS15, 'Revenue from Contracts with Customers' issued in May 2014 is effective for annual periods beginning on or after 1 January 2018. This standard provides clear guidance over when and how much revenue should be recognised. It provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard does not apply to business classified as insurance contracts, and therefore there has been no impact from implementing this accounting standard.

#### **IFRS 9 – Financial Instruments and Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement', it includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In November 2018, the IASB agreed to issue an exposure draft proposing to extend the deferral by one year to 1 January 2022, to align with the proposed delay in the adoption date of IFRS 17.

For an insurer to apply this deferral:

- (i) Total liabilities related to insurance must exceed 90% of total liabilities; or
- (ii) Total liabilities related to insurance are greater than 80% of total liabilities but less than 90% of total liabilities so long as the insurer does not engage in significant activity unconnected to insurance.

Total liabilities connected to insurance within the Company at the initial assessment date 31 December 2015 were 99% of total liabilities; the Company therefore qualifies to defer implementation of IFRS 9 and is making use of this deferral.

As required by the amendments, the disclosures below are presented in order to provide users of the financial statements with information which allows them to compare financial assets with those of entities applying IFRS 9.

## 1. Accounting policies (cont'd)

The Company is required to retest if it is eligible for deferral of IFRS 9 if and only if there is a significant change in business activities in the year. There have been no indicators of such a change in 2018 and therefore the Company continues to apply the deferral.

(i) Fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. passing the 'SPPI' test):

	Financial assets passing the SPPI test <sup>1,2</sup>	All other financial assets <sup>3</sup>
	2018	2018
	£m	£m
Equity securities	-	309
Debt securities	-	228
Accrued interest	-	3
Derivative assets	-	15
Funds Withheld	-	6,104
<b>Total financial investments at fair value</b>	<b>-</b>	<b>6,659</b>
Other receivables	15	-
<b>Total financial assets (excluding cash and cash equivalents)</b>	<b>15</b>	<b>6,659</b>

1. Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'All other financial assets'.

2. For financial assets which pass the SPPI test held at 31 December 2018 there was a change in the fair value in the year of £0m.

3. For all other financial assets held at 31 December 2018 there was a change in the fair value in the year of £(125)m.

(ii) Carrying value of financial assets passing the SPPI test and fair value of financial assets not deemed to have low credit risk

	AAA	AA	A	BBB	BB or below <sup>1</sup>	Other <sup>2</sup>	Total
	2018	2018	2018	2018	2018	2018	2018
	£m	£m	£m	£m	£m	£m	£m
Other receivables	-	-	-	8	-	7	15
<b>Total financial assets (excluding cash and cash equivalents)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>7</b>	<b>15</b>

1. Financial assets classified as 'BB or below' are considered to be lower than investment grade, and therefore are not deemed to have low credit risk under IFRS 9. The carrying value of these assets approximates their fair value.

2. Financial assets classified as 'Other' are made up of unrated and short term receivables for which a formal credit rating is not assigned. All receivables within this category are deemed to have low credit risk.

## B Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant to the following:

### The determination of fair values of unquoted and illiquid financial investments (Notes 1H, 1J, 8, 9)

For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

## 1. Accounting policies (cont'd)

### Estimation of deferred acquisition costs

Costs are incurred in connection with acquiring new business, such as initial commission and the indirect costs of obtaining and processing new business. These costs are capitalised and amortised in accordance with the Company's accounting policies. The recoverability of these assets is assessed and impaired if the projected future margins are less than the carrying value of the assets. To the extent that the future margins differ from those anticipated, an adjustment to the carrying value of the deferred acquisition cost assets will be necessary.

### Non-participating insurance contract liabilities (Notes 1F, 1G, 11, 12) and associated balances

Long term business liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to regular reassessment. The significant estimates and assumptions used in calculating insurance liabilities are disclosed in Note 12.

### C Summary of significant accounting policies

The Company has selected accounting policies which state fairly its financial position and financial performance for a reporting year. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

The principal accounting policies adopted in preparing these financial statements are set out below.

### D Investments in subsidiary undertaking

Shares in subsidiary undertaking are carried at fair value through profit and loss.

### E Tax balances

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035. The Company is subject to tax in the UK on the profits that arise by reference to central management and control being undertaken by the Board of Directors in the UK. The Company is also subject to tax on the income it receives from its investments in UK property funds.

### F Non-participating insurance contract liabilities

Under current IFRS requirements, insurance contract liabilities are measured using the requirements under former UK Generally Accepted Accounting Principles ('GAAP'), as permitted by IFRS 4, 'Insurance contracts'.

### Long term contracts

Premiums are recognised as revenue when due for payment. Claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement. Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. These costs are charged to the Statement of Profit or Loss and Other Comprehensive Income when incurred.

The liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits.

### General insurance contracts

Premiums are accounted for in the period in which the risk commences as gross written premium. For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of gross written premium on in-force contracts that related to unexpired risks at the balance sheet date is reported as the provision for unearned premium. Premiums are shown before deduction of commission.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time-apportioned basis. A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition costs ('DAC'). DAC are deferred over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred.

Claims incurred comprise of claims and related expenses paid in the year and changes in the provisions for outstanding claims. This includes provisions for claims incurred but not reported ('IBNR') and related expenses, together with any other adjustments to claims from previous years.

Provision is made at the balance sheet date for the estimated cost of claims and related insurance recoveries incurred but not settled at that date, including the costs of claims incurred but not yet reported to the Company. The estimated costs of claims include expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

### G Funds Withheld

Funds withheld represent amounts contractually withheld by Legal & General Assurance Society Limited ('LGAS') in accordance with the reinsurance agreement. The value of the assets withheld and interest income are recorded in accordance with specific treaty terms.

## 1. Accounting policies (cont'd)

### G Funds Withheld (cont'd)

As part of the reinsurance agreement, LGAS contractually withholds assets equal to 101% (2017: 101%) of their IFRS reserves and are managed according to an agreed investment policy set by the Company. The Company reflects these assets as funds withheld on the Company's Statement of Financial Position. In the event that LGAS was to become insolvent, the Company would need to assert a claim on the assets supporting its reserve liabilities. The Company attempts to mitigate its risk of loss by offsetting amounts for claims or allowances that it owes LGAS with amounts that LGAS owes to the Company. The Company is subject to the investment performance of the withheld assets, although it does not directly own them. The Company sets and monitors compliance with the investment guidelines followed by LGAS. The Company's risk of loss could increase

if the investment guidelines are inappropriate or LGAS does not adhere to such guidelines. This could have a material adverse impact on the Company's financial condition and operations result. To mitigate this risk, the Company helps set the investment guidelines followed by LGAS and monitors compliance thereto.

The Funds withheld back the Company's non-participating policyholder liabilities and on initial recognition are designated at fair value through profit or loss ('FVTPL'). The Funds withheld are measured at a value equal to the fair value of the underlying assets held by LGAS with fair value gains and losses reflected in the Statement of Profit or Loss and Other Comprehensive Income. The Funds withheld is measured on the basis of current information relating to the assets withheld by LGAS and are designated as FVTPL to avoid an accounting mismatch in the Statement of Profit or Loss and Other Comprehensive Income.

### H Investments

The Company classifies its financial investments on initial recognition as held for trading ('HFT'), designated at FVTPL, or receivables. Initial recognition of financial investments is on the trade date. The Company's policy is to measure financial investments at FVTPL. All derivatives other than those designated as hedges are classified as HFT.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Statement of Profit or Loss and Other Comprehensive Income. Transaction costs are expensed as incurred.

Certain financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the Company's investment strategy. Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as Available for Sale ('AFS') under IAS 39, 'Financial instruments: recognition and measurement'. Assets backing non-participating policyholder liabilities are designated as FVTPL. The Company's non-participating insurance contract liabilities investments are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the Statement of Profit or Loss and Other Comprehensive Income.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models.

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Française des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

### I Cash and cash equivalents

Cash and cash equivalents include cash at banks and other short term highly liquid investments with original maturities of 3 months or less.

### J Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses derivatives such as foreign exchange forward contracts, interest rate swaps and cross currency basis swaps contracts to hedge these exposures.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

### K Payables and other financial liabilities

Payables and other financial liabilities comprise derivative liabilities, collateral received from banks and other liabilities. The derivative liabilities comprise a variety of exchange traded and over-the-counter derivative financial instruments, including, futures, options, forward currency contracts and swaps such as interest rate swaps and cross currency basis swaps measured at fair value.

### L Foreign currency transactions

Foreign currency transactions are translated into the functional currency ('Sterling') using the exchange rate prevailing at the date of the transactions. Foreign currency monetary assets and liabilities are translated at the spot rate at period end. Foreign exchange gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except when recognised in equity as qualifying cash flow or net investment hedges.

## **1. Accounting policies (cont'd)**

### **M Investment return**

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at FVTPL and realised gains and losses from all financial assets and liabilities.

Investment income includes dividends and interest. Dividends are accrued on an ex-dividend basis. Interest is 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.

### **N Other expenses**

Other expenses comprise administrative expenses, management fees payable, corporate expenses and other charges. Other costs are accounted for as they arise. The Company does not have direct employees since they are employed by fellow subsidiaries of Legal & General Group Plc.

### **O Deferred acquisition costs**

Deferred acquisition costs are capitalized commission expenses for writing general insurance business. They are expensed over the period of the contract.

### **P Standards, amendments and interpretations to published standards that are not yet effective**

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2018 but which the Company has not adopted early, as follows:

#### **IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16, "Leases", effective for annual periods beginning on or after 1 January 2019. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing commitments in relation to operating leases (as currently defined in IAS 17, "Leases") onto the Statement of Financial Position. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17 although the IASB have issued updated guidance on the definition of a lease. An assessment of the impacts of the standard on the Company's financial statements was carried out in 2018 and there was no impact as the Company has no leases.

#### **IFRS 17 – Insurance Contracts**

IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021. In November 2018, the IASB agreed to issue an exposure draft proposing a one year delay in the adoption date which, if approved would delay the date of application to 1 January 2022. The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure. The Company has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout 2019 to ensure technical compliance and to develop the required system capability to implement the standard.

## 2. Company information

The Company is a long-term Class E reinsurer under Bermuda's Insurance Act of 1978. The principal activity of the Company is the provision of life reinsurance solutions globally, focussing initially on pensions risk transfer ('PRT') in selected international markets. During the year, the Company engaged in protection reinsurance with an affiliate Company in the United States of America.

The Company was capitalised in 2014 with £220m. Legal & General Re Holdings Limited is the direct parent and Legal & General Group Plc ('the Group') is the ultimate parent.

The Company is incorporated and domiciled in Bermuda and its registered office and principal place of business is, 19 Par-la-Ville Road, Hamilton Bermuda HM 11.

Following a tender process in 2017, KPMG Audit Limited were appointed as the Company's external auditor commencing with the 2018 financial year and its appointment was approved by the Company's Shareholder. In accordance with Section 489 of the United Kingdom Companies Act 2006, a resolution for the re-appointment of KPMG Audit Limited as auditor of the company is to be proposed at the forthcoming Legal & General Group Plc Annual General Meeting.

## 3. Investment return

Net loss (including interest and dividend income) of £(122)m (2017: gain £279m) arose in the year on the funds withheld (see Note 7). Net losses of £(2)m (2017: income £19m) arose on financial investments designated as FVTPL and a loss of £(9)m (2017: gain £10m) arose on derivative contracts classified as HFT.

## 4. Claims and change in insurance liabilities

From continuing operations	2018 £m	2017 £m
Claims paid - gross	280	253
Change in insurance liabilities - gross	392	271
<b>Total claims and change in insurance liabilities</b>	<b>672</b>	<b>524</b>

## 5. Foreign exchange and exchange rates

Investment income for the year includes a foreign exchange loss of £5m (2017: loss £2m) arising on conversion of foreign currency monetary assets and liabilities to functional currency. Foreign exchange includes losses arising during the year from foreign currency financial investments amounting to £2m (2017: gains £3m).

Principal rates of exchange used for translation are:

	2018 Average	2018 Year-End	2017 Average	2017 Year-End
United States Dollar	1.335	1.275	1.289	1.353
Canadian Dollar	1.729	1.740	1.687	1.695
Euro	1.130	1.112	1.142	1.127

## 6. Dividend

On 19 December 2018, the Company paid a dividend of £29m (2017: £27m) to its parent company, Legal & General Re Holdings Limited. The dividend per share was £116/share (2017: £108/share).

## 7. Funds Withheld

All of the Company's funds withheld balance is associated with its reinsurance of LGAS annuity contracts.

Income accrues on the withheld assets according to the terms defined in the reinsurance treaty and the return was a loss of 2.0% (2017: gain 5.0%) for the year ended 31 December 2018. The ratings of the assets underlying the funds withheld are shown in Note 18 Table 2.

Funds withheld expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities as per Note 1(iii).

## 8. Financial investments

### (i) Financial investments at fair value

	Notes	2018 £m	2017 £m
<b>Financial investments at fair value designated as:</b>			
Fair value through profit or loss		540	573
Held for trading		15	5
<b>Total financial investments</b>	10(ii)	<b>555</b>	<b>578</b>
Expected to be received within 12 months		10	10
Expected to be received after 12 months		545	568

The risks associated with financial investments are outlined in Note 18.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities.

Financial investments include £131.8m (2017: £136.4m) of debt securities pledged as collateral in the course of writing treaties with the Company's counterparties. The assets used as collateral are AAA, AA, A, BBB Corporate Bonds (2017: AAA, AA, A, BBB Corporate Bonds) having a residual maturity of up to 29 years (2017: 28 years). The Company is entitled to receive all of the cash flows from the assets during the period when they are pledged as collateral. The Company can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the Security Deed is met.

Private equity investments are included within equity securities and debt securities. A profit of £6.3m (2017: £2.4m) has been recognised in the Statement of Profit or Loss and Other Comprehensive Income in respect of the movement in fair value of these investments (Note 8(ii)).

### (ii) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

The following table presents the Company's assets by IFRS 13 hierarchy levels:

As at 31 December 2018	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Equity securities	309	258	-	51
Debt securities	228	47	181	-
Accrued interest	3	1	2	-
Derivative assets	15	1	14	-
<b>Total financial investments</b>	<b>555</b>	<b>307</b>	<b>197</b>	<b>51</b>
Funds Withheld	6,104	867	3,417	1,820



## 8. Financial investments (cont'd)

As at 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Equity securities	317	279	-	38
Debt securities	254	51	193	10
Accrued interest	2	-	2	-
Derivative assets	5	1	4	-
<b>Total financial investments</b>	<b>578</b>	<b>331</b>	<b>199</b>	<b>48</b>
Funds Withheld	5,547	998	3,273	1,276

The Funds Withheld has been included in the above table to conform with the presentation adopted in the current period.

All of the Company's Level 2 assets have been valued using standard observable market data and market pricing sources, such as iBoxx, IDC, and Bloomberg. In normal market conditions, we would consider these market prices to be observable and therefore classify them as Level 1. Where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as Level 2.

Level 3 assets, where internal models (that are not based on observable market data) and external models (where there is insufficient information on the methodology used) are used to represent a small proportion of assets to which the shareholder is exposed and reflect unquoted equities including investments in private equity, property vehicles, suspended securities, manually priced derivatives and some broker priced assets.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified with Level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity and risk margins on unobservable inputs.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Company's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

### (a) Level 3 assets at fair value

	Equity securities 2018 £m	Debt securities 2018 £m	Funds Withheld 2018 £m	Total 2018 £m	Equity securities 2017 £m	Debt securities 2017 £m	Funds Withheld 2017 £m	Total 2017 £m
<b>As at 1 January</b>	<b>38</b>	<b>10</b>	<b>1,276</b>	<b>1,324</b>	26	-	674	700
Total gains or losses for the period:								
- realised and unrealised gains/(losses) in profit and loss	6	-	(4)	2	4	(2)	65	67
Purchases / Additions	9	17	698	724	8	-	511	519
Improvements	-	-	1	1	-	-	1	1
Sales / Disposals	(2)	(27)	(151)	(180)	-	(16)	(124)	(140)
Transfers into Level 3	-	-	-	-	-	28	149	177
<b>As at 31 December</b>	<b>51</b>	<b>-</b>	<b>1,820</b>	<b>1,871</b>	38	10	1,276	1,324

The Company holds regular discussion with pricing providers to determine whether transfers or classifications between levels of the fair value hierarchy have occurred.

### Level 3 assets

Level 3 assets where internal models are used, comprise property, unquoted equities, untraded debt securities and securities where the broker methodology is unknown. Unquoted securities include suspended securities, investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans, income strips and lifetime mortgages.

## **8. Financial investments (cont'd)**

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified within Level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, and liquidity and risk margins on unobservable inputs.

### **Equity securities**

The majority of Level 3 equity securities are made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the Company's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are also included that are valued by a number of third party specialists using a range of techniques, including latest round of funding and discounted cash flow models.

### **Lifetime mortgages**

Lifetime mortgage ('LTM') loans are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. Inputs to the model include property growth rate, voluntary early redemption, mortality and house price volatility assumptions. The valuation at 31 December 2018 reflects a long-term property growth rate assumption of RPI + 0.5%.

### **Other financial investments**

Private credit valuations are outsourced to Markit who use discounted future cash flows based on a yield curve. The discount factors take into consideration the z-spread of an approved comparable bond and an initial spread agreed by both parties. Unobservable inputs that go into the determination of comparators, include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. The initial spread is the calculated premium required to discount cash flows to par value / purchase price.

Income strip assets valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property.

Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

### **Investment property**

Level 3 investment property is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also include an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The Company's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

## 9. Derivative assets and liabilities

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile:

As at 31 December 2018	Fair values £m	Maturity profile of undiscounted cash flows					Over 25 years £m	Total £m
		Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m			
<b>Cash inflows</b>								
Derivative assets	15	60	33	68	36	14	211	
Derivative liabilities	(14)	58	58	88	54	14	272	
<b>Total</b>	<b>1</b>	<b>118</b>	<b>91</b>	<b>156</b>	<b>90</b>	<b>28</b>	<b>483</b>	
<b>Cash outflows</b>								
Derivative assets	15	(56)	(26)	(65)	(34)	(13)	(194)	
Derivative liabilities	(14)	(65)	(78)	(106)	(63)	(16)	(328)	
<b>Total</b>	<b>1</b>	<b>(121)</b>	<b>(104)</b>	<b>(171)</b>	<b>(97)</b>	<b>(29)</b>	<b>(522)</b>	
<b>Net derivative cash flows</b>		<b>(3)</b>	<b>(13)</b>	<b>(15)</b>	<b>(7)</b>	<b>(1)</b>	<b>(39)</b>	

As at 31 December 2017	Fair values £m	Maturity profile of undiscounted cash flows					Over 25 years £m	Total £m
		Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m			
<b>Cash inflows</b>								
Derivative assets	5	56	55	88	13	6	218	
Derivative liabilities	(6)	26	22	47	74	24	193	
<b>Total</b>	<b>(1)</b>	<b>82</b>	<b>77</b>	<b>135</b>	<b>87</b>	<b>30</b>	<b>411</b>	
<b>Cash outflows</b>								
Derivative assets	5	(57)	(56)	(87)	(12)	(6)	(218)	
Derivative liabilities	(6)	(28)	(27)	(56)	(76)	(24)	(211)	
<b>Total</b>	<b>(1)</b>	<b>(85)</b>	<b>(83)</b>	<b>(143)</b>	<b>(88)</b>	<b>(30)</b>	<b>(429)</b>	
<b>Net derivatives cashflows</b>		<b>(3)</b>	<b>(6)</b>	<b>(8)</b>	<b>(1)</b>	<b>-</b>	<b>(18)</b>	

The Company uses derivatives to reduce market risk. The most widely used derivatives are over the counter interest rate swaps. The Company may use futures to facilitate efficient asset allocation. In addition, derivatives are used to improve asset-liability matching and to manage interest rate and foreign exchange risk. It is the Company's policy that all derivative transactions are on a covered basis against underlying holdings of assets. Derivative counterparty risk is managed by the posting of collateral on a daily basis.

## 10. Share capital

	Number of shares	2018 £	2017 £
<b>Issued share capital:</b>			
Fully paid ordinary shares of US\$1 each	250,000	150,465	150,465

In 2014, 250,000 authorised and issued ordinary shares of US\$1.00 were subscribed to by Legal & General Re Holdings Limited. There is one class of ordinary shares. All shares issued carry equal voting rights.

The holder of the Company's ordinary shares is entitled to receive dividends as declared and is entitled to one vote per share at shareholder meetings of the Company.

## 11. Insurance contract liabilities

### (i) Analysis of insurance contract liabilities

	Notes	Gross 2018 £m	Reinsurance 2018 £m	Gross 2017 £m	Reinsurance 2017 £m
Non-participating insurance contracts	11(iii)	6,050	-	5,652	-
General insurance contracts <sup>1</sup>		8	-	2	-
<b>Total insurance contract liabilities</b>		<b>6,058</b>	<b>-</b>	<b>5,654</b>	<b>-</b>

1. General insurance contracts contains provision for unearned premiums.

### (ii) Expected insurance contract liability cash flows

As at 31 December 2018	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Non-participating insurance contracts	1,662	3,073	2,245	1,826	8,806	6,050
General insurance contracts	8	-	-	-	8	8
<b>Non-participating insurance contract liabilities</b>	<b>1,670</b>	<b>3,073</b>	<b>2,245</b>	<b>1,826</b>	<b>8,814</b>	<b>6,058</b>

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 2.66%.

As at 31 December 2017	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Non-participating insurance contracts	1,456	2,686	1,968	1,732	7,842	5,652
General insurance contracts	2	-	-	-	2	2
<b>Non-participating insurance contract liabilities</b>	<b>1,458</b>	<b>2,686</b>	<b>1,968</b>	<b>1,732</b>	<b>7,844</b>	<b>5,654</b>

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 2.23%.

11. Insurance contract liabilities (cont'd)

(iii) Movement in non-participating insurance contract liabilities

	Note	Gross 2018 £m	Gross 2017 £m
<b>As at 1 January</b>		<b>5,652</b>	5,376
New liabilities in the period		934	397
Liabilities discharged in the year		(324)	(314)
Unwinding of discount rates		125	132
Effect of change in non-economic assumptions	12	(76)	(48)
Effect of change in economic assumptions	12	(285)	132
Other		24	(23)
<b>As at 31 December</b>		<b>6,050</b>	5,652
Expected to be settled within 12 months		332	292
Expected to be settled after 12 months		5,718	5,360

(iv) Analysis of general insurance liabilities

	Note	Gross 2018 £m	Gross 2017 £m
Outstanding claims		-	-
Claims incurred but not reported		-	-
Unearned premiums		8	2
<b>General insurance contract liabilities</b>		<b>8</b>	2
Expected to be earned within 12 months		8	2
Expected to be earned after 12 months		-	-

(v) Movement in general insurance claim liabilities

	Note	Gross 2018 £m	Gross 2017 £m
<b>As at 1 January</b>		-	-
Claims arising		14	-
Claims paid		(14)	-
Adjustment to prior year liabilities		-	-
Other		-	-
<b>As at 31 December</b>		-	-
Expected to be settled within 12 months		-	-
Expected to be settled after 12 months		-	-

## 11. Insurance contract liabilities (cont'd)

### (vi) Unearned premiums

Note	Gross 2018 £m	Gross 2017 £m
<b>As at 1 January</b>	<b>2</b>	-
Earned in the year	(23)	-
Gross written premiums in respect of future periods	29	2
<b>As at 31 December</b>	<b>8</b>	2
Expected to be settled within 12 months	8	2
Expected to be settled after 12 months	-	-

## 12. Long term insurance valuation assumptions

### Non-participating business

For its non-participating business the Company seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that previously used to determine the assumptions used for Solvency I. Assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed.

### Valuation rates of interest and discount rates

The valuation interest rate for the underlying annuity business is based on the modified internal rate of return on the portfolio of assets backing the liabilities. The current dividend yield is used for equity investments and the rental income yield is used for property holdings.

For the valuation interest rate assumption, asset yields are adjusted to reflect the risk of default associated with the investments held. The Company applies a prudent c36bps (2017: 33bps) and c38bps (2017: 40bps) per annum reduction to asset yield to allow for the risk of default for LGAS business and Dutch business respectively, overall this leads to a total default provision including additional default provision of £301m (2017: £287m) and £12m (2017: £15m) respectively.

The Company believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

### Annuitant Mortality

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation ('CMI') of the Institute and Faculty of Actuaries. These tables are based on industry wide mortality experience for insured lives. Mortality improvement rates are based on the CMI's mortality projections model and reflect expected improvements in longevity in the future.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the Company's experience differs from that of the industry and suggest appropriate adjustments which need to be made to derive the valuation assumptions.

### Annuitant Persistency

The Company monitors its persistency experience and carries out detailed investigations annually. Persistency can be volatile and past experience may not be an appropriate future indicator.

The Company tries to balance past experience and future conditions by making prudent assumptions about the future expected long term average persistency levels.

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

### Expenses

The Company monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

### Term Mortality

The Company conducts statistical investigations of its term mortality experience, these are carried out at least annually. Investigations determine the extent to which the Company's experience differs from that underpinning the standard tables, and suggest appropriate adjustments which need to be made to the valuation assumptions.

## 12. Long term insurance valuation assumptions (cont'd)

The principal assumptions are:

2018	UK	Netherlands	Ireland	US
<b>(i) Rate of interest/discount rate<sup>1</sup></b>				
Annuities in deferment	2.69% pa	1.83% pa	1.83% pa	Not applicable
Annuities in deferment (RPI linked; net rate after allowance for inflation)	-0.87% pa			
Vested annuities	2.69% pa	1.83% pa	1.83% pa	Not applicable
Vested annuities (RPI linked; net rate after allowance for inflation)	-0.87% pa			Not applicable
Term assurance	Not applicable	Not applicable	Not applicable	Yield curve on USD Treasury bonds plus 1%
<b>(ii) Mortality Tables</b>				
Annuities in deferment <sup>3</sup>	75.6% - 84.2% PCXA00/PNXA00 <sup>2</sup>	30.4%-81.0% M/F AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
Vested annuities <sup>3</sup>				
- Bulk purchase annuities	76.4% - 84.2% PCMA00/PCFA00	58.1% - 100.5% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
- Other annuities	59.7% - 108.8% PCMA00/PCFA00	Not applicable	Not applicable	Not applicable
LGA reinsured business <sup>4</sup>	Not applicable	Not applicable	Not applicable	Adjusted SOA 2014 VBT
2017	UK	Netherlands	Ireland	US
<b>(i) Rate of interest/discount rate<sup>1</sup></b>				
Annuities in deferment	2.26% pa	1.53% pa	Not applicable	Not applicable
Annuities in deferment (RPI linked; net rate after allowance for inflation)	-1.20% pa			
Vested annuities	2.26% pa	1.53% pa	Not applicable	Not applicable
Vested annuities (RPI linked; net rate after allowance for inflation)	-1.20% pa		Not applicable	Not applicable
<b>(ii) Mortality Tables</b>				
Annuities in deferment <sup>3</sup>	75.6% - 84.2% PCXA00/PNXA00 <sup>2</sup>	76.0%-83.0% M/F AG2014	Not applicable	Not applicable
Vested annuities <sup>3</sup>				
- Bulk purchase annuities	76.4% - 84.2% PCMA00/PCFA00	76.0%-83.0% M/F AG2014	Not applicable	Not applicable
- Other annuities	60.9% - 115.5% PCMA00/PCFA00	Not applicable	Not applicable	Not applicable
LGA reinsured business <sup>4</sup>	Not applicable	Not applicable	Not applicable	Not applicable

- During 2018, the Company moved to using a rate of interest/discount rate based on the specific assets backing the Company's portion of the liabilities from the cedant. Until 2017, the Company utilised a rate of interest/discount rate equal to 10% of that used by the cedants as an approximation. During 2017, the Company refined their estimate to approximate the rate of interest/discount rate on the specific assets backing the Company's portion of the liabilities assumed from the cedant.
- Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
- For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long Term Rate has been determined using a combination of L&Gs internal Cause of Death model and expert judgment. With the following parameters:
  - Males (UK): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.388%.
  - Females (UK): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.388%.
  - Males (Dutch): Long Term Rate of 2.0% p.a. up to age 85 tapering to 0% at 120.
  - Females (Dutch): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 120.
  - Males (Irish): Long Term Rate of 2.0% p.a. up to age 85 tapering to 0% at 120.
  - Females (Irish): Long Term Rate of 1.75% p.a. up to age 85 tapering to 0% at 120.
  - Males future mortality improvement term assurance factors based on attained age ranging from 0.67%-1.5% p.a. with a constant addition of 0.3%
  - Females future mortality improvement term assurance factors based on attained age ranging from 0.5%-1.0% p.a. with a constant addition of 0.3%.

## 12. Long term insurance valuation assumptions (cont'd)

Additional period smoothing is applied for males only by age-specific constant additions to initial rates.

In aggregate, assumptions regarding future longevity improvement at the end of 2017 have developed in line with emerging experience.

Different business classes have different effective dates for applying improvers.

For certain annuities, a further allowance is made for the effect of initial selection.

The basis above is applicable up to age 90. After age 90, the basis is blended towards a bespoke table from age 105 onwards.

4. For LGA reinsured business, the mortality rates are based on the SOA 2014 Valuation Basic Table (VBT). Adjustments are made for sex, duration dependent slope, smoker status, policy size, policy duration and year, issue year and age. An appropriate allowance for prudence is made. This business was written in 2018 and therefore there is no comparative information.

### Persistency assumptions

Lapse rates assumptions are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For term assurance business, the margin acts to increase the best estimate lapse rate.

A summary of the lapse basis for major classes of non-profit business is shown below.

Product	2018 Average lapse rate for the policy years <sup>1</sup>			
	1 - 5 %	6 - 10 %	11 - 15 %	16 - 20 %
LGA reinsured business 10 year term	4.8%-14.1%	6.0%-11.1%	100%	100%
LGA reinsured business 15 year term	2.7%-15.6%	3.0%-6.9%	3.6%-7.2%	100%
LGA reinsured business 20 and 30 year term	2.4%-16.2%	2.7%-6.6%	1.8%-5.4%	1.8%-7.2%

1. Protection business was first written in 2018. Therefore, no comparative information is provided as it is not applicable.

## 13. Payables and other financial liabilities

	Notes	2018 £m	2017 £m
Derivative liabilities	9	14	6
Other liabilities		9	7
Collateral received from banks		9	2
Intercompany balances due	16 (vi)	8	7
<b>Payables and other financial liabilities</b>		<b>40</b>	<b>22</b>
Settled within 12 months		32	17
Settled after 12 months		8	5

Payables and other financial liabilities settled after 12 months are expected to be settled within five years with the exception of derivative liabilities, as disclosed in Note 9.



13. Payables and other financial liabilities (cont'd)

Fair value hierarchy

As at 31 December 2018	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	14	1	13	-	-
Other liabilities	9	-	-	-	9
Collateral received from banks	9	9	-	-	-
Intercompany balances due <sup>1</sup>	8	-	-	-	8
<b>Payables and other financial liabilities</b>	<b>40</b>	<b>10</b>	<b>13</b>	<b>-</b>	<b>17</b>

As at 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	6	1	5	-	-
Other liabilities	7	1	-	-	6
Collateral received from banks	2	2	-	-	-
Intercompany balances due <sup>1,2</sup>	7	-	-	-	7
<b>Payables and other financial liabilities</b>	<b>22</b>	<b>4</b>	<b>5</b>	<b>-</b>	<b>13</b>

1. See Note 16(vi) Related party transactions.

2. Prior year intercompany balances have been reclassified as amortised cost.

There have been no significant transfers between levels (2017: No significant transfers).

#### **14. Contingent liabilities, guarantees and indemnities**

Provisions for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the regulators.

A liquidity facility ('LF') provided by the Group to Legal & General Insurance Limited ('LGIL') was increased to enable LGIL to accept transfers of assets in specie from the Company in place of cash settlements. The Company agreed to pay LGIL's increased LF commitment fee and margin costs to allow LGIL to make drawings from the LF if required.

The Company has access to a rolling credit facility from Group. In the event of a pandemic in the United States of America, the Company can call upon this facility to meet its obligations.

The Company does not have any other contingent liabilities, guarantees or indemnities (2017: nil) arising as part of its normal course of business.

#### **15. Parent companies and subsidiary undertaking**

The immediate parent company of Legal & General Reinsurance Company Limited is Legal & General Re Holdings Limited, a company incorporated in England and Wales. The ultimate holding company for both of those entities is Legal & General Group Plc. These accounts provide information about Legal & General Reinsurance Company Limited as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available, at the Registered Office, One Coleman Street, London, EC2R 5AA, on the Group website at [www.legalandgeneral.com](http://www.legalandgeneral.com), or from the Company Secretary.

On 15 January 2015, Legal & General SAC Limited ('L&G SAC') (License No. 49929) was incorporated as a Bermuda exempted company limited by shares, was subsequently licensed on 12 October 2015 as a Class C Insurer under the Insurance Act 1978 and as a Segregated Accounts Company under the Segregated Accounts Companies Act 2000.

In June 2015, the Company subscribed to L&G SAC's 250,000 authorised and issued ordinary shares of US\$1.00. There is one class of ordinary shares and all shares issued carry equal voting rights. In October 2015, the Company completed a US\$0.65m (£0.43m) capital injection into L&G SAC as required by local Bermuda requirements. Furthermore, in November 2016, the Company completed a US\$0.12m (£0.10m) capital injection into L&G SAC. L&G SAC has not written any business since inception.

#### **16. Related party transactions**

##### **(i) Reinsurance**

The Company is acting as reinsurer to a related party, LGAS. The Company accepted £984m (2017: £322m) of reinsurance premium for reinsuring non-participating insurance business, paid £2m (2017: £0.8m) in commission and paid £256m (2017: £243m) in claims during the year. A non-participating insurance liability of £5,858m (2017: £5,419m) is held to cover this business.

Effective 1 July 2018, the Company entered into an excess of loss reinsurance treaty with a related party, LGIL. The Company accepted £4m (2017: £4m) of reinsurance premium of which £2m is unearned (2017: £2m), incurred £0.4m (2017: 0.4m) in commission of which £0.2m is deferred (2017: £0.2m) and paid no claims (2017: N/A) during the year. In 2017, a liquidity facility ('LF') provided by the Group to LGIL was increased to enable LGIL to accept transfers of assets in specie from the Company in place of cash settlements. The Company agreed to pay LGIL's increased LF commitment fee and margin costs to allow LGIL to make drawings from the LF if required.

Effective 1 April 2018, the Company entered into a quota share reinsurance agreement with a related party, LGIL, reinsuring 10% of household insurance risks written by LGIL. The Company accepted £25m (2017: N/A) of reinsurance premium of which £6m is unearned (2017: N/A), incurred £4m (2017: N/A) in commission of which £1m is deferred (2017: N/A) and paid £14m claims (2017: N/A) during the year.

On 31 December 2018, the Company entered into a reinsurance treaty with a related party, First British Bermuda Reinsurance Company III, Ltd. The Company accepted £0m (2017: N/A) of reinsurance premium for reinsuring non-participating insurance business, paid £0m (2017: N/A) in commission and paid £0m (2017: N/A) in claims during the year. A non-participating insurance negative liability of £24m (2017: N/A) is held to cover this business.

##### **(ii) Investments in Group unit trusts and the Group liquidity funds**

The Company held £219m (2017: £244m) of investments in unit trusts, controlled and managed by Group companies that are classified as other related parties. The Company made a gain of £1m (2017: loss £13m) from those trusts.

##### **(iii) Investments in Funds withheld**

The Company held £6,104m (2017: £5,547m) in funds withheld by a related party, LGAS. Net loss of £122m (2017: gain of £279m) arose in the year on the funds withheld (See Note 7).

##### **(iv) Investment in subsidiary**

The Company held a £529k (2017: £529k) investment in its subsidiary L&G SAC (see Note 15).

## 16. Related party transactions (cont'd)

### (v) Other assets

As at 31 December	2018 £m	2017 £m
Due from other related party:		
- Premium receivable	5	2
- Deferred acquisition costs	1	-
<b>Total</b>	<b>6</b>	<b>2</b>

### (vi) Payables and other financial liabilities

As at 31 December	2018 £m	2017 £m
Due to other related party:		
- Management charges due <sup>1</sup>	8	7
<b>Total</b>	<b>8</b>	<b>7</b>

1. The management charges due relate to expenses owed by the Company to affiliates within the group, namely Legal & General Resources Bermuda Limited ('LGRB') and Legal & General Resources Limited. These charges have accrued over the year and relate to the operation costs including employee benefits. Legal & General Resources Limited which employs all UK staff, charges all of its costs pertaining to secondees to LGRB from the UK offices. LGRB employs Bermuda based staff and incurs all costs of operation, 100% of which is recharged to the Company.

### (vii) Other charges

For the year ended 31 December	2018 £m	2017 £m
Management charges <sup>1</sup>	8	7
<b>Total charges</b>	<b>8</b>	<b>7</b>

1. See note under table 16(vi) £5m (2017: £4m) of management charges are staff related costs.

### (viii) Dividends

On 19 December 2018, the Company paid a dividend of £29m (2017: £27m) to its parent company, Legal & General Re Holdings Limited.

### (ix) Other loans

On 20 December 2018, the Company received a rolling credit facility from its ultimate parent company, Legal & General Group plc. The facility is available for use to pay claims in the event of a US pandemic in respect of the non-participating business entered into with related party, First British Bermuda Reinsurance Company III, Ltd. The facility available is \$130m and a commitment fee of 0.45% is payable on the undrawn portion of the facility quarterly.

On 21 November 2018, the Company entered into a loan agreement with a related party, Legal & General Finance plc, for £90m. The Company incurred £33k (2017: N/A) of interest for the loan and the loan balance at the end of the year was £nil (2017: N/A).

## 17. Management of capital resources

### Capital management policies and objectives

The Company aims to manage its capital resources to maintain financial strength, ensure policyholder security, meet local capital requirements and maintain the Company's strong financial strength rating which provides a competitive advantage.

### Capital measures

The Company measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Company operates, and those which the directors consider most appropriate for managing the business. The measures used by the Company include Bermuda Economic Balance Sheet ('EBS') regulatory capital and capital with respect to the Group Internal Model.

### Accounting bases

Management use the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend paying capacity.

## 17. Management of capital resources (cont'd)

### Bermuda statutory requirements

The Company is licensed as a long-term Class E reinsurer under the Bermuda's Insurance Act 1978. Under the Act, the Company is required to maintain a minimum capital and surplus. There are no statutory restrictions on the payment of dividends from retained earnings of the Company as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid in capital. However, approval from the Bermuda Monetary Authority must be obtained before the statutory capital is reduced in excess of 15% of the previous year's statutory filing. In all cases, the Approved Actuary needs to approve any proposed dividends.

### Capital resources

The financial strength of the Company is measured by reference to its Bermudian statutory accounts prepared which are a requirement of all Class E reinsurers. The Company's total capital resources of £652m (2017: £486m) comprise an initial capital contribution received in 2014 from the ultimate parent of £220m (2017: £220m) and £432m (2017: £266m) in respect of retained earnings after payment of a £29m dividend (2017: £27m).

These resources are in excess of the required minimum capital and solvency requirements.

### Available regulatory capital resource risks

The Company's capital resources are sensitive to changes in market conditions, due to both changes in the value of the assets and to the effect that changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality, longevity and to a lesser extent expenses.

The most significant risks arise from:

- Credit risk: this materializes if the default and downgrade experience of the assets backing the liabilities exceed the reserving assumptions, and
- Longevity risk: losses occur if the mortality of annuitants was lower than the assumptions used for reserving.

## 18. Risk management and control

This section describes the Company's approach to risk management. It covers the overall approach that applies to all risks and includes a detailed review of risks within the Company's business.

### Insurance risk

*Exposure to loss arising from claims experience being different to that anticipated.*

Insurance risk is implicit in the Company's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. Insurance risk is managed with policies for underwriting, pricing and reinsurance. The Group insurance risk policy sets out the overall framework for the management of insurance risk. Areas where the Company is primarily exposed to insurance risk are longevity, rates of longevity improvement and mortality. Insurance risk also arises from incomplete scheme demographic data, specifically where information concerning spouses is unavailable (spouse risk).

Pricing is based on a fixed set of assumptions, such as mortality, which consider past experience, recent trends, and expert opinion. Actual experience may vary from the pricing assumptions, leading to profits or losses. Insurance exposures are limited through reinsurance for specific cohorts of business. Overall, the Company seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits.

### Concentration risk

*Exposure to loss arising from a specific geographic location or type of loss event.*

As part of the ongoing risk assessment processes the Company considers the concentration of risk. The Company seeks to manage concentrations by setting limits around the maximum exposure to loss that it can tolerate from a series of related events. Limits set include maximum exposures to single lives, geographic locations, financial instruments and reinsurance balances. Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company. The most significant exposure of this type arises for the group protection business, where a single event could result in a large number of related claims. To reduce the overall exposure, current contracts include an 'event limit' which caps the total liability. Additionally, excess of loss reinsurance arrangements further mitigate the exposure.

## 18. Risk management and control (cont'd)

### 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 to interest rates, inflation, 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 Group's 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 funds withheld investment risk policy, as noted below, to LGAS. The Company manages market risk using the following methods:

#### Asset liability matching

The Company manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has on the Company Statement of Financial Position.

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 stochastic models are used 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 shareholder.

#### Derivatives

The Company uses derivatives to reduce the market risk arising in the funds. The most widely used derivatives are exchange-traded swaps. The Company may use futures to facilitate efficient asset allocation within the long term funds. In addition, derivatives within the long term fund are used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is 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.

The most significant risks arise from:

#### 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.

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 the Company's obligations to policyholders.

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

Asset liability matching significantly reduces the Company's exposure to interest rate risk. Sensitivity to interest rate changes is included in Table 3 of Note 18.

#### Currency risk

The Company operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies, of which the largest are US Dollars and Euros. The Company has exposure to currency risk from financial instruments held in currencies other than their functional currencies. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts, cross currency basis swaps and futures. The Company does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Company's business and meet local regulatory and market requirements.

The Company aims to maintain sufficient assets in local currency to meet local currency liabilities however movements may impact the value of the Company's shareholder's equity which is expressed in GBP Sterling. This aspect of foreign exchange risk is monitored and managed, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Company's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

As at 31 December 2018, the Company held net assets of £1,550m in US Dollar (2017: £1,189m) and net liabilities of £104m Euro (2017: net assets £101m). The Company mitigates exchange rate risk through the use of derivatives, mainly forward currency contracts.

## 18. Risk management and control (cont'd)

The Company's management of currency risk reduces the shareholder's exposure to exchange rate fluctuations. The Company's exposure to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, where the values of economic hedging instruments are reflected at their carrying value as opposed to their notional amounts, are reflected below. A 10% appreciation in the US Dollar to Sterling period-end foreign exchange rate would have a £5.8m (2017: £2.6m) impact on shareholder equity and a 10% appreciation in the Euro to Sterling period-end foreign exchange rate would have a £2.0m (2017: £4.3m) impact on shareholder equity respectively.

### 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 geographical 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.

Table 1 indicates the Company's exposure to different equity markets around the world.

	Total 2018 £m	Total 2017 £m <sup>1</sup>
UK	5	26
North America	8	-
Europe	4	-
Asia Pacific	2	-
<b>Listed equities</b>	<b>19</b>	<b>26</b>
Holdings in unit trusts	561	576
<b>Total equities</b>	<b>580</b>	<b>602</b>

1. The quantitative disclosures relating to exposure to worldwide equity markets as at 31 December 2017 have been amended to align with the current period presentation.

The funds withheld by LGAS includes equities totaling £16m (2017: £26m), which are all located in the UK.

### Credit risk

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

The Group's credit risk policy defines the overall framework for the management of credit risk. Credit risk exposures primarily arise in relation to corporate bonds in relation to corporate bonds held by the Company and those held by LGAS in relation to the Funds Withheld.

The Company holds fixed and variable rate securities within the financial investments and funds withheld 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 funds withheld 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.

The credit profile of the Company's financial investments and funds withheld exposed to credit risk is shown in Table 2. The credit rating bands are provided by independent rating agencies. For unrated assets, such as cash and derivatives, not exposed to credit risk, the Company maintains internal ratings which are used to manage exposure to these counterparties.

The carrying amount of assets included in the Statement of Financial Position represents the maximum credit exposure. No impairment provisions have been made.

18. Risk management and control (cont'd)

Table 2 – Exposure to credit risk including funds withheld

As at 31 December 2018	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Other <sup>1</sup> £m	Total £m
Government securities	86	419	5	29	-	53	592
Other fixed rate securities	88	340	1,110	1,419	42	727	3,726
Variable rate securities	28	66	291	97	11	271	764
Lifetime mortgages	-	-	-	-	-	537	537
<b>Total debt securities</b>	<b>202</b>	<b>825</b>	<b>1,406</b>	<b>1,545</b>	<b>53</b>	<b>1,588</b>	<b>5,619</b>
Accrued interest	2	5	16	25	-	3	51
Derivatives	-	(3)	39	52	-	1	89
Other financial assets	-	-	6	1	-	313	320
Cash and cash equivalents	-	-	70	-	-	-	70
<b>Financial assets</b>	<b>204</b>	<b>827</b>	<b>1,537</b>	<b>1,623</b>	<b>53</b>	<b>1,905</b>	<b>6,149</b>
Investment in subsidiary	-	-	-	-	-	1	1
Other assets	1	-	-	7	-	12	20
<b>Total</b>	<b>205</b>	<b>827</b>	<b>1,537</b>	<b>1,630</b>	<b>53</b>	<b>1,918</b>	<b>6,170</b>

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £350m is rated AAA, £303m AA, £500m A, £391m BBB, £30m BB and below and £16m as other.

There are no impaired or past due financial assets within the portfolios in 2018.

18. Risk management and control (cont'd)

Table 2 – Exposure to credit risk including funds withheld (cont'd)

As at 31 December 2017 <sup>1</sup>	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Other <sup>2</sup> £m	Total £m
Government securities	88	717	8	18	1	4	836
Other fixed rate securities	56	256	1,158	1,133	49	633	3,285
Variable rate securities	25	129	213	58	27	202	654
Lifetime mortgages	-	-	-	-	-	204	204
<b>Total debt securities</b>	169	1,102	1,379	1,209	77	1,043	4,979
Accrued interest	2	6	16	17	1	3	45
Derivatives	-	3	123	32	-	5	163
Other financial assets	-	-	6	1	-	329	336
Cash and cash equivalents	-	-	-	-	-	27	27
<b>Financial assets</b>	171	1,111	1,524	1,259	78	1,407	5,550
Investment in subsidiary	-	-	-	-	-	1	1
Other assets	-	-	3	4	-	2	9
<b>Total</b>	171	1,111	1,527	1,263	78	1,410	5,560

1. The quantitative disclosures relating to credit risk as at 31 December 2017 have been amended to align with the current period presentation.
2. Of the total debt securities and accrued interest that have been internally rated and unrated, £133m is rated AAA, £189m AA, £349m A, £335m BBB, £20m BB and below and £9m as other.

There are no impaired or past due financial assets within the portfolios in 2017.



## 18. Risk management and control (cont'd)

### 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 Group's liquidity risk policy 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's business may be exposed, primarily stem from low probability events that if not adequately planned for, may result in unanticipated liquidity requirements.

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

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

Specific liquidity risks associated with the Company's core product lines and the risk mitigation techniques are as follows:

**Annuities:** Potential for liquidity risk arises within two specific aspects of the Company's annuity business (i) changes in future pension commitments and (ii) collateral requirements risk hedging strategies.

**(i) Changes in future pension commitments** - once business has been written, cash outflows for pensions in payment are generally predictable, enabling the Company to structure the liquidity, income and maturity profile of investment assets backing long term liabilities to meet projected cash outflows. Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies.

**(ii) Collateral requirements for risk hedging strategies** - as part of the investment asset management strategy for the Company's annuity business, financial instruments are utilised to manage exposure to fluctuations in interest rates, inflation and foreign currency, which may otherwise result in long term liabilities being unmatched. The use of such financial instruments can require the posting of liquid collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.

**Weather catastrophe:** Potential for liquidity risk arises from claims on the reinsurance of LGIL insurance policies.

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, the Group's treasury function. The Company seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Company 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 Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

**Protection:** Potential for liquidity risk within the Company's protection businesses may arise should the rate of claims diverge significantly from that anticipated, typically as a consequence of an extreme event.

The risk of being unable to settle claims as they fall due is actively managed with provision being made and cash pools maintained within investment portfolios for a prudent estimate of the potential claims that may arise from in-force business, taking account of extreme events. Such provisions are validated using stress tests. A rolling credit facility is provided by Legal & General Finance plc, should the Company require additional cash to meet claims obligations.

## 18. Risk management and control (cont'd)

### Sensitivity analysis

Table 3 shows the impact on pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the non-participating business.

	Impact on pre-tax profit net of reinsurance 2018 £m	Impact on equity net of reinsurance 2018 £m	Impact on pre-tax profit net of reinsurance 2017 £m	Impact on equity net of reinsurance 2017 £m
<b>Sensitivity test</b>				
1% increase in interest rates	12	12	5	5
0.5% decrease in interest rates	(5)	(5)	(4)	(4)
Credit spread widens by 100 bps with no change in expected defaults	(6)	(6)	(4)	(4)
0.5% increase in inflation	2	2	(4)	(4)
15% Rise in property	26	26	20	20
15% fall in property	(28)	(28)	(23)	(23)
25% Rise in Equity Value	3	3	5	5
25% Fall in Equity Value	(3)	(3)	(5)	(5)
Annuity: +10bps in credit default assumption	(55)	(55)	(50)	(50)
Annuity: -10bps in credit default assumption	56	56	49	49
1% decrease in annuitant mortality	(15)	(15)	(19)	(19)
1% Increase in Annuitant Mortality	16	16	18	18
5% increase in assurance mortality	(82)	(82)	-	-

- In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Company's experience may be correlated.
- The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position.
- These stresses use the assets that back the liabilities. Any excess assets have not been stressed in these calculations.
- The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
- The change in interest rate test assumes a 100/50 basis point change in the gross redemption yield on fixed interest securities together with a 100/50 basis point change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations.
- In the sensitivity for credit spreads corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
- The inflation stress adopted is a 0.5% p.a. increase in inflation resulting in a 0.5% p.a. reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 0.5% p.a.
- The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates (so for example a rate that was 80% of a standard table would become 79% of that standard table).