Legal & General Insurance Ltd

Solvency and Financial Condition Report

31.12.2016

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Summary

This document

This Solvency and Financial Condition Report (SFCR) is a regulatory document required under Solvency II[1]. All values are (unless otherwise stated) as at 31 December 2016. This is the first annual report since the Solvency II regime took effect, and as such no comparative figures are provided relating to the position during the previous Solvency regime.

Who we are

Legal & General Insurance Limited (the Company') is the General Insurance business division of the wider Legal and General Group Plc ('the Group'), which is one of the world's largest insurance and investment management Groups, with assets under management of £894bn (c.$1.1tn) at 31 December 2016. The Group was established in London in 1836, and has been providing insurance for our customers for over 180 years - helping people protect their loved ones, lifestyles, homes and possessions - and is one of the world's top 10 asset managers. Legal & General Group is managed across business lines rather than legal entities. The Group's business divisions are Legal & General Investment Management; Legal & General Capital; Legal & General Retirement; Legal & General Insurance; Savings; and General Insurance. The General Insurance business division represents 3% of the Group 2016 divisional operating profit.

What we do

Our principal activity is to underwrite non-life insurance business. We currently serve around 1.3 million UK customers. Our products and services are primarily aimed at the mass market. We operate within the United Kingdom, the Channel Islands and the Isle of Man.

We distribute our products through various channels including: brokers, independent financial advisors (IFAs), direct sales (over the telephone and online, including aggregators) and increasingly in the banks and Building Society channels.

Our largest business area is household insurance (c. £300m of gross written premium) with small amounts of short-term income protection (c. £20m GWP) and pet insurance (c. £9m GWP). Whilst household is our main line business, the Legal & General Insurance Ltd (GI) strategy is to grow a diversified, digitised business that protects our customers' lifestyles at the important moments of need in their lives by optimising existing business, maximising new core business, diversification and innovation and also continue delivering the FCA customer-led initiatives in order to improve customer outcomes, transparency and maximise value for our customers.

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 and individual. We are currently the seventh largest UK home insurer, with 5% market share (2016 data from Association of British Insurers based upon 2015 results).

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, predominantly protecting mortgage payments.

[1] 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 Articles 51 and 256.

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 their pets harming third parties.

Our performance

IFRS operating profit on the insurance business is the measure we use to manage underwriting performance. This is the key measure used to manage our business.

Operating profit measures the pre-tax result excluding the impact of short-term economic variances and exceptional items which arise outside the normal course of business in the period. Operating profit reflects longer-term economic assumptions and changes in insurance risks[2].

The key performance measures are:

- IFRS Operating profit £37m
- IFRS Profit before tax £52m
- IFRS Profit for the period[3] £42m
- Solvency II surplus of £91m on a shareholder basis
- Solvency II coverage ratio of 156% on a shareholder basis
- Solvency II surplus of £91m on a SFCR regulatory basis
- Solvency II coverage ratio of 156% on a SFCR regulatory basis

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

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

Our governance

Understanding our risk landscape

The products that we write, the investments that we hold to meet our obligations and the environment in which we operate give rise to a broad range of risks. Our risk management framework seeks to ensure that we are only exposed to those residual risks that we want to be exposed to. Given the dominance of household insurance, our largest risk exposure is to weather risk, which we manage using catastrophe reinsurance protection.

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 Group Chief Risk Officer provides objective challenge and guidance on risk matters; with Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework. The core elements of our risk framework are set out below.

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[2] Operating profit measures the pre-tax profit excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit, therefore, reflects longer-term economic assumption changes in insurance risks such as mortality and longevity for the Group's insurance businesses. 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.

[3] After tax.

Risk appetite

Our risk appetite sets the ranges and limits of acceptable risk taking and considers the Group risk appetites as well for consistency across the Group as a whole. We define our appetite to the specific risks to which our business is exposed. Alongside the Minimum Capital Requirements that we wish to maintain and the degree of volatility of earnings we wish to avoid, we set a range of tolerances and limits for our material risk exposure and these are monitored every month. 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.

Risk policies

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 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.

Scenario planning

We undertake scenario analysis of emerging and uncertain future events to assess possible outcomes and to develop pro-active management responses.

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 we are exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of our plan.

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.

Risk oversight

Our Chief Risk Officer, who is independent of the business line, supports our Board and its Risk Committee in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. This includes ongoing assessment of our capital requirements to confirm that they meet regulatory Solvency requirements. 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.

Risk committees

The Group Board has ultimate responsibility for the Group's risk management framework and the The Company's Board has responsibility for the implementation and operation of the risk management framework. Our Board and Risk Committee, supported by our Chief Risk Officer, serve as the focal point for risk management activities. Formal oversight of our Risk Committee is provided by the Group Risk Committee and risk-specific Group committees. In addition, our Risk Committee is a sub-committee of our Board.

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

Our risk profile

We are exposed to:

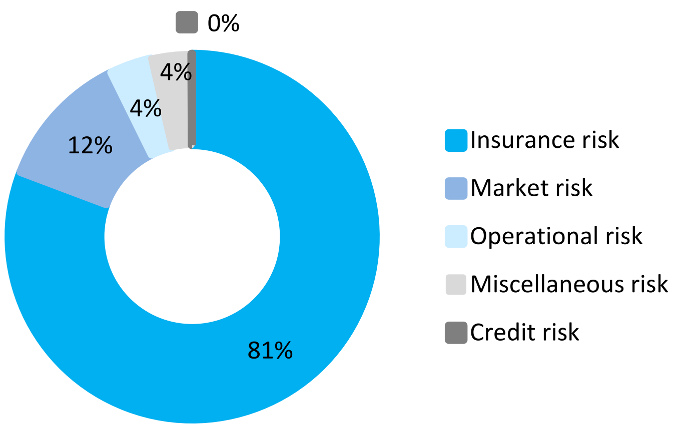
- weather-related catastrophe risks on our household insurance business;
- insurance risks arising from the volatility of claims relative to premiums charged;
- investment risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and
- operational 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 Group's strategic objectives and ensure continued solvency.

Our risk-based capital model seeks to provide a quantitative assessment of the Group's risk exposures. It 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



Further details on our risk profile are discussed in section C. Risk profile.

Solvency II Balance sheet

We are required to measure and monitor our capital resources on a regulatory basis and to comply with the Minimum Capital Requirements. Following the implementation of the Solvency II regulatory regime which came into force on 1 January 2016, our capital resources are managed on a Solvency II basis, as adopted by the Prudential Regulation Authority (PRA) at the balance sheet date.

As at 31 December 2016 the Company held £91m of surplus own funds above the SCR requirement, representing a regulatory capital coverage ratio of 156%. 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	**2016**
Solvency II Own Funds	253
Solvency Capital Requirement	162
Solvency II Surplus	91
SFCR Regulatory Capital coverage ratio	156%

The Company's SCR was £162m at 31 December 2016. We measure and monitor our capital resources on a regulatory basis and to comply with the minimum capital requirements. Following the implementation of Solvency II regulatory regime which came into force on 1 January 2016, capital resources are managed on a Solvency II basis, as adopted by the Prudential Regulation Authority (PRA) at the balance sheet date. Our regulatory capital requirement is determined using the PRA-approved Internal Model following the Group's successful Internal Model Approval Process (IMAP) application, 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.

Directors' certificate

Legal & General Insurance Limited – financial year ended 31 December 2016

The Directors acknowledge their responsibility for the proper preparation of the SFCR in all material respects 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 2016, 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 2016 to the date of the publication of the SFCR, 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 2017.

Chris Wren-Kirkham

Director

18 May 2017

Auditors' report

Legal & General Insurance Limited – financial year ended 31 December 2016

Report of the external independent auditors to the Directors of Legal & 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 the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01 and S.28.01.01 ('**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 above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

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

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

- The written acknowledgement by management 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 the Company as at 31 December 2016 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 supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and/or 'Capital Management' 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.

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, which have been supplemented by the approval of the full internal model made by the PRA Rules and Solvency II regulations on which they are based.

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.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report 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. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

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 required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company'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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

Birmingham

18th May 2017

- The maintenance and integrity of the Legal & General Insurance Limited 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

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.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin

- 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 Company template S.28.01.01
  - 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 (General Insurance) for the financial year ended 31 December 2016.

Company	Legal & General Insurance Limited One Coleman Street London EC2R 5AA
The supervisory authority responsible for financial supervision	Prudential Regulation Authority 20 Moorgate London EC2R 6DA
External Auditor	PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT

A.1.1.1 Qualified holdings and material related undertakings

Legal and General Insurance Limited is wholly owned by Legal and General Assurance Society Limited (LGAS).

A.1.1.2 Group Structure

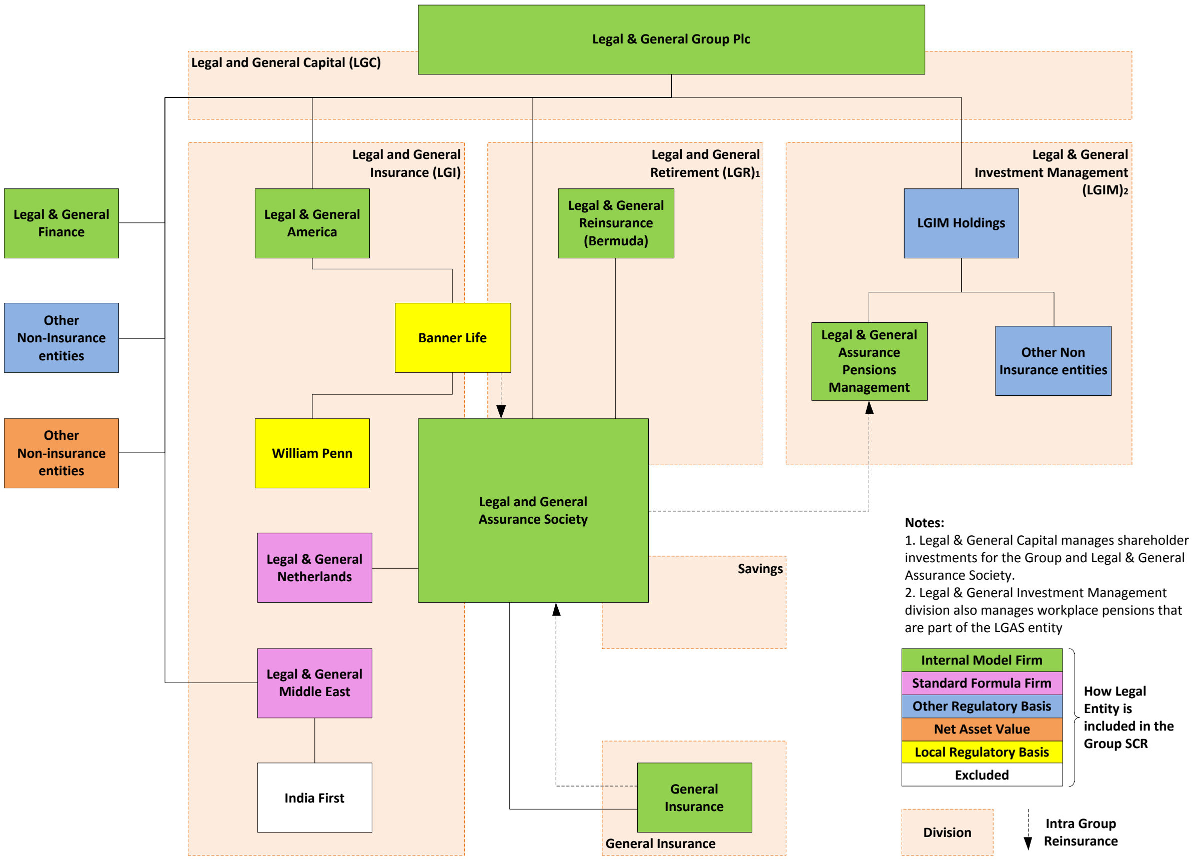
A simplified Group structure is shown below. The chart summarises the relationship between entity and divisional responsibilities (on a forward-looking basis).

Legal & General Assurance Society Limited is our immediate parent undertaking, owning 100% of the £7m (£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 these financial statements at 31 December 2016. 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. Legal & General Distribution Services Limited distributes general insurance products underwritten by Legal & General Insurance Limited and third parties.

Simplified Group Structure



A.1.2 Principal activity

Legal & General Insurance Limited is an insurance company authorised 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, renters or landlords. 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 home and; 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 using a catastrophe treaty and per risk liability excess of loss treaty respectively.

A.1.3 Significant business or other events

A.1.3.1 Business events

On 1 January 2016 we began underwriting pet insurance helping to diversify our business away from household. This is line with our strategy to create a diversified business.

A.1.3.2 Other events

Other events of note are: Flood Re, Insurance Premium tax and Ogden discount rate.

A.1.3.2.1 Flood Re

Flood Re, which is a ‘world first’ to help those living in areas at risk of flooding to access more affordable flood cover, launched in April 2016 and we are a participating member. It is a re-insurance scheme which takes the flood risk element of home insurance from an insurer in return for a premium based on the property’s Council Tax band, enabling insurers to offer competitive premiums and lower excesses to high flood risk homes across the UK. Qualifying risks are placed 100% into the Flood Re scheme. According to information from Flood Re, before introduction, only 9% of householders who had made prior flood claims could get quotes from two or more insurers, with 0% being able to get quotes from five or more. By December 2016, this increased further so that 84% could get quotes from five or more insurers while 95% could get quotes from two or more. At least 60 insurers participate in the scheme, representing 90% of the home insurance market. Currently, 58% of those households that had previously made flood claims now have access to ten or more quotes, which means that Flood Re has changed the market by enabling consumers in flood-prone parts of the country to have more choice. Flood Re’s activities are funded by an annual levy paid by all insurers authorised to write home insurance in the UK and is set at a total amount of £180 million per year for the first five years of Flood Re’s operations. The total amount is divided between insurers and charged based on each insurer’s market share, of which we paid £9.4m for 2016.

A.1.3.2.2 Insurance Premium Tax

Insurance Premium Tax increased to 10% from October 2016 and will rise again to 12% from June 2017.

A.1.3.2.3 Ogden discount rate

Whilst our business is not materially exposed to recent reduction in the Ogden discount rate from 2.5% to -0.75%, that was announced by the Lord Chancellor on 27 February 2017, it is worth noting here because it was a significant market event which materially affected the 2016 results of some non-life insurers and could trigger increases in liability treaty reinsurance renewal rates. We mostly underwrite household insurance with incidental liability cover which our customers may incur as a property owner, occupier and individual, but this is not material. In addition, we buy significant liability reinsurance cover to which reduces the net liability risk exposure on our balance sheet. We have reviewed the claims we considered to be at risk and we are satisfied we have no material exposure. The Ogden discount rate is the discount rate used by the courts to determine lump sum compensation payments to claimants in cases involving life-changing injury. The new rate means the pay-out due to claimants will be much higher than the same settlement would have been at the old rate; from now on the assumption will be that damages that are invested will shrink at the rate of 0.75% each year rather than grow by 2.5%.

A.2 Underwriting performance

Our 2016 underwriting result is presented below. The underwriting result of £22m (2015: £19m) was mainly attributable to benign weather conditions, offset by the introduction of the Flood Re Levy amounting to £9.4m. We continued our focus on our cost base throughout 2016 and in streamlining critical processes. As a consequence of these long-term cost saving initiatives, restructuring costs of £0.9m were incurred in 2016 (2015: £1.4m).

£m	2016	2015
Gross premium written	326	337
Gross premium earned	329	358
Gross claims incurred	(142)	(168)
Expenses	(141)	(148)
Reinsurance	(24)	(24)
Underwriting profit	**22**	**18**

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

Total gross written premium for 2016 was £326m (2015: £337m). During 2016, we continued our strategy of focussing on the housing marketplace, including leveraging the distribution relationships from the wider Group proposition focused on the housing purchase event. We experienced success in obtaining a number of new distribution partners and commenced underwriting pet insurance which provides some diversification of risk. We have maintained our focus on the future profitability of the business and despite challenging market conditions have been careful not to reduce policy prices to an extent that could risk future profitability and our financial stability. We continue to be active in seeking opportunities to increase our market offering, and secured a number of new deals, some of which commenced towards the end of 2016. 2016 also showed growth in the direct channel supported by the launch of underwriting pet insurance. 2016 was the first full year of the new General Insurance digital system, launched for direct business in November 2015 and went live for renewals in late 2016. This strategic platform delivers a digital customer experience which is mobile and tablet friendly as well as a pricing capability that allows us to rate and price risks in a more agile fashion.

A.3 Investment performance

Our 2016 investment performance is presented below:

£m	2016	2015
Income on financial investments at fair value through profit or loss	4	4
(Losses)/gains on financial investments at fair value through profit or loss	28	3
Total	**32**	**7**

In Q1, 2016, we completed the transition from an asset portfolio consisting almost entirely of corporate bonds to a mixed asset fund. We continue to monitor the investment portfolios performance against return and volatility criteria agreed with the investment fund manager, Legal & General Investment Management Limited (LGIM). Investment returns totalled £32m (2015: £7m), representing a return of 8.4% against our long-term strategic target of 4.0%. This is attributed to very favourable equity and fixed interest performance and, although overseas currency exposure is limited by the mandate, the sharp depreciation in the rate of the GBP resulted in significant gains on non-Sterling exposure within the fund. We benefited from being broadly diversified 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, which has a break clause after five years.

A.5 Any other information

None.

B. System of governance

For the year ended 31 December 2016, Legal & General Insurance Limited ('the Company') is the General Insurance business division of the wider Legal and General Group Plc ('the Group'), regulated by both the PRA and FCA. The Group Chief Financial Officer and Group CEO, who are both Executive Directors of Legal & General Assurance Society (LGAS) are considered to exercise significant influence over the management and conduct of the affairs of Legal & General Insurance Limited through their oversight of the Legal & General Insurance Limited Board and its committees and accordingly have been designated as SIMF 7 (Group Entity Senior Insurance Manager function) for Legal & General Insurance Limited.

The business of Legal & General Insurance Limited 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. Legal & General Insurance Limited also has a subsidiary, Legal and General Distribution Services Limited (LGDSL), which distributes general insurance products underwritten by Legal & General Insurance Limited and third parties.

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
- Chief Executive Officer (General Insurance)
- Commercial Director
- Finance Director (General Insurance)
- Managing Director Direct
- Managing Director Partnerships

The Chief Risk Officer Insurance and Chief Actuary are standing attendees.

The Legal & General Insurance Limited Board meets circa six times per annum 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.

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 (General Insurance) 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 (General Insurance), is supported by the Group level risk, legal, finance, HR, IT and 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 Pricing, 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 (General Insurance) Board has two standing Board Committees as follows:

- **Legal & General Insurance Limited** (General Insurance) **Reserving Committee**
  Role - to discuss reserving policy, the level of General Insurance technical reserves, reserving risk and calculation approach.

- **Legal & General Insurance Limited** (General Insurance) **SII Economic Capital Committee**
  Role - responsible for providing governance of the SII Internal Model within Legal & General Insurance Limited (General Insurance).

B.1.3 Entity governance oversight

The Legal & General Insurance Limited (General Insurance) Board meets on a bi-monthly basis 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 2016 cycle

In November 2016 there was a Group-wide restructuring to create two new divisions operating through LGAS:

- Legal and General Insurance ('LGI'). The new Insurance division will have over 7 million customers in UK and the US, and provide life insurance, critical illness cover, and income protection to individuals and company employees; and

- General Insurance ('GI') specialises in providing buildings, contents, travel and pet insurance to its customers and whose 5 star Defaqto rated products are sold direct, online, via platforms, IFAs and banks and buildings societies.

Two key committees, Insurance Risk and Conduct Committee and Insurance Product Investments and Capital Committee, split so there is now a General Insurance Risk and Conduct Committee and General Insurance Product Investments and Capital Committee.

At the end of 2016 there were changes to the Legal & General Insurance Limited (General Insurance) Board, with a new CEO and Finance Director, arising from the structural change above.

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.

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 unit, and overall Group levels. When making individual variable pay awards, both financial and non-financial performance in support of our business strategy is considered against specific, measurable targets, which are set at the beginning of the year. The Group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans. Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years. The company reserves the right to adjust deferral levels for code staff (see B.1.8.2 below) as deemed appropriate.

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 company performance, as well as their individual contribution. This includes employees in LGIM those roles span different business divisions and whose participation encourages synergy and teamwork across the Group. 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 company during the year in key roles.
Other share plans and long-term incentives	The company 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. In addition, the company operates a cash-based long-term incentive plan for LGIM (LGIM LTIP) based on the financial performance of the division. Participation in the LGIM LTIP is limited to senior managers within the division.
Pension	All employees are given the opportunity to participate in a Group pension scheme.
Shareholding requirements	The CEO is asked to build up a shareholding of 300% of salary and other Executive Directors are asked to build up a shareholding of 200% of salary. Other members of the leadership Group are asked to build up a voluntary shareholding of 50% of base salary.

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 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).

The 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.

In 2016 it was proposed that an interim dividend of £23m be paid to Legal and General Assurance Society Ltd (the 100% shareholder of Legal & General Insurance Ltd) and this was subsequently approved and paid in March 2017. The impact of this dividend payment as at 31 December 2016 would have been to reduce the regulatory solvency coverage ratio by 14%. Legal and General Insurance Limited had the ability to cancel the dividend proposal up until it was paid.

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 and General Assurance Society Ltd.

B.2 Fit and proper requirements

B.2.1 Application of the fit and proper policy

Legal & General has in place a fit and proper policy, the purpose of which is to set out the procedures required by regulated firms within the Legal & General 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 and 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 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.

Legal & General 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 each application, regardless of the current approved status of individual.

The assessment criteria for each of the three key factors are also relevant in assessing the continuing fitness and propriety of approved persons.

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

B.2.2.2 Maintaining fitness and propriety

Legal & General's Group policies and procedures place an obligation on approved persons to notify the Group Conduct Risk and HR Director in the event of any pending or actual criminal, civil or other disciplinary charges, 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, Legal & General 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.

Legal & General's performance management process is the primary mechanism for tracking ongoing competency. Legal & General 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

We are supported by a Chief Risk Officer and risk and compliance team that report into the Chief Executive Officer of the General Insurance division and are responsible for the overall operation of the Group's risk framework, covering insurance, market, credit, liquidity, operational and conduct risks within the General Insurance division. There is a central Group Risk team headed by the Group Chief Risk Officer who is responsible for establishing the risk management framework across Legal & General Group.

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.

B.3.1.1 Risk appetite

Our risk appetite statement sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking. Our risk appetite statement works within the overall Group risk appetite and is reviewed annually and approved by our Board and by the Group Capital Committee.

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 from the Group centre.

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 we are exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of our 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 Committee in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. This includes ongoing assessment of our capital requirements to confirm that they meet regulatory solvency requirements.

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 Group Board has ultimate responsibility for the Group's risk management framework and the GI Board has responsibility for the implementation and operation of the risk management framework within the Company. Our Board and Risk Committee, supported by our Chief Risk Officer, serve as the focal point for risk management activities. Formal oversight of our Risk Committee is provided by the Group Risk Committee and risk-specific Group committees. In addition, our Risk Committee is a sub-committee of our Board.

Our Chief Risk Officer is our second line of defence and attends our key committees and strategic planning meetings to ensure that appropriate risks are considered at the earliest point and to ensure engagement of other risk specialists as appropriate. Our Chief Risk Officer has 'open door access' to our Chief Executive Officer and access to the Group Risk Committee/Chair of the Group Risk Committee through the Group Chief Risk Officer.

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 Governance of the Internal Model

The Board of Legal and General Insurance Limited is ultimately responsible for ensuring the continuous appropriateness of the design and operation of the Company's Internal Model. Our model is also a key component of Legal & General Group's partial Internal Model. This responsibility is discharged through the General Insurance Risk and Compliance Committee, whilst the General Insurance Solvency II and Economic Capital 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.

Our Internal Model Controller is the first line of defence, responsible for implementing adequate and effective controls over the Internal Model as well as our material product risk exposures, with the ongoing application and effectiveness of these overseen by our risk teams and by Group Internal Audit in the third line of defence.

Material concerns are escalated to operational and senior management for resolution. The status of remediation activity is monitored by our risk team, with significant issues escalated to our Solvency II and Economic Capital Committee and where necessary to our Risk and Compliance Committee. Group Internal Audit provides independent oversight of the effectiveness of the internal control system.

Our Solvency II and Economic Capital Committee escalates major changes to our Board, who will review reports from the Committee and provide sign-off before submission to the Prudential Regulation Authority for approval.

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

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 Controller. In addition, our Internal Model Controller is responsible for ensuring that the key controls in place to mitigate financial risks inherent in our product lines are identified and documented in our risk policies.

No material changes were made to the governance of our internal model during the reporting period.

Our annual Validation Work Programme for 2016 was produced by our first and second line teams in line with the Group Validation Policy and the Validation Terms of Reference issued by Group Enterprise Risk. Our Validation Work Programme outlined the validation approach, activities, tools and aspects of the model.

The results, conclusions and consequences including remediation are detailed independent validation reports presented to our Solvency II and Economic Capital Committee.

B.4 Own Risk and Solvency Assessment

B.4.1 Purpose

The purposes of the Own Risk and Solvency Assessment (ORSA) are 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.

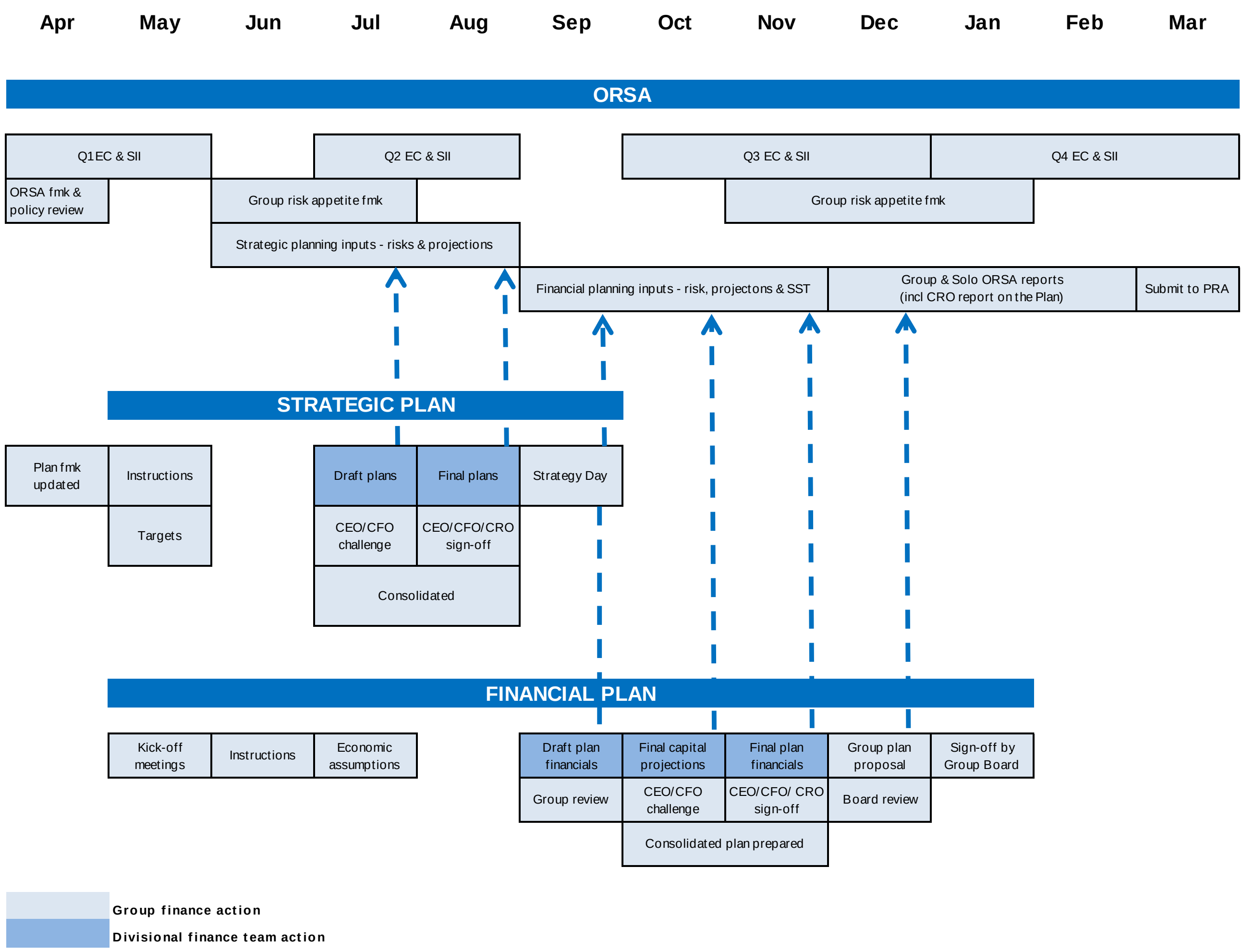
Legal & General's ORSA process brings together the underlying risk and capital management processes by which we assess, monitor and measure our risks, review our business against risk appetite and tolerances and project the solvency position over the business plan. We have continued to integrate the ORSA with 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 diagram in the following page sets out the ORSA timeline and demonstrates how the ORSA process interacts with the Strategic and Financial Plan processes. Over 2017, there are plans to align the processes with the reporting/production schedule to ensure more efficient use of resources and further embed the ORSA into business as usual.

The ORSA policy was last reviewed by the Group Board (delegated to GRC) in July 2016 and Legal & General Assurance Society Board in September 2016. This has been cascaded to the legal entities and was approved at the Company's Board meeting in August 2016.

B.4.2 Integration of group and subsidiary ORSA processes

Legal & General 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 divisions providing key ORSA inputs in line with the plan timetable (shown in the diagram below) and various Group functions coordinating and/or aggregating. A single group and Legal & General Assurance Society ORSA report is produced. Additionally we produce a number of solo ORSA (or ORSA equivalent) reports for all legal entities. These use the same underlying information, although there may be some local differences due to timing and local regulatory requirements. There may be small timing-related differences between solo and Group and LGAS ORSA reports. Where there is a material timing difference we provide a separate update.

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 GRC from the previous ORSA cycle.
- Q2, stress and scenario tests determined and recommended in order to provide business divisions with sufficient time to model
- Q3 projections of capital requirements (part of the plan financials); stress and scenario testing results inform the review of the plan
- Q4, formal ORSA reporting – CRO's review of the plan and ORSA report

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

B.4.3 Legal and General Insurance Ltd approach

Working within the organisational structure above, we have determined our own solvency needs given our risk profile as follows:

B.4.3.1 Key ORSA processes

Our key ORSA processes include:

- annual review of the risk appetite:

- quarterly monitoring of the risk appetite: actual risk profile is monitored against the limits agreed in the risk appetite on a quarterly basis;
- strategy review: strategy is reviewed on at least an annual basis by the Board, the agreed strategy is then used in the business planning process;
- business planning: the business planning process is described in the section below;
- quarterly forecasting: the financial budgets and plans are re-forecast on a quarterly basis;
- capital modelling: the capital model is updated and run on a quarterly basis, based on the latest financial projections; and
- stress and scenario testing: stress and scenario testing is performed on a regular basis. Some scenarios are included in the risk appetite framework. Scenarios are provided by the Group, in addition we regularly review the scenarios to test against, based on our own risk profile.

Legal & General Group provides us with stress & scenario tests which, where applicable, are applied to the latest full year own funds positions to assess the impact on available capital. The results of these stress & scenario tests are then reported back to Group.

In addition to this, we apply our own stress tests, which we consider are conceivable situations to which we are at risk. These are done using an internally built ORSA model which allows projections for up to five years. The impact on our Own Funds is assessed for the latest full year capital position and the projected capital positions.

B.4.3.2 Business planning and use of data

A key assumption underpinning the majority of ORSA processes is the business plan provided by our finance team. We construct the most recent business plan in our Internal Model.

Capital modelling, which includes estimating current and future capital requirements, is a key tool in assessing the viability and sign-off of the plan. As part of the capital modelling process, data is also collected from a variety of sources, both internal and external to the business.

This data is then input into our internal model.

Risks identified during our risk review process are modelled stochastically, and marginal capital requirement distributions for each risk are aggregated via the use of a correlation model. All marginal distributions are aggregated according to the t-copula specification.

The 99.5th value from the correlated output produces the capital requirement.

The remaining data is used to form projected balance sheets, cash flows, and profit and loss accounts.

B.5 Internal Control System

Our General Insurance 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 internal control policy. Our General Insurance Risk and Compliance Committee is a sub-committee of the Legal and General Insurance Ltd 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 main operating 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

Our 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 Legal and General Insurance Ltd Board as required by the Group's Solvency II Compliance Policy.

We have defined the Solvency II Compliance function as being responsible for:

- advising our Board and its sub committees on compliance with the requirements of the Solvency II Directive and its associated laws, regulations and administrative provisions;
- advising our 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 our Solvency II Compliance Policy, which inter alia sets out the responsibilities, competencies and reporting duties of the (SII) compliance function
- establishing and operating our Solvency II Compliance Plan that details the activities the function will undertake in relation to compliance risk.

We have defined our Chief Risk Officer role as the functional head of Solvency II Compliance at the Legal and General Insurance Limited level, with the risk, actuarial, Group finance and HR functions delivering activities in support of the Solvency II Compliance function.

Our 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.

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

B.6 Internal Audit Function

We delegate the oversight of the independence and objectivity of our internal and external auditors to the Group Audit Committee. The scope of Group Internal Audit's activities extends to include us. It encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of our governance, risk management, and internal control processes.

Group Internal Audit carries out:

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

Internal control objectives considered by Group Internal Audit include:

- consistency of operations or programmes with the Group's established risk appetite, objectives and goals (our risk appetite statement works within the overall Group risk appetite);
- effectiveness and efficiency of operations, and use of resources;
- compliance with policies, plans, procedures, laws and regulations;
- reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information; and
- safeguarding of assets.

The Group Chief Internal Auditor reports functionally to the Chair of the Group Audit Committee and administratively to the Group Chief Executive and has unrestricted access to the Board and right of attendance at all of the Group's governance and risk forums or any other forum in the execution of the Group Internal Audit remit. Group Internal Audit's scope covers the entire Group, and there is no area, document or aspect that it is restricted from accessing.

The Audit Committee is also responsible for the development, implementation and monitoring of the Group's policy on external audit and Internal Audit would always be notified and consulted in respect of any instance when the Group is subject to audit by external agencies (for example, the PRA or HMRC).

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

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditors' 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, 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 Senior Insurance Management Function 20 (SIMF20) role as set out under the Senior Insurance Managers Regime. We have complied with this and have a Chief Actuary holding SIMF20.

Our Chief Actuary presents an annual report to our 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 and reassurance arrangements; and
- contributed to the effectiveness of the risk management systems more widely.

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 reassurance by the actuarial function were provided substantially through the membership of our Reserving and Capital Committees.

The actuarial function contributed to the effective implementation of the risk management system, the membership of a number of key Committees with risk and financial reporting responsibilities and involvement in various activities. 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.

B.8 Outsourcing

Our Supplier 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.

Our handbook is augmented by the Group's Outsourcing and Essential Supplier Services Policy. It sets out the framework and minimum standards of control and governance that Legal & General 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 must include: a service level agreement; the conditions under which the arrangement may be terminated; provision for the orderly transition of services to another provider or Legal & General if the contract is terminated; a defined mechanism to resolve disputes arising out of/or relating to the contract; appropriate contingency plans should the supplier be unable to provide the required service; and provision for the continued availability of any software upon which Legal & General is reliant. Contracts must also ensure access to the providers premises, business management and any data relating to the outsourced activity, by Legal & General's Internal Audit, Risk and Compliance functions, its external auditors and Supervisory Authorities; and appropriate warranties that Legal & General and client data is adequately protected against unauthorised access at all times. All outsourced arrangements must be managed under the direction of a named Legal & General relationship manager. The risk function maintains oversight of the management of outsourcing arrangements established by the first line business operations.

Below is a schedule of outsources used by us directly or indirectly.

Service Providers	Goods/services	Jurisdiction
RYAN DIRECT GROUP	Claims management service provider	UK
ZENNOR	Claims management service provider	UK
VANQUIS	Claims management service provider	UK
LAS	Claims management service provider	UK
ULTIMATE PET PARTNERS LIMITED	Pet product provider	UK
AXA ASSISTANCE HOME EMERGENCY	Home emergency service	UK
CUNNINGHAM LINDSEY UNITED KINGDOM	Claims management service provider	UK
DAS LEGAL EXPENSES INSURANCE COMPANY LIMITED	Legal expenses insurance provider	UK
A & A CONSTRUCTION GROUP LTD	Building repairs & restoration	UK
A J BUILDING (HULL) LTD - HULL	Building repairs & restoration	UK
ALL TRADES GB LTD	Building repairs & restoration	UK
ALMERICO LTD	Building repairs & restoration	UK
ALPINE CONSTRUCTION ESSEX LTD	Building repairs & restoration	UK
ASPECT	Asbestos removal	UK
AUGER	Drainage	UK
AXA ASSISTANCE	Home emergency	UK
BAKERS OF DANBURY	Building repairs & restoration	UK
BETACOVE	Building repairs & restoration	UK

Service Providers	Goods/services	Jurisdiction
BUILDING VALIDATION SOLUTIONS	Independent Validation Provider	UK
CADMAN & SONS LLP	Building repairs & restoration	UK
CAMILLERI CONSTRUCTION LIMITED	Building repairs & restoration	UK
CAVALIER LTD (FLOORING)	Flooring	UK
CAVALIER LTD (FURNITURE)	Furnishings	UK
CHESHIRE MAINTENANCE	Building repairs & restoration	UK
CLAIMS CONSORTIUM	Independent Validation Provider	UK
CLARK CONTRACTS	Building repairs & restoration	UK
CLOVER	Building repairs & restoration	UK
CRAWFORD & COMPANY	Subsidence Claims Management	UK
CUNNINGHAM LINDSEY SUBS	Subsidence Claims Management	UK
CUNNINGHAM LINDSEY UK	Claims Management Solutions	UK
DJHRAVCON	Building repairs & restoration	UK
DOH CONSTRUCTION LTD	Building repairs & restoration	UK
DALE BUILDING MAINTENANCE LTD	Building repairs & restoration	UK
DIRECT VALIDATION SERVICES	Electrical repairs	UK
EDINMORE CONTRACTS LTD	Building repairs & restoration	UK
FSH MAINTENANCE LTD	Building repairs & restoration	UK
FERGUSON & CO	Solicitors	UK
GELDER GROUP	Building repairs & restoration	UK
GOODYER LTD	Building repairs & restoration	UK
GREENBRIDGE TECHNOLOGY	Electrical repairs	UK
HARDYMAN LTD	Building repairs & restoration	UK
ICOG	Special investigations	UK
LANMARK	Building repairs & restoration	UK
MITIE	Independent Validation Provider	UK
MARTINDALES	Glazing	UK
MIDLANDS RESTORATION	Building repairs & restoration	UK
MITIE ST HELENS/MIDLANDS	Building repairs & restoration	UK
MULBERRY CONSTRUCTION MANAGEMENT LTD	Building repairs & restoration	UK
ORIEL	Building repairs & restoration	UK
PJ WEBB	Building repairs & restoration	UK
PATERSON RESTORATION LTD	Building repairs & restoration	UK
POLYGON	Property damage restoration	UK
QUESTGATES LIMITED	Adjusters other	UK
QUESTGATES ARBITRATION	Adjusters other	UK
QUESTGATES ENVIRONMENTAL	Environmental	UK
QUESTGATES SI	Special investigations	UK
RAPID RELOCATE	Alternative accommodation	UK
SDM PROPERTY ASSISTANCE LTD	Building repairs & restoration	UK
SIGNET GROUP LTD	Specialty Jewellery retailer	UK
TADLEY SERVICES GROUP	Furnishings	UK
THE FORSHAW GROUP LTD	Building repairs & restoration	UK
TOP NOTCH CONTRACTORS LTD	Building repairs & restoration	UK
UK REFURBISHMENT LTD	Building repairs & restoration	UK

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

- Investment management services provided by Legal & General Investment Ltd (LGIM);
- Treasury services by Legal & General Finance Plc; and
- The provision of employees and procurement services by Legal & General Resources Limited.

Legal & General Resources Limited is the main employment company for the UK Group as the contracts of employment for all staff, other than main board directors and staff employed by LGIM, are held with this company. Legal & General Resources Limited is also the company through which group-wide contracts for the supply of goods and services for Legal & General UK businesses are placed.

Shared Services IT (SSIT) provides us with IT services and by virtue of all IT personnel, and many of BIS’s contracts, being in the name of Legal & General Resources, from a corporate entity perspective these services are effectively provided to us by Legal & General Resources.

B.9 Adequacy of the system of governance

The 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 and General Insurance Limited. The most recent review was in February 2017, where the Committee concluded that the Group's risk framework aligns with the Group's key risk exposures, and operated effectively during 2016 in identifying material risk exposures. The conclusion was noted by the Group Risk Committee.

B.10 Any other information

None

C. Risk profile general

C.1.1 Overview

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:

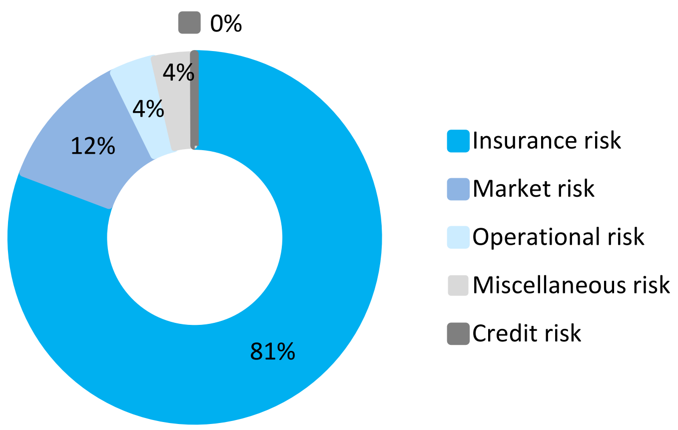
- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

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

There have been no material changes in the risk profile over the reporting period. 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.1.2 Insurance risk

Insurance risk covers:

- 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 General Insurance PICC.

C.1.2.1 Special purpose vehicles (SPVs)

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

C.1.3 Market risk

The Company has an investment portfolio that is managed by 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, or equity and property price fluctuations. 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.

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 monthly investment forum and reporting of risk metrics to the GI PICC.

C.1.3.1 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 General Investment Management (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 Insurance PICC for monitoring purposes based upon an agreed MD Risk and Capital Mandate that is reviewed at least once per annum.

C.1.4 Credit risk

Credit risk reflects possible losses 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.1.5 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. However the Board has formally delegated the management functions that are to be carried out by General Insurance to Legal & General Finance Plc (the company within the Group designated specifically to manage the liquidity risk of the Group).

The Company's Board, through the General Insurance Product, Investment and Capital Committee (GI PICC), reviews funding facilities with Legal & General Finance Plc at least once a year 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, for liquidity risk management, appropriate to the nature, scale and complexity of the business carried out by the Company. There are currently two facilities with finance plc, a revolving credit facility to be used for day-to-day operations and a committed credit facility to be drawn down under extreme liquidity shortfalls.

Our Financial Reporting & Operations are responsible for the continued monitoring of the current and forecast balance with Legal & General Finance Plc, with a formal review performed biannually.

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 Finance Director, General Insurance. The Head of GI Actuarial and Business Performance is responsible for the relationship with Legal & General Finance Plc and discussing any required changes in liquidity facilities.

C.1.6 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 standard calibration.

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

C.1.7 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 £30m and £509m 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.

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 £21.6m as at 31 December 2016 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	5% Increase in Attritional Loss Ratio	(13)	(8)%
	+20% Reserve Stress	(15)	(9)%
	-10% GWP +5% Attritional Loss Ratio	(14)	(9)%
	-10% GWP -5% Attritional Loss Ratio	12	7%
	December 2010 Freeze	(16)	(9)%
	+10% Pet Combined Operating Ratio	(1)	(1)%
	+10% Increase in Household Expenses	(11)	(6)%
	1-in-250 Windstorm & Coastal Flood Event	(49)	(29)%
	1-in-250 River Flood Event	(15)	(9)%
	1-in-200 Windstorm & Coastal Flood Event	(15)	(9)%
	A 1-in-200 Windstorm & Coastal Flood Event with an increase in Sum Insured exposure of 10%	(42)	(24)%
Market	1% Increase in interest rates	(8)	(4)%
	20% Decrease in equities	(15)	(9)%
	0% Investment return	(11)	(7)%
	-5% Investment return	(15)	(9)%
	1% Decrease in interest rates	8	5%
	Move to extreme asset portfolio mix	6	3%
	1. Downgrade credit portfolio by 3 notches 2. Equities: Euro, GBP, JPY, other and USD all -35% 3. Property: -20%	(34)	(20)%
Credit	Downgrade credit portfolio by 3 notches (alphanumeric framework), for example an A- goes to BBB-	(15)	(8)%

The table above shows 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 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.

C.6 Other material risk information

There is no other material risk information.

D. Valuation for Solvency purposes

D.1 Assets

The assets as at 31 December 2016 under Solvency II are £434m compared to the total value of assets under IFRS of £639m.

£m	Section Reference	2016
Total IFRS Assets		639
Solvency II valuation differences	D.1.2	(205)
Total Solvency II Assets		**434**

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.

D.1.2 Solvency II valuation differences

The assets as at 31 December 2016 and the impact of valuation differences under IFRS are shown below:

Assets (£m)	**Section reference**	**Solvency II**	**IFRS valuation differences**
Goodwill	D.1.2.1	0	0
Deferred acquisition costs	D.1.2.1	0	(50)
Intangible assets	D.1.2.1	0	(36)
Deferred tax assets	D.1.2.9	0	0
Pension benefit surplus		0	0
Property, plant & equipment held for own use	D.1.2.2	5	0
Investments (other than assets held for index-linked and unit-linked contracts)		392	(1)
Property (other than for own use)		0	0
Holdings in related undertakings, including participations	D.1.2.3.1	0	(2)
Equities		0	0
Bonds	D.1.2.3.2	76	0
Collective investments undertakings	D.1.2.3.3	314	0
Derivatives	D.1.2.3.4	1	0
Deposits other than cash equivalents	D.1.2.3.5	0	0
Other investments		0	0
Assets held for index-linked and unit-linked contracts		0	0
Loans and mortgages		0	0
Reinsurance recoverables	D.1.2.4	4	4
Deposits to cedants		0	0
Insurance and intermediaries receivables	D.1.2.5	0	(105)
Reinsurance receivables	D.1.2.4	0	(16)
Receivables (trade, not insurance)	D.1.2.6	11	0
Cash and cash equivalents	D.1.2.7	23	(0)
Any other assets, not elsewhere shown		0	0
Total assets		**434**	**(205)**

D.1.2.1 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 2016, intangible assets did not meet this 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 £36m and £50m respectively.

D.1.2.2 Property, plant and equipment

The Group applies the depreciated cost model for the valuation of property, plant and equipment for own use under IFRS. Each asset is subject to the impairment testing criteria of IFRS. This IFRS value is taken as a proxy for the economic or fair value required for Solvency II valuation purposes, as there is deemed to be no material difference.

D.1.2.3 Investments (other than assets held for index-linked and unit-linked contracts)

D.1.2.3.1 Holdings in related undertakings, including participations

We have a 100% owned subsidiary investment in Legal & General Distribution Services Limited valued at net assets in accordance with Solvency II valuation rules. This is £1.6m lower than the IFRS valuation based on total consideration paid.

D.1.2.3.2 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.

D.1.2.3.3 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.1.2.3.4 Derivatives

Derivatives 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.1.2.3.5 Deposits other than cash equivalents

There is a £0.5m classification difference between cash and deposits other than cash equivalents. This is because under Solvency II, if the maturity date of the deposit is after the reporting date (time deposit) this is classified as 'deposits other than cash equivalents' as opposed to being classified as 'cash and cash equivalents' under IFRS. Deposits other than cash equivalents are measured at fair value, and there is no valuation difference between Solvency II and IFRS.

D.1.2.4 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.

D.1.2.5 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. We have deemed our debt due at the valuation date to be not material and hence for Solvency II purposes treat all Insurance and intermediaries receivables reported on an IFRS basis within our Solvency II technical provisions.

D.1.2.6 Receivables (trade, not insurance)

Trade receivables are valued as financial assets in accordance with IAS39's fair value model with valuation consistent on both an IFRS and Solvency II basis. We have deemed cost to be a good proxy for fair value given materiality and that our trade receivables are short term in nature. Included within the £10.5m is £6.7m due to Group companies with the remaining amount relating to advance commission and accounts in trust with suppliers who have delegated authority for claims.

D.1.2.7 Cash and cash equivalents

Cash and cash equivalents are valued at fair value in accordance with IFRS. It is noted that cash equivalents under Solvency II are defined to include only deposits exchangeable for currency on demand at par and are usable for making payments without penalty or restriction. Cash equivalents under Solvency II therefore exclude short dated bond instruments, which are reclassified to 'Deposits other than cash equivalents'.

D.1.2.8 Operating leases

We are currently in a 10-year lease arrangement expiring November 2024 for our premises in Birmingham, with a break clause in 2019. The effective annual rent, including rent-free periods, is £0.7m per annum.

D.1.2.9 Deferred Tax Assets

We do not have a deferred tax asset as at the end of 31 December 2016.

D.1.3 Valuation uncertainty

We value our 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 267 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 the our technical provisions as at 31 December 2016 is provided in the table below.

Technical provisions (£m)	Section reference	Income protection	Motor vehicle liability	Fire and other damage to property	General liability	Credit and suretyship	Misc. financial loss	Total
Claims provisions	D.2.2.1	2	1	70	9	0	5	86
Premium provisions	D.2.2.2	(1)	0	35	(0)	0	(2)	32
Best estimate	**D.2.1.1**	**1**	**1**	**105**	**9**	**0**	**4**	**118**
Risk margin	D.2.2.3	0	0	6	0	0	0	7
Total		**1**	**1**	**111**	**9**	**0**	**4**	**125**

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.

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 BEL is calculated gross, 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 is based on exposures as at 31 December 2016 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.

D.2.1.2 Risk margin (RM)

The RM is the cost that would be incurred in holding eligible Own Funds (as defined in the Own Funds part of the PRA Rulebook for SII firms) to cover the 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. 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. This assessment has concluded that the quality and sufficiency of data complies with the above requirements.

D.2.2 Methodology

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

D.2.2.1 Claims provisions

D.2.2.1.1 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 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.2.2.1.2 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.2.2.1.3 Motor

The outstanding claims provision for the motor book is the sum of the notified case estimates. As the book is in run off (and has been since 2007) and the case estimate reserves are understood to be the best estimates there is no IBNR reserve. There is only one large liability claim left to settle.

D.2.2.1.4 Domestic mortgage indemnity

There are very few policies outstanding as the product is no longer sold. There is a possibility that an IBNR reserve is required, so a small non-material reserve has therefore been held to cover this possibility.

D.2.2.1.5 Other adjustments

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

D.2.2.2 Premium provisions

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

D.2.2.2.1 Household

All in-force household policies at the valuation date are identified split by channel and section. 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 if it is MGA business.

A separate reserve is held for events not in data (ENID). There is 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.2.2.2.2 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.2.2.2.3 Motor

There are no premium provisions for motor policies as the Company has not underwritten any business since 2007 and hence there is no unexpired risk.

D.2.2.2.4 Domestic mortgage indemnity

There are no premium provisions for domestic mortgage indemnity policies as the Company no longer sells any business and hence there is no unexpired risk.

D.2.2.2.5 Other adjustments

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

D.2.2.3 Risk margin (RM)

The risk margin is calculated using the Company's Internal Model. The model is a multi-year model and allows for capital projections to be made 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 SCRs in each future year of run-off is calculated over a five-year time horizon assuming no new business is written after year one. 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.2.3 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 have 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:

- risk premium for future exposure – assumes risk price from claim trends process. 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 risk premium. Changes in the risk premium 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 of 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.

ASU – all ASU assumptions are based off past internal data:

- 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

Others:

- amount of motor IBNR to hold – the assumption is that the current estimated amount on the system is the total left outstanding as there are very few claims left to settle due to the amount of time which has passed since the book was closed; and
- amount of DMI IBNR to hold – a nominal amount is held as the book is very small with only a few policies left where claims could arise. Expert judgement is used to assess the required amount.

D.2.4 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 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.

D.2.5 Reconciliation between IFRS and Solvency II valuation

The table below bridges the BEL under Solvency II to the IFRS provisions.

Technical provisions (£m)	Section reference	Solvency II	IFRS valuation differences
Claims provisions	D.2.2.1	86	(11)
Premium provisions	D.2.2.2	32	(139)
Best estimate	**D.2.1.1**	**118**	**(149)**
Risk margin	D.2.2.3	7	7
Total		**125**	**(143)**

The technical provisions (TPs) reduce under Solvency II because cash flows are calculated using best estimate assumptions excluding prudent 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 2016 (unexpired risk reserves under IFRS assume a minimum combined operating ratio of 100%) 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.2.6 Matching adjustment, volatility adjustment and transitionals

The Company business does not utilise any of these arrangements.

D.2.7 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) and Flood Re cover which is a rolling treaty covering individual risks on an excess of loss basis. The general reinsurance principle 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.2.8 Material changes from year ended 2015

There are no material changes to report for the calculation of the technical provisions.

D.2.9 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 2016 the company had other liabilities as follows:

Other liabilities (£m)	**Section reference**	**Solvency II**	**IFRS valuation differences**
Deferred tax liabilities	D.3.1	3	(8)
Derivatives	D.3.2	3	0
Insurance and intermediaries payables	D.3.3	6	(4)
Reinsurance payables	D.3.4	0	(11)
Payables (trade, not insurance)	D.3.5	43	(10)
Total		**56**	**(33)**

Legal & General Group Plc operates defined benefit pension schemes in the UK and overseas, and although none are held by Legal & General Insurance Limited directly, the company is recharged its proportion of any deficits due. Further information is available on the Group SFCR.

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.

D.3.1 Deferred tax liabilities

Deferred tax liabilities are recognised and valued in accordance with IFRS (IAS 12), except that deferred tax liabilities 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 liabilities are valued for Solvency II purposes by taking the IFRS balance sheet position and then 'tax effecting'" valuation differences between the IFRS and Solvency II balance sheets.

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

As at the 31 December 2016 there was no material uncertainty in respect of the deferred tax liability.

D.3.2 Derivatives

All derivative contracts are current classified as Level 1 and therefore valued in accordance with quoted prices in active markets.

D.3.3 Insurance and intermediaries payables

Insurance and intermediaries payables are valued at fair value under IFRS. The difference between IFRS and SII (£4m) are payables such as commission, which are included within technical provisions.

D.3.4 Reinsurance payables

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

D.3.5 Payables (trade, not insurance)

Payable (trade, not insurance) are valued at fair value under IFRS. The difference between IFRS and SII (£9.7m) are payables such as; deferred income; reinsurer's share of deferred acquisition costs; intercompany balances and accruals..

D.3.6 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) that 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 2016, no contingent liabilities were identified in respect of the above indemnity.

Legal & General Insurance Ltd has entered into a 10-year arrangement with Legal & General Finance Plc and a five-year arrangement with Legal and 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 £100m facility revolving credit loan facility. 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 Legal & General's Insurance Division's Product, Investments and Capital Committee (GIPICC).

D.4 Alternative methods of validation

None used.

D.5 Any other information

None.

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 monthly basis, 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 2016 are presented below:

Own Funds (£m)	IFRS equity	Solvency II basic Own Funds
Ordinary shares	7	7
Share premium	96	96
Retained earnings and reserves	179	
Reconciliation reserve		150
Subordinated liabilities		
Total	**282**	**253**

This is the first annual report since the Solvency II regime took effect, and as such no comparative figures are provided relating to the position during the previous solvency regime.

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 have been categorised accordingly.

The structure and quality of the Own Funds as at 31 December 2016 is as follows:

£m	Total	Tier 1 – Unrestricted	Tier 1 – Restricted	Tier 2[2]	Tier 3[3]
Ordinary share capital (gross of own shares)	7	7	0	0	0
Share premium account related to ordinary share capital	96	96	0	0	0
Reconciliation reserve	150	150	0	0	0
Subordinated debt	0	0	0	0	0
Total available Own Funds	253	253	0	0	0
Restrictions to Own Funds	0	0	0	0	0
Total eligible Own Funds to cover the SCR	253	253	0	0	0
Total eligible Own Funds to cover the MCR[1]	253	253	0	0	0

1 – Excluding Own Funds from other financial sector and from the undertakings included via method 2 – deduction and aggregation.

2 – Tier 2 funds eligible to meet the SCR are capped at 35% of the SCR, whilst Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR, as specified in Article 82 of the Delegated Regulation.

3 – Tier 3 funds eligible to meet the SCR are capped at 15% of the SCR, whilst Tier 3 funds are not eligible to meet the MCR, as specified in Article 82 of the Delegated Regulation.

£m	Total
Solvency Capital Requirement	162
Solvency Surplus	91
Ratio of eligible Own Funds to SCR	**1.56**
Minimum Capital Requirement	41
Minimum Capital Surplus	213
Ratio of eligible Own Funds to MCR	**6.24**

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 2016, there are 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	2016	
IFRS shareholders' equity	282	
Solvency II excess of assets over liabilities	253	
Difference	**(29)**	
Explained by:		
Difference in the valuation of assets	(205)	Section D1
Difference in the valuation of technical provisions	143	Section D2
Difference in the valuation of other liabilities	33	Section D3
Total:	**(29)**	

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:

Excess of assets over liabilities	£235m	(per QRT S.02.01.01)
Ordinary share capital	£(7)m	
Share premium account	£(96)m	
Reconciliation reserve	£150m	

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement (SCR)

Our SCR as at 31 December 2016 was £162m. 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.

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 2016 was £40.6m. 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 minimum 25% of SCR.

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 list below summarises the areas where we have used our Internal Model over the past year. We consider our use to be high and effective, but also acknowledge it will continue to develop over time as SII is embedded.

- 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 (MA)

E.4.2 Scope of General Insurance Internal Model

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

Risks are modelled stochastically based on 50,000 simulations for most risks and 500,000 for catastrophe and 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 value from this correlated output.

E.4.3 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 500,000 simulations for the weather event models; 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 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.4.3.1 The risk measure and time period used in the Internal Model

This is in line with Article 101 of the Solvency II Directive the Internal Model, where the SCR is defined as the 1-in-200 value-at-risk (VaR) of Own Funds over a one-year period. There is slight prudence in our SCR calculation as the ultimate risk on business earned over the one year horizon is allowed for. This is not expected to be material given the short tailed nature of our risk profile.

E.4.3.2 Main differences against the Standard Formula approach

The main differences are explained at a high-level, considering the structure, diversification or aggregation approach, and the risks covered in the Internal Model. It is worth stressing that we believe that Internal Model to be a better reflection of our risks than the Standard Formula as it is tailored to our risk profile and allows us the flexibility to use its outputs. Notably, the Standard Formula does not allow for offsetting profits against stress losses which our Internal Model does as discussed above already.

Model area	Explanation
Model structure	Both models cover our material risks. There are, however, very many underlying parameters and assumptions made in both models, which drive the main differences, that it is almost impossible to test each and every one of them in detail. The Standard Formula calibrations are, by design, industry averages whilst those in the Internal Model are specific to our business, mainly based on analysing our historical experience and allowing for anticipated changes over the next year. The Standard Formula does not allow for the benefit of making profits over the next 12 months whereas our Internal Models does.
Risks covered	Both models cover our material risks.
Aggregation approach	The Internal Model uses a copula approach to aggregate the components rather than the correlation matrix multiplication specified in the Standard Formula. This enables the internal model to more accurately allow for interactions between risks and non-normal risk distribution shapes and results in different diversification benefit under the Internal Model.

Comparison to Standard Formula

The Standard Formula approach to SCR calculation is not directly comparable to the Internal Model. The Internal Model and Standard Formula capture the same risks. However these are split into more granular components in the internal model. The sections below summarise the differences between the two:

Weather CAT

Weather catastrophe is the largest risk driver of our capital requirement, which accounts for windstorm, flood and earthquake losses. The losses provided from RMS are a better reflection of the risk inherent in our insurance portfolio compared to the Standard Formula losses. There are a number of reasons for this:

- the Internal Model incorporates additional information such as property type, construction type, roof type and property age, all of which impact the risk for an individual property, whereas the Standard Formula implicitly uses an average assumption for these factors;

- the standard scenarios used by Standard Formula do not distinguish between industrial, commercial or residential risk. We only write residential risk so the standard scenarios don't reflect the risk profile of our business;
- Standard Formula uses CRESTA zone level which isn't as granular as the Internal Model which uses data at postcode level. This means that the Internal Model more accurately reflects our risk profile;
- the Standard Formula calculation is an instantaneous stress, whereas the Internal Model allows for business growth over the year; and
- the Standard Formula allowance for multiple events is unclear and in reality the 1-in-200 year capital requirement is likely to be driven by multiple smaller events rather than a single large loss. Whilst there is a requirement to reflect multiple events, the approach is ambiguous and open to interpretation. The Internal Model allows for multiple events through the Event Loss Tables, which will include the impact of multiple smaller events. The Standard Formula only allows for a maximum of two weather events per peril over a single year while the Internal Model makes allowance for more events. The Internal Model therefore captures the risk of exhausting horizontal reinsurance coverage more accurately.

Freeze risk, claims variability risk, subsidence risk, ASU and pet risk

- the Standard Formula uses market data based on different countries within Europe when deriving the standard deviation. The data used is limited due to the lack of homogeneity e.g. different regulatory frameworks; catastrophe events have not been excluded in all cases, which may lead to double counting;
- we predominantly write residential household insurance, hence, a parameterisation using industry wide data is not a fair reflection of our risk profile;
- the Internal Model uses internal data which has been adjusted to reflect changing experience and should produce results that more accurately reflect our risk profile and
- the Internal Model calculates premium risk by splitting the data by risk drivers. This has the advantage as it splits the data into more homogeneous Groups regarding size and type of claim and the results produced are less distorted and more accurately reflect our risk profile.

Reserving risk

The advantages the (Internal Model) has over Standard Formula methodology are similar to the advantages listed above for the premium risks. The analysis of reserve risk allows for the impact of different risk drivers, and hence provides a more tailored analysis of the risk we face.

Market risk

The Internal Model is consistent with the Legal & General Group Internal Model approach, using the risk landscape to assess the market risk capital. The Standard Formula approach considers symmetric adjustments to be applied to equity stresses depending on recent performance of indices with stresses reduced following downturns and increased following strong performance. This makes the Standard Formula market risk capital requirement volatile from quarter to quarter.

Operational risk

The Internal Model is more risk driven then the Standard Formula methodology as it takes account of the individual risks we face as opposed to the factor based approach used in Standard Formula. It also considers the risk in greater depth and is independently validated.

Counterparty default risk

- Correlation between reinsurer defaults is allowed for in the Internal Model
- Capital in respect of type-1 counterparties is based on our exposure, which allows the capital to more accurately reflect our risks

- Type-1 counterparty default is included within the weather CAT and freeze modules of the Internal Model
- The Internal Model calculates the type-2 risk in more detail by allowing for exposure to individual intermediaries

Correlations

The diversification benefit between risk types in the Standard Formula is significantly less than in the Internal Model. There are a number of reasons for this:

- The Standard Formula uses a simple correlation matrix approach to diversification compared to the more sophisticated t-copula approach used in the Internal Model
- Correlations between key risks in the Standard Formula are higher than in the Internal Model

Consideration has been given to justification of these correlations and this is set out the in our Internal Model dependencies document. The resulting correlations have been subject to review and challenge by the senior management. Given the review of the correlations undertaken, and the lack of diversification benefit between key risks in the Standard Formula, it is our opinion that the Internal Model better reflects the diversification benefit between the risks.

E.4.4 Data used in the Internal Model

In order to calculate our Solvency Capital Requirement our internal model is provided with data about our assets, liabilities and the risks associated with each of these.

In order to assess the risks associated with our assets and liabilities we use a wide range of economic, market and insurance data and operational risk experience.

Data are used to assess:

- The likelihood and scale of individual risks; and
- How these risks are correlated, i.e. the extent to which a change in one risk is likely to coincide with change in another risk

Our Solvency II data governance instils best practice in managing data risk and improving data quality to add robustness to model processes and outputs. The Solvency II Data Management Policy sets out the Group's requirements for managing data risk on data used to develop, populate, operate and validate the Internal Model. The data management control framework provides the conditions for business areas to ensure that all internal model data are recorded and that associated data risks and quality are managed effectively. The framework includes regular assessments of data quality and controls effectiveness.

The appropriateness of all internal and external data is considered and justified by the experts in each area of risk; these justifications are independently validated.

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 material information.

Annex 1 – Quantitative Reporting Templates (QRTs)

S.02 Balance Sheet Information

S.02.01.02
Balance sheet

£'000

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	4,970
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	391,778
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	413
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	76,277
R0140	*Government Bonds*	76,277
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	313,583
R0190	*Derivatives*	1,013
R0200	*Deposits other than cash equivalents*	491
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	4,132
R0280	*Non-life and health similar to non-life*	4,132
R0290	*Non-life excluding health*	4,033
R0300	*Health similar to non-life*	99
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	10,510
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	22,689
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	434,079

		£'000
		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	125,131
R0520	*Technical provisions - non-life (excluding health)*	124,279
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	117,625
R0550	*Risk margin*	6,653
R0560	*Technical provisions - health (similar to non-life)*	852
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	815
R0590	*Risk margin*	36
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*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	3,093
R0790	Derivatives	3,296
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	5,851
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	43,423
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	180,794
R1000	**Excess of assets over liabilities**	253,285

S.05 Information On Premiums, Claims And Expenses, Using The Valuation And Recognition Principles Used In The Consolidated Financial Statements

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		£'002	£'001	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	*Gross - Direct Business*		7,496		0			290,670	7,574	0			20,399					326,139
R0120	*Gross - Proportional reinsurance accepted*		0		0			0	0	0			0					0
R0130	*Gross - Non-proportional reinsurance accepted*																	0
R0140	*Reinsurers' share*		324		0			25,250	774	0			486					26,834
R0200	*Net*		7,172		0			265,420	6,800	0			19,913					299,306
	Premiums earned																	
R0210	*Gross - Direct Business*		7,946		0			297,401	7,681	0			16,147					329,174
R0220	*Gross - Proportional reinsurance accepted*		0		0			0	0	0			0					0
R0230	*Gross - Non-proportional reinsurance accepted*																	0
R0240	*Reinsurers' share*		324		0			24,108	253	0			486					25,170
R0300	*Net*		7,622		0			273,293	7,429	0			15,661					304,004
	Claims incurred																	
R0310	*Gross - Direct Business*		2,861		1,682			124,053	3,664	0			9,807					142,067
R0320	*Gross - Proportional reinsurance accepted*		0		0			0	0	0			0					0
R0330	*Gross - Non-proportional reinsurance accepted*																	0
R0340	*Reinsurers' share*		50		0			613	551	0			120					1,334
R0400	*Net*		2,811		1,682			123,440	3,113	0			9,687					140,733
	Changes in other technical provisions																	
R0410	*Gross - Direct Business*		0		0			0	0	0			0					0
R0420	*Gross - Proportional reinsurance accepted*		0		0			0	0	0			0					0
R0430	*Gross - Non-proportional reinsurance accepted*																	0
R0440	*Reinsurers' share*		0		0			0	0	0			0					0
R0500	*Net*		0		0			0	0	0			0					0
R0550	**Expenses incurred**		3,451		0			128,890	3,325	0			6,700					142,366
R1200	**Other expenses**																	
R1300	**Total expenses**																	142,366

S.17 Non-life Technical Provisions

S.17.01.02

	Non-Life Technical Provisions	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
		Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**		0		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		0			0	0	0			0					0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross		-992		0			34,996	-166	0			-1,787					32,052
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		45		0			1,912	113	0			28					2,098
R0150	**Net Best Estimate of Premium Provisions**		-1,037		0			33,084	-278	0			-1,815					29,954
	Claims provisions																	
R0160	Gross		1,808		640			69,534	8,796	200			5,412					86,389
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		54		0			452	1,479	0			49					2,034
R0250	**Net Best Estimate of Claims Provisions**		1,754		640			69,082	7,317	200			5,363					84,355
R0260	**Total best estimate - gross**		815		640			104,530	8,630	200			3,625					118,441
R0270	**Total best estimate - net**		716		640			102,166	7,039	200			3,548					114,309
R0280	**Risk margin**		36		0			6,388	165	0			100					6,690
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole		0		0			0	0	0			0					0
R0300	Best estimate		0		0			0	0	0			0					0
R0310	Risk margin		0		0			0	0	0			0					0
R0320	**Technical provisions - total**		852		640			110,918	8,795	200			3,725					125,131
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**		99		0			2,364	1,591	0			77					4,132
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**		753		640			108,554	7,204	200			3,648					120,999

S.19 Non-life insurance claims

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0010 **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
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Year	Development year											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											307	307	307
R0160	N-9	141,674	83,208	8,895	2,203	1,592	562	227	191	303	45		45	238,901
R0170	N-8	113,225	59,296	5,771	2,510	1,300	982	611	366	105			105	184,166
R0180	N-7	89,558	54,787	6,457	1,649	2,930	417	380	510				510	156,689
R0190	N-6	82,068	83,105	9,343	3,925	923	405	1,305					1,305	181,074
R0200	N-5	73,088	39,654	6,311	1,561	815	1,101						1,101	122,531
R0210	N-4	90,757	48,517	4,542	1,839	642							642	146,297
R0220	N-3	78,997	60,253	5,747	1,735								1,735	146,732
R0230	N-2	102,146	50,409	4,445									4,445	157,000
R0240	N-1	87,246	61,121										61,121	148,368
R0250	N	83,665											83,665	83,665
R0260												**Tot**	154,982	1,565,728

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											1,512	1,508
R0160	N-9	115,155	12,865	3,709	3,702	2,620	1,952	1,280	1,183	48	532		529
R0170	N-8	75,326	11,979	6,189	3,403	1,721	582	715	31	113			113
R0180	N-7	73,173	12,332	5,371	3,510	1,548	1,242	892	281				280
R0190	N-6	89,553	23,032	11,406	7,622	7,102	1,283	756					752
R0200	N-5	47,722	5,539	-1,415	-3,335	1,749	1,128						1,123
R0210	N-4	71,817	9,151	3,111	1,569	1,265							1,260
R0220	N-3	76,987	11,122	4,972	5,120								5,098
R0230	N-2	65,985	9,982	3,852									3,835
R0240	N-1	85,185	9,895										9,853
R0250	N	61,822											61,581
R0260												**Total**	85,933

S.23 Information on Own Funds, Including Basic Own Funds and Ancillary Own Funds

S.23.01.01
Own Funds

		£'000	£'000	£'000	£'000	£'000
	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)	7,000	7,000		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	150,232	150,232			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	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					
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				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290	**Total basic own funds after deductions**	253,285	253,285	0	0	0
	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	253,285	253,285	0	0	0
R0510	Total available own funds to meet the MCR	253,285	253,285	0	0	
R0540	Total eligible own funds to meet the SCR	253,285	253,285	0	0	0
R0550	Total eligible own funds to meet the MCR	253,285	253,285	0	0	
R0580	**SCR**	162,265				
R0600	**MCR**	40,566				
R0620	**Ratio of Eligible own funds to SCR**	156.09%				
R0640	**Ratio of Eligible own funds to MCR**	624.37%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	253,285
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	103,053
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	150,232
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	21,594
R0790	**Total Expected profits included in future premiums (EPIFP)**	21,594

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S.25 Information on the Solvency Capital Requirement

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models £'000

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
1	103001	Interest rate risk	14,597
2	104001	Equity risk	47,599
3	106001	Property risk	5,827
4	107001	Spread risk	25,080
5	109001	Currency Risk	5,321
6	110001	Other Market Risk	6,784
7	199001	Diversification within Market risk	-39,431
8	202001	Type 2 counterparty risk	5,043
9	501501	Premium & expense risk (premium prov & planned to be written in next 12 months	96,603
10	502101	Reserve risk	25,083
11	503001	Non-life catastrophe risk (including Type 1 counterparty default risk)	148,296
12	599001	Diversification within non-life underwriting risk	-83,915
13	701001	Operational Risk	17,074
14	801001	Other Risks	0
15	804001	Future profits from new business	-7,614
16	803001	Loss-absorbing capacity of deferred tax	-38,682

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models £'000

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	227,665
R0060	Diversification	-65,400
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	162,265
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	162,265
	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	38,682
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 Minimum Capital Requirement

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	35,014

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		£'000	£'000
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	716	7,172
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	640	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	102,166	265,303
R0090	General liability insurance and proportional reinsurance	7,039	6,803
R0100	Credit and suretyship insurance and proportional reinsurance	200	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	3,548	20,028
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	35,014
R0310	SCR	162,265
R0320	MCR cap	73,019
R0330	MCR floor	40,566
R0340	Combined MCR	40,566
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	40,566