LEGAL & GENERAL INSURANCE LTD

SOLVENCY AND FINANCIAL CONDITION REPORT

31 DECEMBER 2018

CONTENTS

SUMMARY

THIS DOCUMENT

This Solvency and Financial Condition Report (SFCR) for Legal & General Insurance Limited (the Company') is a regulatory document required by the reporting and group supervision parts of the PRA Rulebook for Solvency II firms, and Directive 2009/138/EC of the European Parliament (Solvency II Directive) Articles 51 and 256. All values are (unless otherwise stated) as at 31 December 2018.

WHO WE ARE

The Company is a general insurance company authorised in the UK, whose ultimate controlling party is Legal and General Group Plc (the group). The principal activity of the company is to underwrite non-life insurance business.

WHAT WE DO

We enable our customers, who are mainly the mass market in the United Kingdom, the Channel Islands and the Isle of Man to protect against unforeseen events by providing household insurance (c. £370m of gross written premium (GWP)), short-term income protection (c. £16m GWP) and pet insurance (c. £24m GWP). We distribute our products through various channels including brokers, managing general agents, independent financial advisors (IFAs), direct sales (over the telephone and online, including aggregators) and through banks and building societies. We deploy our strong balance sheet, our ability to understand and pool risk, our market insight and our capacity to create good value customer propositions for every customer, large or small. Our strong social purpose means that we strive at all times to do the right thing, not just for our customers and shareholders, but for the broader economy and society at large.

Household insurance provides cover in respect of householders' homes, investment properties, contents, personal belongings and incidental liabilities which our customers may incur as a property owner, occupier or individual. We are currently the seventh largest UK home insurer, with 5.1% market share for calendar year 2017 (2016: 4.6%)[1]. Short-term income protection enables our customers to continue meeting some of their financial obligations in the event that they are unable to work as a result of accident, sickness or unemployment. Pet insurance provides cover in respect of veterinary expenses incurred treating customers' pets as well as any incidental liabilities which pet owners may incur as a result of damage or injury caused by their pets. A death benefit is also provided.

OUR BUSINESS

The group is managed across divisions rather than legal entities, with three focussed business areas which provide solutions for our customers, and the divisions align to those business areas as follows:

Business Area	Division	Purpose
Investing & Annuities	Legal & General Retirement: Institutional (LGRI)	Worldwide pension risk transfer business
	Legal & General Retirement: Retail (LGRR)	Individual retirement and lifetime mortgages
	Legal & General Capital (LGC)	Shareholder assets, traded, and treasury assets
Investment Management	Legal & General Investment Management (LGIM)	Institutional and retail investment management, and workplace savings businesses
Insurance	Legal & General Insurance (LGI)	UK retail and group protection, US protection business
	General Insurance (GI)	Short term household and other personal insurance

[1] GlobalData UK Household Insurance: Market Dynamics and Opportunities 2018

OUR SOLVENCY POSITION AND PERFORMANCE

The Company's key performance measures are presented below.

Performance Measures (£m)	2018	2017
Operating (loss)/profit	(37)	7
Solvency II Own Funds	176	219
Solvency II Regulatory Surplus	44	74
Solvency II coverage ratio (on a regulatory basis)[2]	133%	151%

The Solvency II coverage ratio is the eligible Own Funds divided by the Solvency Capital Requirement (SCR).

The Company uses Operating Profit[3] as its measure of underwriting performance. The Company made an Operating loss of £37m (2017: £7m profit), as a result of adverse claims experience caused by the freeze in Q1, flooding in May, as well as the long spell of dry weather resulting in higher fire and subsidence claims. Excluding these impacts, the operating loss would have been £11m allowing for long term weather expectations.

Changes in the solvency ratio are due to changes in own funds (detailed below) and changes in the Solvency Capital Requirement (SCR), which reduced mainly due to transferring risk via quota share reinsurance treaties (incepted during 2018) with other group companies, and an increased catastrophe reinsurance treaty limit providing more cover in stressed scenarios. These reductions were offset by increased business volumes and an increase in the retention on the catastrophe reinsurance.

Further details on our business and performance are discussed in section A, Business and Performance.

ANALYSIS OF CHANGE IN OWN FUNDS

Over the reporting period the Company's own funds decreased by £43m to £176m (2016: £219m) due to the following reasons:

a) Operating losses from adverse weather claims experience.

b) Investment losses of (2.49%) in the year due to the impact on performance by volatility in world equity markets and Brexit volatility in the UK. This level of investment performance is considered to be a 1 in 6 year loss on our investment return distribution from the internal model. Fund performance over the 3 years ending 31 December 2018 is 3.8% p.a. (before investment management fees).

c) Our premium provisions (i.e., provisions held in respect of unexpired risk exposures as at 31 December 2018) also increased over the same period as a result of business growth and our latest view of the expected claims costs.

d) The above movements were offset by a £30m capital injection during the fourth quarter of 2018 from the Company's parent, Legal & General Assurance Society Limited.

Further details on our business and performance are discussed in section A, Business and Performance and Section D, Valuation for Solvency Purposes.

[2] The Solvency II coverage ratio on a shareholder basis is exactly the same as on a regulatory basis
[3] Operating profit measures the pre-tax profit excluding the impact of investment volatility and exceptional items.. Variances between actual and smoothed assumptions are reported below operating profit. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition, start-up and closure costs, are excluded from operating profit.

OUR GOVERNANCE

The Board of Legal & General Insurance Limited is accountable for the long-term success of the Company by setting the Company's strategic objectives, monitoring performance against those objectives and directly overseeing the business activities undertaken by the Company, whilst operating within the framework and overall strategy defined by the group board. The role of the Board of Legal & General Group Plc is to lead the group and oversee the governance of the group. It plays a key role in ensuring that the tone for the group's culture and values is set from the top. The role of management is to deliver the strategy within the framework and standards set by the group board.

RISK MANAGEMENT FRAMEWORK

We deploy a 'three lines of defence' risk governance model, whereby business areas are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with our risk policies; the risk function led by the Chief Risk Officer, Insurance, provides objective challenge and guidance on risk matters; with Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

Our risk identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' (ORSA) process, our ongoing assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Company's plan.

Further details on our systems of governance are discussed in section B, Systems of Governance.

OUR RISK PROFILE

We are exposed to the following material risks:

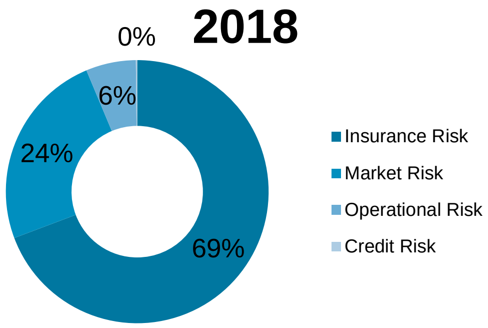
- weather-related catastrophe risks on our household insurance business;
- insurance risks arising from the volatility of claims relative to premiums charged;
- investment risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and
- operational risks, in respect of our business processes and IT systems, as well as broader regulatory and legislative risks that can arise in the environments in which we operate.

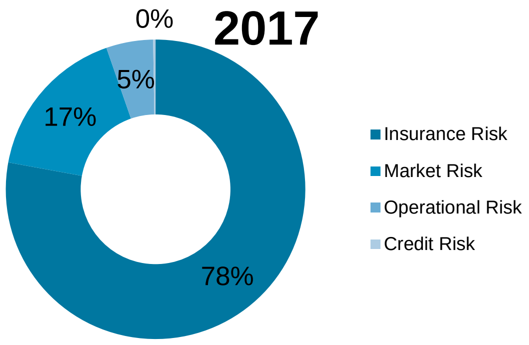
OUR RISK-BASED CAPITAL MODEL

We assess on an ongoing basis the capital that we need to hold above our liabilities to meet the Company's strategic objectives and ensure continued solvency.

Our risk-based capital model seeks to provide a quantitative assessment of the Company's risk exposures. Our model forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. The key output from our capital model is the regulatory Solvency Capital Requirement (SCR). We calibrate our model to ensure that we hold sufficient capital to survive our assessment of a 1-in-200 year event, equivalent to a 99.5% value at risk confidence level over one year. In terms of capital requirement, weather risk from our underwriting and market risk from our investment activities are our most significant risks.

Our Solvency II capital requirement by major risk category is shown in the chart below





The results of the stress tests that have been carried out show that the Company would be able to withstand moderate to severe stress scenarios, even before any management actions which could be taken to reduce the impacts. The results of these stress tests are indicative of the market conditions prevailing as at the balance sheet date and could be different if performed at an alternative reporting date. In addition, the impacts of these stresses are not linear therefore these results should not be used to extrapolate the impact of a smaller or larger stress.

Further details on our risk profile and stress tests are discussed in section C, Risk Profile.

OUR VALUATION FOR SOLVENCY PURPOSES

Assets, technical provisions and other liabilities are valued on the Company's Solvency II balance sheet according to Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction.

Technical provisions are calculated as the sum of Best Estimate Liabilities (BEL) plus Risk Margin (RM). The gross BEL represents our best estimate of future cash flows on the in-force business as at 31 December 2018, and also on policies which have been written but not incepted at that date, taking into account the time value of money, and is calculated without any deductions for the amounts recoverable from reinsurance contracts.

As at 31 December 2018, the Company's excess of assets over liabilities is £176m (2017: £219m) on a Solvency II basis, which is £71m lower than the IFRS net asset position.

Further details can be found in Section D, Valuation for Solvency Purposes.

OUR CAPITAL MANAGEMENT

The primary objective of capital management is to optimise the balance between risk and return, whilst maintaining capital in accordance with economic risk appetite and regulatory requirements.

The Company is required to measure and monitor its capital resources on a regulatory basis and to comply with the regulatory capital requirements as set out in Solvency II regulations as published by the Prudential Regulation Authority (PRA) at the balance sheet date.

As at 31 December 2018 the Company held £44m of surplus Own Funds above the SCR requirement, representing a regulatory capital coverage ratio of 133%. This buffer of capital resources over the regulatory requirement ensures that we are able to more than meet our insurance obligations after a 1-in-200 year event. In line with our risk management approach, we maintained an appropriate capital buffer throughout the year.

Our Solvency II Balance sheet and Solvency coverage are presented below:

£m	Total 2018	Total 2017
Solvency II Tier 1 Own Funds	171	217
Solvency II Tier 3 Own Funds	5	2
Solvency Capital Requirement	132	145
Solvency Surplus	44	74
Ratio of eligible Own Funds to SCR	1.33	1.51
Minimum Capital Requirement	38	40
Minimum Capital Surplus[4]	134	178
Ratio of eligible Own Funds to MCR	4.56	5.43

The Company's SCR was £132m at 31 December 2018. We measure and monitor our capital resources on a regulatory basis and to comply with regulatory capital requirements. Our regulatory capital requirement is determined using the PRA-approved Internal Model, with no capital add-ons applied by the PRA. Whilst the PRA approved the use of a group partial Internal Model for the group SCR, within that calculation the Company's SCR is based on a full 'solo model' for which the Company's Board formally requested and received approval as part of the group's IMAP submission.

All of our Own Funds have been assessed as basic Own Funds. There are no ancillary Own Fund items included in total Own Funds. Material basic Own Funds have been assessed against Article 71 of the Delegated Regulation and accordingly been categorised as unrestricted Tier 1 Own Funds with the exception of the deferred tax asset which is categorised as Tier 3 Own Funds.

ANY OTHER INFORMATION

Acquisition of Buddies Enterprises Limited

On 5 January 2018, Legal & General Insurance Limited successfully completed the acquisition of Buddies Enterprises Limited for an initial consideration of £5.5m. During the year, Legal & General Insurance Limited converted a loan to Buddies of £250k into share capital, increasing the investment in Buddies to £5.75m.

Implementation of Quota Share Reinsurance Arrangements

In addition to the excess of loss cover held by the Company to protect against the impact of significant weather events, further quota share arrangements were also placed with other members of the group. The quota share arrangements consist of a 10% share with Legal & General Reinsurance Company Limited (Bermuda) commencing on 1 April 2018, and 30% share with Legal & General Assurance Society Limited commencing on 1 July 2018, which was subsequently increased to 40% with effect from the 1 October 2018. Both arrangements are on an earned basis, and cede the relevant proportion of premium (net of commission and inuring reinsurance premium) and losses to the reinsurer, along with a variable commission (the rate of which is dependent upon the experienced attritional loss ratio).

[4] Note: the MCR is only covered by Tier 1 own funds

DIRECTORS' CERTIFICATE

LEGAL & GENERAL INSURANCE LIMITED – FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Directors acknowledge their responsibility for the proper preparation of the Solvency and Financial Condition Report in all material respects in accordance with the PRA rules and Solvency II Regulations.

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2018, the firm has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the firm; and

(b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of the publication of the Solvency and Financial Condition Report, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2019.

Cheryl Agius
Chief Executive Officer
16 April 2019

Chris Wren-Kirkham
Chief Financial Officer
16 April 2019

AUDITORS' REPORT

Legal & General Insurance Limited – financial year ended 31 December 2018

Report of the external independent auditor to the Directors of Legal and General Insurance Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by Legal and General Insurance Limited as at 31/12/2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Legal and General Insurance Limited as at 31/12/2018, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02, S17.01.02, S23.01.01, S28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S19.01.21, S.25.03.21;

- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report [where disclosed];

- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Legal and General Insurance Limited as at 31/12/2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, 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.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes' and Capital Management and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report 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 it is not a guarantee that an audit conducted in accordance with ISAs (UK) 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 decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Legal and General Insurance Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Salim Tharani for and on behalf of KPMG LLP

15 Canada Square,

London, E14,5GL

16 April 2019

- The maintenance and integrity of Legal and General Insurance Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of template [S.28.01.01 / S.28.02.01]
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 COMPANY DETAILS

This report is prepared in respect of Legal & General Insurance Limited for the financial year ended 31 December 2018.

The Company	Legal & General Insurance Limited One Coleman Street London EC2R 5AA
The ultimate parent entity	Legal & General Group Plc One Coleman Street London EC2R 5AA
The supervisory authority responsible for financial supervision	Prudential Regulation Authority 20 Moorgate London EC2R 6DA
The external auditor	KPMG LLP 15 Canada Square London E14 5GL

A.1.1.1 QUALIFYING HOLDINGS AND MATERIAL RELATED UNDERTAKINGS

Legal & General Insurance Limited is wholly owned by Legal & General Assurance Society Limited.

A.1.1.1 GROUP STRUCTURE

A simplified group structure is shown below. The chart summarises the relationship between entity and divisional responsibilities (on a forward-looking basis).

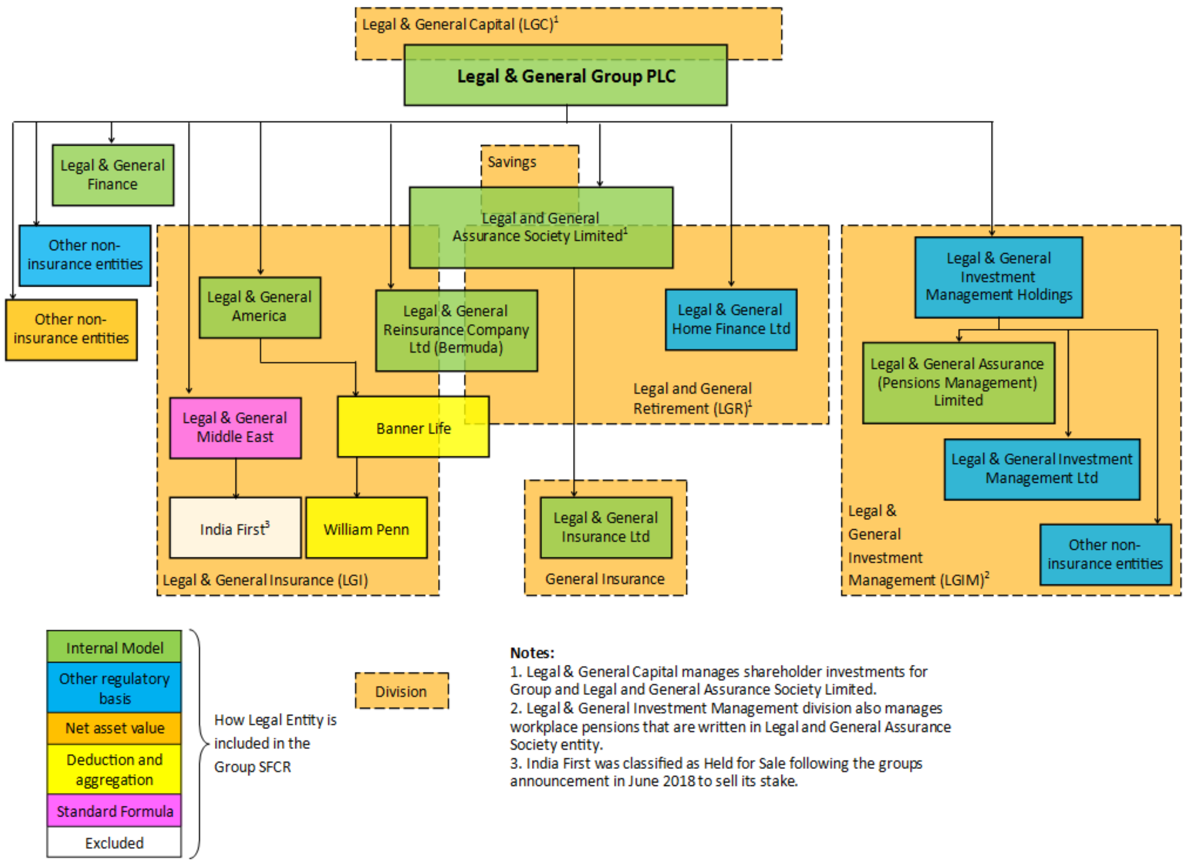
Legal & General Assurance Society Limited is the Company's immediate parent undertaking, owning 100% of the £37m (£1 nominal) issued and fully paid ordinary share capital. The ultimate parent company and controlling party is Legal & General Group Plc, a company incorporated in England and Wales.

Legal & General Group Plc is the parent undertaking of the smallest and largest group of undertakings to consolidate financial statements at 31 December 2018. The Report and Financial Statements of Legal & General Group Plc is available from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA, or on the group website, www.legalandgeneralgroup.com.

Legal & General Insurance Limited owns 100% of Legal & General Distribution Services Limited. During 2018 Legal & General Distribution Services Limited distributed general insurance products underwritten by third parties.

On 5 January 2018, Legal & General Insurance Limited purchased 100% of the share capital of Buddies Enterprises Limited, who distribute pet insurance products underwritten by Legal & General Insurance Limited from 2018.

Simplified group Structure:



* Intercompany re-insurance written by Legal & General Re-insurance (Bermuda) and Legal & General Assurance Society Limited for business written in Legal & General Insurance Limited is included within the General Insurance division.

A.1.2 PRINCIPAL ACTIVITY

Legal & General Insurance Limited is an insurance company authorised and regulated in the UK by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority (FCA). The principal activity of the company is the transaction of general insurance business in the personal sector marketplace, specifically relating to risk covers for household, short-term income protection and pet insurance. We operate within the United Kingdom, the Channel Islands and the Isle of Man.

Our principal insurance product is household insurance. These contracts provide cover, subject to policy limits, against loss, damage or liability which our customers may incur as a property owner, occupier or landlord. This includes loss or damage from many causes, including but not limited to fire, smoke, explosion, lightning or earthquake; malicious acts of vandalism; storm or flood; subsidence, heave or landslip; theft or attempted theft; escape of water and leakage of oil; accidental damage to underground pipes or cables serving homes and alternative accommodation costs if our customers have to temporarily move out of their home because of an insured event. We offer a range of optional extras including accidental damage; personal possessions for loss or damage to items in and away from the home; family legal protection to pursue certain UK legal proceedings arising from, for example: death of or personal injury to a family member, buying or hiring goods or services, infringement of legal rights from owning or occupying a home and breach of employment contract. Our landlord insurance includes loss of rent or alternative accommodation cover for the tenant with additional cover options available for landlords' contents insurance, accidental or malicious damage by tenants, legal expenses, rent guarantee and eviction of squatters. Our main underwriting risks for household are an accumulation of claims arising from severe weather events as well as individual large liability claims. To mitigate these risks, we buy reinsurance protection, thereby transferring these risks to other specialist companies. Our principal reinsurance arrangements are a catastrophe excess of loss treaty, a liability excess of loss treaty,a risk excess of loss treaty for individual large risks and a quota share arrangement covering the household book.

A.1.3 SIGNIFICANT BUSINESS OR OTHER EVENTS

A.1.3.1 BUSINESS EVENTS

Acquisition of Buddies Enterprises Limited

On 5 January 2018, Legal & General Insurance Limited successfully completed the acquisition of Buddies Enterprises Limited for an initial consideration of £5.5m. During the year, Legal & General Insurance Limited converted a loan to Buddies of £250k into share capital, increasing the investment in Buddies to £5.75m.

Implementation of Quota Share Reinsurance Arrangements

In addition to the excess of loss cover held by the Company to protect against the impact of significant weather events, further quota share arrangements were also placed with other members of the group. The quota share arrangements consist of a 10% share with Legal & General Reinsurance Company Limited (Bermuda) commencing on 1 April 2018, and 30% share with Legal & General Assurance Society Limited commencing on 1 July 2018, which was subsequently increased to 40% with effect from the 1 October 2018. Both arrangements are on an earned basis, and cede the relevant proportion of premium (net of commission and inuring reinsurance premium) and losses to the reinsurer, along with a variable commission (the rate of which is dependent upon the experienced attritional loss ratio).

A.1.3.2 OTHER EVENTS

Share Capital and Investments in Subsidiaries

In December 2018, Legal & General Assurance Society Limited increased its shareholding in Legal & General Insurance Limited from £7m to £37m by subscribing to 30m additional £1 ordinary shares.

On 22 February 2019, Legal & General Insurance Limited increased its shareholding in Buddies Enterprises Limited by £300k by subscribing to 750 additional £1 ordinary shares, with associated share premium.

A.2 UNDERWRITING PERFORMANCE

£m	2018	2017
Gross premium written	410	369
Gross premium earned	390	346
Gross claims incurred	(230)	(163)
Expenses	(188)	(167)
Reinsurance	(24)	(24)
Underwriting (loss)	(52)	(8)
Allocated Investment Return[1]	15	15
Operating (Loss)/Profit	(37)	7

[1] Allocated investment return is the part of the investment performance allocated to operating profit, based upon our long term strategic investment return target of 4.5% (2017:4.0%) (before investment management fees).

See Annex 1, S.05 Information on premiums, claims and expenses

Our 2018 underwriting result and operating loss is presented above. The operating loss of £37m (2017: £7m profit) deteriorated from 2017 due to a combination of adverse weather and higher expenses, driven by continued investment in the business. Weather events included a significant freeze event in March, flooding in May and the warm, dry summer resulting in increased fire and subsidence claims. The total impact of the weather extremes experienced in 2018 is estimated to be £26m compared to average historic experience.

Total gross written premium for 2018 increased 11% to £410m (2017: £369m) as we continued our strategy of focusing on the household and pet offerings, developing existing relationships with managing general agents as well as bringing on new partners. The development of these relationships has enabled significant access to new customers and resulted in the continued growth in premium. The acquisition of Buddies

Enterprises Limited has furthered our aim of diversifying the business in the pet insurance market. We expect further growth in the household and pet channels in 2019.

We will continue to evolve our strategy in the insurance marketplace, focusing on the development of sustainable profitable relationships and strong management of loss ratios through improved underwriting and claims management techniques. We will also continue to invest in new technology to enhance the customer journey, and deliver cost savings across the business.

A.3 INVESTMENT PERFORMANCE

Our 2018 investment performance is presented below:

£m	2018	2017
Dividend Income on financial investments at fair value through profit or loss	1	1
Interest Income on financial investments at fair value through profit or loss	2	2
(Loss)/Gains on financial investments at fair value through profit or loss	(13)	20
Total	(10)	23

We continue to monitor the performance of the investment portfolio against return and volatility criteria agreed with the investment fund manager, Legal & General Investment Management Limited (LGIM). During the year we increased the target return from 4% to 4.5% of the portfolio value. Investment losses totalled £10m (2017: £23m profit), representing a loss of 2.49% against our long-term strategic target of 4.5%. The adverse performance is largely attributed to increased market volatility driving poor performance notably in global equity markets over the year. The market volatility has been partially mitigated by the Company's hedging strategy and diversification of investments across all asset classes (bonds, collective investment schemes and non-reward derivatives) and geographies.

A.4 PERFORMANCE OF OTHER ACTIVITIES

We do not have any other significant lines of business or other activities.

A.4.1 MATERIAL LEASING ARRANGEMENTS

We are currently in a 10-year lease arrangement for our premises in Birmingham (entered into in 2014), which has a break clause after five years. The annual lease expense is £1m.

A.5 ANY OTHER INFORMATION

No further information to note.

B. SYSTEM OF GOVERNANCE

Legal & General Insurance Limited ('the Company') is the General Insurance underwriting entity of the wider Legal & General Group Plc ('the group'), and is regulated by both the PRA and FCA. The Group Chief Financial Officer and Group Chief Executive Officer, who are both Executive Directors of Legal & General Assurance Society, are considered to exercise significant influence over the management and conduct of the affairs of the Company through their oversight of the Company Board and its committees and accordingly have been designated as SMF 7 (Group Entity Senior Manager function) for the Company.

The Group Chief Risk Officer and Group Conduct Risk Director have also been designated SMF 7 due to their role and responsibility for implementing groupwide frameworks for the management of Risk and Conduct Risk respectively.

The business of the Company is managed through the General Insurance business Division, which is led by a Chief Executive Officer (CEO), who in turn reports to the Group Chief Executive. The Company also has the following subsidiaries:

- Legal & General Distribution Services Limited (LGDSL), which distributes general insurance products underwritten by third parties
- Buddies Enterprises Limited (Buddies), an insurance intermediary, a distributor and administrator of pet insurance products which, since 2018, are underwritten by the Company

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 THE STRUCTURE OF THE BOARD AND BOARD REPORTING

The Legal & General Insurance Limited Board comprises:

- Chairman (regulatory approval obtained 10th December 2018)
- Chief Executive Officer (CEO)
- Chief Financial Officer
- Commercial Director

The Chief Risk Officer Insurance is a standing attendee.

The Legal & General Insurance Limited Board meets around six times each year and has a Schedule of Matters Reserved for the Board which is subject to annual review. Legal & General Insurance Limited has a schedule of regular agenda items which identifies the regular and standing items that are considered at each Board meeting.

At each Board meeting the Legal & General Insurance Limited Board receives business updates from each of the business directors on the performance of their respective areas of responsibility for the business conducted by Legal & General Insurance Limited. A more detailed review of the underlying businesses financial performance is contained in the monthly Board management information report.

At each Board meeting the Board also receives a report from the Chief Risk Officer on the risk, compliance and pricing, investment and capital issues impacting Legal & General Insurance Limited. The Chief Actuary also submits an annual report updating the Board on the reserves, capital projections, investment performance and reinsurance; and quarterly reports on capital adequacy

B.1.2 COMMITTEE STRUCTURE AND DELEGATED AUTHORITIES

The CEO has a formal schedule of Delegated Authorities from the Group Chief Executive which is based on the Schedule of Matters Reserved for the group board, cascaded to the CEO as applicable for their remit of responsibility for the General Insurance business division including the business activities undertaken by Legal & General Insurance Limited. The delegated authorities have been reviewed and approved by both the Group Capital Committee and the Legal & General Insurance Limited Board as regards to those delegations made by the Legal & General Insurance Limited Board in connection with the Legal & General Insurance Limited business.

The CEO then onward delegates to their direct reports the matters for which they have decision-making responsibility in relation to their areas.

The CEO's schedule of delegated authorities operates in conjunction with their job description and their CEO Risk and Capital Mandate. The CEO Risk and Capital Mandate sets the parameters of acceptable risk taking as regards to the group's core product lines and investment risk.

The General Insurance Business Division, including Legal & General Insurance Limited, is supported by the group level Risk, Legal, Finance, HR, IT, Procurement and Internal Audit functions whose roles are defined in the *Legal & General Group Governance Framework.*

The CEO of Legal & General Insurance Limited operates a Risk & Compliance Committee (RCC) and Product, Investment and Capital Committee (PICC) to assist with the management of Risk & Compliance and Pricing, Investment and Capital within the businesses including in relation to Legal & General Insurance Limited and the discharging of delegated authorities from Legal & General Insurance Limited.

The Divisional General Insurance PICC and General Insurance RCC escalate (through the CEO and their delegated authority from the Group Chief Executive) into the Group Capital Committee (GCC) and Executive Risk Committee (ERC), respectively, including in respect of matters pertaining to Legal & General Insurance Limited. Second line oversight is provided as follows:

- Investment & Market Risk by the Group Investment & Market Risk Committee
- Insurance Risk by the Group Insurance Risk Committee
- Credit, Liquidity and Counterparty Risk by the Group Credit Risk Committee.
- Operational Risk by the Operational Risk Committee
- Solvency II Internal Model governance by the Group Internal Model Committee
- Conduct Risk by the Conduct Risk Oversight Committee
- Cyber security (including IT and information security) by the Executive Security Committee

The Legal & General Insurance Limited Board has two standing Board Committees as follows:

General Insurance Reserving Committee

- to discuss reserving policy, the level of General Insurance technical reserves, reserving risk and calculation approach
- to approve IFRS reserves and Solvency II Technical Provisions

General Insurance Financial Reporting Committee

- to provide governance of the Solvency II Internal Model, Solvency II reporting and IFRS key judgements, estimates and methodologies within Legal & General Insurance Limited excluding technical reserves covered by the Company's Reserving Committee
- to approve:
  - Internal model and standard formula results
  - Risk Review Report
  - Product Risk Heat Map
  - Validation Work Programme
  - Results Validation
  - Analysis of Change of Own Funds
  - Quarterly QRTs,

B.1.3 ENTITY GOVERNANCE OVERSIGHT

The Legal & General Insurance Limited Board meets around six times each year (with additional meetings as required) and has a Schedule of Matters Reserved for the Board which is subject to annual review. The Board monitors the underlying business performance, risk and compliance and pricing, investment and capital issues along with other matters within the Schedule of Matters Reserved for the Board. The CEO is invited on a periodic basis to give the Legal & General Assurance Society Board a more in-depth presentation on the General Insurance Division's underlying performance. The Legal & General Assurance Society Board is provided with a copy of the Legal & General Insurance Limited Board minutes.

B.1.4 MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE OVER 2018 CYCLE

In line with requirements of the Senior Managers and Certification Regime, which was introduced from 10 December 2018, the Company has implemented a framework identifying material risk takers, the annual certification of senior managers of prescribed functions, prescribed responsibilities, individual accountability, the reporting of breaches to the regulator and additional training.

B.1.5 REMUNERATION POLICY AND PRACTICES

B.1.5.1 PRINCIPLES OF THE REMUNERATION POLICY

The group's remuneration policy is consistent across the group and, in line with our remuneration principles, is designed to reward, motivate and retain high performers in line with the risk appetite of the group and within the risk appetite of the Company. The group operates bespoke bonus plans where business appropriate. However, the Group Remuneration Committee has ultimate discretion over all bonus plans.

A summary of the remuneration structure for employees is shown below.

Base salary	The group aims to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • The nature, size and scope of the role • The knowledge, skills and experience of the individual • Individual and overall business performance • Pay and conditions elsewhere in the group • Appropriate external market data Salary levels for all employees are reviewed on an annual basis taking into account the above factors. However, this does not mean a flat increase annually for all employees.
Annual bonus	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. Variable pay awards are set to ensure an appropriate balance between fixed and variable pay, and are designed to reward performance at the individual, business division, and overall group levels.
Performance Share Plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving group performance, as well as their individual contribution. Participation in the plan for one year does not guarantee participation in future years. Where appropriate, grants under the PSP may also be made for new employees who join the group during the year in key roles.
Other share plans and long-term incentives	The group operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high-potential individuals and those with critical skills.

Further details on the remuneration policy can be found in the Directors' Remuneration Report of the Legal and General Group Plc Annual Report and Accounts.

B.1.5.2 PERFORMANCE CRITERIA FOR REMUNERATION

Annual incentives are designed to reward financial and non-financial performance that supports the business strategy, taking into account the group's risk appetite and personal contribution in the business context that it was delivered. Targets are specific, measurable, set at the beginning of the year and communicated to employees.

For Code Staff[5] in the control functions (Internal Audit, Regulatory Compliance and Risk), separate performance measures have been designed which exclude any direct linkage to financial performance.

Individual performance assessment is supported by a structured performance management framework. In reviewing an individual's performance against their objectives, the individual's approach to risk management (including environmental, social or governance (ESG) risks) is considered when determining the overall level of bonus pay out. The bonus policy allows for zero bonus payments to be made when appropriate.

Deferred bonus

Under the group-wide deferral arrangements a significant proportion of the annual bonus for senior employees is deferred into group shares over a three-year period. The purpose of the deferral plan is to promote the sustainable long-term performance of the group and to align the interests of our senior management with our shareholders.

Deferred awards for senior employees may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect or in the event of personal misconduct. From 2015 onwards, annual incentive awards (including any deferred element) are subject to malus and claw back for material risk takers.

Long-term incentives

The group provides long-term incentives which link reward with the long-term success and growth in value of Legal & General. Long-term incentive awards for most group staff are conditional on the satisfaction of total shareholder return (TSR), dividends per share, earnings per share and return on equity performance conditions which clearly aligns reward to the interests of shareholders and provides a degree of risk management (TSR reflects both underlying financial performance and the market's assessment of the quality and sustainability of those earnings). For awards prior to 2018 financial performance was assessed based on a combination of dividends, earning per share and return on equity. For awards from 2018, financial performance is assessed based on earnings per share and overall Solvency II performance.

The Group Remuneration Committee may exercise its discretion to scale back the vesting of awards if it was felt that the group's financial performance did not justify the level of vesting (the Committee may not increase the award). The parameters which the Committee uses in making this assessment include market share, partnerships entered into and maintained, cost constraint, capital management, risk, and shareholder perception.

Awards under the group long-term incentive plan are subject to malus and claw back provisions.

B.1.5.3 SUPPLEMENTARY PENSION OR EARLY RETIREMENT SCHEMES

All employees in the UK have the opportunity to participate in a defined contribution pension plan, or receive a cash allowance in lieu of pension, or receive a combination thereof.

There are no supplementary or early retirement schemes

B.1.6 MATERIAL TRANSACTIONS

There were no material transactions between Directors or key managers and Legal & General Insurance Ltd during the reporting period. All transactions between the Company and its directors and key managers are on commercial terms which are no more favourable than those available to employees in general.

The Company uses reinsurance to manage the exposure of an accumulation of claims arising from a severe weather event. The reinsurance risk was placed with a large number of reinsurers including our shareholder, Legal & General Assurance Society Ltd and Legal & General Re-insurance (Bermuda).

At 31 December 2018 and 31 December 2017 there were no loans outstanding to officers of the company.

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[5] Code Staff is a category of role defined under various applicable European Directives (CRDIII & IV, AIFMD, UCITS V, and Solvency II). The name is taken from the FCA's Remuneration Code that interprets and applies these Directives for the UK. Broadly, Code Staff includes roles that are considered to have the authority to take risks that could directly, or indirectly, affect one or more firms within the group and its investors.

B.1.7 SOLVENCY II KEY FUNCTIONS

The Solvency II key functions within the group's overall system of governance are the Risk-Management and Compliance functions led by the Group Chief Risk Officer; the Internal Audit function led by the Group Chief Internal Auditor; and the Actuarial function, led by the Chief Actuary. The functions operate independently from the business line with the activities of the Risk-Management and Compliance function being mandated by the Group Risk Committee and the Group Audit Committee establishing the role of the Group Internal Audit function through a formal Audit Charter. The Chief Actuary has the authority of the Board to report on those matters defined by legislation and regulation. The overall resourcing and effectiveness of the Risk Management, Compliance and Actuarial functions are assessed through a combination of Internal Audit review activity and by the governance forums to which the functions report. The effectiveness of the Internal Audit function is considered by the Group Board Audit Committee which may periodically seek independent external assurance.

Further information is disclosed on the Internal Audit in Section B.6 and the Actuarial Function in Section B.7.

Risk management

The Group Chief Risk Officer (Group CRO) leads the Risk Management function, including the Solvency II Compliance function. The Group CRO reports functionally to the Chair of the Group Risk Committee. Administratively, the Group CRO reports to the Group Chief Financial Officer. The Risk Management function is aligned to the divisional structure, with each division having their own risk management functions. The Group CRO has been appointed as the Chief Risk Officer (CRO) for the Company.

The Group CRO is:

- Independent of the business line, with an independent reporting line to the Chair of the Group Risk Committee;
- A provider of objective advice and guidance, oversight and challenge for all of the Company's risks; and
- Involved, where appropriate, in all material decisions to influence and provide objective challenge (e.g. products, pricing, projects, strategy, etc).

The Group CRO has a right to be heard in the setting of business strategy, product approval and capital planning activities, and may request revision to business proposals that may otherwise result in the group operating outside agreed risk appetite. The Group CRO has authority to set and further refine risk limits within the parameters of the risk appetite agreed by the Group Risk Committee. The Group CRO has the right of escalation to the Group Risk Committee on any appropriate matters as they see fit.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 APPLICATION OF THE FIT AND PROPER POLICY

The group has in place a fit and proper policy, the purpose of which is to set out the procedures required by regulated firms within the group to assess the fitness and propriety of individuals who run these undertakings or who hold other key functions in them. This policy applies to Legal & General Insurance Limited, and our senior managers would allow for requirements specific to the Company, where applicable.

B.2.2 KEY REQUIREMENTS

In summary the policy requires that each insurance regulated entity shall establish, implement and maintain documented policies and adequate procedures to ensure that all persons who are responsible for running the entity or who are responsible for other key functions are at all times fit and proper.

The assessment of fitness and propriety covers the following factors:

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

B.2.2.1 LEGAL & GENERAL ASSESSMENT PROCEDURES

In support of the group policy, defined processes are in place to ensure that the fitness and propriety of applicants is carefully considered before an application to the regulators to grant approval is submitted. An assessment will also be made before a notification is made to the regulators in relation to the appointment of a key function holder.

The group will not support an application for approval or a notification if it is believed that the candidate fails to meet any element of the fit and proper test.

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

- has the candidate been open and honest with Legal & General and disclosed all relevant matters

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

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

Fit and proper assessment criteria have been developed and each application will be considered against these criteria, regardless of the current approved status of the individual.

The criteria are:

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

The assessment criteria are also relevant in assessing the continuing fitness and propriety of approved persons.

B.2.2.2 MAINTAINING FITNESS AND PROPRIETY

From time to time, individuals will be required to certify that there has been no change to the information provided at the point of approval and consequently, the fitness and propriety status is unchanged.

The group's policies and procedures place an obligation on approved persons to notify the Group Conduct Risk and HR Director in the event of any pending or actual criminal, civil or other disciplinary charges, judgments, petitions for bankruptcy, or other actions or disciplinary measures whatsoever, against them or any entity, body or other entity with which he/she is, or has been associated.

Should such a notification occur, the group will assess the information to decide whether the individual remains fit and proper. If the assessment ultimately concludes that the individual can no longer remain as an approved person, a notification will be made to the regulators in line with the regulatory requirements.

The group's performance management process is the primary mechanism for tracking ongoing competency, and the group will take appropriate steps to monitor an individual's financial soundness on an ongoing basis.

B.3 RISK MANAGEMENT SYSTEM

B.3.1 RISK MANAGEMENT SYSTEM

Legal & General deploys a ‘three lines of defence’ risk governance model. This means that:

- we are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with group risk policies, adjusted where required for specific requirements applying to us;
- our Chief Risk Officer, provides objective challenge and guidance on risk matters;
- Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

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

B.3.1.1 RISK APPETITE

The Company’s risk appetite statement sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking. The Group Risk Committee leads an annual review of the group’s risk appetite, assessing the continued appropriateness of our key measures and tolerances relative to the risk exposures of the group. Additionally, as part of the annual planning cycle, assessment is made of the level of risk-taking proposed in the group plan and the capacity for risk-taking within the overall appetite framework.

The Company’s risk appetite is approved by the Company’s Board. The Company’s risk appetite is set with regard to, but not limited by, the group board. The regular management information received by group board and Group Risk Committee includes the Company’s risk appetite dashboard setting out actual positions relative to the key targets and limits set in our risk appetite.

B.3.1.2 RISK TAKING AUTHORITIES

The parameters of acceptable risk taking defined within the group’s risk appetite are cascaded to us through a ‘CEO Risk and Capital Mandate’, empowering our Chief Executive Officer to make decisions that are consistent with appetite for risk.

Mandates articulate the product types and features that may be written; the assets classes that may be held; the target capital positions and ranges of earnings volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in a business operating outside agreed parameters require formal approval.

In conjunction with the Divisional Chief Risk Officers and the Group Chief Risk Officer, the Managing Directors have developed, and the Company Board has approved, the risk appetites for the divisions within the overall group risk appetite and specifically the risk appetite for the Company.

B.3.1.3 RISK POLICIES

Risk control

We set formal policies for the management of market, insurance, credit, liquidity and operational risks. The policies specify our overall strategies for ensuring each risk type is managed in line with our risk appetite and the minimum control standards that should be applied in managing our significant risk exposures.

Risk mitigation

We deploy a range of risk management techniques to manage and mitigate risks, so as to control risk exposures in line with our risk limits. For example, we use derivative instruments to hedge unrewarded risks as part of our asset liability management activity, and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures. Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our liabilities.

B.3.1.4 RISK IDENTIFICATION AND ASSESSMENT

Review process

We operate a risk identification and assessment process under which we regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in our products as well as those that are presented from changes in the environments that we operate in.

Own risk solvency assessment (ORSA)

Our risk identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' (ORSA) process, our ongoing assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Company plan.

B.3.1.5 RISK MANAGEMENT INFORMATION

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

B.3.1.6 RISK OVERSIGHT

Our Chief Risk Officer, who is independent of the business line, supports our Board and its Risk and Compliance Committee in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. Whilst ongoing assessment of our capital requirements to confirm that they meet regulatory solvency requirements is primarily the responsibility of the Chief Financial Officer, the CRO provides second line support in this area.

Our Chief Risk Officer also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with our risk appetite.

B.3.1.7 RISK COMMITTEES

The Company operates within the group's Risk Management framework. The Company's Board has ultimate responsibility for ensuring that the group's Risk Management framework is appropriate for the Company. The group board's Risk Committee supported by the Group CRO, serves as the focal point for risk management activities. Details of the operation of the Group Risk Committee are set out in the Legal & General Group Plc Annual Report and Accounts.

Beneath the Group Risk Committee, the Company has the General Insurance Risk and Compliance Committee, providing more focused review and challenge of specific risks to the group, and reviewing the effectiveness of frameworks in place to manage those risks.

The Company's Board:

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

The Group Risk Committee ensures the effectiveness of the overall risk management system and recommends to the group board material changes in risk appetite.

The Executive Directors are accountable for:

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

The Group CRO leads the risk management function which provides the second line of defence across the group.

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

B.3.2 INTEGRATION OF RISK MANAGEMENT INTO THE DECISION MAKING PROCESS

Understanding the risks that the Company may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business.

The Company seeks to deeply embed the necessary capabilities to assess and price for those risks that it believes offer sustainable returns; as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes.

Our Risk Management framework supports informed risk taking, setting out those rewarded risks that we are prepared to be exposed to; and the risks that we want to avoid; together with risk limits and standards of internal control to ensure exposures remain within our overall risk appetite.

B.3.3 GOVERNANCE OF THE INTERNAL MODEL

The Company's Board is ultimately responsible for ensuring the continuous appropriateness of the design and operation of the Company's Internal Model. Our Internal Model is also a key component of the group's partial Internal Model. This responsibility is discharged through the General Insurance Risk and Compliance Committee, whilst the General Insurance Financial Reporting Committee oversees Internal Model activities.

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

The Company's first line business management are responsible for implementing adequate and effective controls over the Company's Internal Model as well as the Company's material product risk exposures, with the ongoing application and effectiveness of these overseen by the Company's risk team and by Group Internal Audit in the third line of defence. Material concerns are escalated to operational and senior management for resolution. The status of remediation activity is monitored by the Company's risk team, with significant issues escalated to the Company's Financial Reporting Committee and where necessary to the Company's Risk and Compliance Committee.

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

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

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

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

B.3.3.1 INTERNAL MODEL CONTROLS

The Company is responsible for operating a robust control framework to manage exposures and mitigate unacceptable outcomes (per the group's risk appetite), including the implementation of robust controls to mitigate key risks associated with processes that we are responsible for, and to ensure that these are regularly reviewed and remain fit for purpose. Day-to-day responsibility for ensuring that robust internal controls are in place and are operating effectively over Internal Model related processes is delegated to our Internal Model Controllers (IMC). The IMC provides first line management coverage of our Internal Model. Key responsibilities include ensuring compliance of the Company with the requirements of the Group Internal Model Governance Policy and Group Internal Control Policy.

Oversight of the internal control system is provided by the group risk and divisional risk teams.

B.3.3.1.1 CHANGES OVER THE REPORTING PERIOD

There have been no significant changes to the internal model governance over the reporting period.

B.3.3.1.2 INTERNAL MODEL VALIDATION

The Group Validation Policy and associated standards define the group's validation framework, and capture the requirements of the PRA Rulebook and relevant EU regulations. The framework requires an annual validation cycle for the Company's internal model (the Internal Model). This has been performed as part of the production of the Solvency Capital Requirement as at 31 December 2018. The objective is to produce a robust, proportionate and demonstrably complete approach to validation overseen by the Chief Risk Officer.

There is an annual assessment of which aspects of the Internal Model must be independently validated. Independent validation is carried out mainly by the company's second line. Independent validators must demonstrate how independence is met and state any limitations on independence.

Requirements for each annual cycle are specified in the Validation Terms of Reference. Respective validators outline approach, activities, tools and aspects of the model in Validation Work Programmes. The results, conclusions and consequences including remediation are detailed in independent validation reports or validation reports prepared by the first line. These are presented to the General Insurance Financial Reporting Committee for approval.

B.3.3.1.3 VALIDATION ACTIVITY

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

B.4 OWN RISK AND SOLVENCY ASSESSMENT

B.4.1 PURPOSE

The purpose of the Own Risk and Solvency Assessment (ORSA) is to assess our risks and to evaluate whether we have sufficient financial resources to sustain the business strategy over the plan horizon. The Group ORSA process covers the whole group, including non-EU entities and non-insurance entities.

The ORSA process brings together the underlying risk and capital management processes by which we assess, monitor and measure our risks, review our business against risk appetite and tolerances and project the solvency position over the business plan. The ORSA is integrated with our business as usual risk and capital management. The ORSA cycle is aligned with the strategic and business planning process so that the key elements can interact and inform forward looking decision-making.

The ORSA policy was reviewed by the group board in July 2018 and by the Company Board in May 2018.

B.4.2 INTEGRATION OF GROUP AND SUBSIDIARY ORSA PROCESSES

The group is managed on a divisional basis. As such, ORSA (i.e. risk and capital management) responsibilities follow the group's divisional management structure. Regular ORSA processes are aligned with the strategic and business planning process, with various group functions coordinating and/or aggregating and divisions providing key ORSA inputs in line with the plan timetable. A single Group and Company ORSA report is produced.

B.4.3 ORSA/PLAN TIMELINE

The core stages to the group's ORSA process are as follows:

- Q1, review the ORSA framework and policy along with lessons learnt and feedback from Group Risk Committee from the previous ORSA cycle.
- Q2, stress and scenario tests determined and recommended in order to provide divisions with sufficient time to model the results of these tests
- Q3, projections of capital requirements (as part of the annual planning process); stress and scenario testing results inform the review of the plan
- Q4, formal ORSA reporting including the CRO's review of the Plan and ORSA report

Throughout the year, the group and the Company monitor performance against the current Plan as well as monitoring risk and capital management information (MI).

B.5 INTERNAL CONTROL SYSTEM

The Company's Risk and Compliance Committee is our first line of defence in developing, maintaining and monitoring the internal control system as laid out in the group's internal control policy. It is a sub-committee of the Company's Board; it also reports into the group's Executive Risk Committee.

The Group Internal Control Policy requires that our internal control system shall at least include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking, and a compliance function.

The group's internal control framework seeks to ensure that:

- an organisational structure is defined, with clarity of roles, responsibilities and reporting lines;
- appropriate management information and reporting processes are defined;
- frameworks for decision making (including the delegation of authority) are articulated;
- clear segregation of duties is in place;
- conflicts of interest are managed;
- administrative and accounting procedures are aligned with group requirements;

- personnel have sufficient skills, knowledge and expertise to discharge their responsibilities (including those relating to the regulatory environment);
- adequate and orderly records of business are maintained;
- the security of customer data and other internal records is ensured;
- business procedures combat financial crime;
- processes are in place to deal with policyholder claims and complaints;
- the integrity of manual and computerised business systems is ensured; and
- processes ensure assessment of the possible impact of any changes in the legal environment.

The group's principal subsidiary boards and the Group Audit Committee oversee the adequacy and effectiveness of the internal control framework, primarily through the receipt of assurances in support of the UK Corporate Governance Code, and reports from Group Internal Audit, external auditors, and risk teams in the second line of defence.

B.5.1 SII COMPLIANCE FUNCTION

The Company's Chief Risk Officer's team carries out a structured review to ensure that the key requirements of the Solvency II Directive continue to be met and produces a report for the Company's Board as required by the group's Solvency II Compliance Policy.

The group has defined the Solvency II Compliance function as being responsible for:

- advising the Company Board and its sub committees on compliance with the requirements of the Solvency II Directive and its associated laws, regulations and administrative provisions;
- advising the Company Board on the possible impact of any changes in the legal environment on operations of the undertaking concerned and the identification and assessment of compliance risk;
- developing and managing the Company's Solvency II Compliance Policy, which inter alia sets out the responsibilities, competencies and reporting duties of the (Solvency II) compliance function; and
- establishing and operating the Company's Solvency II Compliance Plan that details the activities the function will undertake in relation to compliance risk.

The Company has defined the Company's Chief Risk Officer role as the functional head of Solvency II Compliance at the Company level, with subject matter experts from across the business in support of the Solvency II Compliance function.

The Company's Solvency II Compliance Policy defines who will perform the governance tasks and other activities of the Solvency II compliance function, their roles and responsibilities (the competencies that enable them to perform the assigned tasks) and the overall approach to assessing, monitoring and reporting its compliance with applicable laws, regulations and administrative provisions adopted pursuant to Solvency II Directive.

The Company's Solvency II Compliance Plan is defined as the review activities performed by the Compliance Function to support them in advising the Company's Board and its sub committees on compliance in relation to Solvency II matters.

B.6 INTERNAL AUDIT FUNCTION

The Group Internal Audit's (GIA) responsibilities towards the Company align with its responsibilities towards the group.

GIA is an independent and objective assurance and advisory function whose primary role is to support the group board and executive management in the protection of the assets, reputation and sustainability of the group.

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

GIA carries out:

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

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

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

Internal control objectives considered by GIA include:

- effectiveness of design and operation of processes and their actual outcomes, assessed against the group's established values, ethics, risk appetite and policies;
- the appropriateness of the organisation's risk and control culture, including the attitude and approach taken by all levels of management to risk management and internal control;
- efficiency of operations, and use of resources;
- compliance with laws and regulations;
- reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
- safeguarding of assets.

The Group Chief Internal Auditor reports functionally to the Chairman of the Group Audit Committee and administratively to the Group Chief Executive Officer.

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

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

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

The Group Chief Internal Auditor confirms to the Group Audit Committee and the Company Board, at least annually, the organisational independence of Internal Audit activity.

B.7 ACTUARIAL FUNCTION

The Prudential Regulatory Authority (PRA) has specified that firms should appoint a Chief Actuary who should fulfil the role of Head of Actuarial Function (a role that is not required by the Directive) and hold the Chief Actuary role as set out under the PRA's senior insurance managers' regime. The Company's Chief Actuary reports functionally to the Company's Chief Financial Officer. Additionally a Group Chief Actuary is required for the Group Actuarial Function.

The Company's Chief Actuary presents an annual report to the Company Board summarising the activities of the actuarial function that:

- supported compliance with the requirements on the calculation of the technical provisions (TPs);

- provided the opinions on the underwriting policy and reinsurance arrangements; and
- contributed to the effectiveness of the risk management systems more widely.

These reports are shared with the Group Chief Actuary.

The requirements covering TP calculations were addressed through various activities, including, in particular, Actuarial Function review of divisional and entity level calculations and the membership of oversight committees. A number of reports during the year were provided to the Board on the data, models, methodologies, assumptions and results of the Solvency II TP calculations.

Oversight of underwriting and reinsurance by the Actuarial Function were provided substantially through the membership of the Company's Reserving and Capital Committees.

The Actuarial Function contributes to the effective implementation of the risk management system, through various activities and the membership of a number of key committees with risk and financial reporting responsibilities. Areas of focus, both within the responsibility of the risk function and more generally, with significant levels of Actuarial Function involvement include: the Internal Model and Solvency Capital Requirement; the Own Risk and Solvency Assessment (ORSA); identifying, measuring and monitoring risks; capital adequacy management; product pricing via cost-of-capital mechanism; financial reporting; and business plans.

The Company's Chief Actuary has a right to be heard in the setting of business strategy, product approval and capital planning activities, and may request revision to business proposals that may otherwise conflict with the overall underwriting policy or the adequacy of reinsurance arrangements. The Group Chief Actuary has the right of escalation to the Group Risk Committee on any appropriate matters as he or she sees fit.

B.8 OUTSOURCING

The Company's Supplier Relationship Management Handbook promotes consistency of governance and best practice, ensuring adherence to group policy, regulatory and legislative requirements. Documents, tools and templates are made available within the Handbook as guidance to implement the Procurement Process Steps and the Supplier Relationship Management Process Steps.

The group's Outsourcing and Essential Supplier Services Policy sets out the framework and minimum standards of control and governance that the group expects to be applied in the management of risks associated with outsourced supplier service arrangements. The policy specifies that an activity should not be outsourced where it would materially impair the quality of the group's system of governance; unduly increase the group's exposure to operational risk; impair the ability of supervisory authorities to monitor the group's compliance with its obligations; or undermine continuous and satisfactory service to the group's policyholders.

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

A number of the outsourcing arrangements used by the Company are considered to be essential to operations. These are:

Service Providers	Goods/services	Jurisdiction
Sungard Availability Services (UK) Limited	Disaster recovery warm site	UK
IBM United Kingdom Limited	IT infrastructure and operations	UK
RR Donnelley Global Document Solutions Group Limited	Document printing and mailing	UK
Tata Consultancy Services Limited	IT application development	UK
Vodafone Ltd	Telephony and data connectivity services	UK

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

- Investment management services provided by Legal & General Investment Management Ltd (LGIM);
- Treasury services by Legal & General Finance Plc; and
- Employment, IT, (through the group's shared service IT function) and procurement services by Legal & General Resources Limited.
- Intragroup reinsurance arrangements with Legal and General Assurance Society and Legal and General Reinsurance.

Legal & General Resources Limited is the main employment company for staff in the UK, and is also the company through which group-wide contracts for the supply of goods and services for Legal & General UK businesses are placed.

B.9 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Company operates within the group's risk management framework. Group Executive Risk Committee (a sub-committee of the Group Risk Committee) undertakes an annual review of the group's risk management framework and broader system of governance to confirm its adequacy given the nature, scale and complexity of the risks inherent in its business. This review includes Legal & General Insurance Limited. The most recent review was in February 2019, where the Committee concluded that the group's risk framework aligns with the group's key risk exposures, and operated effectively during 2018 in identifying material risk exposures.

B.10 ANY OTHER INFORMATION

No further information to note.

C. RISK PROFILE GENERAL

C.1 RISK PROFILE

The risk preferences are high-level statements of the principles that the Company uses in its approach to managing the inherent risks arising from the nature of the products that it manufactures and sells.

The high-level preferences are translated into risk preference metrics with key risk limits and risk monitoring metrics managed by attendant Red/Amber/Green (‘RAG’) calibrations on a quantitative basis.

The inherent risks are:

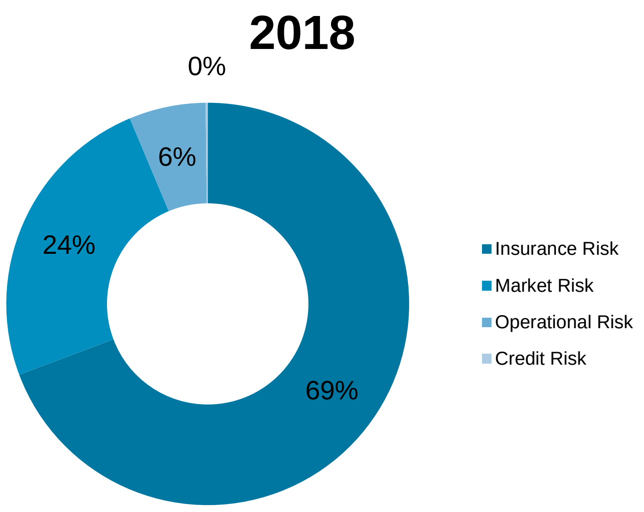
- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

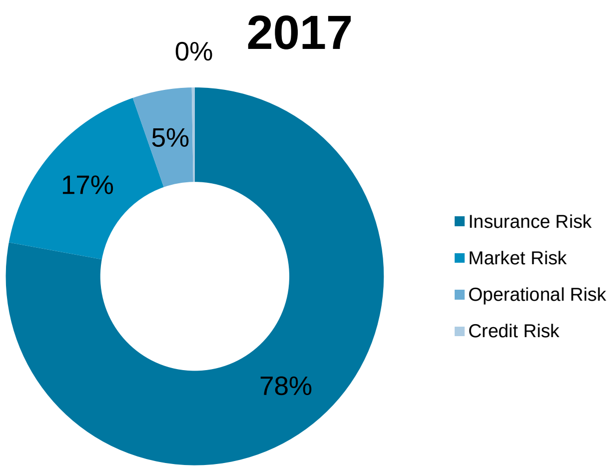
The principles and metrics for each of these risks are described below.

There has been a shift from insurance risk to market risk over the reporting period. This is driven by changes in the reinsurance protection in place and changes in the investment strategy. There are no special purpose vehicles used.

The key metrics used to monitor risk within the business are reported to GIPICC on a monthly basis. There are set tolerances on metrics and these are mapped to a RAG status. Where metrics become amber or red, management will consider whether action needs to be taken.

Below is the breakdown of the Company’s diversified Solvency Capital Requirements by major risk categories:





C.1.1 INSURANCE RISK

Insurance risk is also known as underwriting risk. The company is exposed to the following in relation to insurance risk:

- Premium risk is the risk that the actual cost of claims from premium earned over the modelling horizon is different to expected. This is split into various perils and product types. Premium earned includes the unearned premium at the valuation date and earned from new business written over the modelling horizon.
- Reserve risk is the risk that the actual cost of claims from premium earned prior to the valuation date is different from the expected best estimate reserve. i.e. the 'claims reserve' element of the technical provision calculation.
- Expense risk is the risk of possible losses due to actual operating expenses being higher than those forecast in the business plan for the next 12 months. Operating expenses in this context consist of all expenses excluding claims handling expenses and acquisition costs.

This risk is controlled through appropriate underwriting and pricing criteria, and measured through clear metrics concerning concentration risk, target net loss as a result of a 1-in-200 weather event, underwriting performance, expense over/underrun, and prior period reserve adjustment monitoring. The metrics are reported on a monthly basis to the GIPICC.

C.1.1.1 INSURANCE SPECIAL PURPOSE VEHICLES (SPVS)

The company has no SPVs authorised under Article 211 of the Solvency II Directive.

C.1.2 MARKET RISK

The Company has an investment portfolio that is managed by Legal & General Investment Management (LGIM) on its behalf. The portfolio includes investments in UK and foreign government securities, corporate bonds, equities, property and cash. Much of the investment is by way of collective investment schemes. This investment portfolio is exposed to market risk as its value is influenced by external factors such as changes in interest rates and credit spreads, equity and property price fluctuations and movements in exchange rates. 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 arising from changes in underlying interest rates. Credit spread risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in credit spreads above the risk-free rate. Equity and property risks exist as the Company is exposed to the underlying equity and property price movements through its investments in funds which have underlying investments in equity securities and properties. Currency risk arises through exposure to investments denominated in currencies other than sterling.

Interest rate risk also impacts the discounted value of liabilities. Due to the short-term nature of the Company's liabilities, this risk is not material. Inflation risk exists on liabilities where the amount required to be paid to customers could rise as a result of higher inflation. Again due to the short-term nature of the Company's liabilities, this risk is not material.

Market risk appetite is approved and then the investment mandate with LGIM is agreed and approved at GI PICC to ensure that the Company's investments are consistent with the market risk appetite. This is monitored through a quarterly investment forum and monthly reporting of risk metrics to the GI PICC.

Market risk has increased over 2018 following a change in the investment strategy to target a 4.5% annual return rather than a 4% return. This has led to a slight shift towards risk assets.

C.1.2.1 PRUDENT PERSON PRINCIPLE

Article 132 of consolidated level 1 text requires all investments held by insurance and reinsurance undertakings should be managed in accordance with the 'Prudent Person Principle'. The prudent person principle requires companies to only invest in assets and instruments:

- whose risks can be properly identified, measured, monitored, managed, controlled and reported;
- that ensure the security, quality, liquidity and profitability of the portfolio as a whole;
- that are appropriate to the nature and duration of insurance and reinsurance liabilities; and
- in the best interest of policyholders and beneficiaries.

The Company's risk appetite for credit and market risk is set in accordance with the prudent person principle.

Group Credit Risk, Market Risk and Asset Liability Matching policies define the Company's policy for the management of assets and the framework that supports its practical application, and have been defined in line with the Company's risk appetite and the prudent person principle. The policies are applicable to all entities in the Legal & General Group and any exemptions from the policy must be authorised by the Group CRO.

All divisions are required to invest their assets in line with the group policies. Compliance with the group policies is monitored through the group's risk framework described in Section B. System of Governance above. The following processes support the group in ensuring it meets the Prudent Person Principle:

- Risk & Capital Mandates set out the parameters of acceptable risk taking; including the approach taken to ensuring investment decisions are made in accordance with the prudent person principles;
- it is the responsibility of the business to ensure that the adherence to the Risk and Capital Mandates are appropriately monitored with any exceptions escalated to the divisional risk committees and relevant group committees; and
- the group's Investment Management Risk Committee oversees the effectiveness of overall framework for managing the compliance of prudent person principles.

At an operational level, the Company fulfils its obligation to the prudent person principle by:

- Having an investment management agreement (IMA) in place between the Company and LGIM, the Company's investment manager, that addresses appropriate criteria in Article 132 such as:
    - Identifying the market risks within the IMA, modelling them and identifying the capital required to cover such risks.
    - General Insurance Investment Forum in place to review investment performance and policy developments, discuss actions and plans, and provide suggestions and recommendations to GI PICC.
    - Management information on investments and market risk submitted to GI PICC for monitoring purposes based upon an agreed Risk and Capital Mandate that is reviewed at least once per annum.

C.1.3 CREDIT RISK

Credit risk reflects is the risk of financial loss due to the unexpected default, or deterioration in credit standing, of counterparties and debtors of the insurer. Default is split into two types:

Type-1 exposures

This comprises exposures that cannot be diversified away. These counterparties are likely to be rated and often involve an element of risk mitigation.

Examples include:

- Reinsurance
- Derivatives
- Cash in banks

Type-2 exposures

Type-2 exposures are those exposures that are usually diversified with the counterparty likely to be unrated. Examples of type-2 exposures are:

- Receivables from intermediaries
- Policyholder debt
- Some forms of capital (e.g. letters of credit called up but not yet paid)

The level of accepted credit risk is set out within the Credit Risk policy, which is reviewed and approved by GI PICC on at least an annual basis. Risk metrics covering key exposures are set and reported monthly to GI PICC.

C.1.4 LIQUIDITY RISK

Liquidity risk is the risk that the Company, although solvent, either does not have sufficient liquid financial resources (cash) available to meet its obligations as they fall due, or can only secure such liquid financial resources at an excessive borrowing cost relative to that achieved in the recent past.

The Company's Board is responsible for identifying the liquidity requirements of the company, which involves identifying the required liquidity facility to meet claims in extreme events, and ensuring that appropriate funds are in place to meet the claims arising from those events. The company has liquidity facilities in place with Legal & General Finance Plc and Legal & General Group Plc to meet liquidity requirements.

The Company's Board, through the General Insurance Product, Investment and Capital Committee (GI PICC), reviews funding facilities with Legal & General Finance Plc and Legal & General Group Plc at least once a year. This is to ascertain its validity against current and prospective business conditions, establishing a working capital facility. The Company's Board considers this formal arrangement with Legal & General Finance Plc and Legal & General Group Plc, for liquidity risk management, appropriate to the nature, scale and complexity of the business carried out by the Company. There are currently two facilities, a revolving credit facility to be used for day-to-day operations with Legal and General Finance Plc, and a committed credit facility to be drawn down under extreme liquidity shortfalls with Legal & General Group Plc.

Our Financial Control team are responsible for the continued monitoring of the current and forecast balance with Legal & General Finance Plc.

Our Actuarial Function is responsible for modelling liquidity shortfalls, including losses arising from liquidity risk in combination with the weather catastrophe risk model are considered.

Any changes in liquidity requirements identified in the monitoring process would be escalated to the GI PICC through the CFO, General Insurance. The Chief Actuary is responsible for the relationships with Legal & General Finance Plc and Legal & General Group Plc and discussing any required changes in liquidity facilities.

C.1.5 OPERATIONAL RISK

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

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

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

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

C.1.6 OTHER MATERIAL RISKS

There are no other material risks identified.

C.2 RISK CONCENTRATION

The insurance of properties which are concentrated in high risk areas, or an above average market share in a particular region, can give rise to a concentration of insurance risk. This risk is managed by ensuring that the risk acceptance policy, terms and premiums both reflect the expected claim cost associated with the location and avoid adverse selection. Additionally, exposure and competitor activity is monitored by location to ensure that there is a geographic spread of business. Catastrophic reinsurance cover reduces the company's exposure to concentration of risk. The catastrophe reinsurance is designed to protect against up to a modelled windstorm and coastal flood event with a return probability of 1-in-200 years.

The incidence of subsidence can have a significant impact on the level of claims on household policies. The company's underwriting and reinsurance strategy mitigates the exposure to concentrations of risk arising from geographic location or adverse selection.

There are no material concentrations of risk associated with the investment portfolio. The investment mandate sets limits on asset holdings to ensure the portfolio remains well diversified.

Similarly with credit risk, there are clear limits in place limiting the exposure to any individual counterparty. This means there is no material concentration of credit risk.

There is naturally a concentration of operational risks within the business. Failures in internal systems could have knock on impacts to other systems and processes. This risk is captured within the scenario workshops conducted within the business. These workshops are used to set the parameters for modelling of operational risk within the internal capital model.

C.3 RISK MITIGATION

The Company uses reinsurance to manage the exposure to an accumulation of claims arising from a severe weather event. The catastrophe cover runs from 1 July to 30 June and reinsures the company for losses between £50m and £600m for a single weather event. In addition a single household or pet policy can result in a large liability claim. To mitigate the risk, accident excess of loss reinsurance is in place for liability claims in excess of £0.75m on household and £0.5m on pet. A further reinsurance treaty with Flood Re protects against flood losses in excess of £250 on policies ceded. Reinsurance is also in place to protect against large losses over £1m arising from individual property risks. Quota share reinsurance is used to cede 50% of the earned premium (net of earned commission and inuring reinsurance earned premium) and incurred losses from the household book of business to the quota share reinsurers. A 100% quota share was introduced in April 2018 to cede all risks associated with legal expense cover underwritten by the company. Any terrorism risk underwritten by the company is ceded to Pool Re.

C.4 LIQUIDITY RISK – EXPECTED PROFIT IN FUTURE PREMIUM

The total amount of the expected profit included in future premium (EPIFP) as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulations was £28.7m as at 31 December 2018 as shown in the QRT S.23 in Annex 1.

C.5 RISK SENSITIVITY

Risk	Description	Impact on net of tax capital surplus (£m)	Impact on Solvency II Coverage Ratio
Underwriting	Premium Downside - 10% decrease in household GWP	(2)	(1)%
	Premium Upside - 10% increase in household GWP	2	1%
	Mean Weather Loss	(17)	(12)%
Market	1% increase in interest rates	(6)	(4)%
	40% decrease in equities	(39)	(26)%
	15% decrease in property	(3)	(2)%

The table above shows the risks that could have a significant impact on the business and the results of the stress tests that have been carried out. Overall the stress testing shows that the Company would be able to withstand moderate to severe scenarios. The Company is exposed to weather events and so a mean weather loss stress poses a large risk to future underwriting performance. The Company mitigates exposure to weather events through the use of reinsurance. The average weather loss (for events in excess of £2m) experienced by the Company over the last 18 years has been lower than the mean weather assumption, based on the RMS catastrophe model, used in the scenario above. The Company holds a multi-asset investment portfolio and so is exposed to market risk factors such as changes in interest rates and credit spreads, equity and property price fluctuations and movements in exchange rates. As shown above a large decrease in equity values would have a considerable impact to the Company's solvency. The above sensitivity analysis does not reflect management actions which could be taken to reduce the impacts. In practice, we manage asset and liability positions to respond to market movements. The impacts of these stresses are not linear therefore these results should not be used to extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results could be different if performed at an alternative reporting date.

The following key assumptions have been made in the stresses shown above:

- The mix of business does not materially change following the premium upside and premium downside stress
- The mean weather assumption has been derived using the weather catastrophe model utilised within the internal capital model.
- Following a market stress the Company's investment portfolio is rebalanced to the neutral asset allocation as prescribed in the investment mandate.

C.6 OTHER MATERIAL RISK INFORMATION

There is no other material risk information.

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D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

The assets as at 31 December 2018 under Solvency II are £436m compared to the total value of assets under IFRS of £739m.

£m	Section Reference	2018	2017
Total IFRS Assets		739	646
Solvency II valuation differences	D.1.2	(303)	(224)
Total Solvency II Assets		436	422

D.1.1 SOLVENCY II VALUATION BASIS

Unless otherwise stated, assets and liabilities shall be recognised in conformity with International Financial Reporting Standards (IFRS), as adopted by the EU.

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

Assets and liabilities (other than deferred tax) shall be valued:

- on a going concern basis;
- in accordance with Article 75 of the Level 1 Directive (or where specifically provided for by Delegated Acts):
  - where IFRS valuation is consistent with Article 75 this shall be adopted, therefore SII economic value is equal to IFRS fair value in line with IFRS unless otherwise stated; and
  - where more than one valuation method is prescribed by IFRS, only valuation methods that are consistent with Article 75 shall be applied.

The bases, methods and main assumptions used to value each class of assets for IFRS can be found under the relevant accounting policy and note in the Company's financial statements.

D.1.2 SOLVENCY II VALUATION DIFFERENCES

The assets as at 31 December 2018 and the impact of valuation differences under IFRS are shown below. There have been no changes to valuation bases used or estimations used during the period.

Assets (£m)	**Ref**	**Solvency II 2018**	**IFRS 2018**	**Variance 2018**	**Solvency II 2017**	**IFRS 2017**	**Variance**
Deferred acquisition costs	D.1.2.1	-	64	(64)	-	58	(58)
Intangible assets	D.1.2.1	-	57	(57)	-	44	(44)
Deferred tax assets	D.1.2.2	5	-	5	2	-	2
Property, plant & equipment held for own use		4	4	-	4	4	-
Investments (other than assets held for index-linked and unit-linked contracts)		352	357	(5)	376	376	-
Holdings in related undertakings, including participations	D.1.2.3	1	6	(5)	-	-	-
Bonds	D.1.2.4.1	109	109	-	90	90	-
Collective investments undertakings	D.1.2.4.2	240	240	-	284	284	-
Derivatives		2	2	-	2	2	-
Reinsurance recoverables	D.1.2.5	29	-	29	9	-	9
Insurance and intermediaries receivables	D.1.2.6	-	132	(132)	-	119	(119)
Reinsurance receivables	D.1.2.5	-	72	(72)	-	14	(14)
Receivables (trade, not insurance)	D.1.2.7	31	38	(7)	19	18	1
Cash and cash equivalents	D.1.2.8	15	15	-	12	13	(1)
Total assets		436	739	(303)	422	646	(224)

Differences between the Solvency II and IFRS valuation bases for material asset classes are noted below.

D.1.3 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

Intangible assets (including goodwill) are valued at zero unless:

- the intangible asset can be sold separately; and
- it can be demonstrated that there is a value for the same or similar assets (i.e. that a value has been derived from quoted prices in active markets).

As at 31 December 2018, intangible assets did not meet these criteria and therefore they are valued at zero on the Solvency II balance sheet.

There is no concept of deferred acquisition costs for Solvency II.

The impacts of these adjustments are £57m and £64m respectively.

D1.2.2 DEFERRED TAX ASSETS

Under IFRS, the deferred tax position is a liability, driven by timing differences on the recognisition of assets and liabilities between the tax basis and IFRS. Differences between the valuation of assets under SII and IFRS result in the recognition of a deferred tax asset under SII, primarily due to the write down to zero of intangible assets and differences in the valuation of TPs.

D.1.2.3 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

Subsidiary undertakings are held at cost less impairment under IFRS. Under SII, the investment is held at the net asset value of the subsidiary on a Solvency II valuation basis.

D.1.2.4 INVESTMENTS (OTHER THAN ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS)

D.1.2.4.1 BONDS

Bond investments are measured at fair value in accordance with IFRS. Where available, valuations are based on quoted market prices. Where quoted prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial investment.

All investments are classified as Level 1 investments with fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

D.1.2.4.2 COLLECTIVE INVESTMENTS UNDERTAKINGS

Collective investment undertakings are measured at fair value in accordance with IFRS.

All investments have been defined as Level 1 investments with fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

D.1.2.5 REINSURANCE RECOVERABLES AND RECEIVABLES

The reinsurance recoverables and gross liabilities are calculated consistently with the best estimate liability in all cases, save that there is an allowance for the probability means weighted best estimate of external reinsurer default.

D1.2.6 INSURANCE AND INTERMEDIARIES RECEIVABLES

In accordance with Solvency II guidelines premium cash flows falling due after the valuation date are recognised within technical provisions, and premiums due at the valuation date are recognised as an asset. Outstanding payment amounts due at the valuation date are not material and hence for Solvency II purposes we treat all Insurance and intermediaries receivables reported on an IFRS basis within our Solvency II technical provisions.

D.1.2.7 RECEIVABLES (TRADE, NOT INSURANCE)

Trade receivables are valued at amortised cost in accordance with IAS39. We have deemed cost to be materially consistent with fair value given that our trade receivables are short term in nature. Included within the £31m is £14m due from group companies, £13m tax recoverable with the remaining amount relating accounts in trust with suppliers who have delegated authority for claims. Prepaid commissions to distribution partners are valued at £0 under Solvency II.

D.1.2.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at fair value in accordance with IFRS. Cash equivalents under Solvency II are defined to include only deposits exchangeable for currency on demand at par and that can be used to make payments without penalty or restriction.

D.1.4 VALUATION UNCERTAINTY

The Company values its assets in accordance with Article 10 of the Solvency II Delegated Regulation. Valuations of assets are underpinned by a system of processes and controls to ensure that we comply with Article 263 of the Solvency II Delegated Regulation. Included within these processes is an assessment of valuation uncertainty and the extent to which asset valuations are appropriate in light of uncertainties that exist. This processes focus on, although is not limited to, assets that are valued using alternative valuation techniques. We have concluded that our assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

D.2 TECHNICAL PROVISIONS (TPS)

A summary of our technical provisions as at 31 December 2017 and 31 December 2018 is provided in the table below.

Figures are gross of reinsurance.

2018

Technical provisions (£m)	Section Reference	Income protection	Motor vehicle liability	Fire and other damage to property	General liability	Misc. financial loss	Total
Claims provisions	D.2.1.5	2	-	108	10	5	125
Premium provisions	D.2.1.6	0	-	76	0	(5)	71
Best estimate	**D.2.1.1**	**2**	**0**	**184**	**10**	**(0)**	**196**
Risk margin[6]	D.2.1.7	0	-	5	0	0	6
Total		**2**	**0**	**189**	**10**	**0**	**202**

2017

Technical provisions (£m)	Section Reference	Income protection	Motor vehicle liability	Fire and other damage to property	General liability	Misc. financial loss	Total
Claims provisions	D.2.1.5	2	0	71	14	4	91
Premium provisions	D.2.1.6	(0)	-	54	0	(4)	50
Best estimate	**D.2.1.1**	**2**	**0**	**126**	**14**	**0**	**141**
Risk margin	D.2.1.7	0	-	7	0	0	8
Total		**2**	**0**	**133**	**14**	**0**	**149**

The majority of the change from 2017 is due to the increase in exposure and the expected cost of the subsidence event.

D.2.1 SOLVENCY II VALUATION BASIS

Technical provisions are the sum of the best estimate liabilities (BEL) and the risk margin (RM).

The BEL corresponds to the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows) using the relevant risk-free interest rate term structure.

[6] Risk margin is not subject to external audit.

D.2.1.1 BEST ESTIMATE LIABILITIES (BEL)

The main cash flows cover premiums, future financial obligations of policyholder claims costs, expenses of running the business (including investment expense and commission payments) and future management actions where deemed objective, realistic and verifiable.

The gross of reinsurance BEL is calculated without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, but includes expenses in respect of these arrangements. The BEL is calculated at a level deemed appropriate for homogeneous risk groupings, at a minimum by line of business segmented according to Chapter 10 of the technical provisions part of the PRA Rulebook for Solvency II firms. The BEL are based on exposures as at 31 December 2018 and is calculated using standard actuarial projection techniques.

Future premiums and their associated claims and expenses are only considered for the period up to where the policyholder has the option to automatically renew, extend, increase or resume the insurance contract. After this point we can vary the premiums and therefore the automatic renewal option point represents the appropriate contract boundary. The treatment for business distributed through managing general agents (MGAs)[7] is on a look through basis. This means that we treat the written but not incepted business through the MGAs as if it were in our main household book of business ie we look through the contract we have with them.

D.2.1.2 RISK MARGIN (RM)

The RM is the cost that would be incurred in holding eligible Own Funds to cover the Solvency Capital Requirement (SCR) necessary to support the insurance and reinsurance obligations over their lifetime, determined using a cost of capital rate. The RM is calculated separately from the BEL and does not form part of the external audit. The RM is the present value of the cost of capital required, to cover the SCR for certain defined risks (referred to here as the non-hedgeable SCR or NHSCR), to meet adverse deviations on the underlying best estimate cash flows over the full run-off of the business. The NHSCR covers underwriting risk, reserve risk, credit risk associated with reinsurance contracts and operational risk. Future new business is not allowed for in the NHSCR. No allowance is made for loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC.

The discount rate used in the cost of capital calculation is the relevant basic risk-free rate. The cost of capital rate is set to 6% as prescribed in the Delegated Regulations.

D.2.1.3 DATA

The calculation of the technical provisions (TPs) is dependent on the quality of the data underlying the calculations. The data has been assessed in line with Articles 48 and 82 of Directive 2009/138/EC, Articles 264 and 272 of the Level II text, and the Level III text for Guidelines on Technical Provisions. A data register shows how the data moves from the source system through the working calculations and finally to the balance sheet. This assessment has concluded that the quality and sufficiency of data complies with the above requirements.

D.2.1.4 METHODOLOGY

The models and methodologies used vary depending upon the class of business being assessed.

D.2.1.5 CLAIMS PROVISIONS

D.2.1.5.1 HOUSEHOLD

Claims are split by peril across buildings and contents sections, with a number of different reserving methods used to calculate the best estimate ultimate cost of claims. These methods are as follows:

- incurred chain ladder projections – an incurred data set is projected to an ultimate position using a chain ladder technique. The loss date is selected as the accident period and development month is selected as the development period. The data is split by month. This method relies on the stability of the claims reporting, handling and settlement process underpinning the data in the past and whether

[7] An MGA is a specialized type of insurance agent/broker that, unlike traditional agents/brokers, is vested with underwriting authority from an insurer. Typically, MGAs are involved with non-standard lines of coverage, in which specialized expertise is required to underwrite the policies. MGAs benefit insurers because the expertise they possess is not always available within the insurer's network and it would be more expensive and/or timeconsuming to develop on an in-house basis.

this is representative of what we think would happen in the future given our knowledge of the business and operational aspects of the claims process;

- paid chain ladder projections – this is the same as the incurred chain ladder method except paid data is selected rather than incurred data;
- average cost per claim methods – an assumed average cost is multiplied by the expected number of claims to get the ultimate cost. This method can be based on all claims or closed claims. This method can be used if the data is not stable enough to form credible chain ladder ultimate costs;
- loss ratio method – a selected loss ratio is multiplied by the earned premium to estimate the ultimate cost;
- blended methods of the above – sometimes it is appropriate to put some reliance on current data and some reliance on past data. These methods are referred to as the 'Bornhuetter-Ferguson method'; and
- large and small claim split – if large and small claims have different development patterns then it may be appropriate to split the experience into two. The aim of this would be to give more stable results. The ultimate cost of the large and small claims may be calculated using the same or different methods as per above.

Fees and recoveries are projected separately and then combined with the claim projection to get to a net claims projection.

D.2.1.5.2 ASU (ACCIDENT, SICKNESS AND UNEMPLOYMENT)

Projections are made based on the possible states of a claim, of which there are three types. The reserves are identified below as are the formulas required:

- In the Course of Payment (ICOP) = monthly benefit x outstanding number of payments
- Notified but not but Accepted (NBNA) = monthly benefit x acceptance rate x outstanding claim duration
- Incurred but not reported (IBNR) = number of IBNR claims x monthly benefit x acceptance rate x claim duration

A combination of actual data, assumptions and triangulation is used to project claims to an ultimate position.

D.2.1.5.3 PET

Claims are split by liability and non-liability and are projected using the following methods:

- Incurred chain ladder projections
- Loss ratio method
- Blended methods of the above

D.2.1.5.4 OTHER ADJUSTMENTS

The above classes have an allowance for expenses, reinsurance, counterparty default, discounting and other adjustments where required.

D.2.1.6 PREMIUM PROVISIONS

The models and methodologies used vary depending upon the class of business being assessed.

D.2.1.6.1 HOUSEHOLD

All in-force household policies at the valuation date are identified split by channel and section of cover (for example: buildings and contents). The expected cost of future claims, gross of reinsurance, on this unearned exposure is calculated using the expected cost of a buildings and a contents claim per policy, which are calculated separately as part of the pricing process or using a loss ratio for some of the smaller MGA business.

Separate reserves are held for events not in data (ENIDs), one for weather related events and one for non-weather events. The weather ENID covers potential losses from future weather events outside what is captured in the data. Data relating to this is sought from our reinsurance broker and validated using the internal capital model. These events sample all losses.

The non-weather ENID is estimated by the Reserving Committee, where various scenarios are discussed which are relevant to household insurance.

A detailed investigation by cost centre is carried out by the finance team to identify the expense provision required.

D.2.1.6.2 ACCIDENT, SICKNESS AND UNEMPLOYMENT (ASU)

In-force policies that are ICOP or NBNA are excluded from the premium provision calculations as they will already have a provision in the claims analysis. The rest have their remaining exposure calculated and the benefit entitled identified. Assumptions on the probability of a claim, acceptance and duration are made using prior data to calculate the required provision.

D.2.1.6.3 PET

All in-force pet policies at the valuation date are identified split by type of animal. The expected cost of claims is derived from the risk premium, which is adjusted based on our actual recent Reserving experience.

D.2.1.6.4 OTHER ADJUSTMENTS

The above classes have an allowance for expenses, reinsurance, counterparty default, written but not incepted policies, contract boundaries, policyholder behaviour, events not in data and other adjustments where required.

D.2.1.7 RISK MARGIN (RM)

The RM is calculated using information determined from, and thefore consistent with, the Company's Internal Model. From the model we are able to determine capital projections over five years. For SCR calculations the model only considers the change in own funds over a one year time horizon with allowance for one year's new business. For the purposes of the risk margin calculation the non-hedgeable SCR in each future year of run-off is calculated over a five-year time horizon assuming no new business is written. After five years the risks are fully run off considering the short-term nature of the Company's liabilities. The run off SCR for each individual risk is modelled and a t-copula is used to allow for diversification between risks, in order to calculate an overall run off SCR for the Company. This is discounted using the risk free rate and a capital charge of 6% is applied as required by Solvency II rules.

D.2.2 MAIN ASSUMPTIONS

Due to the short tailed nature of our business and the amount of data available, the impact of changes in individual assumptions generally has less impact compared to other classes of business, such as life or retirement products. The most material assumptions which have an impact on the provisions, split by product, include:

Household

- For future exposure we adjust past data for actual and projected claims inflation. This uses a combination of actual data and external models to project the cost of future claims. External data is used for the expected cost of weather ENIDs within the expected cost per policy. Changes are fed through to the premium provisions;
- development factors – these are estimated and applied to claims projections with the objective of developing claims to their ultimate level;
- prior loss ratio assumptions, including seasonality adjustments – if recent data is volatile or lacks credibility then a prior loss ratio can be used. This will be based off past claims data, as will the seasonality adjustments;
- splits of ratios in Bornhuetter-Ferguson approaches – the weighting given to each method will be based on an appropriate measure and generally taken from past claims data;
- development ratios for current incurred claims to an ultimate position – based off past claims data and calculated by the software package ResQ;
- fee and recovery amounts and frequencies for recent periods – based of past data and calculated in excel, with the user selecting the appropriate value based on expert judgement of the trends;

- claims handling expenses – assumption based on historical claim handling expenses reported in the revenue account from finance;
- mid-term cancellation (MTC) rates – based off the historical experience of MTCs;
- mix of liability to non-liability claims – based off past data from the claim trends process; and
- amount of written but not incepted business – based off the prior month's GWP and the amount of premium expected to incept in future using system data. Appropriate allowances are made for MGAs

ASU: All ASU assumptions are based off past internal data for:

- Claim acceptance rates
- Claim duration rates
- Number of IBNR claims – developed using data from past claims
- Average monthly benefit
- Mid-term cancellation rates
- Default risk

Pet:

- Risk premium for future exposure – the theoretical risk premium is adjusted for actual performance
- Development factors – these are estimated using ResQ and applied to claims projections with the objective of developing claims to their ultimate level
- Prior loss ratio assumptions – if recent data is volatile or lacks credibility then a prior loss ratio can be used. This will be based off past claims data and the plan
- Splits of ratios in Bornhuetter-Ferguson approaches – the weighting given to each method will be based on an appropriate measure
- Development ratios for current incurred claims to an ultimate position – based off past claims data and calculated using ResQ
- Mid-term cancellation rates – based off the historical experience
- Amount of written but not incepted business – based off the prior month's GWP and the amount of premium expected to incept in future using data from the pet portal

D.2.3 LEVEL OF UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS

A framework to assess the confidence in the methodology and assumptions has been established through the Group Internal Audit Committee. The framework allocates a status to the confidence in each of the assumptions or methodology, based on a mixture of qualitative and quantitative criteria. The criteria set out in the framework and the initial assessments have been challenged and validated by experienced actuaries and accountants throughout the business.

The assumptions underpinning the technical provision calculations are the best estimate view of our business. We have a significant amount of data regarding our historic experience. Experience investigations using this data are undertaken regularly and the results used to inform the choice of best estimate assumptions. This is augmented by expert judgement, in particular where past experience is not considered to be an appropriate reflection of future expectations. Where there is a high level of expert judgement required this has been highlighted in the quarterly Technical Provisions Approach and Assumptions documents. Overall we have a high degree of confidence in the assumptions underpinning technical provisions and hence the level of uncertainty in the technical provisions is expected to be low.

The main areas of uncertainty arise from future claims inflation, propensity to claim and general policyholder behaviour. The assumptions are regularly reviewed and updated in the technical provisions calculations. The risk of the technical provisions being insufficient is modelled within the SCR.

D.2.4 RECONCILIATION BETWEEN IFRS AND SOLVENCY II VALUATION

The table below bridges the BEL under Solvency II to the IFRS provisions for 31st December 2018 and 31st December 2017.

2018

Technical provisions (£m)	Section reference	Solvency II	IFRS	IFRS valuation differences
Claims provisions	D.2.1.5	125	133	(8)
Premium provisions	D.2.1.6	71	214	(143)
Best estimate	**D.2.1.1**	**196**	**347**	**(151)**
Risk margin	D.2.1.7	6	0	6
Total		**202**	**347**	**(145)**

2017

Technical provisions (£m)	Section reference	Solvency II	IFRS	IFRS valuation differences
Claims provisions	D.2.1.5	91	96	(5)
Premium provisions	D.2.1.6	50	194	(144)
Best estimate	**D.2.1.1**	**141**	**290**	**(149)**
Risk margin	D.2.1.7	8	0	8
Total		**149**	**290**	**(141)**

The technical provisions (TPs) are lower under Solvency II because cash flows are calculated using best estimate assumptions excluding margins, discounted to allow for the time value of money and they allow for mid-term cancellations. Premium reserves are materially lower because they recognise profits expected to be earned relating to future exposure arising from policies that we are obligated to as at 31 December and premium debtors shift from the asset side of the balance sheet under IFRS to the liabilities side of the balance sheet (as a positive cash flow offsetting future negative cash flows from claims) under Solvency II. IFRS does not require an explicit margin, whilst Solvency II does require a risk margin.

D.2.5 MATCHING ADJUSTMENT, VOLATILITY ADJUSTMENT AND TRANSITIONAL MEASURES

The Company does not utilise any of these arrangements.

D.2.6 REINSURANCE RECOVERABLES

The calculation of the reinsurance recoverable asset is consistent with the calculation of the gross BEL described above. The Company's reinsurance arrangements consist of a catastrophe treaty, liability treaty (both of which renew in July) a Flood Re cover (which is a rolling treaty covering individual risks on an excess of loss basis), a quota share agreement within the group for the Household business, a quota share agreement with DAS to cover legal expenses and a facultative treaty. The general reinsurance principle on the catastrophe and liability treaties is to provide cover for extreme events that would have a significant impact on the Company. The reinsurance recoverable asset is adjusted for the best estimate probability of reinsurer default, and includes an allowance for the timing difference between recoveries and reinsurance payments.

D.2.7 MATERIAL CHANGES FROM YEAR ENDED 2017

During 2018 we agreed two additional Inter-group quota shares which act on the household book after the catastrophe and liability treaties. Legal & General Re-insurance (Bermuda) have a 10% share starting from 1st April 2018 and Legal and General Assurance Society Limited had a 30% share starting 1st July 2018, this was subsequently increased to 40% on 1st October 2018. Both of these are accounted for on an earned basis.

Reinsurance is now also in place for any claims arising from Legal Expenses claims on policies written on or after 26th April 2018. DAS Legal Expenses Insurance Company, a third party insurer, 100% reinsure these claims.

D.2.8 SIGNIFICANT SIMPLIFIED MEASURES

There are no significant simplifications to report for the calculation of the technical provisions.

D.3 OTHER LIABILITIES

As at 31 December 2018 and 31 December 2017 the company had other liabilities as follows:

Other liabilities (£m)	Reference	Solvency II 2018	IFRS 2018	Variance 2018	Solvency II 2017	IFRS 2018	Variance 2017
Deferred tax liabilities	D.3.1	-	9	(9)	-	10	(10)
Derivatives		1	1	-	2	2	-
Insurance and intermediaries payables	D.3.2	1	13	(12)	5	10	(5)
Reinsurance payables	D.3.3	-	61	(61)	-	12	(12)
Payables (trade, not insurance)	D.3.4	56	61	(5)	47	55	(8)
Total		**58**	**145**	**(87)**	**54**	**89**	**(35)**

There have been no changes to the bases of valuation in the current period.

None of the other liabilities possess future material uncertainty based on estimation.

Material differences between the Solvency II and IFRS valuation bases are set out below.

D.3.1 DEFERRED TAX LIABILITIES

Under Solvency II the deferred tax balance is an asset. Deferred tax is recognised and valued in accordance with IFRS (IAS 12), except that deferred tax balances in respect of temporary differences will be valued based upon the differences between the value of assets and liabilities in the Solvency II balance sheet and their value for tax purposes.

In practice, deferred tax balances are valued for Solvency II purposes by taking the IFRS balance sheet position and then calculating the tax effect of valuation differences between the IFRS and Solvency II balance sheets.

D.3.2 INSURANCE AND INTERMEDIARIES PAYABLES

Insurance and intermediaries payables are valued at fair value under IFRS. The difference between IFRS and SII (£12m) are payables such as commission, which are included within technical provisions.

D.3.3 REINSURANCE PAYABLES

Reinsurance payables are included within technical provisions section D.2.

D.3.4 PAYABLES (TRADE, NOT INSURANCE)

Payable (trade, not insurance) are valued at fair value under IFRS. The difference between IFRS and SII (£61m) are payables such including deferred income, reinsurers' share of deferred acquisition costs, both not recognised under Solvency II, and intercompany balances relating to commission which are included within technical provisions.

D.3.5 OFF BALANCE SHEET ITEMS

Legal & General Insurance Limited has provided an intercompany indemnity executed in favour of Legal & General Resources Limited (LGRL) in respect of Flood Re arrangements and the requirement to provide uncapped indemnity for any data protection breaches relating to data provided by Flood Re (which includes local authority/council tax data). The agreement with Flood Re also requires Tata Consultancy Services

(TCS) (who provide software support and related systems maintenance to us under a separate contract between TCS and LGRL), to offer the indemnity as well as act as an outsourced party in the arrangement. As the liability of TCS is capped in the agreement between TCS and LGRL, we executed this indemnity in favour of LGRL for any claim by Flood Re against TCS for breach where the claim exceeds the £30m cap. As at the 31 December 2018, no contingent liabilities were identified in respect of the above indemnity, as the potential liability was considered immaterial.

Legal & General Insurance Ltd has entered into a 10-year arrangement with Legal & General Finance Plc and a five-year arrangement with Legal & General Group Plc to manage the cash flows of the Company. The arrangements are for the provision of a £25m working capital facility to the company, as well as a further £200m credit loan facility respectively. This has proved ample for day-to-day cash management and is sufficient to cover a 1-in-200 catastrophe event modelled in the stress and scenario testing exercise. The sufficiency of the facility is regularly monitored by GI PICC.

D.4 ALTERNATIVE METHODS OF VALUATION

No alternative methods of valuation have been used.

D.5 ANY OTHER INFORMATION

No further information to note

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 OBJECTIVES FOR MANAGING OWN FUNDS

The risk appetite, which is set by the Board, sets out our approach for managing own funds, target capital coverage ratios and actions to be taken when managing Own Funds. We aim to maintain an appropriate buffer of capital resources over the regulatory capital requirements and our own internal liquidity targets. The capital coverage is projected over the five-year business planning horizon. Solvency and liquidity levels are monitored on a quarterly and monthly basis respectively, and used to inform the dividend recommendations. There have been no material changes over the reporting period.

E.1.2 QUANTITATIVE EXPLANATION OF OWN FUNDS

The components of the IFRS equity and the Solvency II Own Funds as at 31 December 2018 and 31 December 2017 are presented below:

Own Funds (£m)	**IFRS equity 2018**	**Solvency II basic Own Funds 2018**	**IFRS equity 2017**	**Solvency II basic Own Funds 2017**
Ordinary shares	37	37	7	7
Share premium	96	96	96	96
Retained earnings	114	-	164	-
Deferred Tax Asset	-	5	-	2
Reconciliation reserve	-	38	-	114
Total	247	176	267	219

E.1.3 STRUCTURE, AMOUNT, AND QUALITY OF BASIC OWN FUNDS

All of our Own Funds have been assessed as basic Own Funds. There are no ancillary Own Fund items included in total Own Funds. Material basic Own Funds have been assessed against Article 71 of the Delegated Regulation and accordingly been categorised as unrestricted Tier 1 Own Funds with the exception of the deferred tax asset which is categorised as Tier 3 Own Funds.

£m	**Total 2018**	**Total 2017**
Solvency Capital Requirement	132	145
Solvency Surplus	44	74
Ratio of eligible Own Funds to SCR	1.33	1.51
Minimum Capital Requirement	38	40
Minimum Capital Surplus	134	178
Ratio of eligible Own Funds to MCR	4.56	5.43

These values can be seen in the Own Funds QRT S.23.01.01 in Annex 1 of this report.

There were no new issues or redemptions of instruments over the reporting period.

E.1.4 RESTRICTIONS ON OWN FUNDS

As at 31 December 2018, there were no restrictions affecting the availability and transferability of Own Funds, or ring-fencing.

E.1.5 RECONCILIATION BETWEEN IFRS EQUITY AND EXCESS ASSETS OVER LIABILITIES

An explanation of the movement in each of the component parts of the Solvency II excess of assets over liabilities is presented in Section D – Valuation for Solvency Purposes, including a qualitative explanation for all valuation adjustments. The movement is shown below:

£m		2018	2017
IFRS shareholders' equity		247	267
Solvency II excess of assets over liabilities		176	219
Difference		(71)	(48)
Explained by:			
Difference in the valuation of assets	Section D1	(303)	(224)
Difference in the valuation of technical provisions	Section D2	145	141
Difference in the valuation of other liabilities	Section D3	87	35
Total:		(71)	(48)

E.1.6 RECONCILIATION RESERVE

The Reconciliation Reserve, which is a core component of basic Own Funds, is made up of the excess of assets over liabilities seen on the Balance Sheet QRT S.02.01.02 (shown in Annex 1 of this report), adjusted for ordinary share capital and the share premium account, which are presented as separate components of Own Funds.

The calculation of the reconciliation reserve is as follows:

£m	2018	2017	
Excess of assets over liabilities	176	219	(per QRT S.02.01.01)
Ordinary share capital	(37)	(7)	
Share premium account	(96)	(96)	
Deferred Tax Asset	(5)	(2)	
Reconciliation reserve	38	114	

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT (UNAUDITED)

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

Our SCR as at 31 December 2018 was £132m. This was calculated using the PRA-approved Internal Model, with no capital add-ons applied, and as such, the Standard Formula model does not apply for the purposes of determining our regulatory capital requirements.

The SCR has reduced from £145m over the year. This is largely due to increased reinsurance coverage with quota share cover introduced over the year. However this is partly offset by increased business volumes and a number of minor model changes together with an increase in the retention under the catastrophe reinsurance.

Further information on the SCR by risk categories is provided in the QRT S.25 in Annex 1 of this report.

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR as at 31 December 2018 was £38m. Calculation of the MCR uses data on net written premiums, net technical provisions and EIOPA specifications including exchange rates, and is subject to a minimum of 25% of

SCR and maximum of 45% of SCR. Our MCR is calculated based on the level of technical provisions and written premiums.

The MCR has reduced from £40m over the year. This is due to reductions in the net written premiums following introduction of quota share reinsurance.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

Not applicable as this relates to the Standard Formula and life insurance business.

E.4 INTERNAL MODEL INFORMATION

E.4.1 GENERAL INSURANCE USE OF INTERNAL MODEL

The Internal Model is integrated into our risk management and governance systems. The material risks identified through the risk framework are also those covered by the Internal Model and vice versa.

We have chosen to adopt an Internal Model approach to calculate the Solvency Capital Requirement (SCR) for material and quantifiable risk exposures, which are identified as falling into the following categories:

- Insurance
- Market
- Counterparty credit
- Operational

The output of the Internal Model is used for the following:

- Financial Reporting (Solvency Capital Requirement)
- Risk Margin for technical provisions (TPs)
- Own risk and solvency assessment (ORSA) (as part of the business planning process)
- Capital adequacy
- Reinsurance decisions
- Investment strategy decisions
- Pricing
- New business tenders
- Impact of new products plans on capital
- Management information

Risks are modelled stochastically based on 50,000 simulations for most risks, 250,000 for catastrophe risk and 500,000 freeze risks. The marginal capital requirement distributions for each risk are then aggregated in order to recognise the diversification benefit of our risk profile, using the t-copula which captures the phenomenon of dependent extreme values often observed in financial return data. The SCR is determined as the 99.5th percentile value from this correlated output.

E.4.2 METHODS USED IN THE INTERNAL MODEL

The methods used in the Internal Model are summarised in the table below. The technical details underpinning these methods were already approved by the PRA as part of the Internal Model Approval Process, and are subject to ongoing monitoring through our Internal Model governance process.

Step	Explanation
Assess risk landscape	Risk drivers are identified every quarter for all risks that may affect our Own Funds. A probability distribution is determined for each risk driver, together with a dependency structure. Together, these specify possible outcomes over one year and the probability of those outcomes occurring. A scenario file is constructed, of randomly generated observations from the joint distribution. Each scenario represents one possible set of outcomes for all of the chosen risk drivers over one year. Taken together, the scenarios accurately represent the joint probability distribution of all the risks (subject to random error, which is minimised by using a sufficiently large number of scenarios). In order to reduce simulation error, we run 250,000 simulations for the weather catastrophe risk and 500,000 for freeze risk; however, our testing shows that the other modelled risks converge using a much lower number of simulations, typically 50,000.
Value and stress assets and liabilities	The starting point is the balance sheet and business profile expected to be underwritten over the next 12 months. For each scenario, the values of the risk drivers are applied to the relevant assets and liabilities as at the balance sheet date, to generate revised asset and liability values in one year's time, allowing for cash flows. The resulting change in the own funds (the excess of assets over liabilities) is calculated in one year's time. The approach allows for changing exposures over the year due to new business and reducing exposures due to run-off of exposures on the opening balance sheet (or the back book). This step generates marginal distributions for each risk driver; combining the effect of these to determine the SCR is done in the next step.
Aggregate and attribute capital	The marginal capital requirement distributions for each risk are aggregated in order to recognise the diversification benefit of our risk profile. The aggregation step uses the t-copula which captures the phenomenon of dependent extreme values often observed in financial return data with an emphasis on tail correlations. A diversified capital requirement distribution is then obtained from the copula. The diversified capital requirement (before further adjustments are made for profits and tax) is determined as the 99.5th percentile value from this correlated output. This is derived by ranking the copula output from lowest to highest and selecting the result corresponding to the specified confidence level. Capital is attributed to specific risks types by calculating the marginal impact on the SCR arising from a small increase in the relevant risk type exposures. This approach ensures that the full amount of capital at risk is attributed and that the benefits of risk diversification are attributed consistently.
Subtract expected profit	In this step, we deduct the expected profit (on a mean long-term basis) from the diversified capital requirement in the previous step, to determine the net of profit capital requirement.
Subtract effect of the loss absorbing effect from deferred tax	In this step, we reduce the net of profit capital requirement further to recognise the tax benefits that would arise in the event of a large loss equal to the capital in magnitude. This benefit arises because we would make a loss in that scenario, which would be available for us to offset against taxable profits in future years. Broadly, this reduces the capital requirement by an amount similar to the corporation tax rate. This then gives us the SCR (diversified, net of expected profits and net of expected tax benefits).

Step	Explanation
Calculate balance sheet and capital Adequacy	The SCR is compared to our eligible own funds to determine the regulatory surplus and SCR coverage ratio (defined as eligible own funds divided by SCR). The eligible own funds are the excess of assets over its liabilities, after allowing for any restrictions on the ability of the own funds to absorb losses. This calculation is prescribed by the Solvency II regulations and does not form part of the Internal Model.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

There have been no instances of non-compliance with either the MCR or SCR for the Company over the reporting period.

E.6 ANY OTHER INFORMATION

No other information.

ANNEX 1 – QUANTITATIVE REPORTING TEMPLATES (QRTS)

Values are shown in £'000

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	4,900
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	3,952
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	352,214
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	886
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	109,428
R0140	*Government Bonds*	109,428
R0150	*Corporate Bonds*	
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	239,891
R0190	*Derivatives*	2,009
R0200	*Deposits other than cash equivalents*	
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	29,029
R0280	*Non-life and health similar to non-life*	29,029
R0290	*Non-life excluding health*	28,967
R0300	*Health similar to non-life*	62
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	31,357
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	14,764
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	436,216

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	201,888
R0520	*Technical provisions - non-life (excluding health)*	199,390
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	193,752
R0550	*Risk margin*	5,638
R0560	*Technical provisions - health (similar to non-life)*	2,498
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	2,455
R0590	*Risk margin*	43
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	892
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,528
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	55,774
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	260,082
R1000	**Excess of assets over liabilities**	176,135

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					Total
		Income protection insurance	Motor vehicle liability insurance	Fire and other damage to property insurance	General liability insurance	Misc. financial loss	
		C0020	C0040	C0070	C0080	C0120	C0200
	Premiums written						
R0110	Gross - Direct Business	6,221	0	360,916	9,665	33,082	409,884
R0120	Gross - Proportional reinsurance accepted						0
R0130	Gross - Non-proportional reinsurance accepted						0
R0140	Reinsurers' share	224		143,879	3,505	335	147,943
R0200	Net	5,997	0	217,038	6,160	32,746	261,941
	Premiums earned						
R0210	Gross - Direct Business	6,390		345,136	9,182	28,832	389,541
R0220	Gross - Proportional reinsurance accepted						0
R0230	Gross - Non-proportional reinsurance accepted						0
R0240	Reinsurers' share	224		87,360	2,113	335	90,032
R0300	Net	6,167	0	257,776	7,070	28,496	299,509
	Claims incurred						
R0310	Gross - Direct Business	3,552	17	207,003	3,411	16,273	230,256
R0320	Gross - Proportional reinsurance accepted						0
R0330	Gross - Non-proportional reinsurance accepted						0
R0340	Reinsurers' share	56	0	50,940	549	40	51,585
R0400	Net	3,496	18	156,064	2,861	16,233	178,671
	Changes in other technical provisions						
R0410	Gross - Direct Business						0
R0420	Gross - Proportional reinsurance accepted						0
R0430	Gross - Non-proportional reinsurance accepted						0
R0440	Reinsurers' share						0
R0500	Net	0	0	0	0	0	0
R0550	**Expenses incurred**	3,460	0	153,892	4,081	13,006	174,439
R1200	**Other expenses**						
R1300	**Total expenses**						174,439

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance					
		Income protection insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Total Non-Life obligation
		C0030	C0080	C0090	C0100	C0130	C0180
R0010	**Technical provisions calculated as a whole**	0	0	0	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole						0
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
	Premium provisions						
R0060	Gross	299	75,751	163	0	-5,581	70,632
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	33	22,953	452	0	22	23,459
R0150	**Net Best Estimate of Premium Provisions**	267	52,798	-288	0	-5,603	47,174
	Claims provisions						
R0160	Gross	2,155	108,223	10,090	0	5,106	125,574
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	30	5,363	130	0	48	5,571
R0250	**Net Best Estimate of Claims Provisions**	2,125	102,860	9,960	0	5,058	120,004
R0260	**Total best estimate - gross**	2,455	183,974	10,254	0	-475	196,207
R0270	**Total best estimate - net**	2,392	155,658	9,672	0	-545	167,178
R0280	**Risk margin**	43	5,260	139	0	238	5,681
	Amount of the transitional on Technical Provisions						
R0290	Technical Provisions calculated as a whole						0
R0300	Best estimate						0
R0310	Risk margin						0
R0320	**Technical provisions - total**	2,498	189,234	10,393	0	-237	201,888
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	62	28,316	581	0	70	29,029
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	2,435	160,919	9,812	0	-307	172,859

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	**Accident year / underwriting year**	Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year					**Development year**							**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											695	695	695
R0160	2009	89,558	54,787	6,457	1,649	2,930	417	380	510	201	210		210	157,100
R0170	2010	82,068	83,105	9,343	3,925	923	405	1,305	882	151			151	182,108
R0180	2011	73,088	39,654	6,311	1,561	815	1,101	609	148				148	123,288
R0190	2012	90,757	48,517	4,542	1,839	642	1,482	257					257	148,037
R0200	2013	78,997	60,253	5,747	1,735	2,677	2,618						2,618	152,028
R0210	2014	102,146	50,409	4,445	2,157	1,738							1,738	160,895
R0220	2015	87,246	61,121	5,866	1,790								1,790	156,024
R0230	2016	83,665	52,311	5,715									5,715	141,690
R0240	2017	96,304	55,115										55,115	151,419
R0250	2018	125,287											125,287	125,287
R0260												**Total**	193,725	1,498,570

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year					**Development year**							**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											169	166
R0160	2009	73,173	12,332	5,371	3,510	1,548	1,242	892	281	210	98		97
R0170	2010	89,553	23,032	11,406	7,622	7,102	1,283	756	365	276			272
R0180	2011	47,722	5,539	-1,415	-3,335	1,749	1,128	374	282				277
R0190	2012	71,817	9,151	3,111	1,569	1,265	177	79					77
R0200	2013	76,987	11,122	4,972	5,120	2,647	470						463
R0210	2014	65,985	9,982	3,852	3,420	1,989							1,957
R0220	2015	85,185	9,895	4,432	2,279								2,241
R0230	2016	61,822	8,506	4,330									4,259
R0240	2017	67,954	12,288										12,089
R0250	2018	105,445											103,820
R0260												**Total**	125,718

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	37,000	37,000		0	
R0030	Share premium account related to ordinary share capital	96,053	96,053		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	38,181	38,181			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	4,900				4,900
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	176,135	171,234	0	0	4,900
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	176,135	171,234	0	0	4,900
R0510	Total available own funds to meet the MCR	171,234	171,234	0	0	
R0540	Total eligible own funds to meet the SCR	176,135	171,234	0	0	4,900
R0550	Total eligible own funds to meet the MCR	171,234	171,234	0	0	
R0580	**SCR**	132,270				
R0600	**MCR**	37,531				
R0620	**Ratio of Eligible own funds to SCR**	133.16%				
R0640	**Ratio of Eligible own funds to MCR**	456.25%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	176,135
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	137,953
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	38,181
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	28,721
R0790	**Total Expected profits included in future premiums (EPIFP)**	28,721

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
1	10300I	Interest rate risk	19,698
2	10400I	Equity risk	53,115
3	10600I	Property risk	6,556
4	10700I	Spread risk	30,060
5	10900I	Currency Risk	8,271
6	11000I	Other Market Risk	4,694
7	19900I	Diversification within Market risk	-48,729
8	20200I	Type 2 counterparty risk	2,830
9	50150I	Premium & expense risk (premium prov & planned to be written in next 12 months)	90,311
10	50210I	Reserve risk	19,720
11	50300I	Non-life catastrophe risk (including Type 1 counterparty default risk)	88,502
12	59900I	Diversification within non-life underwriting risk	-67,640
13	70100I	Operational Risk	31,043
14	80100I	Other Risks	0
15	80400I	Future profits from new business	-398
16	80300I	Loss-absorbing capacity of deferred tax	-31,026

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	207,006
R0060	Diversification	-74,736
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	132,270
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	132,270
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	31,026
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	37,531

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	2,392	5,997
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	155,658	217,038
R0090	General liability insurance and proportional reinsurance	9,672	6,160
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	32,746
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	37,531
R0310	SCR	132,270
R0320	MCR cap	59,522
R0330	MCR floor	33,068
R0340	Combined MCR	37,531
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	37,531