LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

31 DECEMBER 2017

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SUMMARY

THIS DOCUMENT

This Solvency and Financial Condition Report (SFCR) for Legal and General Assurance Society Limited (the Company) is a regulatory document, required by the reporting and Group supervision parts of the PRA Rulebook for Solvency II firms and Directive 2009/138/EC of the European Parliament (Solvency II directive) Articles 51 and 256. All values are (unless otherwise stated) as at 31 December 2017.

WHO WE ARE

The Company is a composite insurance company authorised in the UK, whose ultimate controlling party is Legal and General Group Plc (the Group). The principal activity of the company is Life and Pensions business.

WHAT WE DO

We enable our customers, who range from some of the world's largest companies and funds to millions of individuals and families, to manage their financial futures whether by protecting against unforeseen events, helping to save for and support retirement or investing money to deliver growth over time. We deploy our strong balance sheet, our ability to understand and pool risk, our market insight and our capacity to create good value customer propositions for every customer, large or small. Our strong social purpose means that we strive at all times to do the right thing not just for our customers and shareholders, but for the broader economy and society at large.

OUR BUSINESSES

The three broad business areas of the Group, as set out in the table below, Investing and Annuities, Savings and Insurance, reflect the Company's continuing operations.

In December 2017, the Company announced the sale of its Mature Savings business to ReAssure, a subsidiary of Swiss Re Ltd, and as such this segment of the business has been classified as held for sale and as discontinued operations in the Company's financial statements. Sections A and E of this document provide further details about the sale.

The With-Profits fund is managed as a ring fenced fund within the Mature Savings division.

Business Area	Division	Purpose
Investing & Annuities	Legal & General Retirement: Institutional (LGRI)	Worldwide pension risk transfer business
	Legal & General Retirement: Retail (LGRR)	Individual retirement and lifetime mortgages
	Shareholder Assets Managed by Legal & General Capital (LGC)	Shareholder assets and traded assets
Savings*	Workplace Savings Managed by Legal and General Investment Management	Workplace pension solutions
Insurance	Legal & General Insurance (LGI)	UK retail and group protection, US protection business
	General Insurance (GI)	Catastrophe Reinsurance

* Includes Mature Savings classified as discontinued operations.

Legal & General

OUR SOLVENCY POSITION AND PERFORMANCE

The Company's key solvency and performance measures as at 31 December 2017 were:

Measure £m	2017	2016
Operating profit	**1,499**	918
Solvency II Own Funds	**11,386**	11,630
Solvency II Regulatory Surplus	**4,042**	4,086
Solvency II Coverage ratio on a Regulatory basis	**155%**	154%
Solvency II Coverage ratio on a Shareholder basis	**160%**	162%

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

In line with market practice, the shareholder basis excludes the with-profits fund contribution to the Company's SCR from both the Own Funds and SCR. These exclusions have no impact on the Solvency II surplus.

The Company's regulatory surplus as disclosed in this document and the surplus on a shareholder basis as disclosed in the full-year financial statements, incorporate the impacts of a recalculation of the Transitional Measures on Technical Provisions (TMTP) based on 31 December 2017 economic conditions and changes during 2017 to the Internal Model and Matching Adjustment (MA). This complies with current regulatory requirements to recalculate the TMTP every two years, unless there are significant market movements or significant changes to the company's risk profile triggering an earlier recalculation.

The Company uses Operating Profit as its measure of underwriting performance. The Operating Profit of £1,499m (2016: £918m) is inclusive of discontinued operations and primarily reflects:

- increased annuity profits driven by strong performance from front and back books;
- a positive impact of updating assumptions in relation to base mortality and future mortality improvements in the light of recent better than expected experience, and
- changes in mortality assumptions on US protection business reinsured into the Company to better reflect the lower actual claims experience

ANALYSIS OF CHANGE IN OWN FUNDS

Over the reporting period the Company's own funds decreased by £244m to £11,386m (2016: £11,630m). The main driver of this decrease was the dividend payment to Group of £1,535m, which included £402m in respect of 2016 performance. This movement is partially offset by the surplus generated from the books of existing and new business.

A more detailed analysis of the movement in Own Funds can be found in section E. Capital Management.

Further details on our business and performance can be found in section A. Business and performance.

OUR GOVERNANCE

The role of the Board of Legal & General Group Plc is to lead the Group and oversee the governance of the Group. It plays a key role in ensuring that the tone for the Group's culture and values is set from the top. The role of management is to deliver the strategy within the framework and standards set by the Group Board.

The separate Board of Legal and General Assurance Society Limited is accountable for the long-term success of the Company by setting the Company's strategic objectives, monitoring performance against those objectives and directly overseeing the business activities undertaken by the Company, whilst operating within the framework and overall strategy defined by the Group Board. The Board of the Company comprises the Group Chief Executive, Group Chief Financial Officer and two independent non-executive directors.

Risk management framework

Our risk framework is designed to enable the Company's Board to draw assurance that risks are being appropriately identified and managed in line with our risk appetite.

Our framework seeks to reinforce the parameters of acceptable risk taking, allowing business managers to make decisions that are consistent with our risk appetite.

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

Own Risk and Solvency Assessment (ORSA)

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

Further details on our systems of governance can be found in section B. Systems of governance.

OUR RISK PROFILE

The Company is exposed to a number of risks through the normal course of its business. These risks are primarily:

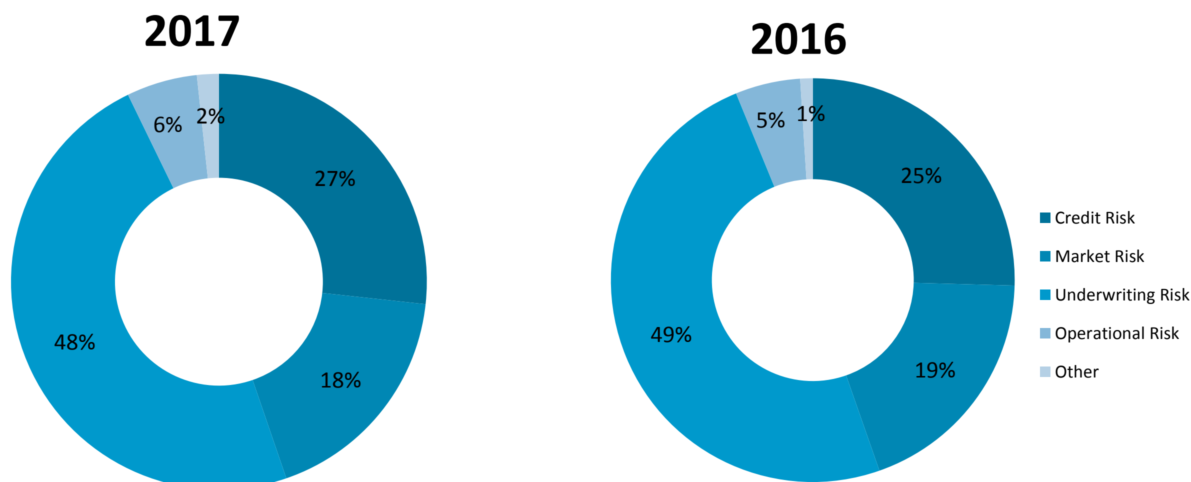
- longevity, mortality, morbidity risks transferred to us by customers of our annuities, and insurance businesses;
- market and credit risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and
- operational risks, in respect of our business processes and IT systems, as well as broader regulatory and legislative risks that can arise in the environments in which we operate.

OUR RISK-BASED CAPITAL MODEL

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

Our risk-based capital model seeks to provide a quantitative assessment of the Company's risk exposures. Our model forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our capital model to assess significant transactions, including large pension risk transfer deals. We calibrate our model to ensure that we hold sufficient capital to survive our assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit and underwriting (longevity, mortality & morbidity) risks remain our most significant risks. Market risk, which encompasses equity, property and interest rate risks, is another material risk for which we hold capital. One of the uses of our model is to calculate our regulatory capital requirement. We have chosen to adopt a partial internal model (the Internal Model) approach to calculate the Solvency Capital Requirement (SCR) for all of the material insurance companies in the Group, including the Company.

The chart below shows a breakdown of the Company's SCR by major risk type. The split is shown before the effects of diversification.



Further details on our risk profile can be found in section C. Risk profile.

VALUATION FOR SOLVENCY PURPOSES

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

As at 31 December 2017, the Company's excess of assets over liabilities is £11,386m (2016: £11,630m) on a Solvency II basis, which is £5,512m higher than the value under IFRS. The difference is primarily driven by the overall value of technical provisions being lower on a Solvency II basis

The Company has taken advantage of a transitional measure in respect of technical provisions, which allows for the recognition of a deduction from technical provisions calculated as the difference between their value under the current and previous Solvency regimes. This transitional measure will apply for sixteen years from 1 January 2016 and the deduction will be fully amortised over that period. The value of the deduction as at 31 December 2017 was £5,624m (2016: 6,000m).

Technical provisions are calculated as the sum of Best Estimate Liabilities (BEL) plus Risk Margin (RM) less any Transitional Measure on Technical Provisions. The BEL represents our best estimate of future cash flows on the in-force business as at 31 December 2017 and is calculated without any deductions for the amounts recoverable from reinsurance contracts. Where the PRA has granted approval for the use of a Matching Adjustment (MA) when calculating the BEL, this has been applied in line with the approved application. Further details can be found in Section D.2 Technical provisions.

OUR CAPITAL MANAGEMENT

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

Following the implementation of the Solvency II regulatory regime which came into force on 1 January 2016, the Company's capital resources are managed on a Solvency II basis, as adopted by the Prudential Regulation Authority (PRA).

Legal & General

The Company's SCR as at 31 December 2017 was £7,344m (2016: £7,544m). The SCR has been calculated in line with the Group's approved Internal Model. Further details can be found in Section E.2 Solvency Capital Requirement and Minimum Capital Requirement.

As at 31 December 2017 the Company held £4,042m (2016: £4,086m) of Own Funds in excess of the Company's regulatory solvency requirements, a capital coverage ratio of 155% (2016: 154%). This buffer of capital resources over the regulatory requirement ensures that we're able to still meet our insurance obligations after a 1-in-200 year event. In line with our risk management approach, we maintained an appropriate capital buffer through the year. The Company's Own Funds are entirely represented by unrestricted Tier 1 capital and are not subject to any significant restrictions.

The Company's solvency position is set out below.

(£m)	**2017**	2016
Solvency II Own Funds	**11,386**	11,630
Solvency capital requirement	**(7,344)**	(7,544)
Solvency II surplus	**4,042**	4,086
Regulatory capital coverage ratio	**155%**	154%
Impact of amortisation of TMTP	**0%**	(2)%
Impact of recalculation of the TMTP	**0%**	6%
Impact of exclusion of the contribution to SCR of with-profits fund	**5%**	4%
Shareholder basis capital coverage ratio	**160%**	162%

Additional information on the regulatory Solvency II coverage ratio can be found in Section E. Capital management.

DIRECTORS' CERTIFICATE

LEGAL & GENERAL ASSURANCE SOCIETY LIMITED – FINANCIAL YEAR ENDED 31 DECEMBER 2017

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

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

(a) throughout the financial year to 31 December 2017, 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 2017 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 2018.

Nigel Wilson

Chief Executive Officer

30 April 2018

Legal & General

AUDITORS’ REPORT

Legal and General Assurance Society Limited – financial year ended 31 December 2017

Report of the external independent auditors to the Directors of Legal & General Assurance Society 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 2017:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017 (‘**the Narrative Disclosures subject to audit**’); and

- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.02.01 (‘**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 is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;

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

- Company templates S.05.01.02, S.05.02.01, S.19.01.21 and S.25.02.21;

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

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (‘**the Directors’ Certificate**’).

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 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Legal & General

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes', 'Capital Management' and other relevant disclosures sections, such as the report summary, 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.

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- *Approval to use a Transitional Measure on Technical Provisions;*
- *Approval to use the Transitional Measure on Technical Provisions recalculated as at 31 December 2017;*
- *Approval to use a matching adjustment;*
- *Approval to use an internal model and the approval of subsequent major changes thereto;*
- *Approval to omit template NS.07 and include immaterial non-life business in NS.06.*

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 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 financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' 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 partial internal model ('the Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of 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
7 More London Riverside
London
SE1 2RT
30 April 2018

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

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

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

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

- The following elements of Company template S.28.02.01
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 COMPANY DETAILS

This report is prepared in respect of Legal and General Assurance Society Limited (the Company) for the financial year ended 31 December 2017.

The Company	Legal and General Assurance Society Limited One Coleman Street London EC2R 5AA
The ultimate parent entity	Legal & General Group Plc One Coleman Street London EC2R 5AA
The supervisory authority responsible for financial supervision	Prudential Regulation Authority 20 Moorgate London EC2R 6DA
The external auditor	PriceWaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

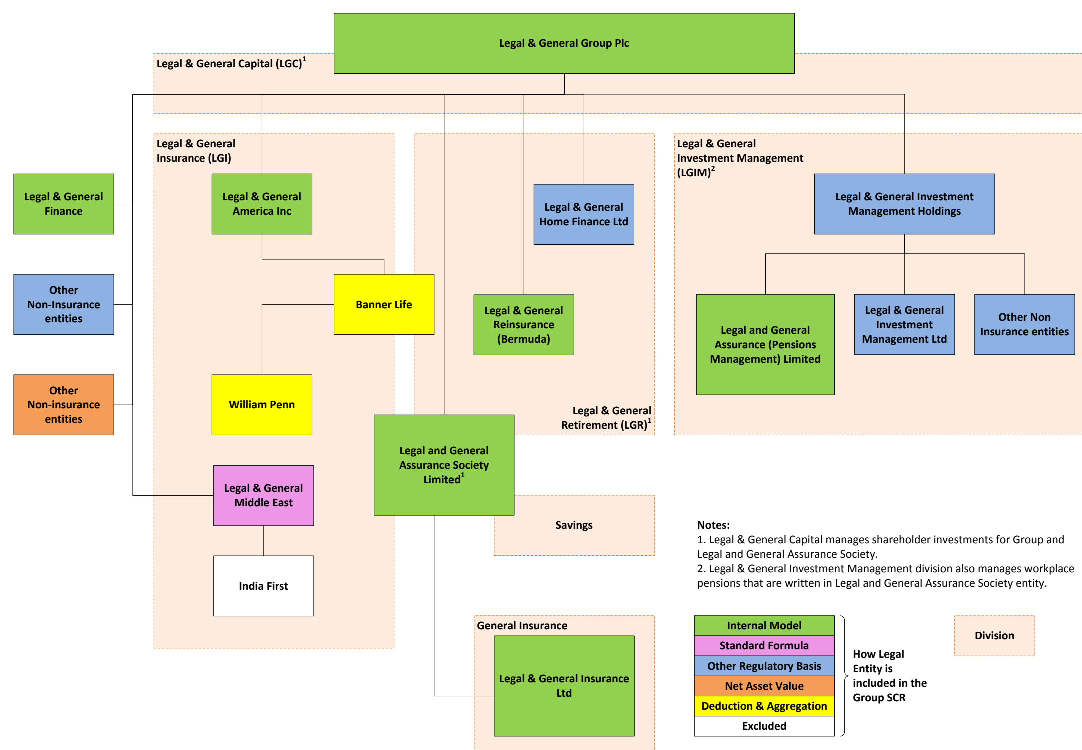
A.1.1.1 QUALIFYING HOLDINGS

Legal and General Assurance Society Limited is wholly owned by Legal & General Group Plc (the Group).

A.1.1.2 GROUP STRUCTURE

A simplified group structure is shown in Diagram 1 below. The chart summarises the relationship between entity and divisional responsibilities (on a forward-looking basis), further details of the principal products written by each division is provided in A.1.2 below. The Company is a principal operating subsidiary of the Group and is the regulated entity through which the majority of the Group's UK individual and group insurance, pensions and annuities business is executed.

Diagram 1: Division and entity overview



A.1.2 MATERIAL RELATED UNDERTAKINGS

The particulars of the Company's subsidiaries as at 31 December 2017 are listed in Note 36 of the Company's financial statements. The material insurance undertakings are summarised below:

Subsidiary name	Country	Proportion of ownership held within the Company
Legal & General Insurance Ltd (LGIL)	England & Wales	100%

The proportion of voting rights is the same as the ownership held within the entity.

A.1.3 PRINCIPAL PRODUCTS

A significant part of the Company's business involves the acceptance and management of risk.

A description of the principal products offered by the Company is outlined below. The Company seeks to manage its exposure to risk through control techniques which ensure that the residual exposures are within acceptable tolerances agreed by the Board. The Company's risk appetite framework and

Legal & General

the methods used to monitor risk exposures can be found in sections B. Systems of governance and C. Risk profile.

Details of the risks associated with the Company's principal products and the control techniques used to manage these risks can be found in Section C. Risk profile.

A.1.3.1 LEGAL & GENERAL RETIREMENT (LGR)

For LGR, worldwide pension risk transfer business (including longevity insurance) is within LGR Institutional (LGRI), and individual retirement and lifetime mortgages are within LGR Retail (LGRR).

Annuities

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. Immediate and deferred annuity contracts are offered. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. Bulk annuities are also offered, where the Company accepts the assets and liabilities of a company pension scheme or a life fund, predominantly for UK clients, but also for US, and Irish clients. A small portfolio of immediate annuities has been written as participating business.

The Company also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The Company has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the Company to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity.

Longevity insurance contracts

The Company also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value. The value of these guarantees is currently immaterial.

Intragroup reinsurance arrangements

The Company accepts reinsurance from Banner Life Insurance Company, a fellow group subsidiary. The reinsurance covers one pension risk transfer contract.

A.1.3.2 LEGAL & GENERAL INSURANCE (LGI)

LGI represents business in retail and group protection written in the UK, networks and protection business written in the US (LGA).

UK Protection business (retail and group)

The Company offers protection products which provide mortality or morbidity benefits. These may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

Intragroup reinsurance arrangements

The Company accepts reinsurance from Banner Life Insurance Company and William Penn Life Insurance Company of New York, fellow group subsidiaries. The reinsurance covers both individual

term assurance which provides death benefits, and universal life contracts which provide savings and death benefits.

The Company also accepts a tranche of the weather catastrophe risk reinsurance placed by its subsidiary, Legal & General Insurance Limited.

A.1.3.3 SAVINGS

A range of contracts are offered in a variety of different forms to meet customers' long-term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. The majority of the Savings products are closed to new business. With the sale of its Mature Savings business as disclosed in section A.1.4 below, the Company's future growth in savings product areas will be through Workplace Savings which now has 2.7 million customers.

Workplace savings

Workplace savings are a range of workplace pension solutions, focusing on the UK auto enrolment schemes. These schemes offer a wide choice of investment options, including a self-investment option.

With-Profits

With-Profits products are only written in the With-Profits Fund, a ring-fenced fund within the Company. The With-Profits Fund ceased writing new business on 31 January 2015. Only increases to existing pension policies and new members to existing group Personal Pension Schemes, where allowed for in the policy terms and conditions, have been accepted after that date. Section A.1.4 below provides information relating to the sale of Mature Savings business, which includes the With-Profits business.

A.1.4 SIGNIFICANT BUSINESS OR OTHER EVENTS

In December 2017, the Company announced the sale of its Mature Savings business to ReAssure, a subsidiary of Swiss Re, for £650m. The sale is subject to regulatory approval and a court-approved scheme under Part VII of the Financial Services and Markets Act 2000 ("Part VII transfer"), which is expected to complete in 2019. The Company and ReAssure have agreed an earlier transfer of the economic risks and rewards of the Mature Savings business in advance of the proposed Part VII transfer. The economic transfer will be achieved through a Risk Transfer Agreement ("RTA") the impact of which is reflected in the Company's Own Funds as at 31 December 2017.

Management considers the sale to be an important measured step in the development of the Company. Swiss Re's ReAssure division manages closed and non-core in-force portfolios, focusing on delivering excellent service and outcomes to policyholders. The Company is confident that dedication to customer service will deliver positive results for around one million existing customers.

A.2 UNDERWRITING PERFORMANCE

We consider operating profit to be an appropriate measure of the Company's underwriting performance. This is the key metric used to manage our business.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items and includes expected investment return. Operating profit therefore reflects longer-term economic assumptions and changes in insurance risks such as mortality and longevity for the Company's insurance business and shareholder funds.

The Company's operating profit is presented in the following sections. Information on premiums, claims and changes in technical provisions, which can be considered as key elements of underwriting performance, is presented by Solvency II line of business in QRT S.05.01 in Annex 1 of this report.

Over 90% of the business written by the Company is within the UK.

Legal & General

A.2.1 OPERATING PROFIT BY DIVISION

The table below shows the total operating profit for the Company, analysed on a Group divisional basis.

(£m)	2017	2016
Investing and Annuities	**1,167**	839
Insurance	**301**	51
Savings*	**31**	28
Operating profit from divisions	**1,499**	918

* Includes Mature Savings classified as discontinued operations.

The three main business areas Investing and Annuities, Savings and Insurance reflect the Company's continuing operations. As announced in December 2017, the Company's Mature Savings business is being sold to ReAssure and has been classified as held for sale and discontinued operations in the Company's financial statements.

A.2.1.1 INVESTING AND ANNUITIES

This is dominated by LGR, which delivered a 45% increase in operating profit to £979m (2016: £677m) driven by strong performance from the front and back books. The LGR increase is also supported by a continuing improvement in longevity experience and an increase in the long-term mortality rates contributing to a one-off release of £0.3bn. The annuity business has also benefitted from a lack of defaults due to the active management of the Company's bond portfolio.

Sales of individual annuities increased by 78% to £0.7bn in 2017 (2016: £0.4bn), the rise being mainly attributable to our partnership with Aegon. Sales also improved as a result of market conditions and new panel arrangements. Bulk annuity sales in 2017 were £3.4bn (2016: £3.3bn), including transactions with the trustees of the Merchant Navy Officers Pension Fund and the trustees of the Plumbing & Mechanical Services (UK) Industry Pension Scheme.

In 2017, the annuity business acquired £1bn of mortgage securities from Legal & General Home Finance Limited, who have now become the UK's largest provider of lifetime mortgages with a 33% market share (2016: 29%).

The Company's Shareholder investment business, managed by LGC, aims to increase the risk adjusted returns on the Company's shareholder assets and delivered a 16% increase in operating profit to £187.9m (2016: £161.9m).The investment traded portfolio performance is significantly ahead of target returns, led by equity market gains and driven by a change in the asset mix, which is now weighted towards higher return assets, predominantly protected equities, and away from lower return assets such as cash and fixed Income.

A.2.1.2 INSURANCE

The significant increase in LGI operating profit from £43m in 2016 to £294m in 2017 is primarily driven by changes in mortality assumptions on US protection business reinsured into the Company to better reflect the lower actual claims experience.

Our UK Retail Protection business continues to generate stable profits, benefiting from a highly efficient automated underwriting model and broad distribution reach, with the 2017 new business premiums remaining stable at £171m (2016: £170m) and gross written premiums increasing to £1,232m (2016: £1,179m).

The Group Protection business has seen a turnaround through exiting unprofitable schemes and as a result has contributed positively to the profits of the insurance business area.

The GI operating profit of £7m (2016: £8m) relates to the small intragroup catastrophe reinsurance arrangement with Legal and General Insurance Limited, a subsidiary of the Company.

A.2.1.3 SAVINGS

The Workplace Pensions business continues to grow its assets under administration from £20.8bn in 2016 to £27.6bn in 2017 and its customer base from 2.1m in 2016 to 2.7m in 2017. This growth includes the implementation of two significant deals during the year:

- RBS – bundled trust with approximately 50,000 members and assets of £1.0bn
- Guardian Media Group – bundled trust with approximately 20,000 members and assets of £0.4bn

The overall Workplace Savings assets under management grew by 33% compared to market growth of 13%. Workplace Savings now has the fastest growing and largest Master Trust in the market, with assets under management of £4.7bn, 700,000 members and 75 participating employers. Key Master Trust deals implemented during 2017 included the Civil Service Pension Scheme with members of 50,000 and assets of £0.4bn. Increasingly, defined contribution schemes are considering moving to Master Trust as it offers a full outsourcing solution, including independent governance and the Company is very well placed to take advantage of this trend.

With the sale of its Mature Savings business, the Company's future growth in savings product areas will be through Workplace Savings.

A.3 INVESTMENT PERFORMANCE

The Company earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders and as shareholder funds.

Policyholder assets are invested in line with the fund choices made by unit-linked policyholders and the investment risk is borne by the policyholder. The Company's shareholder exposure to these assets arises from the fact that some of the income received is a proportion of the assets under management.

The total investment return for the Company over 2017 was £6,630m (2016: £12,944m) as reported in the Company's financial statements.

The total investment return includes the expected investment return included in the IFRS operating profit and the variance between the actual and expected investment performance. As such, there is some element of duplication with the underwriting performance reported in A.2 Underwriting performance, above.

Financial investment return includes fair value gains and losses, dividends and interest. Net gains/(losses) (excluding interest and dividend income) of £2,766m (2016: £10,414m) arose on financial investments designated as fair value through profit or loss and £92m (2016: £(426)m) arose on derivative contracts classified as held for trading. Investment income of £6m (2016: £4m) arose on loans and receivables.

Property investment return includes £99m (2016: £103m) of rental income excluding investment income from property partnerships.

Investment return relating to funds withheld payable to the other Group companies is recognised as an expense and reported within finance costs. Total finance costs over 2017 were £290m (2016: £738m).

Legal & General

A.3.1 INVESTMENT INCOME AND EXPENSES

The table below presents the actual investment income and expenses split by Solvency II asset class:

As at 31 December 2017 (£m)	Income 2017	Gains and losses 2017	Income 2016	Gains and losses 2016
Debt Securities	**1,778**	**214**	1,704	6,135
Equity	**303**	**613**	429	1,154
Derivatives	**-**	**755**	-	(401)
Other assets	**241**	**46**	233	128
Assets held for index-linked and unit-linked contracts	**779**	**1,901**	746	2,816
Total	**3,101**	**3,529**	3,112	9,832

All investment gains and losses are recognised in the income statement. There are no amounts recognised directly in equity.

A.3.2 INVESTMENTS IN SECURITISATION

The Company holds securitisations with a market value of £1.7bn as at 31 December 2017 (2016: £2.0bn), of which £61m (2016: £32m) is held for index-linked and unit-linked contracts.

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 OPERATIONAL INCOME

Operational income of £57m (2016: £57m) comprises of rebates of unit trust management fees received from Legal and General Investment Management Limited,

A.4.2 OTHER EXPENSES

Other expenses of £602m (2016: £712m) comprise administrative expenses, management fees payable, corporate expenses and other charges.

The Company leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. None of the leases are considered material.

The Company does not hold any material finance leases.

A.5 ANY OTHER INFORMATION

As announced in December 2017, the Company's Mature Savings business is being sold to ReAssure Limited and has been classified as held for sale and discontinued operations in the Company's financial statements. Total profit after tax of discontinued operations as disclosed in these financial statements is £67m (2016: £81m).

The sale of Legal & General Nederland Levensversekering Maatschappij (Legal & General Netherlands) to Chesnara Plc (Chesnara), a subsidiary of the Company, was completed on 6 April 2017, marginally improving the Company's coverage ratio and delivering a small IFRS profit.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 THE STRUCTURE OF THE BOARD

The Company's Board is accountable for the long-term success of the Company by setting the Company's strategic objectives within the overall strategy defined by the Group Board and by monitoring performance against those objectives. The Board is led by the Group Chief Executive as the Board's Chairman, and as at 31 December comprised two Executive Directors (the Group Chief Executive and the Group Chief Financial Officer) and two Non-Executive Directors. The day-to-day management of the Company is led by the Group Chief Executive. The Group Chief Risk Officer, who is also the Company's Chief Risk Officer and the Company's Chief Actuary are standing attendees.

The Company's Board meets formally on a regular basis. At each Board meeting the Group Chief Financial Officer provides the Board with an update on the underlying business performance of each of the business divisions as part of the presentation of the monthly board management information report. Each of the Divisional Managing Directors/Chief Executive Officer (CEO) is invited on a periodic basis to give the Company's Board a more in-depth presentation on their Division's underlying performance. On a regular basis the Board receives formal reports from the Group Chief Risk Officer and Group Internal Audit on Risk and Compliance issues impacting the Company.

The Company operates within a clearly defined delegated authority framework. The delegated authority framework ensures that there is an appropriate level of Board contribution to and oversight of key decisions and that the day-to-day business is managed effectively.

The Company is managed across divisions rather than legal entities: Legal & General Retirement; Legal & General Insurance and Savings. Legal & General Investment Management manages its Workplace Pensions business and Legal & General Capital manages the shareholder funds of the Company.

B.1.2 DELEGATED AUTHORITIES

The Board delegated authority framework consists of a clearly defined schedule of matters reserved for the Company's Board. The types of matters reserved for the Board include, amongst others, matters relating to the Company's strategic plan, risk appetite, and systems of internal control and corporate governance policies. Those matters which are not reserved are delegated by the Board to the Group Chief Executive, who then onward delegates decision making to the Group Capital Committee and his direct reports. The Board is supported on matters relating to audit, risk and remuneration by the Group level committees.

All delegated authorities have been reviewed and approved by both the Group Capital Committee and the Company's Board.

Matters delegated to Group level Committees (Committees of the Group Board) are as follows:

- **Group Audit Committee:** The primary responsibility of the Committee is to assist the Board in discharging its responsibilities with regards to monitoring the integrity of the Company's financial statements, the effectiveness of internal control and the independence and objectivity of the internal and external auditors.

- **Group Risk Committee:** The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk within the Company and to provide advice in relation to current and potential future risk exposures of the Company. This includes reviewing the Group's risk appetite and risk profile and assessing the effectiveness of the Group's risk management framework.

- **Group Remuneration Committee:** Responsible for determining and approving the framework of the remuneration policy for the Group and its subsidiaries and specifically to

manage executive director remuneration and the remuneration of other designated senior managers, including those undertaking business activities on behalf of the Company.

The Group Chief Executive delegates day-to-day operations and decision making in the following way:

- to the Group Capital Committee which has a group-wide remit and joint decision-making responsibility in relation to certain capital allocation decisions for new product lines, large transactions and capital investments, and other material group-wide capital management and allocation matters that may arise; and
- to individuals, being the Group CEO's direct reports and heads of the Group's business divisions.

Each of the heads of the Group's business divisions then onward delegate to their direct reports the matters for which they have decision-making responsibility in relation to their area.

Each individual's schedule of delegated authorities operates in conjunction with their job description and relevant Risk and Capital Mandate. The Risk and Capital Mandates set the parameters of acceptable risk-taking as regards the Company's core product lines and investment risk.

The Company's Board has four committees to assist the Board in the management of the Company's With-Profits, Savings and Workplace Pensions businesses:

- **Independent Governance Committee (IGC):** The IGC is chaired by an Independent Chairman and is comprised of a majority of independent members, who have been appointed because of their significant pension's industry experience. The IGC provides oversight of the Workplace Pension products specifically to assess the ongoing value for money for relevant policyholders delivered by these Registered Pension Schemes.
  The IGC meet six times per annum. The IGC produces an Annual Report to the Company Board which is presented by the IGC's Chairman. The minutes of the IGC together with a summary of the key points discussed at the meeting are provided to the Board.

- **Unit-Linked Management Committee (ULMC):** The ULMC meets quarterly and is chaired by the Mature Savings Commercial Director. The ULMC provides oversight of the management of the Company's unit-linked funds. The Chief Actuary is a member. The Chief Risk Officer and the Head of Internal Client Services (LGIM) are both standing attendees. The minutes of the ULMC are provided to the Board.

- **With-Profits Management Committee (WPMC):** The WPMC meets monthly, is chaired by the Managing Director of Mature Savings and is responsible for the oversight of the management of the With-Profits fund. The Managing Director Mature Savings, Finance Director Mature Savings, Commercial Director Mature Savings, Chief Operating Officer Mature Savings, and the LGAS Chief Actuary are all members. The With-Profits Actuary, Chief Risk Officer, Mature Savings and the Group Legal Manager are all standing attendees. The Company Board considers throughout the year a number of With-Profits specific items including the Annual Bonus Declaration and compliance with the Principles and Practices of Financial Management (PPFM).

- **With-Profits Committee (WPC):** The WPC is chaired by an Independent Chairman and is comprised of a majority of independent members. It meets on a bi-monthly basis and is responsible for providing independent oversight of the management of the With-Profits fund from a policyholder perspective. The Managing Director Mature Savings is a standing attendee along with the With-Profits Actuary, Finance Director Mature Savings and the Chief Risk Officer Mature Savings. The Company Board considers reports, which take the form of minutes from the WPC meetings and a report highlighting issues discussed, from the WPC at each Board meeting. At certain points during the year the Company Board considers specific

With-Profit items such as the annual bonus declaration and compliance with the PPFM all of which have been reviewed from a policyholder perspective by the WPC. On an annual basis the Chairman of the WPC makes a formal presentation to the Company Board on the activities of the WPC. The Chairman of the WPC also has access to the Chairman of the Company Board.

To provide the Company Board with the appropriate assurances that the Committees are discharging their responsibilities effectively as delegated to them by the Board, the Board receives the minutes of meetings of these Committees in the Board papers for noting.

The Company's business divisions are supported by the Group Risk, Legal, Finance, HR, IT and Procurement and Internal Audit Functions.

The diagram in Annex 2 illustrates the Company's governance framework.

B.1.3 SUBSIDIARY INSURANCE COMPANY GOVERNANCE

The Company, which is a principal operating subsidiary of the Group, is the regulated entity through which the vast majority of the Group's individual and group insurance, pensions and annuities business is executed. The Board of the Company reports in to the Group Board and the minutes of the Company Board meetings are submitted to the Group Board following each meeting.

Legal & General Insurance Limited is a direct subsidiary of the Company. The Board of Legal & General Insurance Limited reports in to the Company's Board via the submission of minutes for noting following each meeting. To the extent material issues arise in relation to the business of Legal & General Insurance Limited, the Group Board has line of sight of these through the Company.

B.1.4 REMUNERATION POLICY AND PRACTICES

B.1.4.1 PRINCIPLES OF THE REMUNERATION POLICY

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

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

Base salary	The Group aims to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • The nature, size and scope of the role • The knowledge, skills and experience of the individual • Individual and overall business performance • Pay and conditions elsewhere in the Group • Appropriate external market data Salary levels for all employees are reviewed on an annual basis taking into account the above factors. However, this does not mean a flat increase annually for all employees.
Annual bonus	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. Variable pay awards are set to ensure an appropriate balance between fixed and variable pay, and are designed to reward performance at the individual, business division, and overall Group levels.
Performance Share Plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in

	terms of driving group performance, as well as their individual contribution. Participation in the plan for one year does not guarantee participation in future years. Where appropriate, grants under the PSP may also be made for new employees who join the Group during the year in key roles.
Other share plans and long-term incentives	The Group operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high-potential individuals and those with critical skills.

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

B.1.4.2 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[1] 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 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 clawback 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 Group Remuneration Committee may exercise its discretion to scale back the vesting of awards if it was felt that the Group's financial performance did not justify the level of vesting (the Committee may not increase the award). The parameters which the Committee uses in making this assessment

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

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 clawback provisions.

B.1.4.3 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.1.5 MATERIAL TRANSACTIONS

There were no material transactions between key management personnel and the Legal & General group of companies during the period. All transactions between the Group and its key management personnel are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £69m for all employees within the Company.

At 31 December 2017 there were no loans outstanding to officers of the Company.

B.1.6 SOLVENCY II KEY FUNCTIONS

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

Further information is disclosed on the Internal Audit in Section B.5 and the Actuarial Function in Section B.6.

Risk management

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

The Group CRO is:

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

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

Group CRO has the right of escalation to the Group Risk Committee on any appropriate matters as they see fit.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 APPLICATION OF THE POLICY

The Group has in place a fit and proper policy, the purpose of which is to set out the procedures required by regulated firms within the Group to assess the fitness and propriety of individuals who run these undertakings or who hold other key functions in them.

B.2.2 KEY REQUIREMENTS

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

The assessment of fitness and propriety covers the following factors:

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

B.2.2.1 LEGAL & GENERAL ASSESSMENT PROCEDURES

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

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

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

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

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

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

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

The criteria are:

- knowledge – does the individual have generic knowledge of the industry sector and specific knowledge of the firm;
- qualifications – does the individual have prerequisite or supporting relevant qualifications;
- skills – does the individual demonstrate the appropriate level of business and interpersonal skills;
- behaviour – does the individual demonstrate the appropriate attitudes and standards of ethical behaviour; and

- expertise – does the individual achieve positive and fair outcomes and meet performance standards expected of the post.

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

B.2.2.2 MAINTAINING FITNESS AND PROPRIETY

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

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

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

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

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

B.3.1 RISK MANAGEMENT SYSTEM

Legal & General deploys a 'three lines of defence' risk governance model, whereby:

- business divisions are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with our risk policies;
- risk functions led by the Group Chief Risk Officer (Group CRO) provide objective challenge and guidance on risk matters; with
- Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

B.3.1.1 RISK APPETITE

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

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

B.3.1.2 RISK TAKING AUTHORITIES

The parameters of acceptable risk taking defined within the Company's risk appetite are cascaded to business managers through 'Risk and Capital Mandates', empowering managers to make decisions that are consistent with appetite for risk.

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

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

B.3.1.3 RISK POLICIES

Risk control

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

Risk mitigation

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

B.3.1.4 RISK IDENTIFICATION AND ASSESSMENT

Review process

We operate a risk identification and assessment process under which all our businesses 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 and solvency assessment (ORSA)

Our risk identification and assessment process forms part of our broader ‘Own Risk and Solvency Assessment[2] (ORSA) process, our ongoing assessment of the risks to which the Company is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Group 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

The Group CRO, who is independent of the business line, supports the Group Board, its Risk Committee and the Company board, in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. This includes ongoing assessment of the Company’s capital requirements to confirm that they meet regulatory solvency requirements.

The Group CRO also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with the Company’s overall risk appetite.

[2] Also known as the forward-looking assessment of own risks.

B.3.1.7 RISK COMMITTEES

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

Beneath the Group Risk Committee is a structure of formal risk oversight committees providing more focused review and challenge of specific risks to the Group, and reviewing the effectiveness of frameworks in place to manage those risks.

The Company's Board:

- Owns the overall Risk Management Framework;
- Owns the Company's risk appetite statements; and
- Is the ultimate owner of the Company's regulatory responsibilities.

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

The Executive Directors are accountable for:

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

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

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

B.3.1.8 INTEGRATION OF RISK MANAGEMENT INTO THE DECISION MAKING PROCESS

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

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

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

B.3.2 OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

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 across a range of scenarios, where the SCR is the biting measure of risk. The Group ORSA process covers each EU regulated insurer and the whole Group, including non-EU entities and non-insurance entities.

The ORSA process brings together the underlying risk and capital management processes by which we assess, monitor and measure our risks, review our business against risk appetite and tolerances

and project the solvency position over the business plan. The ORSA is integrated with our business as usual risk and capital management. The ORSA cycle is aligned with the strategic and business planning process so that the key elements can interact and inform forward looking decision-making.

Both the Group and the Company Boards are active in the ORSA and risk and capital management processes during the year. The ORSA policy was last reviewed by the Group Board delegated to Group Risk Committee (GRC) and the Company Board in July 2017. The last ORSA report was approved by the Group Board delegated to Group Risk Committee (GRC) and the Company Board in February 2018.

Integration of Group and subsidiary ORSA processes

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

The core stages to the ORSA process are as follows:

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

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

B.3.3 GOVERNANCE OF THE INTERNAL MODEL

The Group Board is ultimately responsible for ensuring the continuous appropriateness of the design and operation of the Group's partial internal model (the Internal Model). This responsibility is discharged through the Group Risk Committee, whilst the Group Internal Model Committee (GIMC) oversees Internal Model activities. The Company's Board is responsible for ensuring the continuous appropriateness of the design and operation of the Internal Model for the Company.

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

First line business management are responsible for implementing adequate and effective controls over the Internal Model as well as the Group's material product risk exposures, with the ongoing application and effectiveness of these overseen by second line Group and divisional 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 Group and divisional risk teams, with significant issues escalated to the GIMC and where necessary to the Group Risk Committee.

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

The Group Internal Model Governance Policy sets out the governance framework in place for the Group's partial internal model designed to mitigate model risk. This complements the Group's existing system of governance, highlighting specific requirements in respect of the Internal Model to ensure that it operates properly on a continuous basis, including ensuring that controls relating to the Internal

Model are implemented in accordance with the Group Internal Control Policy and are adequate and effective at all times.

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

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

B.3.3.1 INTERNAL MODEL CONTROLS

First line business divisions are responsible for operating a robust control framework to manage exposures and mitigate unacceptable outcomes (per the Group's risk appetite), including the implementation of robust controls to mitigate key risks associated with processes they are responsible for, and to ensure that these are regularly reviewed and remain fit for purpose. Day-to-day responsibility for ensuring that robust internal controls are in place and are operating effectively over Internal Model related processes is delegated to Internal Model Controllers (IMCs). IMCs provide first line management coverage of the Internal Model across all relevant legal entities and business divisions. Key responsibilities include ensuring compliance of their area with the requirements of the Group Internal Model Governance Policy and Group Internal Control Policy.

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

B.3.3.1.1 CHANGES OVER THE REPORTING PERIOD

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

B.3.3.1.2 INTERNAL MODEL VALIDATION

The Group Validation Policy and associated standards define the Group's validation framework, and capture the requirements of the PRA Rulebook and relevant EU regulations. The framework requires an annual validation cycle for the Group's partial internal model (the Internal Model). This has been performed as part of the production of the SCR as at 31 December 2017. The objective is to produce a robust, proportionate and demonstrably complete approach to validation overseen by the Group Chief Risk Officer.

There is an annual assessment of which aspects of the Internal Model must be independently validated. Independent validation is carried out mainly by the second line, sometimes by a first line team from a different business division, or sometimes by an external party. Independent validators must demonstrate how independence is met and state any limitations on independence.

Requirements for each annual cycle are specified in the Validation Terms of Reference. Respective validators outline approach, activities, tools and aspects of the model in Validation Work Programmes. The results, conclusions and consequences including remediation are detailed in independent

validation reports or validation reports prepared by the first line. These are presented to GIMC for approval.

B.3.3.1.3 VALIDATION ACTIVITY

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

B.4 INTERNAL CONTROL SYSTEM

The Group internal control policy requires that each division's 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
- Processes ensure assessment of the possible impact of any changes in the legal environment

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

B.4.1 SOLVENCY II COMPLIANCE FUNCTION

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

- advising the Company Board and its sub committees on compliance with the requirements of the Solvency II Directive[3] and its associated laws, regulations and administrative provisions;
- advising the Company Board on the possible impact of any changes in the legal environment on operations of the undertaking concerned and the identification and assessment of compliance risk;
- developing and managing the Group's Solvency II Compliance Policy, which inter alia sets out the responsibilities, competencies and reporting duties of the (Solvency II) compliance function; and
- establishing and operating the Group's Solvency II Compliance Plan that details the activities the function will undertake in relation to compliance risk.

[3] Directive 2009/138/EC of the European Parliament.

The Group has defined the Group Chief Risk Officer role as the functional head of Solvency II Compliance at the Group level, with the Risk, Actuarial, Group Finance and HR functions delivering activities in support of the Solvency II Group Level Compliance Function.

The Group's Solvency II Compliance Plan is defined as the review activities performed by the Compliance function to support it in advising the Company Board on compliance in relation to Solvency II matters.

B.5 INTERNAL AUDIT FUNCTION

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

GIA is an independent and objective assurance and advisory function whose primary role is to support the Group Board and Executive Management in the protection of the assets, reputation and sustainability of the Group.

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

GIA carries out:

- independent reviews and audits of the controls mitigating the key risks in all areas of the business, prioritised according to the relative risk of each assignment as determined by the Group Chief Internal Auditor in conjunction with senior management;
- reviews of major Business Change Initiatives; and
- reviews of the risk management and internal control processes. GIA is responsible for the development of an internal audit plan, with a corresponding delivery timetable and budget. The plan typically details proposed audits over the next twelve months. GIA reviews the plan regularly and advises the Board of any material alterations to it. Any impact of resource limitations and significant interim changes are communicated promptly to the Board.

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

Internal control objectives considered by GIA include:

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

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

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

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

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

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

B.6 ACTUARIAL FUNCTION

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

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

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

- Supported compliance with the requirements on the calculation of the technical provisions (TPs);
- Provided the opinions on the underwriting policy and reinsurance arrangements; and
- Contributed to the effectiveness of the risk management systems more widely.

These reports are shared with the Group Chief Actuary.

The requirements covering TP calculations are 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 are 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 is provided substantially through the membership of Divisional Pricing and Capital Committees. Business division reports are produced on underwriting and reassurance and Actuarial Function reports providing an actuarial opinion on these areas for the Company are provided to the Board.

The Actuarial Function contributes to the effective implementation of the risk management system through various activities and the membership of a number of key divisional, entity and Group Committees with risk and financial reporting responsibilities. Areas of focus, both within the responsibility of the risk function and more generally, with significant levels of Actuarial Function involvement include: the Internal Model and SCR; the ORSA; identifying, measuring and monitoring risks; Asset Liability Matching (including matching adjustment and liquidity management); product pricing; financial reporting; business plans; and Part VII transfers.

B.7 OUTSOURCING

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

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

Below is a schedule of critical or important outsource providers used by the Company either directly or through relationships established by the broader Legal & General Group:

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

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

- Investment management services provided by Legal & General Investment Management Limited (LGIM);
- Treasury services by Legal & General Finance Plc; and
- Employment, IT (through the Group's shared service IT function) and procurement services by Legal & General Resources Limited.

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

B.8 ANY OTHER INFORMATION

B.8.1 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Company operates within the Group's risk management framework. 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. The most recent review was in February 2018, where the Committee concluded that the Group's risk framework aligns with the Group's key risk exposures, and operated effectively during 2017 in identifying material risk exposures.

B.8.2 ANY OTHER INFORMATION

To enhance the governance at the subsidiary level, the Board resolved to appoint a Non-Executive Chairman in 2017, with the appointment being effective from 6 March 2018, following the receipt of regulatory approval.

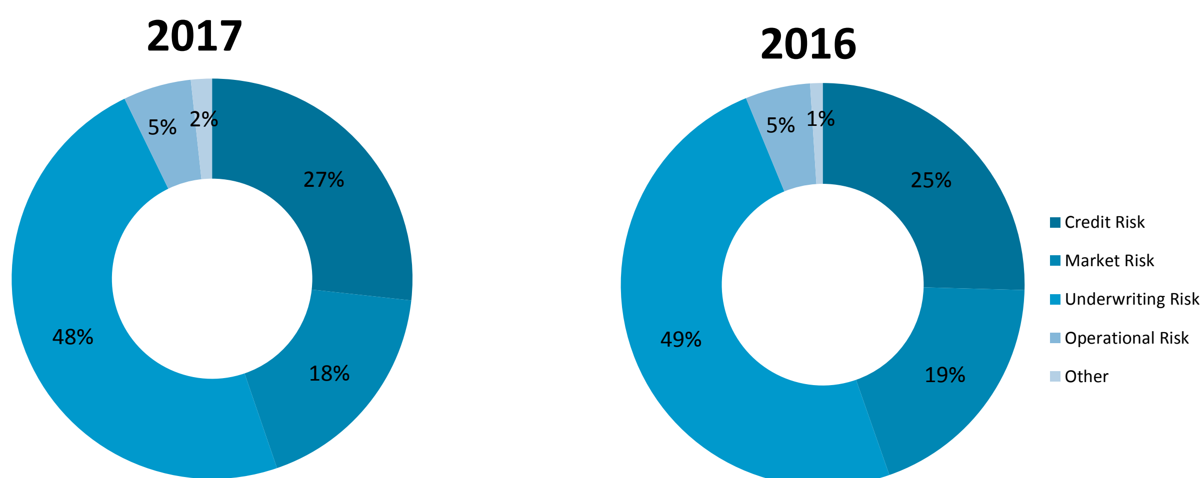
There were no significant changes to the overall system of governance other than those covered above.

C. RISK PROFILE

Measures used to assess risks

Our risk-based capital model (the Internal Model) seeks to provide a quantitative assessment of the Company'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. We also use our capital model to assess significant transactions, including large pension risk transfer deals. The key output from our capital model is the generation of capital requirements. We calibrate our model to a 99.5% value at risk confidence level over one year, equivalent to ensuring that we hold sufficient capital to survive our assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit and insurance (longevity) risks remain our most significant risks. Market risks, which include equity, property and interest rate risks, are also material risks for which we hold capital.

Below is the percentage breakdown of the Company's pre-diversified Solvency Capital Requirement by major risk categories:



Prudent Person Principle

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
- are in the best interest of policyholders and beneficiaries.

The Group and 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 Group's policy for the management of assets and the framework that supports its practical application, and have been defined in line with the Group 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 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 each business division to ensure that 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 the overall framework for managing compliance with Prudent Person Principles.

C.1 UNDERWRITING RISK

C.1.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to underwriting (also known as insurance) risk as a consequence of offering the principal products outlined in Section A.1.3. Underwriting risk is the exposure to loss arising from experience being different to that anticipated. Detailed below are the principal underwriting risks to which the Company is exposed, presented by reference to the Group's business divisions, with associated mitigating activities:

Principal risk	Division	Risk mitigations
Longevity, mortality and morbidity risks		
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	LGI	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK retail protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings	The pricing basis for contracts providing minimum assured death benefits includes provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option expose the Company to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Savings	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The Company has limited ability to control the take up of these options. However, the book of business itself is diminishing in size.

Legal & General

Principal risk	Division	Risk mitigations
For annuity contracts, the Company is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	LGR	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Company regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Persistency risk		
In the early years of a policy, lapses may result in a loss to the Company, as the acquisition costs associated with the contract would not have been recovered from product margins.	LGI and Savings	The pricing basis for protection business includes provision for policy lapses. The persistency assumption for protection business allows for the expected pattern of persistency. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. For insured contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the Company has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.
Expense risk		
In pricing long-term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	LGR, LGI and Savings	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.
Concentration (catastrophe) risk		
Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	LGI	Group protection business contracts include an ‘event limit’ capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.

Principal risk	Division	Risk mitigations
The Company accepts a tranche of catastrophe cover issued by its subsidiary company Legal & General Insurance Ltd (LGIL). Should a significant event occur, triggering LGIL's catastrophe cover, the Company will be required to meet its share of its subsidiary's claims payments.	LGI	The Company accepts a share of the catastrophe reinsurance in line with market rates. When calculating the extent of the catastrophe cover required for the Group, the exposure is assessed on a group basis as well as for LGIL on a standalone basis.
Epidemic (catastrophe) risk The spread of an epidemic could cause large aggregate claims across the Company's portfolio of protection businesses.	LGI	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.

C.1.2 INSURANCE SPECIAL PURPOSE VEHICLES (SPVS)

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

C.1.3 RISK CONCENTRATION AND MANAGEMENT

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the Company. In particular, there is little significant overlap between the long-term and short-term insurance business written by the Company. However, there are potentially material correlations of insurance risk with other types of risk exposure. The Company's capital model seeks to measure risk correlations particularly those that would tend to be more acute as the underlying risk scenarios become more extreme. An example of the accumulation of risk is the correlation between reinsurer counterparty risk with mortality and morbidity exposures.

While exposure to concentration risk is an inherent aspect of writing insurance business, we have limited appetite for the scale or frequency of events anticipated in product pricing materially diverging from expectations as a consequence of significant accumulations of exposure to a single event or counterparty. Where required, we will set limits on the aggregate values for individual lives that we will insure, and the minimum geographic spread of insurance business that we will accept. Reinsurance arrangements are also used to mitigate our risk.

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

C.2 MARKET RISK

C.2.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to market risk as a consequence of offering the principal products outlined in section A.1.3. Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in interest rates, foreign currency exchange rates, equity indices and property prices. Market Risk arises due to fluctuations in both the value of liabilities and the value of investments held. Detailed below are the principal market risks to which the Company is exposed:

Principal risk	Division	Risk mitigations
Investment performance risk		
The Company is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	LGR and LGI	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts.	Savings	The risks are managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the Company's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit-linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	LGI and Savings	The performance of linked investment funds relative to their investment objectives is subject to regular monitoring. Periodic assessment is also made of the long-term profitability to the Company of these funds. For some contracts the Company has discretion over the level of management charges levied.
Property risk		
Lifetime Mortgages include a no-negative equity guarantee which transfers an exposure to loss to the Company as a result of low house price inflation and an exposure on specific	LGR	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property

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Principal risk	Division	Risk mitigations
properties which may underperform the general house price inflation for whatever reason.		type and geographic region seek to control exposures to specific aspects of the property market.
Currency risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-Sterling currencies. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in Sterling could result in unforeseen loss.	LGR	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. In all cases, it is not possible to perfectly hedge currency risk, leaving some residual risk.
The liabilities of the intragroup reinsurance arrangements are revalued from US Dollars into Sterling potentially resulting in a loss to equity.	LGI	Balance sheet foreign exchange currency translation exposure in respect of the Group's international subsidiaries is managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged through the use of derivatives. In all cases, it is not possible to perfectly hedge currency risk, leaving some residual risk.
Inflation risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	LGR	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities, leaving some residual risk.
Interest rate risk Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	LGR	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.	LGR, LGI and Savings	Asset liability matching significantly reduces the Company's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in our analysis and disclosed in our financial statements.

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C.2.2 RISK CONCENTRATION AND MANAGEMENT

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

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

C.3 CREDIT RISK

C.3.1 RISK EXPOSURE AND CONTROLS

The Company is exposed to credit risk as a consequence of offering the principal products outlined in section A.1.3. Credit risk is the risk of a financial loss as a result of the default of failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks. Detailed below are the principal credit risks to which the Company is exposed:

Principal risk	Division	Risk mitigations
Bond default risk		
A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing annuities and general insurance business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with financial loss.	LGR	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.

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Principal risk	Division	Risk mitigations
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in an increased exposure to insurance risk. Credit risk syndication also exposes the Company to counterparty default risks with the Company being required to carry an element of associated credit risk capital requirement on its balance sheet should the business not be re-brokered on the same terms.	LGR, LGI and General Insurance	When selecting new reinsurance partners for its protection business, the Group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the Group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of our asset diversification strategy, the Company holds property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	LGR and LGC	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with the investment transaction.

C.3.2 RISK CONCENTRATION AND MANAGEMENT

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

The Company manages the credit concentration risk by setting quantitative limits on maximum exposures to counterparties. The Group Credit Risk Committee (GCRC) is responsible for reviewing the aggregate exposures for the Group and the credit portfolios backing the Company's annuity liabilities and the extent to which specific limits are required for concentrations by counterparty, sector and geographic areas. Where exposures are identified as being outside acceptable ranges adjudicated by the Group Credit Risk Committee, it will initiate action with the relevant business firm(s) to manage the exposure.

C.4 LIQUIDITY RISK

C.4.1 RISK EXPOSURE

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

The Company's exposure to liquidity risk primarily arises from contingent events including pandemic mortality, weather events and timing difference of cash flows, such as claims due to policyholders and other operational cash flows.

The Company is also exposed to 'collateral risk' under its derivatives contracts which could require the firm to post assets eligible as collateral at short notice. Detailed below are the principal liquidity risks to which the Company is exposed:

C.4.2 LIQUIDITY RISK

Principal risk	Division	Risk mitigations
Contingent event risk Events that result in liquidity risk may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	LGI and General Insurance	The Company seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is however an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the Company operates and the executions of investment management strategies. However, the Group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events, with the profile of actual liquid assets being regularly compared to the required profile. The Group's treasury function provides formal facilities to other areas of the Group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable.
Collateral risk Within the annuities businesses, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties at short notice.	LGR	Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets specified in the agreements with counterparties is maintained. As at 31 December 2017, LGR held eligible collateral worth 4 times the total amount of outstanding collateral (using the most representative definition of collateral contained within the Company's different collateral agreements).
Investment liquidity risk Within the with-profits fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	Savings	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.

Principal risk	Division	Risk mitigations
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or are realisable at a diminution of value.	Savings	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the Group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Direct lending, sales and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.	LGR	Given the illiquid nature of the annuity and other liabilities, the Company is able and willing to take advantage of the premium offered by illiquid assets. The Company, however, sets limits on the overall exposure to illiquid investment types taking account of the nature and type of liabilities that the assets are held to meet.

C.4.3 LIQUIDITY RISK MANAGEMENT

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

The Company maintains sufficient funds for business as usual purposes. It also seeks to ensure that exposures to liquidity risk which arise across the Group are effectively managed so that the Company is able to meet payment and collateral obligations under unlikely but plausible, extreme liquidity scenarios.

It is the Group's policy that business divisions remain self-sufficient from a liquidity perspective by maintaining sufficient liquid assets and assessing the appropriateness of the composition of the assets in terms of their nature, duration and liquidity to meet obligations as they fall due. The business divisions also need to maintain sufficient eligible assets to meet collateral requirements that arise from their normal business conduct and under the two defined stressed scenarios. To the extent that a business division is not self-sufficient it is required to have a committed credit facility (standby facility) with Group Treasury to cover the risk exposure.

The primary sources of liquidity across the Company are cash and gilts. In addition the Group has a committed revolving syndicated facility.

C.4.4 LIQUIDITY STRESS TESTING

The exposure to liquidity risk is measured by a liquidity coverage ratio (LCR) under the two prescribed liquidity stress scenarios. The main purpose of the model is to measure the compliance to the approved risk appetite defined in the Group Liquidity Risk Policy. As a Group standard the liquidity stress testing is performed monthly or more frequently if needed.

LCR is defined as total sources of liquidity divided by total liquidity requirements and is calculated separately for each business division, entity, and Group Treasury.

The Group Treasury function works with the business divisions to ensure that, at a local and entity level, businesses have developed and implemented their own liquidity risk framework and models, based on the assumptions and processes set out by Group Liquidity Risk Policy. The framework and assumptions are reviewed and reaffirmed annually.

C.4.5 EXPECTED PROFIT IN FUTURE PREMIUMS

The total amount of the expected profit included in future premiums (EPIFP) as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulation[4] was £2,480m as at 31 December 2017 (2016: £2,728m).

C.5 OPERATIONAL RISK

C.5.1 RISK EXPOSURE AND MANAGEMENT

Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. Potential for exposure to operational risk extends to all the Group's businesses. 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.

Dependency on a single supplier (both internal and external to the Company) to supply a product or a service supporting a critical business function can give rise to concentrations of operational risk. Mitigation techniques deployed to mitigate this include business continuity and recovery plans in the event of supplier failure, a defined mechanism to resolve disputes relating to a contract and orderly exit and termination plans. Further details are provided in section B.7 Outsourcing.

C.6 OTHER MATERIAL RISKS

No other material risks have been identified.

C.7 ANY OTHER INFORMATION

C.7.1 SENSITIVITIES

As part of the ORSA process a range of stress tests are carried out. The following sensitivities are provided to give an indication of how the Company's Solvency II surplus as at 31 December 2017 would have changed in a variety of events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be different from adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

[4] Commission Delegated Regulation (EU) 2015/35.

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Risk	Description	Impact on net of tax capital surplus 2017 (£bn)	Impact on Solvency II coverage ratio 2017 (%)
CREDIT	Credit spreads widen by 100bps assuming a level addition to all ratings[1]	0.17	5
	Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	0.11	4
	Credit spreads narrow by 100bps assuming a level addition to all ratings[1]	(0.20)	(6)
	Credit spreads narrow by 100bps assuming an escalating addition to ratings[1,2]	(0.13)	(5)
	Credit migration[3]	(0.42)	(6)
MARKET	25% fall in equity markets	(0.36)	(4)
	25% rise in equity markets	0.40	5
	15% fall in property markets	(0.23)	(3)
	15% rise in property markets	0.17	2
	25% fall in property markets	(0.38)	(5)
	100bps fall in risk free rates[4]	(0.78)	(15)
	100bps increase in risk free rates	0.62	14
	50bps fall in risk free rates[4]	(0.37)	(7)
	50bps increase in bond spreads over EIOPA risk free rates	(0.08)	(1)
	50bps increase in future inflation expectation	(0.01)	(1)
	GBP exchange rates fall by 25%	0.19	2
UNDERWRITING	1% reduction in annuitant base mortality[6]	(0.10)	(1)
	1% increase in annuitant base mortality[6]	0.09	1
	Substantially reduced risk margin[5]	0.08	1

1. The spread sensitivity applies to the Company's corporate bond (and similar) holdings, with no change in the Company's long-term default expectations.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100bps.
3. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds and Sale & Leaseback rental strips).
4. In the 'interest rate down' stress negative rates are allowed, i.e. there is no floor at zero.
5. This represents a reduction of two-thirds in risk margin (RM) and subsequent recalculation of the TMTP.
6. The annuitant mortality stress is a 1% change in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates.

The 2017 sensitivities ignore the impact of the Mature Savings business (including the With-Profits fund) as the risks have been transferred to Swiss Re from 1 January 2018.

In the above sensitivity analysis the following management actions are assumed to reduce the SCR impacts, which are in-line with L&G's practice of managing the asset portfolio:

- The credit migration stress assumes a rebalancing of the annuity portfolio back to the original asset mix;
- The property stress assumes a rebalancing of the structured bonds from the Lifetime Mortgages to the original credit rating;
- A dynamic currency hedge management action in the annuity business.

There are no other management actions taken to reduce the impacts. The above table does allow for the recalculation of the TMTP in line with management's view of the underlying risks.

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.

In addition to the sensitivities in the table above, the Company also considers extreme likelihood stresses. As the Company participates in the general insurance catastrophe reinsurance programme, the 1-in-250 windstorm and coastal flood stress would result in a loss to the Company of £58m.

C.7.2 MATERIAL CHANGES TO THE RISK PROFILE OVER THE REPORTING PERIOD

As part of the ORSA the Company has reviewed all material risks and continues to recognise longevity improvements, credit and equity risks as our key risk exposures. These risk exposures are expected to remain relatively stable.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

The Company's assets as at 31 December 2017 are as below:

Assets as at 31 December 2017 (£m)	Reference	II	IFRS	Variance
Deferred acquisition costs	D.1.1.1	-	475	(475)
Intangible assets	D.1.1.1	-	15	(15)
Deferred tax assets		-	4	(4)
Property, plant and equipment held for own use		8	8	-
Investments (other than assets held for index-linked and unit-linked contracts)		75,520	75,402	118
Property (other than for own use)		*354*	*354*	-
Holdings in related undertakings, including participations	D.1.1.2	*944*	*826*	*118*
Equities		*3,699*	*3,699*	-
Bonds		*55,847*	*55,847*	-
Collective investments undertakings		*11,077*	*11,077*	-
Derivatives		*3,593*	*3,593*	-
Deposits other than cash equivalents		*6*	*6*	-
Assets held for index-linked and unit-linked contracts		28,085	28,085	-
Loans and mortgages		2,941	2,941	-
Reinsurance recoverables	D.1.1.3	29,211	31,511	(2,300)
Deposits to cedants		858	858	-
Insurance and intermediaries receivables		111	111	-
Reinsurance receivables		191	191	-
Receivables (trade, not insurance)		1,377	1,377	-
Cash and cash equivalents		409	409	-
Total Assets		**138,711**	**141,387**	**(2,676)**

Note: Assets held for index-linked and unit-linked contracts under IFRS have been adjusted to reflect the same presentational requirements of linked derivative liabilities under Solvency II. This has resulted in a decrease in the IFRS balance by £25m, and a corresponding decrease in derivative liabilities.

Assets as at 31 December 2016 (£m)	Reference	Solvency II	IFRS	Variance
Deferred acquisition costs	D.1.1.1	-	559	(559)
Intangible assets	D.1.1.1	-	19	(19)
Deferred tax assets		-	5	(5)
Property, plant and equipment held for own use		8	8	-
Investments (other than assets held for index-linked and unit-linked contracts)		72,380	72,131	249
Property (other than for own use)		*409*	*409*	-
Holdings in related undertakings, including participations	D.1.1.2	*1,325*	*1,076*	*249*
Equities		*3,687*	*3,687*	-
Bonds		*56,425*	*56,425*	-
Collective investments undertakings		*6,639*	*6,639*	-
Derivatives		*3,684*	*3,684*	-
Deposits other than cash equivalents		*211*	*211*	-
Assets held for index-linked and unit-linked contracts		27,387	27,387	-
Loans and mortgages		1,581	1,581	-
Reinsurance recoverables	D.1.1.3	22,878	24,780	(1,902)
Deposits to cedants		906	906	-
Insurance and intermediaries receivables		79	79	-
Reinsurance receivables		170	170	-
Receivables (trade, not insurance)		1,725	1,725	-
Cash and cash equivalents		671	671	-
Total Assets		127,785	130,021	(2,236)

D.1.1 SOLVENCY II VALUATION BASIS

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

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

Assets and liabilities (other than deferred tax) have been valued:

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

Where the valuation of assets and liabilities is the same under IFRS, a description of the bases, methods and main assumptions can be found in the accounting policies and notes of the Company's financial statements. Where there are material differences in valuation, these are set out in the relevant sections below.

D.1.1.1 DEFERRED ACQUISITION COSTS (DAC) AND INTANGIBLES

Intangible assets, including DAC, 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).

None of the intangible assets (including DAC) that the Company holds meet these criteria and therefore are valued at zero on the Solvency II balance sheet. The associated DAC cash flows are included in the measurement of the Solvency II technical provisions.

D.1.1.2 HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

The Company has participations that are not quoted in active markets. Under Solvency II, these are valued using an adjusted equity method where the value of the investment is determined as the Company's share of the subsidiary's net assets valued in accordance with the Solvency II valuation rules, and therefore notably any regulated insurance subsidiaries reflect the different valuation of technical provisions under Solvency II.

D.1.1.3 REINSURANCE RECOVERABLES

The reinsurance recoverables and gross liabilities are calculated consistently with the Best Estimate Liability in all cases, except that there is an allowance for the probability weighted best estimate of external reinsurer default. The lower valuation of reinsurance recoverables under Solvency II is primarily driven by the different valuation methodology used in calculating the Solvency II technical provisions.

D.1.1.4 CHANGES IN ASSUMPTIONS AND VALUATION BASES

There have been no significant changes in assumptions, valuation bases or estimations for assets in the reporting period.

D.1.1.5 LEASES

There are directly held investment properties which appear on the Company's Solvency II balance sheet where the Company acts as a lessor. The investment properties are carried at fair value and the Group's policy is to let investment properties to tenants through operating leases. The leases have varying terms, escalation clauses and renewal rights.

The Company acts as a lessor for one property accounted for as a finance lease. The lease which relates to the provision of healthcare services has a duration of 20.7 years and is included in the Solvency II balance sheet under Receivables (trade, not insurance) at a value equal to the present value of future lease payments (£92m).

Lease arrangements where the Company acts as the lessee are disclosed in section A.4.

D.1.2 VALUATION UNCERTAINTY

The Company values its assets in accordance with Article 10 of the Solvency II Delegated Regulation. Valuations of assets are underpinned by a system of processes and controls to ensure that the Company complies with Article 267 of the Solvency II Delegated Regulations. 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 process focuses on, although is not limited to, assets that are valued using alternative valuation techniques. The Company has concluded that its 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[5]

A summary of the Company's technical provisions is set out below:

Technical provisions (£m) As at 31 December 2017	**With-profit participation**	**Index-linked and unit-linked insurance**	**Other life insurance**	**Accepted reinsurance**	**Health insurance**	**Non-life non-proportional property reinsurance**	**Total**
Best estimate liability	**10,127**	**48,532**	**53,228**	**613**	**431**	**1**	**112,932**
Risk margin	**84**	**75**	**4,886**	**165**	**2**	**1**	**5,213**
Transitional measure on technical provisions	**(84)**	**(50)**	**(5,401)**	**(89)**	**-**	**-**	**(5,624)**
Technical provisions total	**10,127**	**48,557**	**52,713**	**689**	**433**	**2**	**112,521**

Note: The non-life general liability insurance is negligible (<0.5m) and is not split out in the table above.

Technical provisions (£m) As at 31 December 2016	With-profit participation	Index-linked and unit-linked insurance	Other life insurance	Accepted reinsurance	Health insurance	Non-life non-proportional property reinsurance	Total
Best estimate liability	10,636	41,558	48,366	3,039	449	-	104,048
Risk margin	122	60	5,167	376	2	2	5,729
Transitional measure on technical provisions	(85)	(32)	(5,553)	(330)	-	-	(6,000)
Technical provisions total	10,673	41,586	47,980	3,085	451	2	103,777

The table above provides an overview of the Company's technical provisions split by Solvency II line of business (LoB).

D.2.1 SOLVENCY II VALUATION BASIS

D.2.1.1 METHODOLOGY

The Technical Provisions (TPs) are calculated as the sum of the Best Estimate Liabilities (BEL) and the Risk Margin (RM) less the Transitional Measure on Technical Provisions (TMTP), which has been calculated in line with PRA approvals and allows for the change in capital requirements from the old Solvency I regime.

The BEL reflects the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash flows) using the relevant risk-free interest rate term structure (including the matching adjustment where relevant). Deterministic and stochastic valuation techniques are used to calculate the BEL.

The main cash flows cover premiums, future financial obligations of policyholder benefits, and expenses of running the business (including investment expense and commission payments). Future management actions are allowed for, where these are deemed to be objective, realistic and verifiable. The management actions used in the calculation of the TPs consider the time delays and costs applicable to their implementation.

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 Prudential Regulation Authority (PRA) Rulebook for Solvency II firms.

Future premiums are only considered for the period up to where the policyholder or the Company has the option to establish, renew, extend, increase or resume the insurance contract. Except for Legal & General America (LGA) business ceded to the Company, where the contract boundary is the maximum age in the contract, typically age 95 for Term assurance business.

[5] Risk Margin and Transitional Measures on Technical Provisions are not subject to audit.

Business not included in the full cash flow projections on materiality grounds is explicitly allowed for in the BEL through manual adjustments. The most material un-modelled business reflects the non-participating Conventional Pensions business within the with-profits BEL. This reflects less than 0.1% of the BEL. There are two instances where BEL modelling simplifications are used in the calculation of the BEL, namely the allowance for catastrophe risk (e.g. epidemic and event risks) and mass lapse risk where data is limited and the probability weighted mean is not allowed for in the BEL. For these risks there is a corresponding offsetting movement in the Company's SCR.

The RM is the cost that would be incurred in holding eligible Own Funds (as defined in the PRA Rulebook for Solvency II 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 RM capital requirement), to meet adverse deviations on the underlying best estimate cash flows over the full run-off of the business. The RM capital requirement covers underwriting risk, credit risk associated with reinsurance contracts and operational risk. Future new business is not allowed for in the RM capital requirement. No allowance is made for the loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC.

The RM is calculated for the Company as a whole, allowing for diversification between the risks within the entity. The discount rate used in the cost of capital calculation is the relevant basic risk-free rate (excluding matching adjustment). The cost of capital rate is set to 6% as prescribed in Article 39 of the Delegated Regulation.

Where investment management agreements are in place with Legal and General Investment Management Limited, the TPs are calculated using investment expenses on a fees (rather than costs) basis.

The calculation of the TPs is dependent on the quality of the data underlying the calculations. The data has been assessed in line with Article 48 of Directive 2009/138/EC. This assessment has concluded that the quality and sufficiency of data used in the preparation of the above TPs is such as to enable a reliable and adequate calculation of the technical provisions.

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

D.2.1.1.1 LEGAL & GENERAL RETIREMENT (LGR)

Best Estimate Liabilities (BEL)

Deterministic actuarial projection models are used, in line with the methodology described above.

In addition, insurance undertakings are permitted to apply a matching adjustment (MA) to the relevant risk-free interest rate term structure when calculating the best estimate of a portfolio of life insurance obligations, subject to prior approval by the supervisory authorities. The Company has been approved by the PRA to use a MA when calculating the BEL for the majority of annuity business held by the Company. This has been applied in line with the approved application.

Risk margin (RM)

The RM capital requirement is projected forward for each future year over the run-off of the business.

Longevity is the most material component of the RM capital requirement. Consequently, the RM calculation allows for more accuracy in calculating this component. Best estimate and stressed future cash flows are projected to capture the capital requirement at future points in time and the discounted cost of capital is applied. The capital requirement for other risk sub-groups are projected using a proxy approach i.e. the projected capital requirements are estimated using appropriate carrier variables.

The Matching Adjustment Portfolio in LGR is not assumed to be ring-fenced for the purpose of the Risk Margin calculation.

D.2.1.1.2 LEGAL & GENERAL INSURANCE (LGI)

Best Estimate Liabilities (BEL)

Deterministic actuarial projection models are used, in line with the methodology described above.

Risk margin (RM)

The RM capital requirement is projected for each future year over the run-off of the business by risk sub-group. The RM capital requirement is estimated, using appropriate proxy carrier variables, e.g. percentage of BEL.

For reinsurance accepted from Legal & General America (LGA), the RM capital requirement is projected over the run-off of the business, with run-off factors determined by projecting the in-force business with real world best estimate assumptions to discrete points in the future. The capital requirement in intermediate years is calculated using linear interpolation. Stresses are applied to the individual non-hedgeable risk types. The RM capital requirement as at the valuation date is projected forward using these run-off factors.

D.2.1.1.3 SAVINGS INCLUDING WORKPLACE SAVINGS

Best Estimate Liabilities (BEL)

Deterministic and stochastic valuation techniques are used, in line with the methodology described above.

Stochastic valuation techniques are used where the cash flows exhibit the presence of material financial options and guarantees and management actions that are employed in the management of the with-profits fund. Deterministic actuarial projection models are used for all other BEL calculations.

For unit-linked business, the total BEL is split by unit and non-unit components. The unit BEL is the actuarially funded value of current units, including guaranteed additional units.

The with-profits fund has the ability to employ a range of management actions in the management of its business, as set out in the Company's Principles and Practices of Fund Management (PPFM). In accordance with Article 225 of the Delegated Regulation, future management actions have been allowed for in the BEL, provided that they are objective, realistic and verifiable. The impact of changes in policyholder behaviour has also been reflected in the BEL.

The surplus funds in respect of with-profits business refer to accumulated profits which have not been made available for distribution to participating policyholders at the valuation date. The surplus funds reflect the Own Funds, excluding the effect of the RM, the Transitional Measure on Technical Provisions allocated to the with-profits fund and excluding the present value of future shareholder transfers defined in relation to future discretionary benefits. Surplus funds are shown in Annex 1 QRT S.23 Own funds in R0070. Permanent enhancements to benefits resulting from the previous distribution of surplus assets are allowed for in the appropriate BEL.

Risk margin (RM)

The RM capital requirement is projected forward for each future year over the run-off of the business. The RM capital requirement is estimated using appropriate proxy carrier variables e.g. percentage of BEL.

D.2.1.2 MAIN ASSUMPTIONS

This section covers the assumptions used in the calculation of the BEL for the Company's long-term insurance business.

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. The assumptions used in the valuation of the BEL are the same best estimate assumptions as the basis for calculating IFRS assumptions, excluding the margin for prudence included within the IFRS assumptions. In some cases where the class of business is immaterial the BEL uses the same assumptions as used in the IFRS reserves.

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

Assumptions are set by following an established methodology which has been discussed with the Board.

Assumptions are set for homogeneous risk groups to avoid introducing distortions that might arise from combining business with different characteristics. At a minimum, these groupings are by line of business segmentation stipulated by the European Insurance and Occupational Pensions Authority (EIOPA).

D.2.1.2.1 ECONOMIC ASSUMPTIONS

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

Risk free yield curve

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

The Company has received approval from the PRA to apply a matching adjustment, which allows for an increase to be applied to the risk-free yield curve for the MA portfolios. No other adjustments have been made to the risk-free rate.

Inflation

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

Unit growth

For the calculation of the non-unit BEL on linked contracts, an assumption regarding the rate of future unit growth is required. The assumption made is that the growth rate before charges is the same as the risk free discount rate.

Participating business

The stochastic model is based on a large number of market consistent economic scenarios derived from assumptions consistent with the deterministic assumptions. The model is calibrated using market data from a variety of sources. This enables assumptions to be determined for the term structure of risk-free interest rates, and for property and equity volatility.

Risk-free interest rates are determined as described above. Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

D.2.1.2.2 NON-ECONOMIC ASSUMPTIONS

Expenses

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

Mortality and morbidity

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

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

The mortality basis for retail protection business is set as a base table plus an allowance for deterioration in respect of contracts with critical illness cover benefits. Future mortality improvement assumptions are made for whole of life products.

For some classes where the reserves are insensitive to the chosen level of mortality, no investigation is carried out but an assumption that is demonstrably prudent is used.

Persistency

Persistency experience can include lapses, take-up rates for guaranteed annuity options, partial withdrawals and early retirement, where relevant. Persistency rates are reviewed annually for most products to determine the best estimate. This investigation generally uses three years of data with a six month delay, to allow for lapses that the Company has not been notified of at the date of the investigation, to generate weighted average (by premium) lapse rates. The long-term persistency assumptions are set using these lapse rates. Alternative approaches are used if it is considered that the exposure is insufficient for the experience to be credible, observed lapse rates are excessively volatile or it is expected that the lapse experience will change in future.

Participating business

Participating business requires additional assumptions on future management and policyholder actions.

Future bonuses

Future reversionary and terminal bonuses are consistent with the bonus policies set out in the Company's Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options

The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options

The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Further details of the main assumptions are provided in Annex 3 of this report.

D.2.1.3 MATERIAL CHANGES IN ASSUMPTIONS COMPARED TO THE PREVIOUS REPORTING PERIOD

The most material changes to assumptions from the previous reporting period to the current reporting period are listed below, including the impact to these changes:

- Base annuitant mortality assumptions have been updated to reflect the most recent experience (reduction in BEL of £63m).
- Annuitant mortality trend assumptions have been updated to the CMI 2015 model, with no change to the long-term improvement rates (reduction in BEL of £178m).
- Annuitant expenses have been increased, reflecting increasing complexity in both the regulatory environment and the business, as well as an increase in customer needs. Expenses have grown by more than the size of the business, causing an increase in unit cost expense assumptions (increase in BEL of £120m).
- There have been two significant changes in assumptions underlying US Protection business. An increase in post-level term lapse and mortality assumptions, following an improvement in the shock lapse modelling methodology and an analysis of recent experience, offset by a reduction in level-term mortality assumptions (overall impact on BEL is a an increase of £203m).

D.2.1.4 TRANSITIONAL MEASURES

The Company does not apply the transitional risk-free interest rate-term structure.

The Company applies the Transitional Measure on Technical Provisions (TMTP). As at 31 December 2017, the TMTP has been recalculated in accordance with Article 308d of Directive 2009/138/EC. The impact of not applying the transitional measure as at the balance sheet date is provided in the table below:

As at 31 December 2017 (£m)	Regulatory basis	Impact	Adjusted balance
Technical provisions	112,521	5,624	118,145
SCR	7,344	747	8,091
MCR	1,836	187	2,023
Basic Own Funds	11,386	(4,673)	6,713
Eligible Own Funds for SCR	11,386	(4,673)	6,713
Eligible Own Funds for MCR	11,386	(4,673)	6,713
Capital coverage ratio	155%	(72)%	83%
MCR coverage ratio	620%	(288)%	332%

D.2.1.5 VOLATILITY ADJUSTMENT

The Company does not apply a volatility adjustment.

D.2.1.6 MATCHING ADJUSTMENT (MA)

In common with other UK annuity providers, the Company has received approval from the PRA to apply a matching adjustment, in line with Article 77b of Directive 2009/138/EC.

As at 31 December 2017 the impact of setting the MA to Zero is provided in the table below:

As at 31 December 2017 (£m)	Regulatory basis	Impact	Adjusted balance
Technical provisions	112,521	6,318	118,839
SCR	7,344	9,457	16,801
MCR	1,836	2,364	4,200
Basic Own Funds	11,386	(5,244)	6,142
Eligible Own Funds for SCR	11,386	(5,244)	6,142
Eligible Own Funds for MCR	11,386	(5,244)	6,142
Capital coverage ratio	155%	(118)%	37%
MCR coverage ratio	620%	(474)%	146%

The impact is measured as the change due to setting the MA to zero. The impact has been calculated assuming no further recalculation of the TMTP.

The MA is applied as an addition to the risk-free interest rate term structure and applies to individual annuities and certain bulk purchase annuity schemes that meet the approved eligibility criteria. The assets contained within the matching adjustment portfolios are predominantly corporate bonds, but also long-term direct investments held in MA-eligible structures, such as infrastructure investments and lifetime mortgages.

Losing MA approval is a remote risk for the business; however Article 296(2d) of the Solvency II Delegated Regulation requires the disclosure of the impact of a change to zero of the matching adjustment. We have an extensive controls framework to ensure our on-going MA compliance and we have a regular dialogue with the PRA about our MA strategy.

D.2.2 RECONCILIATION BETWEEN IFRS AND SOLVENCY II VALUATION OF GROSS BEL

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

As at 31 December 2017 (£m)	Total
Closing gross IFRS Technical provisions *	**121,514**
Data changes	(175)
Model changes	(55)
Non-economic assumptions	(6,940)
Economic assumptions	1,920
Methodology changes	(3,332)
Closing Solvency II Gross BEL	**112,932**

* The gross IFRS Technical Provisions in the table above are consistent with the insurance and investment contract liabilities in the year ended 2017 Legal and General Assurance Society Limited Statutory Accounts excluding outstanding claims liability of c.£398m, but allowing for with-profit unallocated distributable surplus of c.£712m and the value of in-force non-participating business in the with-profit fund of c.£120m.

As at 31 December 2016 (£m)	Total
Closing gross IFRS Technical provisions *	112,262
Data changes	(97)
Model changes	(27)
Non-economic assumptions	(6,467)
Economic assumptions	2,302
Methodology changes	(3,925)
Closing Solvency II Gross BEL	104,048

The reduction in liabilities from non-economic assumptions primarily relates to the removal of margins for adverse deviation allowed for in the IFRS liabilities. The BEL is calculated using best estimate assumptions excluding these prudent margins.

The increase in liabilities from economic assumption differences primarily relates to the move from discounting the cash flows at a prudent valuation interest rate (VIR) under IFRS to using the risk free

interest rate term structure plus matching adjustment (MA) for eligible liabilities under Solvency II. Implicit within this step is the allowance for investment expenses, which changes from an implicit allowance within the IFRS VIR to being an explicit cash flow under Solvency II. The same assumption applies under IFRS and under Solvency II; the only difference is in how it is allowed for, which should have very little impact.

The £3.3bn methodology difference is mainly driven by the difference between floating and fixed legs on longevity swaps (£0.8bn) as the floating legs include the prudent margins on the IFRS basis; inclusion of (£0.7bn) of unallocated distributable surplus for with-profits business, which is not applicable under Solvency II; a release of additional provisions for default risk and exchange rates that are held as IFRS liabilities, but under Solvency II are held within the Capital requirement (£0.5bn); and a difference arising from surplus asset hypothecation (£0.1bn). The remainder (£1.2bn) is mainly due to the difference in accounting treatment for negative non-unit liabilities where under IFRS a negative non-unit liability for investment business is not allowed while this is allowed under Solvency II.

SOLVENCY II LINE OF BUSINESS

The table below shows a comparison of Solvency II technical provisions and IFRS liabilities, split by Solvency II line of business.

As at 31 December 2017 (£m)	**Solvency II**	**IFRS**	**Difference**
Participating business	**10,127**	**10,840**	**(713)**
Index and unit-linked	**48,532**	**49,592**	**(1,061)**
Other life insurance	**53,228**	**58,849**	**(5,621)**
Reinsurance accepted (Life)	**613**	**1,507**	**(894)**
Health insurance	**431**	**722**	**(291)**
Non-life	**1**	**4**	**(3)**
Total liabilities	**112,932**	**121,514**	**(8,582)**
Risk margin	**5,213**		**5,213**
Transitional measure on technical provisions	**(5,624)**		**(5,624)**
Technical provisions	**112,521**	**121,514**	**(8,993)**

As at 31 December 2016 (£m)	Solvency II	IFRS	Difference
Participating business	10,636	11,336	(700)
Index and unit-linked	41,558	42,453	(895)
Other life insurance	48,367	53,306	(4,939)
Reinsurance accepted (Life)	3,039	4,471	(1,432)
Health insurance	449	689	(240)
Non-life	(1)	7	(8)
Total liabilities	104,048	112,262	(8,214)
Risk margin	5,729		5,729
Transitional measure on technical provisions	(6,000)		(6,000)
Technical provisions	103,777	112,262	(8,485)

LGR business from the above table is predominantly included within the ‘other life insurance’ line above. Savings business is mostly included within ‘Index and unit-linked’ and Insurance is included within ‘Other life insurance’ and ‘Health insurance’.

D.2.3 REINSURANCE RECOVERABLES

The calculation of the reinsurance recoverable asset is consistent with the calculation of the gross BEL described above, except that where a matching adjustment is applied to the gross BEL on eligible business, the equivalent reinsurance recoverable asset will be discounted at the risk-free interest rate term structure, excluding matching adjustment. 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.

Legal & General

As at 31 December 2017 (£m)	With-profit participation	linked and unit-linked insurance	Other life insurance	Accepted reinsurance	Health insurance	Non-life non-proportional property reinsurance	Total
Gross technical provisions	**(10,127)**	**(48,557)**	**(52,713)**	**(689)**	**(433)**	**(2)**	**(112,521)**
Reinsurance recoverables	**-**	**21,150**	**7,953**	**50**	**58**	**-**	**29,211**
Net technical provisions	**(10,127)**	**(27,407)**	**(44,760)**	**(639)**	**(375)**	**(2)**	**(83,310)**

As at 31 December 2016 (£m)	With-profit participation	Index-linked and unit-linked insurance	Other life insurance	Accepted reinsurance	Health insurance	Non-life non-proportional property reinsurance	Total
Gross technical provisions	(10,673)	(41,586)	(47,980)	(3,085)	(451)	(2)	(103,777)
Reinsurance recoverables	-	14,847	7,592	350	88	-	22,878
Net technical provisions	(10,673)	(26,739)	(40,388)	(2,735)	(363)	(2)	(80,899)

Reinsurance recoverables are described in section D.1.1.3 above. The Company has no SPVs authorised under Article 211 of the Solvency II Directive.

D.2.4 LEVEL OF UNCERTAINTY ASSOCIATED WITH THE VALUE OF TECHNICAL PROVISIONS (TPS)

A framework to assess the confidence in the methodology and assumptions used to calculate the TPs has been established by the Group Audit Committee. The framework allocates a status to the confidence in each of the assumptions or methodologies, 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 TPs calculations are the best estimate view of the Company. As one of the UK's largest life companies, the Company has a significant amount of data regarding its own 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 confidence assessment. Confidence in the base annuitant mortality is good, but due to limited data, the longevity trend assumption has been highlighted as an area of future uncertainty. Overall the Company has a high degree of confidence in the assumptions underpinning technical provisions and hence the level of uncertainty in the technical provisions is low.

D.3 OTHER LIABILITIES

As at 31 December 2017 the Company had other liabilities as follows:

Other liabilities as at 31 December 2017 (£m)	Reference	Solvency II	IFRS	Variance
Provisions other than technical provisions		**22**	**22**	**-**
Pension benefit obligations	D3.1	**137**	**-**	**137**
Deposits from reinsurers		**5,547**	**5,547**	**-**
Deferred tax liabilities	D3.2	**1,234**	**380**	**854**
Derivatives		**1,858**	**1,858**	**-**
Insurance and intermediaries payables		**449**	**449**	**-**
Reinsurance payables		**6**	**6**	**-**
Payables (trade, not insurance)	D3.3	**5,550**	**5,690**	**(140)**
Any other liabilities, not elsewhere shown	D3.4	**-**	**47**	**(47)**
Total		**14,803**	**13,999**	**804**

Note: Assets held for index-linked and unit-linked contracts under IFRS have been adjusted to reflect the same presentational requirements of linked derivative liabilities under Solvency II. This has resulted in a decrease in the IFRS balance by £25m, and a corresponding decrease in derivative liabilities.

Other liabilities as at 31 December 2016 (£m)	Reference	Solvency II	IFRS	Variance
Provisions other than technical provisions		67	67	-
Pension benefit obligations	D3.1	161	-	161
Deposits from reinsurers		5,258	5,258	-
Deferred tax liabilities	D3.2	1,207	370	837
Derivatives		1,965	1,965	-
Insurance and intermediaries payables		411	411	-
Reinsurance payables		9	9	-
Payables (trade, not insurance)	D3.3	3,300	3,478	(178)
Any other liabilities, not elsewhere shown	D3.4	-	61	(61)
Total		12,378	11,619	759

The following sections provide a quantitative and qualitative analysis of the material differences in valuation between IFRS and Solvency II, as well as a description of the valuation methods used.

D.3.1 PENSION BENEFIT OBLIGATIONS

In the Company's Solvency II balance sheet the With-Profits Fund's (WP) share of the surplus/deficit of the Group's defined benefit pension schemes is reported within Pension benefit obligations and Technical Provisions (TPs), as shown in the following table:

(£m)	**2017**	2016
LGAS WP Pension benefit obligations (net of tax)	**137**	161
Loss absorbing capacity of technical provisions (LACoTP, included in technical provisions)	**(45)**	(47)
Total LGAS WP Pension scheme deficit (net of LACoTP and tax)	**92**	114

Under Solvency II regulations no pension scheme deficit is required to be held on the solo balance sheets of legal entities. However, the Company's WP Pension scheme deficit is recognised on its solo balance sheet (also see section D.5).

The Company's WP Pension benefit obligations relate to the following defined benefit schemes of the Group:

- Legal & General Group UK Senior Pension Scheme;
- Legal & General Group UK Pension & Assurance Fund;
- For Solvency II, the Group's defined benefit pension schemes are valued under the IAS19 basis, which uses a prescribed methodology also used in IFRS reporting; and
- The Solvency II surplus/deficit is calculated as the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the fund is not restricted.

Under IFRS the Pension scheme deficit is reported in full at the Group level, the amount reported in the Company is zero.

D.3.2 DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities are recognised and valued in accordance with IFRS (IAS12), except that deferred tax assets and liabilities in respect of temporary differences are valued based upon the differences between the value of assets and liabilities in the Solvency II balance sheet and their value for tax purposes.

The Company has a total deferred tax liability on the Solvency II balance sheet of £1.2bn (2016: £1.2bn), comprised of the following material components:

Legal & General

(£m)	**Solvency II 2017**	**IFRS 2017**	Solvency II 2016	IFRS 2016
Realised and unrealised gains/(losses) on	**370**	**370**	375	375
Excess of depreciation over capital allowances	**(10)**	**(10)**	(13)	(13)
Spread acquisition expenses	**(31)**	**10**	(49)	(3)
Other	**(4)**	**6**	(6)	6
Difference between tax and accounting value of insurance contracts	**909**	**-**	900	-
Total deferred tax (asset)/liability	**1,234**	**376**	1,207	365

None of the above deferred tax assets or liabilities have an expiration date.

The Company has the following tax losses for which no deferred tax asset has been recognised:

(£m)	**Gross 2017**	**Net 2017**	Gross 2016	Net 2016
Tax losses in respect of equity and property assets	**69**	**14**	73	15
Trade losses in respect of business transferred in	**12**	**2**	12	2

D.3.3 PAYABLES (TRADE, NOT INSURANCE)

There is a £140m (2016: £178m) valuation difference within payables (trade, not insurance) which relates to trail commission which is inadmissible under Solvency II as it is deemed to be intangible (in line with deferred acquisition costs and deferred income liability).

All other payables within this line item are valued at fair value in line with IFRS.

D.3.4 ANY OTHER LIABILITIES, NOT ELSEWHERE SHOWN

Under IFRS there is £47m (2016: £61m) of deferred income liabilities, which are intangible and therefore inadmissible under Solvency II. Therefore this liability is removed from the Solvency II balance sheet.

D.4 ALTERNATIVE METHODS FOR VALUATION

Legal & General has in place a group-wide valuation uncertainty policy, which sets out the policy to ensure that all assets across the Group, valued using alternative valuation methods, are governed, controlled and valued in a manner that is appropriate and consistent with the requirements of Article 263 of the Delegated Regulation. These policies include a requirement for ensuring valuation models are reviewed on a timely basis and that independent review of the models and outputs is obtained on a regular basis

A Group Asset Valuation Uncertainty Committee (“the Committee”) monitors the application of the processes and compliance with the Group policy. This includes setting the policies to ensure appropriate documentation, including documentation of the models, significant assumptions and limitations, sensitivities and an assessment of the resulting valuations. The Committee is responsible for the oversight of asset valuations from each of the Solvency II regulated entities and its remit includes the Company’s assets.

Whilst the Committee reviews all assets to which the shareholder has some exposure, its main focus is on assets which present the highest level of valuation uncertainty. These assets include:

- **Commercial real estate loans** These are illiquid private assets and valuations are derived by using a discounted future cash flow approach with yields based on selected comparator bonds with similar durations and investment grades, combined with an assumption on the initial spread of the investment.

- **Income strips** These are property investment assets with lease durations typically in excess of 30 years. This asset class is valued using a discounted future cash flow approach based on comparator bond durations and investment grades, combined with assumptions on initial spread and future inflation factors. Valuations are compared against independent valuations performed by the Royal Institute of Chartered Surveyors, approved external valuers.

- **Lifetime Mortgages loans** There is no market-observable value for Lifetime Mortgage assets. However, the amount paid to acquire the assets at outset is objective, and is assumed to be the market value of the loan at the start date.
  Each Lifetime Mortgage loan is valued by projecting the expected proceeds and discounting at an appropriate discount rate. The main component of the spread is an estimate of the expected spread if the loan were issued on terms currently offered on new loans (with comparable LTVs). This spread will change over time, and aims to capture movements in the illiquidity premium available from investing in such Lifetime Mortgage assets.
  To project the expected proceeds, we make assumptions about: expected future property prices, volatility of property price growth, costs of selling the properties, decrement rates (mortality, morbidity and prepayment, as well as timing lags), running expenses.
  The asset valuation has been subjected to a variety of sensitivity tests covering reasonable ranges.
  The Lifetime mortgage portfolio is immature, and credible experience is yet to emerge.

- **Investment property** Due to the non-heterogeneity of the property portfolio, the valuation of the Group’s property assets are provided by external valuation experts on a quarterly basis which are calibrated to recent precedent transactions in the market place. The external valuations are performed in line with professional valuation standards as prescribed by the Royal Institute of Chartered Surveyors.

- **Sale and Leaseback arrangements** These are in relation to investment property and are accordingly valued in line with those assets.

- **Any non traded or illiquid bonds and equities** For illiquid Fixed Income assets we will use a price from the counterparty broker to the deal where possible, or we will utilise the purchase

price or issue price. For illiquid equities, our valuations are made, in line with the IPEV guidelines, by establishing a valuation with reference to relevant market, income and cost factors. These valuations are subject to internal review through independent asset valuation committees. Valuations are reviewed by independent expert valuation companies.

Following the completion of these processes the Company has concluded that its assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

D.4.1 ADEQUACY OF THE VALUATION COMPARED TO EXPERIENCE

Where possible, the Group aims to value its assets, which includes the Company's assets, using prices obtained from independent pricing providers. Where independent pricing is obtained, quality checks are performed to ensure valuations are appropriate. These include comparisons to like prices received from multiple providers, comparisons to previous day or period reported prices, spread tolerances built within the pricing, benchmarking to relevant indices and other tolerance based analyses. Deviations from tolerances are investigated and reported to the relevant asset governance process.

For assets where mark-to-market valuations from independent pricing providers are not available, the Group performs reviews to validate and verify the continued suitability of the model for valuation purposes. This includes verification of the information, data, assumptions and output of the model, and a review of the model to ensure that it is still appropriate. The latter might consider external factors such as developments in standard modelling techniques for the asset in question, or internal factors such as evidence of the valuation against purchases or disposals of similar assets.

D.5 ANY OTHER INFORMATION

On 4 Jan 2018, the With-Profits Fund paid a one off sum to the shareholder fund in exchange for the removal of all future obligations in respect of both deficit repair contributions and ongoing trustee expenses for Legal & General Group UK Pensions & Assurance Fund and Legal & General Group UK Senior Pension Scheme. Therefore, the company's balance sheet will no longer reflect the With-Profits Fund share of the Group Defined Benefit Pensions scheme liability from that date.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 OBJECTIVES FOR MANAGING OWN FUNDS

The Company's Board has established a risk appetite statement to set the Company's overall objective for capital; the Company aims to maintain an appropriate buffer of capital resources over the minimum regulatory capital requirements. The Company's Board sets a quantitative risk appetite for the Solvency II coverage ratio and this is used to monitor the position relative to the Risk Appetite.

The Group Capital Committee considers and approves matters such as capital allocation, new product lines, large transactions and capital investments, mergers and acquisitions transactions, direct investment and other material matters that may arise under delegated authority from the Board and Group Chief Executive Officer.

Each year the Company prepares a five-year Capital Plan, consistent with the Company's Strategic and Business Plans, to forecast how the capital position is expected to develop over the business planning period and to consider the impact of the Company's strategy on the capital position. Performance against the capital plan is monitored on a regular basis and is used to inform decisions on the Company's capital structure and dividend policy.

E.1.2 QUANTITATIVE EXPLANATION OF OWN FUNDS

The components of IFRS equity and Solvency II Own Funds as at 31 December are set out below:

(£m)	**IFRS equity 2017**	**Solvency II Own Funds 2017**	IFRS equity 2016	Solvency II Own Funds 2016
Ordinary shares	651	651	651	651
Share premium	1,049	1,049	1,049	1,049
Retained earnings	4,173	-	4,441	-
Surplus funds	-	263	-	224
Reconciliation reserve	-	9,423	-	9,706
Total	**5,873**	**11,386**	6,141	11,630

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

All of the Company's Own Funds have been assessed as Basic Own Funds. There are no Ancillary Own Fund items included in total Own Funds. Basic Own Funds have been assessed against Article 71 of the Delegated Regulation and have accordingly all been categorised as Tier 1 unrestricted own funds.

There are no items of Own Funds subject to transitional arrangements for the Company.

As at 31 December 2017, the ratio of eligible Own Funds to cover SCR and the MCR coverage ratio are shown in the table below:

(£m)	**Total 2017**	Total 2016
Solvency Capital Requirement	**7,344**	7,544
Solvency Surplus	**4,042**	4,086
Ratio of eligible Own Funds to SCR	**155%**	154%
Minimum Capital Requirement	**1,836**	1,886
Minimum Capital Surplus	**9,550**	9,744
Ratio of eligible Own Funds to MCR	**620%**	617%

An analysis of significant movements during the period is provided in Section E.1.4.3

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E.1.4 DETAILS OF OWN FUNDS ITEMS AND ANALYSIS OF SIGNIFICANT MOVEMENTS DURING THE YEAR

E.1.4.1 SURPLUS FUNDS

The Company has recognised £263m of surplus funds as at 31 December 2017. The value of surplus funds represents the excess assets over liabilities of the With-Profits Fund, after deducting the present value of future shareholder transfers and excluding the impact of the Risk Margin and Transitional Measures on Technical Provisions. The surplus funds are available to fully support the With-Profits funds SCR, thereby meeting the criteria for classification as Tier 1 own funds.

E.1.4.2 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, surplus funds and the share premium account, which are presented as separate components of Own Funds.

The calculation of the reconciliation reserve is as follows:

(£m)	**2017**	2016
Excess of assets over liabilities	**11,386**	11,630
Less other basic Own Fund items	**(1,963)**	(1,924)
Reconciliation reserve	**9,423**	9,706

E.1.4.3 ANALYSIS OF CHANGE IN OWN FUNDS

An analysis of significant movements in Own Funds during the year is shown below:

(£m)	**Own Funds**
Own Funds as at 31 December 2016	11,630
Net surplus generation	780
Dividends Paid	(1,535)
Other Operating and non Operating variances	511
Total Movement	**(244)**
Own Funds as at 31 December 2017	**11,386**

The movement in Own Funds during the year is primarily driven by the net surplus of £780m generated from the books of existing and new business and including the release of Risk Margin, reduced by the impacts of the TMTP amortisation.

Own Funds is further increased by other operating and non-operating variances, including £450m from market movements and a £183m from changes in base mortality and improvement assumptions, partially offset by the impact of recognising the Risk Transfer Agreement as part of the sale of the Mature Savings business.

These positive movements are more than offset by the dividend payment to Group of £1,535m. The 2017 dividend included £402m in respect of 2016 performance and an additional amount of £250m relating to the longevity assumption change and related release.

E.1.5 RESTRICTIONS ON OWN FUNDS

As at 31 December 2017 there were no restrictions on the Own Funds for any of the Matching Adjustment Portfolios (MAPs) or the ring-fenced funds (RFF) within the Company.

E.1.6 RECONCILIATION BETWEEN IFRS EQUITY AND EXCESS ASSETS OVER LIABILITIES

An explanation of the difference in each of the component parts of IFRS equity and 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 overall reconciliation is shown below:

(£m)	2017	2016
Solvency II Excess of assets over liabilities	**11,386**	11,630
IFRS Shareholders' equity	**5,873**	6,141
Difference	**5,513**	5,489
Explained by:		
Difference in the valuation of assets[1]	**(2,676)**	(2,236)
Difference in the valuation of technical provisions[2]	**8,993**	8,485
Difference in the valuation of other liabilities[3]	**(804)**	(760)
Total	**5,513**	5,489

1. Additional details are provided in Section D1
2. Additional details are provided in Section D2
3. Additional details are provided in Section D3

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT[6]

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

The total SCR for the Company as at 31 December 2017 was £7,344m (2016: £7,544m). This was calculated using the Group's approved partial internal model. No element of the SCR is subject to supervisory assessment.

The table below provides an analysis of material changes to the SCR during the year:

(£m)	Total SCR
SCR as at 31 December 2016	**7,544**
Net surplus generation	(51)
Market movements	129
Other Operating/ Non Operating variances	(278)
Total Movement	**(200)**
SCR as at 31 December 2017	**7,344**

Net Surplus Generation includes SCR release from back-book and the addition from new business written over the year;

Market Movements represents the impact of changes in investment market conditions over the period and changes to future economic assumptions.

Other operating and non-operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, changes to planned volumes of new business, tax rate changes, PRA approval of changes to the Internal Model and Matching Adjustment and other management actions including changes in asset mix, hedging strategies, Matching Adjustment optimisation and update to the longevity assumptions.
Further information on the SCR by risk categories is provided in the QRT S.25 in Annex 1 of this report.

[6] The Internal Model and SCR are not subject to audit.

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR for the Company is calculated in accordance with the Solvency II Directive and Delegated regulation. The total MCR for the Company as at 31 December 2017 was £1,836m (2016: £1,886m).

The change in the amount of the MCR over the year is not material.

Details on the inputs used to calculate the MCR are provided in the QRT S.28 in Annex 1 of this report.

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

The duration-based equity risk sub module is not used in the calculation of the Company's Solvency Capital Requirement.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

E.4.1 INTERNAL MODEL

The Group uses a Group Partial Internal Model (referred to as the Internal Model), as approved by the Prudential Regulation Authority (PRA). The Internal Model is used to calculate the capital requirements for the Company. The following sections describe the Internal Model used by the Company to assess its solo solvency requirements.

E.4.1.1 USE OF THE INTERNAL MODEL

The Internal Model is a key tool within the risk management system. It plays a central role in the measurement of risks, as the internal model translates identified risk exposures into risk-based capital requirements. The Internal Model models the material and quantifiable risks that are identified as part of the Group's risk identification and review process.

The Internal Model's primary calculation engine, Algorithmics (Algo), has been designed to generate output at the level at which it will be used, i.e. at both a divisional and entity level, and by risk sub-category. This is important in ensuring its use and also helps to improve understanding and decision-making. In addition to being the Internal Model's calculation engine, Algo is also employed by the Group for operational Asset-Liability Management purposes.

Output from the Internal Model is used to formulate risk tolerances for the following Group level risk appetite statements which are reviewed annually:

- The measure of return on risk-based capital
- The appropriate additional capital resources to be held over the minimum regulatory capital requirements.
- Management of volatility of earnings

Output from the Internal Model is essential for effectively monitoring risk exposures across both the Group and the Company. Effective management information (MI) informs and supports the decision-making, oversight and risk assessment responsibilities of the Group's and Company's risk and capital management committees.

The Group level approach also serves as a model for the MI required for lower-level (i.e. divisional and entity) committees.

E.4.1.2 SCOPE OF THE INTERNAL MODEL

We have chosen to adopt an Internal Model approach to calculate the Solvency Capital Requirement (SCR) for material insurance companies in the Group. The Internal Model covers all of the Group's material and quantifiable risk exposures, which are identified as falling into the following categories:

- Insurance
- Market
- Counterparty credit
- Liquidity
- Operational

Our Internal Model is integrated into our risk management and governance systems. The material risks identified through the risk framework are also those covered by the Internal Model and vice versa. Actual risk exposures relative to Internal Model derived risk limits are monitored and reported.

The output of the Internal Model is used:

- to measure and rank the relative profile of the Group's and the Company's core risk exposures;
- in determining the Group's strategies, risk limits and tolerances for managing different types of risk exposure relative to risk appetite;
- in the own risk and solvency assessment (ORSA) for the Group and the Company;
- as a key factor in decisions such as those covering capital allocations, product pricing and asset class selection; and
- in the assessment of significant transactions.

The Group and Company Boards are assured of the adequacy and effectiveness of the integration and use of the Internal Model through regular reporting to the Group Risk Committee, both as part of the formal management information received by the Committee and through briefings on the operation and development of the Internal Model.

The Company will use alternative Method 1 defined in the Solvency II Delegated Regulation. This method involves simple addition of various sources of SCR without allowing for diversification between them (but allowing for full diversification within each of the Internal Model and standard formula SCRs). The sources of SCR are as follows:

- Internal Model SCR for the Company
- SCR in relation to subsidiary companies, without diversification

Our approach also includes the addition of required capital for the pension scheme, allowing for some diversification with the Internal Model assessment, which is considered a part of the Internal Model rather than a separate source of SCR.

E.4.1.3 METHODS USED IN THE INTERNAL MODEL

The calculation approach used generates 500,000 simulations of 'risk drivers' such as equity returns and interest rates. The simulations are constructed in such a way that each risk driver follows a predefined distribution and that the relationship between any two risk drivers follows a predefined correlation assumption. The simulations can be looked at as a sample generated from a multidimensional distribution. This distribution is sometimes referred to as a 'marginal distribution'.

The multidimensional distribution is built from the risk driver distributions, correlation assumptions and a t-copula function which represents the dependency structure between the risks.

Each scenario is fed into an asset valuation module, which is capable of revaluing the Company's assets for each of these scenarios. The output is the total asset value under each scenario. This module covers the vast majority of assets required for capital calculation purposes.

Similarly, the scenarios are fed into a liability valuation module (and for certain situations the results from the asset valuation are also fed into the liability valuation module). Due to run time constraints, the liability valuation module is a simplified model (referred to as a 'proxy model').

The results of the liability valuation and the asset valuation module are combined for each scenario to give the resulting net asset position and the change in net asset value compared to the starting

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position. These results cover existing business, as well as the new business expected to be written over the following 12 months.

The risk measure used for the purpose of the Internal Model is a 'value-at-risk' measure (VaR); the VaR is defined as the estimated loss for a given probability over a one-year period.

By ordering the results (i.e. changes in net assets) the empirical aggregated loss distribution can be constructed. If the number of simulations is too small then the estimate of the percentile can be volatile and methods (such as smoothing) are required to stabilise results.

Whilst capital calculations are based upon a one-year VaR approach, the stresses applied in Algo are effectively carried out assuming that the event occurs exactly at the valuation date. An adjustment is made to allow for the investment return that would be earned over the year on the eligible Own Funds (EOF). For prudence it is assumed that the assets earn a risk free rate of return from the balance sheet date. At the point of the SCR event the EOFs will reduce by the size of the SCR and will then only yield a return at the post stress risk free rate. The 1-in-200 event could occur at any point over the year; however, to simplify the calculation of the adjustment, only month-ends are considered.

A simple average of the possible returns (each relating to the event occurring at the end of a different month) gives the expected return, on the assumption that the probability of the event occurring is uniformly distributed across the year.

E.4.2 THE RISK MEASURE AND TIME PERIOD USED IN THE INTERNAL MODEL

In line with Article 101 of the Solvency II Directive the Internal Model SCR is the 1-in-200 value-at-risk (VaR) of Own Funds over a one-year period.

E.4.3 MAIN DIFFERENCES AGAINST THE STANDARD FORMULA APPROACH

As described above, the Internal Model calibration standard is the same as for the Standard Formula. However, the detailed calculations differ in their sophistication and the extent to which they have been tailored to Legal & General's own risk profile. As part of the review of the Internal Model an annual exercise is carried out to assess the Group Standard Formula result.

Standard Formula is not the Company's regulatory basis. The production of a Group and LGAS Solo Standard Formula result is not carried out as part of the year-end valuation cycle, and has been carried out on a proportionate basis and is not subject to the level of rigour as the Internal Model result validation.

The most significant (pre-diversification between risks) differences are as follows:

- Standard Formula has no inflation risk capital requirement, whereas the Internal Model has a non-zero amount;
- The capital requirement arising from spread risk (net of matching premium) is significantly higher (pre-diversification) for the Standard Formula than for the Internal Model, primarily due to the treatment of Special Purpose Vehicles (SPVs). Aside from this, the Internal Model calibration is significantly stronger than the Standard Formula, but there is an offsetting impact from lower than 100% correlation between the various Internal Model spread risk drivers. Also, differing treatments for asset types will influence the relative strength;
- Longevity risk capital requirement is lower (pre-diversification between risks) for Standard Formula than for Internal Model primarily because the Internal Model calibration (which targets base mortality as well as trend) is somewhat stronger than the Standard Formula;
- Lapse risk capital requirement is higher (pre-diversification between risks) for Standard Formula than for Internal Model, primarily because the Internal Model mass lapse calibrations for several products are lower than the Standard Formula;

- Operational risk capital requirement is lower (pre-diversification between risks) for Standard Formula than for Internal Model, primarily due to stronger calibrations in the Internal Model. However, Operational Risk does not diversify against other risks in the Standard Formula whereas it does within the Internal Model;

- Equity risk capital requirement is higher (pre-diversification between risks) for Standard Formula than Internal Model primarily due to different classifications of certain assets between the two bases;

- Property risk capital requirement is lower (pre-diversification between risks) for Standard Formula than Internal Model primarily due to different classifications of certain assets between the two bases;

- Loss absorbing capacity of deferred taxes (LACoDT) is lower for Standard Formula as there are less available profits on the Standard Formula to support simulated losses, primarily due to lower TMTP which is in turn due to the risk margin being lower on a Standard Formula basis;

- Mortality risk capital requirement is higher (pre-diversification between risks) for Standard Formula than for Internal Model, primarily because the Internal Model calibration is lower than the Standard Formula;

- Standard Formula has no non-market risk capital requirement on the pension scheme, whereas the Internal Model has a non-zero amount;

- The Internal Model uses a copula approach to aggregate the components rather than the 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; and

- The Internal Model also allows for diversification between the business inside and outside the Matching Adjustment portfolio upon aggregation, whereas the Standard Formula does not.

E.4.4 INTERNAL MODEL DATA

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. The majority of assets are modelled on an individual asset terms and conditions basis, providing readily validated valuations and granular modelling of how assets respond under different scenarios. Insurance liabilities are provided by our proven process for the calculation of Best Estimate Liabilities; the same process provides figures for our IFRS reporting and calculation of technical provisions.

In order to assess the risks associated with our assets and liabilities a wide range of economic, market and insurance data and operational risk experience is used. Internal and external historical and experience data are used to project possible future scenarios, and external forecasts are used for example in life longevity, causes of death, epidemic risks and event catastrophe risks.

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 a change in another risk

Our Solvency II data governance framework has been designed to instil 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

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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, and 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

As highlighted in section A.1.4, in December 2017, the Company announced the sale of its Mature Savings business to ReAssure, a subsidiary of Swiss Re for £650m. The sale is subject to regulatory approval and a court-approved scheme under Part VII of the Financial Services and Markets Act 2000 ("Part VII transfer"), which is expected to complete in 2019. Consequently, the Company and ReAssure have agreed an earlier transfer of the economic risks and rewards of the Business in advance of the proposed subsequent Part VII transfer. The economic transfer will be achieved through a Risk Transfer Agreement ("RTA"). The impact of the RTA has been reflected in the calculation of Own Funds. Due to the proximity of the transaction to the year end, the model change required to reflect the impact of the agreement on the SCR has not been made. The change is expected in 2018.

ANNEX 1 – QUANTITATIVE REPORTING TEMPLATES (QRTS)

Values are shown in £'000

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Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	8,266
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	75,519,682
R0080	*Property (other than for own use)*	354,061
R0090	*Holdings in related undertakings, including participations*	943,737
R0100	*Equities*	3,698,604
R0110	*Equities - listed*	3,680,696
R0120	*Equities - unlisted*	17,909
R0130	*Bonds*	55,847,301
R0140	*Government Bonds*	11,248,432
R0150	*Corporate Bonds*	43,002,730
R0160	*Structured notes*	0
R0170	*Collateralised securities*	1,596,139
R0180	*Collective Investments Undertakings*	11,076,627
R0190	*Derivatives*	3,593,294
R0200	*Deposits other than cash equivalents*	6,059
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	28,084,919
R0230	Loans and mortgages	2,940,942
R0240	*Loans on policies*	79
R0250	*Loans and mortgages to individuals*	2,093,003
R0260	*Other loans and mortgages*	847,860
R0270	Reinsurance recoverables from:	29,211,113
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	8,061,873
R0320	*Health similar to life*	58,992
R0330	*Life excluding health and index-linked and unit-linked*	8,002,881
R0340	*Life index-linked and unit-linked*	21,149,240
R0350	Deposits to cedants	858,239
R0360	Insurance and intermediaries receivables	110,948
R0370	Reinsurance receivables	191,261
R0380	Receivables (trade, not insurance)	1,377,329
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	408,365
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	138,711,064

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		Solvency II value	
	Liabilities	C0010	
R0510	Technical provisions - non-life	1,626	
R0520	*Technical provisions - non-life (excluding health)*	1,626	
R0530	*TP calculated as a whole*	0	
R0540	*Best Estimate*	762	Note 1
R0550	*Risk margin*	864	Note 2
R0560	*Technical provisions - health (similar to non-life)*	0	
R0570	*TP calculated as a whole*	0	
R0580	*Best Estimate*	0	Note 1
R0590	*Risk margin*	0	Note 2
R0600	Technical provisions - life (excluding index-linked and unit-linked)	63,950,794	
R0610	*Technical provisions - health (similar to life)*	433,497	
R0620	*TP calculated as a whole*	0	
R0630	*Best Estimate*	431,423	Note 1
R0640	*Risk margin*	2,074	Note 2
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	63,517,297	
R0660	*TP calculated as a whole*	0	
R0670	*Best Estimate*	63,269,375	Note 1
R0680	*Risk margin*	247,922	Note 2
R0690	Technical provisions - index-linked and unit-linked	48,568,779	
R0700	*TP calculated as a whole*	0	
R0710	*Best Estimate*	48,544,089	Note 1
R0720	*Risk margin*	24,691	Note 2
R0730	Other technical provisions		
R0740	Contingent liabilities	0	
R0750	Provisions other than technical provisions	22,405	
R0760	Pension benefit obligations	137,026	
R0770	Deposits from reinsurers	5,546,652	
R0780	Deferred tax liabilities	1,234,411	
R0790	Derivatives	1,857,878	
R0800	Debts owed to credit institutions	65	
R0810	Financial liabilities other than debts owed to credit institutions	0	
R0820	Insurance & intermediaries payables	448,914	
R0830	Reinsurance payables	5,859	
R0840	Payables (trade, not insurance)	5,550,939	
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**	127,325,347	
R1000	**Excess of assets over liabilities**	11,385,717	

Note 1
BELs are shown net of Transitional Measure on Technical Provisions (TMTP) applied.
The total BELs above sum to £112,246m. The total unadjusted BELs of £112,932m can be seen in Section D.2 on page 53.

Note 2
Risk Margin is shown net of TMTP applied. The total Risk Margin above sums to £276m. The total unadjusted Risk Margin of £5,213m can be seen in Section D.2 on page 53.

In total, TMTP of £5,624m was applied, and can be seen in section D.2.1.4 on page 58 of the report.

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Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Line of business for: accepted non-proportional reinsurance	Total
		Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Property	
		C0060	C0070	C0080	C0160	C0200
	Premiums written					
R0110	*Gross - Direct Business*	0	0	0		0
R0120	*Gross - Proportional reinsurance accepted*	0	0	0		0
R0130	*Gross - Non-proportional reinsurance accepted*				6,850	6,850
R0140	*Reinsurers' share*	0	0	0	0	0
R0200	*Net*	0	0	0	6,850	6,850
	Premiums earned					
R0210	*Gross - Direct Business*	0	0	0		0
R0220	*Gross - Proportional reinsurance accepted*	0	0	0		0
R0230	*Gross - Non-proportional reinsurance accepted*				9,876	9,876
R0240	*Reinsurers' share*	0	0	0	0	0
R0300	*Net*	0	0	0	9,876	9,876
	Claims incurred					
R0310	*Gross - Direct Business*	0	0	15		15
R0320	*Gross - Proportional reinsurance accepted*	0	0	0		0
R0330	*Gross - Non-proportional reinsurance accepted*				0	0
R0340	*Reinsurers' share*	0	0	0	0	0
R0400	*Net*	0	0	15	0	15
	Changes in other technical provisions					
R0410	*Gross - Direct Business*	0	0	0		0
R0420	*Gross - Proportional reinsurance accepted*	0	0	0		0
R0430	*Gross - Non-proportional reinsurance accepted*				0	0
R0440	*Reinsurers' share*	0	0	0	0	0
R0500	*Net*	0	0	0	0	0
R0550	**Expenses incurred**	(14)	0	36	1,330	1,351
R1200	**Other expenses**					0
R1300	**Total expenses**					1,351

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Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations				Life reinsurance obligations	Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0280	C0300
	Premiums written						
R1410	*Gross*	117,157	33,924	6,366,075	5,970,577	529,773	13,017,506
R1420	*Reinsurers' share*	30,988	1,157	5,000,314	1,992,647	0	7,025,106
R1500	*Net*	86,169	32,767	1,365,761	3,977,930	529,773	5,992,400
	Premiums earned						
R1510	*Gross*	117,157	33,924	0	5,883,663	529,773	6,564,516
R1520	*Reinsurers' share*	30,988	1,157	0	1,992,647	0	2,024,792
R1600	*Net*	86,169	32,767	0	3,891,015	529,773	4,539,724
	Claims incurred						
R1610	*Gross*	88,548	708,444	3,843,191	4,135,219	316,506	9,091,908
R1620	*Reinsurers' share*	17,446	812	549,245	1,669,730	2,854	2,240,086
R1700	*Net*	71,102	707,632	3,293,946	2,465,489	313,652	6,851,821
	Changes in other technical provisions						
R1710	*Gross*	32,755	(497,330)	4,775,235	5,581,837	(2,973,042)	6,919,454
R1720	*Reinsurers' share*	9,595	0	1,850,937	693,402	(275,528)	2,278,406
R1800	*Net*	23,160	(497,330)	2,924,297	4,888,435	(2,697,514)	4,641,047
R1900	**Expenses incurred**	24,120	40,887	224,367	648,520	5,877	943,770
R2500	**Other expenses**						254,107
R2600	**Total expenses**						1,197,878

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Accepted reinsurance	Total (Life other than health insurance, incl Unit-linked)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0100	C0150
R0010	**Technical provisions calculated as a whole**	0	0			0			0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a	0	0			0			0	0
	Technical provisions calculated as a sum of BE and RM									
	Best estimate									
R0030	**Gross Best Estimate**	10,127,321		0	48,531,856		28,732,911	24,495,241	612,732	112,500,060
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		0	21,149,240		5,412,560	2,540,112	50,209	29,152,121
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	10,127,321		0	27,382,616		23,320,351	21,955,128	562,523	83,347,940
R0100	**Risk margin**	83,956	74,605			4,886,658			164,653	5,209,871
	Amount of the transitional on Technical Provisions									
R0110	Technical Provisions calculated as a whole	0	0			0			0	0
R0120	Best estimate	0		0	0		(364,055)	(310,592)	(11,950)	(686,597)
R0130	Risk margin	(83,956)	(49,914)			(4,726,849)			(76,540)	(4,937,259)
R0200	**Technical provisions - total**	10,127,321	48,556,546			52,713,313			688,895	112,086,076

S.12.01.02

Life and Health SLT Technical Provisions

		Health insurance (direct business)					
			Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0					0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a	0					0
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
R0030	**Gross Best Estimate**		136,447	294,976			431,423
R0040	Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty		25,930	33,096	0	0	59,026
R0050	*Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses*		25,930	33,096			59,026
R0060	*Recoverables from SPV before adjustment for expected losses*		0	0			0
R0070	*Recoverables from Finite Re before adjustment for expected losses*		0	0			0
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		25,896	33,096			58,992
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		110,551	261,880	0	0	372,431
R0100	**Risk margin**	2,074					2,074
	Amount of the transitional on Technical Provisions						
R0110	Technical Provisions calculated as a whole	0					0
R0120	Best estimate		0	0			0
R0130	Risk margin	0					0
R0200	**Technical provisions - total**	433,497			0	0	433,497

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			Accepted non-proportional reinsurance	Total Non-Life obligation
		Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Non-proportional property reinsurance	
		C0070	C0080	C0090	C0170	C0180
R0010	**Technical provisions calculated as a whole**	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
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	**Gross - Total**	0	0	0	398	398
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	0
R0150	**Net Best Estimate of Premium Provisions**	0	0	0	398	398
	Claims provisions					
R0160	**Gross - Total**	98	1	266	0	365
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	0
R0250	**Net Best Estimate of Claims Provisions**	98	1	266	0	365
R0260	**Total best estimate - gross**	98	1	266	398	762
R0270	**Total best estimate - net**	98	1	266	398	762
R0280	**Risk margin**	0	0	0	864	864
	Amount of the transitional on Technical Provisions					
R0290	TP as a whole	0	0	0	0	0
R0300	Best estimate	0	0	0	0	0
R0310	Risk margin	0	0	0	0	0
R0320	**Technical provisions - total**	98	1	266	1,261	1,626
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0	0	0	0	0
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	98	1	266	1,261	1,626

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	112,521,199	5,623,856	0	0	6,317,817
R0020	**Basic own funds**	11,385,717	(4,672,912)	0	0	(5,243,788)
R0050	**Eligible own funds to meet Solvency Capital Requirement**	11,385,717	(4,672,912)	0	0	(5,243,788)
R0090	**Solvency Capital Requirement**	7,343,957	747,174	0	0	9,457,283
R0100	**Eligible own funds to meet Minimum Capital Requirement**	11,385,717	(4,672,912)	0	0	(5,243,788)
R0110	**Minimum Capital Requirement**	1,835,989	186,793	0	0	2,364,321

Note

The information disclosed in this template is as defined in Annex I of Commission Implementing Regulation (EU) 2015/2542, and is at 31 December 2017. Values in this table alone do not provide sufficient information to gain fair and transparent understanding of the company’s solvency position.

Additional information on the Transitional Measure on Technical Provisions and Matching Adjustment can be found in Section D.2 of the report.

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	651,430	651,430		0	
R0030	Share premium account related to ordinary share capital	1,048,914	1,048,914		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	262,828	262,828			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	9,422,545	9,422,545			
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	
R0290	**Total basic own funds after deductions**	11,385,717	11,385,717	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	11,385,717	11,385,717	0	0	0
R0510	Total available own funds to meet the MCR	11,385,717	11,385,717	0	0	
R0540	Total eligible own funds to meet the SCR	11,385,717	11,385,717	0	0	0
R0550	Total eligible own funds to meet the MCR	11,385,717	11,385,717	0	0	
R0580	**SCR**	7,343,957				
R0600	**MCR**	1,835,989				
R0620	**Ratio of Eligible own funds to SCR**	155%				
R0640	**Ratio of Eligible own funds to MCR**	620%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	11,385,717
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	1,963,172
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	9,422,545
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	2,480,455
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	2,480,455

Legal & General

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	
	C0010	C0020	C0030	C0070	
1	10300I	Interest rate risk (other than pension scheme)	304,883	304,883	
2	10400I	Equity risk (other than pension scheme)	972,862	972,862	
3	10600I	Property risk (other than pension scheme)	660,616	660,616	
4	10700I	Spread risk (other than pension scheme)	4,396,534	4,396,534	
5	10800I	Concentration risk (other than pension scheme)	0	0	
6	10900I	Currency risk (other than pension scheme)	375,607	375,607	
7	11000I	Other market risk (other than pension scheme)	515,319	515,319	
8	10300P	Interest rate risk (pension scheme)	29,860	29,860	
9	10400P	Equity risk (pension scheme)	107,402	107,402	
10	10600P	Property risk (pension scheme)	8,408	8,408	
11	10700P	Spread risk (pension scheme)	206,030	206,030	
12	10800P	Concentration risk (pension scheme)	0	0	
13	10900P	Currency risk (pension scheme)	8,210	8,210	
14	11000P	Other market risk (pension scheme)	32,244	32,244	
15	19900I	Diversification within market risk (including pension scheme)	(1,267,206)	(1,267,206)	Note 1
16	20100I	Type 1 counterparty risk	196,839	196,839	
17	20200I	Type 2 counterparty risk	5,496	5,496	
18	29900I	Diversification within counterparty risk	0	0	
19	30100I	Mortality risk	439,232	439,232	
20	30200I	Longevity risk (other than pension scheme)	5,217,197	5,217,197	
21	30200P	Longevity risk (pension scheme)	140,044	140,044	
22	30400I	Mass lapse	401,560	401,560	
23	30500I	Other lapse risk	518,916	518,916	
24	30600I	Expense risk	539,767	539,767	
25	30800I	Life catastrophe risk	630,302	630,302	
26	30900I	Other life underwriting risk	0	0	
27	39900I	Diversification within life underwriting risk	(2,378,992)	(2,378,992)	Note 1
28	41600I	Other health underwriting risk	109,186	109,186	
29	50100I	Premium risk	0	0	
30	50200I	Reserve risk	0	0	
31	50150I	Premium risk if premium risk covers premium provision and business pla	116,745	116,745	
32	50210I	Reserving risk if claims provision and premium provision combined	20,250	20,250	
33	50300I	Non-life catastrophe risk	225,613	225,613	
34	59900I	Diversification within non-life underwriting risk	(78,755)	(78,755)	Note 1
35	70100I	Operational risk	921,480	921,480	
36	80100I	Other risks	0	0	
37	80200I	Loss-absorbing capacity of technical provisions	0	0	
38	80300I	Loss-absorbing capacity of deferred tax	(1,369,417)	(1,369,417)	
39	80400I	Other adjustments	(15,232)	(15,232)	

	Calculation of Solvency Capital Requirement	C0100	
R0110	Total undiversified components	11,991,000	
R0060	Diversification	(4,647,042)	Note 2
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0	
R0200	**Solvency capital requirement excluding capital add-on**	7,343,957	
R0210	Capital add-ons already set	0	
R0220	**Solvency capital requirement**	7,343,957	

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	956,943
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	(1,369,417)
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	2,950,316
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	524,614
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	5,076,387
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

Note 1
These items represent diversification within individual risk categories. The total diversification within categories is £3,724,953k.

Note 2
The item represents diversification between risk categories. The total diversification within and between risks categories is £8,371,995k.

Legal & General

S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities	Life activities
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	1,201	0

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
R0020	Medical expense insurance and proportional reinsurance	0	0	0	0
R0030	Income protection insurance and proportional reinsurance	0	0	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0	0	0
R0060	Other motor insurance and proportional reinsurance	0	0	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	98	0	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	1	0	0	0
R0090	General liability insurance and proportional reinsurance	266	0	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0	0	0
R0120	Assistance and proportional reinsurance	0	0	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0	0	0
R0140	Non-proportional health reinsurance	0	0	0	0
R0150	Non-proportional casualty reinsurance	0	0	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0	0	0
R0170	Non-proportional property reinsurance	398	6,850	0	0

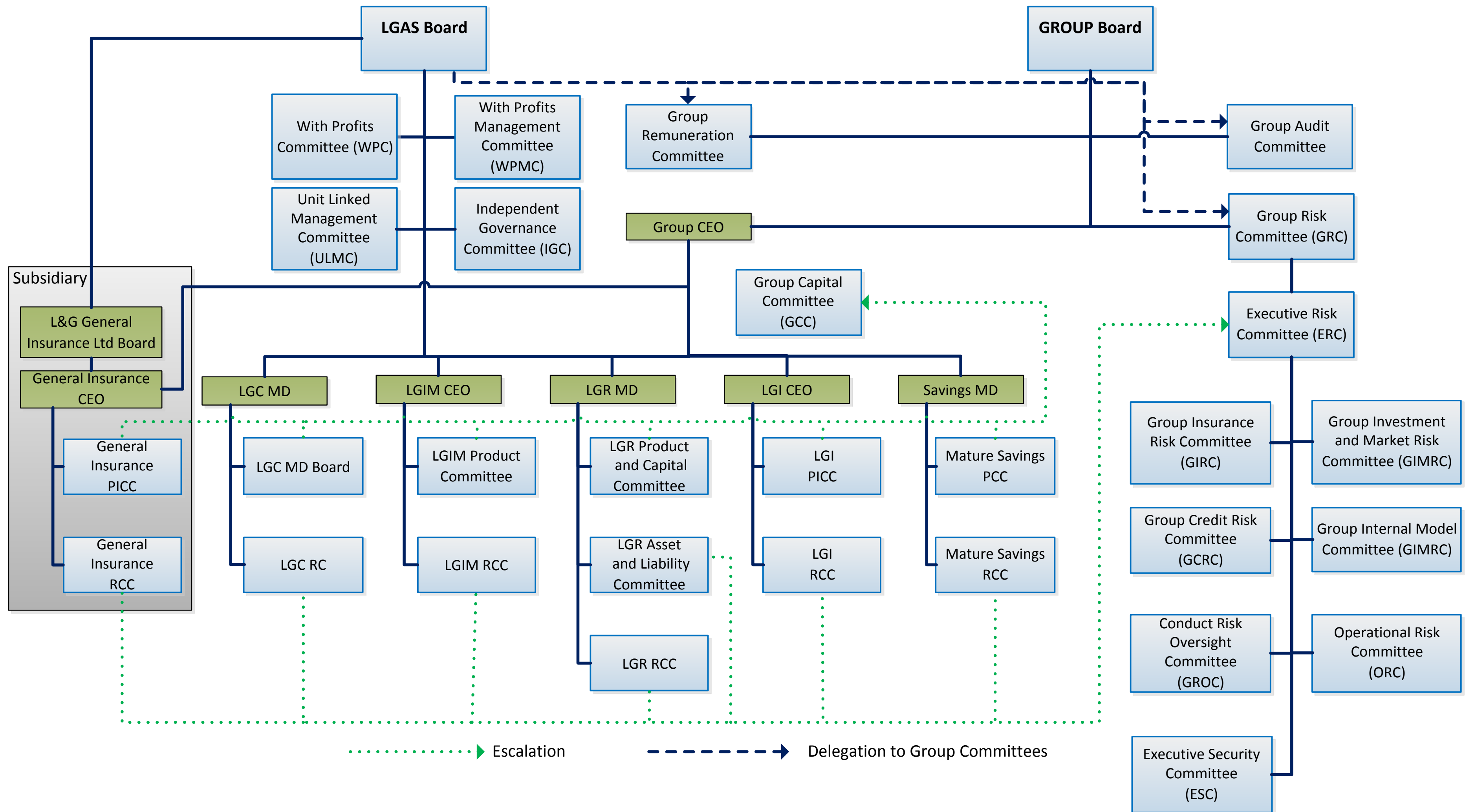
		$MCR_{(L,NL)}$ Result	$MCR_{(L,L)}$ Result
		C0070	C0080
R0200	**Linear formula component for life insurance and reinsurance obligations**	0	1,622,734

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
R0210	Obligations with profit participation - guaranteed benefits	0		6,214,699	
R0220	Obligations with profit participation - future discretionary benefits	0		3,912,622	
R0230	Index-linked and unit-linked insurance obligations	0		27,388,980	
R0240	Other life (re)insurance and health (re)insurance obligations	0		45,517,473	
R0250	Total capital at risk for all life (re)insurance obligations		0		640,938,010

	Overall MCR calculation	C0130
R0300	Linear MCR	1,623,935
R0310	SCR	7,343,957
R0320	MCR cap	3,304,781
R0330	MCR floor	1,835,989
R0340	Combined MCR	1,835,989
R0350	Absolute floor of the MCR	5,447
R0400	**Minimum Capital Requirement**	1,835,989

	Notional non-life and life MCR calculation	Non-life activities	Life activities
		C0140	C0150
R0500	Notional linear MCR	1,201	1,622,734
R0510	Notional SCR excluding add-on (annual or latest calculation)	5,430	7,338,527
R0520	Notional MCR cap	2,443	3,302,337
R0530	Notional MCR floor	1,357	1,834,632
R0540	Notional combined MCR	1,357	1,834,632
R0550	Absolute floor of the notional MCR	2,196	3,251
R0560	**Notional MCR**	2,196	1,834,632

ANNEX 2 – ENTITY GOVERNANCE OVERSIGHT STRUCTURE



Legal & General

ANNEX 3 – MAIN ASSUMPTIONS UNDERLYING TECHNICAL PROVISIONS

Non-linked individual term assurances	
Smokers	80% TMS00/TFS00 Sel 5
Non-smokers	70% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness[1]	
Smokers	57% - 74% TMS00/TFS00 Sel 5
Non-smokers	50% - 71% TMN00/TFN00 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012) [2]	
Smokers	101% - 121% ACMS04/ACFS04
Non-smokers	100% - 146% ACMN04/ACFN04
Non-linked individual term assurances with critical illness (Sold from 01/01/2013) [2]	
Smokers	104% - 122% ACMS04/ACFS04
Non-smokers	103% - 146% ACMN04/ACFN04
Whole of Life[3]	
Smokers	Bespoke tables based on TMS00/TFS00, AM92/AF92 and UK death registrations
Non-smokers	Bespoke tables based on TMN00/TFN00, AM92/AF92 and UK death registrations
Annuities	
Annuities in deferment[4]	81.3% - 89.6% PNMA00/PNFA00
Bulk purchase annuities in payment[5]	81.3% - 89.6% PCMA00/PCFA00
Other annuities[5]	69.8% - 128.3% PCMA00/PCFA00

1. The percentage of the table varies with the duration that the policy has been in-force for the first five years.

2. The percentage of the table varies with the duration that the policy has been in-force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females. There is an additive loading of 1% for guaranteed term contracts post policy duration 5.

3. The percentage of the TM00/TF00 tables varies with the duration that the policy has been in-force for the first five years. Thereafter, a bespoke mortality table constructed based on TM00/TF00 tables, AM92/AF92 tables and UK death registrations. Mortality rates are assumed to reduce whilst business is ceded to reinsurer (after which any reduction is maintained but no further reduction is applied) based on CMI2014 model with a long term annual improvement rate of 1.5% p.a. for males and 1.0% p.a. for females.

4. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.

5. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2015 with the following parameters:

Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 120
Females: Long Term Rate of 1. 0% p.a. up to age 85 tapering to 0% at 120
Different business classes have different effective dates for applying improvers.

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

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

Lapse Rates

	Years 1-5	Years 6-10	Years 11+

Level Term	6.3%-13.3%	4.3%-7.5%	2.8%-4.7%
Decreasing Term	7.4%-10.5%	6.8%-9.8%	5.8%-8.0%
Investment Bond	1.6%-4.1%	5.62%-11.4%	4.41%-7.08%

Legal & General

GLOSSARY

A

ALM
Asset liability management.

Annuity
A regular payment from an insurance company made for an agreed period of time (usually up to the death of the recipient) in return for either a cash lump sum or a series of premiums which the policyholder has paid to the insurance company during their working lifetime.

B

Basic Own Funds
The surplus of assets over liabilities and subordinated liabilities.

Best Estimate Liability (BEL)
The probability-weighted average of best estimate future cash flows, discounted using risk-free term structure of interest rates (adjusted for a matching adjustment where appropriate).

C

Capital coverage ratio
Also known as the solvency coverage ratio. The eligible Own Funds on a regulatory basis divided by the Group Solvency Capital Requirement. This represents the number of times the SCR is covered by eligible Own Funds.

CEO
Chief Executive Officer.

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

CRO
Chief Risk Officer.

D

DAC
Deferred acquisition costs.

E

EEA
European economic area.

EIOPA
European Insurance and Occupational Pensions Authority.

Eligible Own Funds (EOF)
The amount of Own Funds available to meet the SCR and MCR. This includes any adjustments for eligibility requirements as defined by the Solvency II regulations.

EPIFP
Expected profit included in future premiums.

G

GIMC
Group Internal Model Committee.

I

IFRS operating profit
Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions and changes in insurance risks such as mortality and longevity for the Group's insurance business and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. 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 period, such as merger and acquisition and start-up costs are excluded from operating profit.

Internal Model
A solvency calculation model tailored to the individual risk profile of a specific firm.

International financial reporting standards (IFRS)
These are accounting guidelines and rules that companies and organisations follow when completing financial statements. They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

L

LGA
Legal & General America.

LGAS
Legal and General Assurance Society Limited.

LG Re
Legal & General Reinsurance Limited.

LGC
Legal & General Capital division.

LGI
Legal & General Insurance division.

LGIL
Legal & General Insurance Limited.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement division.

Liability driven investment (LDI)
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

Lifetime Mortgages
An equity release product aimed at people aged 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long-term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

Liquidity coverage ratio (LCR)
The measure of exposure to liquidity risk. The LCR is defined as total sources of liquidity divided by total liquidity requirements.

Longevity
Risk associated with increasing life expectancy trends among policyholders and pensioners.

M

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

MAP
Matching Adjustment Portfolio.
A portfolio of assets created to back a certain set of liabilities, which is then eligible for a matching adjustment.

MCR
Minimum Capital Requirement is calculated using a prescribed formula and which is the minimum level of capital below which the amount of financial resources should not fall.

MI
Management information.

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

N

Notional Solvency Capital Requirement
A Notional Solvency Capital requirement is calculated for a specific group of business, such as the with-profits fund, on a standalone basis.

O

ORSA
Own risk and solvency assessment, also known as the forward-looking assessment of own risks.

Own Funds
The amount of capital available to cover a firm's SCR.

P

Pension risk transfer (PRT)
PRT represents bulk annuities bought by entities that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

PIM
Partial internal model.

PMC
Legal and General (Pensions Management) Limited.

PPE
Property, plant and equipment.

PPFM
The principles and practices of financial management (PPFM) used to manage the with-profits business.

PRA
Prudential Regulation Authority was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of insurance companies in the UK.

Purchased interest in long-term business (PILTB)
An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

Q

QRTs
Quantitative reporting templates.
Templates defined by EIOPA for the regular reporting of financial information.

R

Reconciliation reserve
A basic Own Funds item, comprising the excess of assets over liabilities, adjusted for other basic Own Funds items comprising of own shares, foreseeable dividends, restricted Own Fund items, and other non-available Own Funds.

Ring-fenced funds (RFF)
Own Funds that can only be used to cover a particular segment of liabilities or particular risks and cannot be made available to cover liabilities or risks outside the ring-fenced fund.

Risk appetite
The aggregate level and types of risk a company is willing to assume in its exposures and business activities in order to achieve its business objectives.

Risk margin (RM)
The cost of providing funds to cover the Solvency Capital requirements over the lifetime of the associated insurance policies. The approach for calculating the Risk Margin is prescribed in Solvency II regulations.

S

SBP
Share bonus plan.

SCR
Solvency Capital Requirement is the amount of capital that insurance and reinsurance undertakings are required to hold and is calibrated to ensure that all quantifiable risks are taken into account in a 1-in-200 year risk event.

SFCR
Solvency and Financial Condition Report.

Solvency coverage ratio
Also known as the capital coverage ratio. The eligible Own Funds on a regulatory basis divided by the Group Solvency Capital Requirement. This represents the number of times the SCR is covered by eligible own funds.

Solvency II
Taking effect from 1 January 2017, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholders.

Solvency II Delegated Regulation
Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Solvency II Directive
Directive 2009/138/EC of the European Parliament (Solvency II Directive).

SPV
Special purpose vehicle.

Standard Formula (SF)
A standardised solvency calculation method, not tailored to the individual risk profile of a specific firm. It aims to capture the material quantifiable risks to which most undertakings are exposed.

Surplus
The excess of eligible Own Funds on a regulatory basis over the Solvency Capital Requirement. This represents the amount of capital available to the company in excess of that required to sustain it in a 1-in-200 year risk event.

T

Technical provisions (TP)
The sum of the Best Estimate Liabilities and the Risk Margin.

TMTP
Transitional measure on technical provisions.

Total shareholder return (TSR)
TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to the shareholder.

U

ULMC
Unit-Linked Management Committee.

V

Value-at-risk (VaR)
The estimated loss for a given probability over a one-year period.

W

With-profits fund
Individually identifiable portfolios where policyholders have a contractual right to receive additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. An insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.

WPMC
With-Profits Management Committee.

Y

Yield
A measure of the income received from an investment compared to the market value of the investment. It is usually expressed as a percentage.