LEGAL & GENERAL INSURANCE LTD

SOLVENCY AND FINANCIAL CONDITION REPORT

31 DECEMBER 2017

CONTENTS

SUMMARY

THIS DOCUMENT

This Solvency and Financial Condition Report (SFCR) is a regulatory document required under Solvency II[1]. All values are (unless otherwise stated) as at 31 December 2017.

WHO WE ARE

Legal & General Insurance Limited (the Company') is the General Insurance entity of the wider Legal & General Group Plc ('the Group'), which is one of the world's largest insurance and investment management Groups, with assets under management of £983bn (2016: £894bn) at 31 December 2017. The Group was established in London in 1836, and has been providing insurance for our customers for over 180 years - helping people protect their loved ones, lifestyles, homes and possessions - and is one of the world's top 10 asset managers. Legal & General Group is managed across business lines rather than legal entities. The Group's business divisions are Legal & General Investment Management; Legal & General Capital; Legal & General Retirement; Legal & General Insurance; Savings (which is being sold to Swiss Re); and General Insurance. The General Insurance business division represents 2% (2016: 3%) of the Group 2017 operating profit.

WHAT WE DO

The Company's principal activity is to underwrite non-life insurance business. Our products and services are primarily aimed at the mass market. We operate within the United Kingdom, the Channel Islands and the Isle of Man.

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

Our largest business area is household insurance with c. £338m of gross written premium (GWP). We also underwrite small amounts of short-term income protection (c. £17m GWP) and pet insurance (c. £15m GWP). Whilst household is our main line of business, the Legal & General Insurance Ltd (LGIL) strategy is to grow a diversified, digitised business that protects our customers' lifestyles at the important moments of need in their lives. This will be achieved by optimising existing business, maximising new core business, diversification and innovation, as well as by continuing to deliver the FCA customer-led initiatives in order to improve customer outcomes, transparency and maximise value for our customers.

Household insurance provides cover in respect of householders' homes, investment properties, contents, personal belongings and incidental liabilities which our customers may incur as a property owner, occupier and individual. We are currently the seventh largest UK home insurer, with 4.6% market share[2].

Short-term income protection enables our customers to continue meeting some of their financial obligations in the event that they are unable to work as a result of accident, sickness or unemployment.

Pet insurance provides cover in respect of veterinary expenses incurred treating customers' pets as well as any incidental liabilities which pet owners may incur as a result of damage or injury caused by their pets.

[1] Required by the Reporting and Group Supervision parts of the PRA Rulebook for Solvency II firms and Directive 2009/138/EC of the European Parliament Articles 51 and 256.
[2] Source: GlobalData 2016 data – 2017 data not available at time of writing

OUR SOLVENCY POSITION AND PERFORMANCE

Our key performance measures are presented below.

Performance Measures (£m)	2017	2016
IFRS Operating Profit	7	37
Solvency II Own Funds	219	253
Solvency II Regulatory Surplus	74	91
Solvency II coverage ratio (on a regulatory basis)[3]	151%	156%

IFRS operating profit is the measure we use to manage underwriting performance. This is the key measure used to manage our business. Operating profit measures the pre-tax profit excluding the impact of short-term economic variances and exceptional items which arise outside the normal course of business in the period. Operating profit reflects longer-term economic assumptions and changes in insurance risks[4].

Operating profits reduced compared to prior year due to a number of items:

a) higher market-wide claims experience; mainly for escape of water (although other perils were impacted to a lesser extent), driven by higher claims inflation impacting repair and replacement costs.

b) lower reserve releases; 2016 experienced releases relating to a 2015 weather event

c) a higher level of project costs relating to investment in the customer proposition to support the growth in the business.

The solvency ratio has reduced slightly over the year – own funds have reduced due to lower retained profits (net of dividend payment), whilst the SCR has reduced due to increased reinsurance purchase and updating the terms of the reinsurance treaty which provide more cover in stressed scenarios. These reductions have been offset by increased business volumes and a model change to using the latest version of the RMS catastrophe model which models more small/medium-sized losses and allowing for multiple events during the year.

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

ANALYSIS OF CHANGE IN OWN FUNDS

Over the reporting period the Company's own funds decreased by £34m to £219m (2016: £253m). Own funds reduced mainly as a result of lower retained profits (net of adividend payment to the Group in respect of the 2016 performance). Our premium provisions also increased over the same period as a result of an increase in exposure driven by business growth and expected future claims costs in line with our latest view of the expected claims costs.

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

OUR GOVERNANCE

The Board of Legal & General Insurance Limited is accountable for the long-term success of the Company by setting the Company's strategic objectives, monitoring performance against those

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

objectives and directly overseeing the business activities undertaken by the Company, whilst operating within the framework and overall strategy defined by the Group Board. The role of the Board of Legal & General Group Plc is to lead the Group and oversee the governance of the Group. It plays a key role in ensuring that the tone for the Group's culture and values is set from the top. The role of management is to deliver the strategy within the framework and standards set by the Group Board.

RISK MANAGEMENT FRAMEWORK

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

OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

Our risk identification and assessment process forms part of our broader 'own risk and solvency assessment' (ORSA) process, our ongoing assessment of the risks to which we are exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of our plan.

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

OUR RISK PROFILE

We are exposed to:

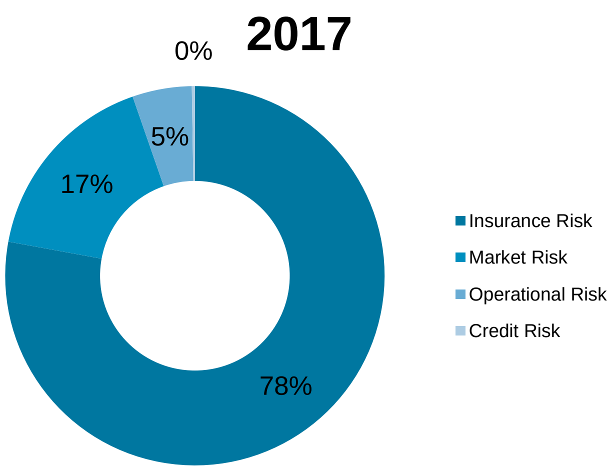
- weather-related catastrophe risks on our household insurance business;
- insurance risks arising from the volatility of claims relative to premiums charged;
- investment risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and
- operational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

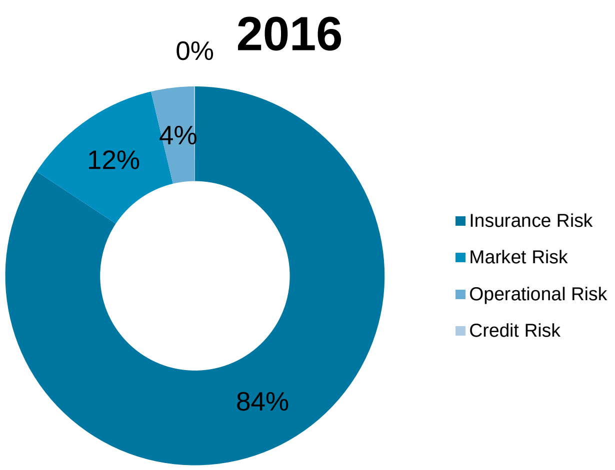
OUR RISK-BASED CAPITAL MODEL

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

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

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





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

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

OUR VALUATION FOR SOLVENCY PURPOSES

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

As at 31 December 2017, the Company's excess of assets over liabilities is £219m (2016: £253m) on a Solvency II basis, which is £48m lower than the value under IFRS.

Further details can be found in Section D. A.	Valuation for Solvency purposes.

OUR CAPITAL MANAGEMENT

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

As at 31 December 2017 the Company held £74m of surplus own funds above the SCR requirement, representing a regulatory capital coverage ratio of 151%. This buffer of capital resources over the regulatory requirement ensures that we are able to more than meet our insurance obligations after a 1-in-200 year event. In line with our risk management approach, we maintained an appropriate capital buffer throughout the year.

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

£m	**Total 2017**	**Total 2016**
Solvency II Tier 1 Own Funds	217	253
Solvency II Tier 3 Own Funds	2	-
Solvency Capital Requirement	145	162
Solvency Surplus	74	91
Ratio of eligible Own Funds to SCR	1.51	1.56
Minimum Capital Requirement	40	41
Minimum Capital Surplus	178	213
Ratio of eligible Own Funds to MCR	5.43	6.24

The Company's SCR was £145m at 31 December 2017. We measure and monitor our capital resources on a regulatory basis and to comply with regulatory capital requirements. Our regulatory capital requirement is determined using the PRA-approved Internal Model, with no capital add-ons applied by the PRA. Whilst the PRA approved the use of a Group partial Internal Model for the Group SCR, within that calculation the Company's SCR is based on a full 'solo model' for which the Company's Board formally requested and received approval as part of the Group's IMAP submission.

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

DIRECTORS' CERTIFICATE

LEGAL & GENERAL INSURANCE 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.

Cheryl Agius
Chief Executive Officer
27 April 2018

Chris Wren-Kirkham
Chief Financial Officer
27 April 2018

AUDITORS’ REPORT

Legal & General Insurance Limited – financial year ended 31 December 2017

Report of the external independent auditors to the Directors of Legal & General Insurance Limited (‘the Company’) pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 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.17.01.02, S.23.01.01 and S.28.01.01 (‘**the Templates subject to audit’**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the ‘**relevant elements of the Solvency and Financial Condition Report’**.

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

- Information contained within the relevant elements of the Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;

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

- Company templates S.05.01.02, S.05.02.01, S.19.01.21 and S.25.03.21;

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

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 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.

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

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

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

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

It is our responsibility to form an independent opinion 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 a 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

Birmingham

27 April 2018

The maintenance and integrity of the Legal & General Insurance Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

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

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

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

- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin

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

- The following elements of Company template S.28.01.01
  - Row R0310: SCR

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

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 COMPANY DETAILS

This report is prepared in respect of Legal & General Insurance Limited for the financial year ended 31 December 2017.

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

A.1.1.1 QUALIFYING HOLDINGS AND MATERIAL RELATED UNDERTAKINGS

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

A.1.1.1 GROUP STRUCTURE

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

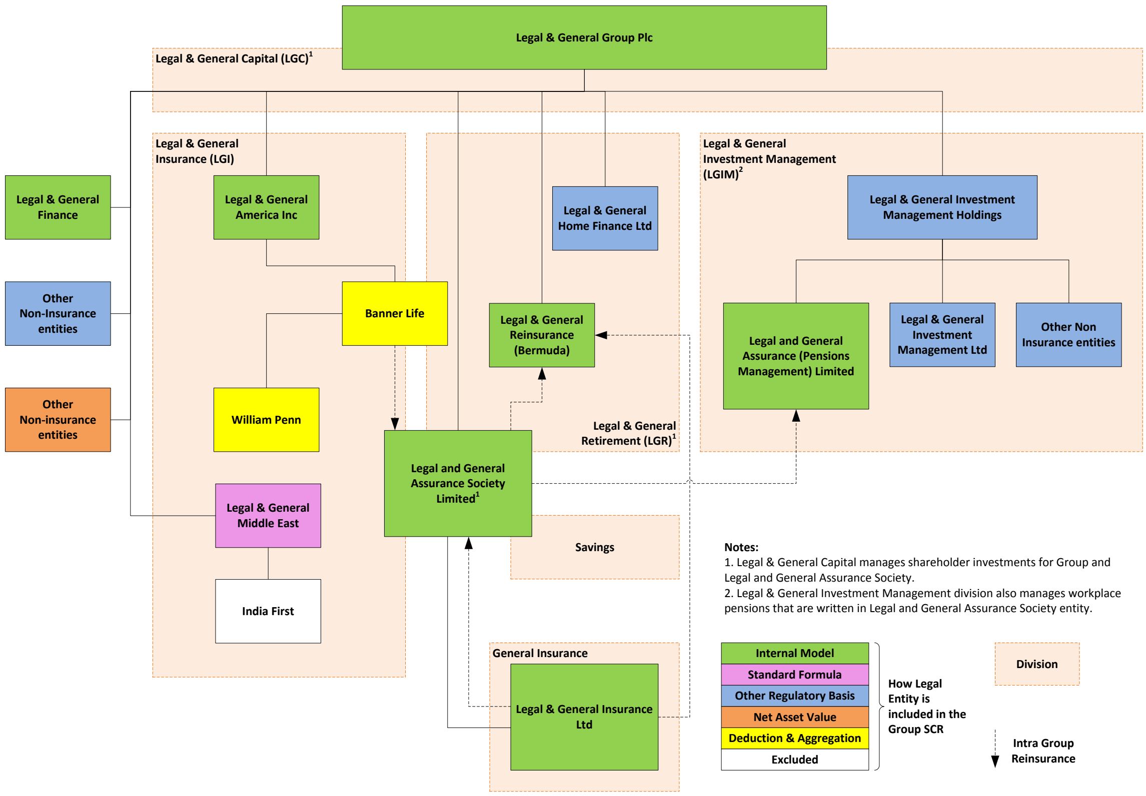
Legal & General Assurance Society Limited is our immediate parent undertaking, owning 100% of the £7m (£1 nominal) issued and fully paid ordinary share capital. The ultimate parent company and controlling party is Legal & General Group Plc, a company incorporated in England and Wales.

Legal & General Group Plc is the parent undertaking of the smallest and largest Group of undertakings to consolidate these financial statements at 31 December 2017. The Report and Financial Statements of Legal & General Group Plc is available from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA, or on the Group website, www.legalandgeneralgroup.com.

Legal & General Insurance Limited owns 100% of Legal & General Distribution Services Limited. During 2017 Legal & General Distribution Services Limited distributed general insurance products underwritten by Legal & General Insurance Limited and third parties.

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

Simplified Group Structure:



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

A.1.2 PRINCIPAL ACTIVITY

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

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

A.1.3 SIGNIFICANT BUSINESS OR OTHER EVENTS

A.1.3.1 BUSINESS EVENTS

Acquisition of Buddies Enterprises Limited

On 16 October 2017 Legal & General Insurance Limited announced its intention to purchase the entire share capital of Buddies Enterprises Limited for an initial consideration of £5.5m. Buddies Enterprises Limited distributes pet insurance policies, which, from the 1 January 2018 have been underwritten by Legal & General Insurance Limited. The acquisition furthers our strategic aims to grow our pet insurance business and further diversify our portfolio. The acquisition was completed on 5 January 2018.

Launch of Smartquote

During the year the Company launched a market leading insurance product, "Smartquote". The product uses a range of data sources on a web based platform enabling customers to obtain a home insurance quote after answering just five questions, significantly reducing the time taken and therefore improving the customer journey.

A.1.3.2 OTHER EVENTS

Insurance Premium Tax

The standard rate of Insurance Premium Tax increased to 12% from June 2017.

Re-insurance

From 1 July 2017 the structure of our main catastrophe re-insurance treaty changed, to include Legal & General Re-insurance (Bermuda) as one of our main re-insurers. As part of this change, Legal & General Assurance Society Limited has reduced its participation in the treaty.

A.2 UNDERWRITING PERFORMANCE

£m	**2017**	**2016**
Gross premium written	369	326
Gross premium earned	346	329
Gross claims incurred	(163)	(142)
Expenses	(167)	(141)
Reinsurance	(24)	(24)
Underwriting (loss)/profit	(8)	22
Allocated Investment Return[1]	15	15
Operating Profit	7	37

[1] Allocated investment return is the part of the investment performance allocated to operating profit, based upon our long term strategic investment return target of 3.9%.

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

Our 2017 underwriting result and operating profit is presented above. The reduction in operating profit to £7m (2016: £37m) was mainly attributable to increased attritional claims experience on the household business and higher expenses relating to investment in the customer proposition. The higher claims experience was mainly related to escape of water claims although other perils were impacted to a lesser extent. We responded to these increases in claims cost by way of pricing, underwriting and claims management action which mitigated a part of the observed increase. Project spend of £15m relating to investment to support business growth and develop the customer proposition accounted for much of the increase in the expenses, with remaining increases broadly in line with the premium growth.

Total gross written premium for 2017 was £369m (2016: £326m). During 2017, we continued our strategy of focussing on the housing marketplace, including leveraging the distribution relationships from the wider Group proposition focused on the housing purchase event. We experienced success in obtaining a number of new distribution partners and increased our pet insurance volumes, which provides increasing diversification of risk. 2017 also saw growth in the direct channel and in the second half of the year we launched our “Smartquote” product, which uses a range of external data sources to allow customers to obtain a home insurance quote after answering just five questions. We expect this to support further growth in this channel in 2018.

We have maintained our focus on the future profitability of the business and despite challenging market conditions have taken action in the second half of the year to address the increased claims experience through changes to pricing and underwriting and also action to improve efficiency in our claims processing. Specifically towards the end of the year we launched SmartClaim which provides a much improved customer journey for contents claims, reducing the time to settle a claim by over 50%, with consequent reductions in claims handling cost.

A.3 INVESTMENT PERFORMANCE

Our 2017 investment performance is presented below:

£m	2017	2016
Dividend Income on financial investments at fair value through profit or loss	1	1
Interest Income on financial investments at fair value through profit or loss	2	3
Gains on financial investments at fair value through profit or loss	20	28
Total	23	32

We continue to monitor the performance of the investment portfolio against return and volatility criteria agreed with the investment fund manager, Legal & General Investment Management Limited (LGIM). Investment returns totalled £23m (2016: £32m), representing a return of 5.9% against our long-term strategic target of 3.9%. This is attributed to continued favourable equity and fixed interest performance following the trend seen in 2016. Falls in the value of assets denominated in foreign currencies as a result of the gradual appreciation of Sterling during the year were successfully offset by the Company’s hedging strategy. We benefited from being broadly diversified across all asset classes (bonds, collective investment schemes and non-reward derivatives) and geographies.

A.4 PERFORMANCE OF OTHER ACTIVITIES

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

A.1.1 MATERIAL LEASING ARRANGEMENTS

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

A.5 ANY OTHER INFORMATION

No further information to note.

B. SYSTEM OF GOVERNANCE

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

The business of the Company is managed through the General Insurance business Division, which is led by a Chief Executive Officer (CEO), who in turn reports to the Group Chief Executive. The Company also has a subsidiary, Legal & General Distribution Services Limited (LGDSL), which distributes general insurance products underwritten by the Company and third parties.

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 THE STRUCTURE OF THE BOARD AND BOARD REPORTING

The Legal & General Insurance Limited Board comprises:

- Chairman (awaiting regulatory approval as at 31 December 2017)
- Chief Executive Officer
- Chief Financial Officer
- Commercial Director (awaiting regulatory approval as at 31 December 2017, which was subsequently received on 29 January 2018)
- Managing Director Partnerships (resigned from the Board on 23 February 2018)

The Chief Risk Officer Insurance is a standing attendee.

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

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

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

B.1.2 COMMITTEE STRUCTURE AND DELEGATED AUTHORITIES

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

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

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

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

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

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

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

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

- **General Insurance Reserving Committee**
  Role - to discuss reserving policy, the level of General Insurance technical reserves, reserving risk and calculation approach.
- **General Insurance Financial Reporting** (formerly SII Economic Capital) **Committee**
  Role - responsible for providing governance of the Solvency II Internal Model, Solvency II reporting and IFRS key judgements, estimates and methodologies within Legal & General Insurance Limited.

B.1.3 ENTITY GOVERNANCE OVERSIGHT

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

B.1.4 MATERIAL CHANGES IN THE SYSTEM OF GOVERNANCE OVER 2017 CYCLE

There have been no material changes in the system of governance over the reporting period.

B.1.5 REMUNERATION POLICY AND PRACTICES

B.1.5.1 PRINCIPLES OF THE REMUNERATION POLICY

The Group's remuneration policy is consistent across the Group and, in line with our remuneration principles, is designed to reward, motivate and retain high performers in line with the risk appetite of the Group and within the risk appetite of the Company. The Group operates bespoke bonus plans where business appropriate. However, the 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 unit, and overall Group levels. When making individual variable pay awards, both financial and non-financial performance in support of our business strategy is considered against specific, measurable targets, which are set at the beginning of the year.
Performance share plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. This includes employees in LGIM whose roles span different business divisions and whose participation encourages synergy and teamwork across the Group. Participation in the plan for one year does not guarantee participation in future years. Where appropriate, grants under the PSP may also be made for new employees who join the 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. In addition, the company operates a cash-based long-term incentive plan for LGIM (LGIM LTIP) based on the financial performance of the division. Participation in the LGIM LTIP is limited to senior managers within the division.

B.1.5.2 PERFORMANCE CRITERIA FOR REMUNERATION

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

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

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

Deferred bonus

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

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

Long-term incentives

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

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

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

B.1.5.3 SUPPLEMENTARY PENSION OR EARLY RETIREMENT SCHEMES

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

There are no supplementary or early retirement schemes

B.1.6 MATERIAL TRANSACTIONS

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

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

At 31 December 2017 and 31 December 2016 there were no loans outstanding to officers of the company.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 APPLICATION OF THE FIT AND PROPER POLICY

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

B.2.2 KEY REQUIREMENTS

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

The assessment of fitness and propriety covers the following factors:

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

B.2.2.1 LEGAL & GENERAL ASSESSMENT PROCEDURES

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

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

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

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

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

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

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

The criteria are:

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

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

B.2.2.2 MAINTAINING FITNESS AND PROPRIETY

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

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

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

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

B.3 RISK MANAGEMENT SYSTEM

B.3.1 RISK MANAGEMENT SYSTEM

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

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

B.3.1.1 RISK APPETITE

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

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

B.3.1.2 RISK TAKING AUTHORITIES

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

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

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

B.3.1.3 RISK POLICIES

Risk control

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

Risk mitigation

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

B.3.1.4 RISK IDENTIFICATION AND ASSESSMENT

Review process

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

Own risk solvency assessment (ORSA)

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

B.3.1.5 RISK MANAGEMENT INFORMATION

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

B.3.1.6 RISK OVERSIGHT

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

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

B.3.1.7 RISK COMMITTEES

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

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

The Company's Board:

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

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

The Executive Directors are accountable for:

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

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

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

B.3.1.8 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; as well as ensuring the skill sets to closely manage those risk factors which could otherwise lead to unexpected outcomes.

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

B.3.2 GOVERNANCE OF THE INTERNAL MODEL

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

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

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

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

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

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

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

B.4 OWN RISK AND SOLVENCY ASSESSMENT

B.4.1 PURPOSE

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

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

The ORSA policy was reviewed by the Group Board (delegated to Group Risk Committee) in July 2017 and by the Company's Board in August 2017.

B.4.2 INTEGRATION OF GROUP AND SUBSIDIARY ORSA PROCESSES

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

B.4.3 ORSA/PLAN TIMELINE

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

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

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

B.5 INTERNAL CONTROL SYSTEM

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

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

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

- an organisational structure is defined, with clarity of roles, responsibilities and reporting lines;
- appropriate management information and reporting processes are defined;
- frameworks for decision making (including the delegation of authority) are articulated;
- clear segregation of duties is in place;
- conflicts of interest are managed;
- administrative and accounting procedures are aligned with Group requirements;
- personnel have sufficient skills, knowledge and expertise to discharge their responsibilities (including those relating to the regulatory environment);
- adequate and orderly records of business are maintained;
- the security of customer data and other internal records is ensured;
- business procedures combat financial crime;
- processes are in place to deal with policyholder claims and complaints;
- the integrity of manual and computerised business systems is ensured; and
- processes ensure assessment of the possible impact of any changes in the legal environment.

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

B.5.1 SII COMPLIANCE FUNCTION

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

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

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

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

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

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

B.6 INTERNAL AUDIT FUNCTION

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

Group Internal Audit (GIA) carries out:

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

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

Internal control objectives considered by GIA include:

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

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

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

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

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

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

B.7 ACTUARIAL FUNCTION

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

The Company's Chief Actuary 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 Company Board summarising the activities of the actuarial function that:

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

These reports are shared with the Group Chief Actuary.

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

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

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

B.8 OUTSOURCING

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

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

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

Below is a schedule of critical and important operational functions and activities that are outsourced to suppliers used by the Company either directly or through relationships established by the Group:

Critical and important operational functions and activities outsourced	**Jurisdiction**
Loss Adjusting	UK
Telephony	UK
Technology	UK
Home Emergency services	UK

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

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

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

B.9 ADEQUACY OF THE SYSTEM OF GOVERNANCE

The Company operates within the Group's risk management framework. Group Executive Risk Committee (a sub-committee of the Group Risk Committee) undertakes an annual review of the Group's risk management framework and broader system of governance to confirm its adequacy given the nature, scale and complexity of the risks inherent in its business. This review includes Legal & General Insurance Limited. The most recent review was in February 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.10 ANY OTHER INFORMATION

No further information to note.

C. RISK PROFILE GENERAL

C.1 RISK PROFILE

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

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

The inherent risks are:

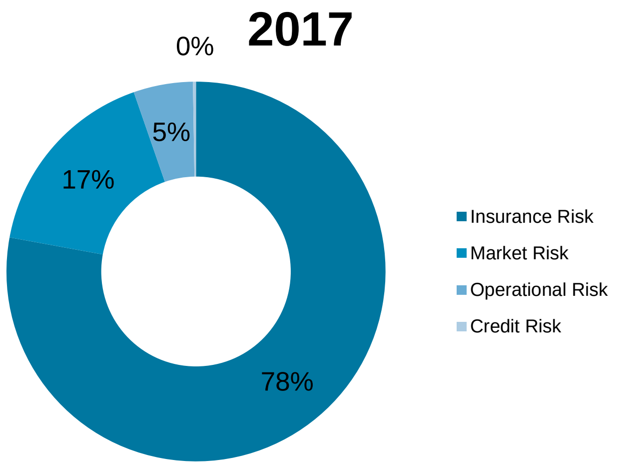
- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk

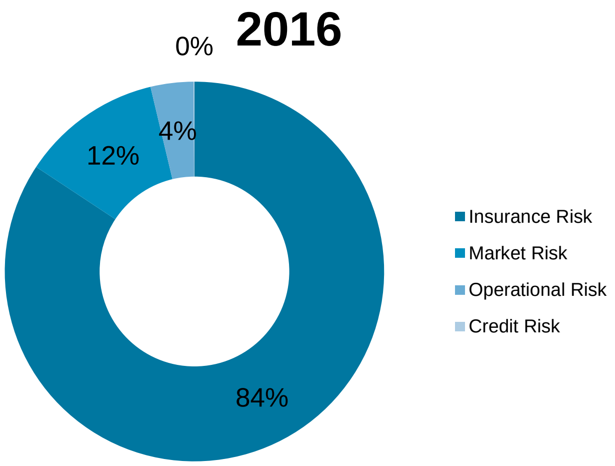
The principles and metrics for each of these risks are described below.

There have been no material changes in the risk profile over the reporting period. There are no special purpose vehicles used.

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

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





C.1.1 INSURANCE RISK

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

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

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

C.1.1.1 SPECIAL PURPOSE VEHICLES (SPVS)

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

C.1.2 MARKET RISK

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

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

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

C.1.2.1 PRUDENT PERSON PRINCIPLE

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

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

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

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

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

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

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

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

C.1.3 CREDIT RISK

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

Type-1 exposures

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

Examples include:

- Reinsurance
- Derivatives
- Cash in banks

Type-2 exposures

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

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

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

C.1.4 LIQUIDITY RISK

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

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

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

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

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

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

C.1.5 OPERATIONAL RISK

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

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

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

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

C.1.6 OTHER MATERIAL RISKS

There are no other material risks identified.

C.2 RISK CONCENTRATION

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

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

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

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

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

C.3 RISK MITIGATION

The Company uses reinsurance to manage the exposure to an accumulation of claims arising from a severe weather event. The catastrophe cover runs from 1 July to 30 June and reinsures the company for losses between £30m and £520m for a single weather event. In addition a single household or pet policy can result in a large liability claim. To mitigate the risk, accident excess of loss reinsurance is in place for liability claims in excess of £0.75m on household and £0.5m on pet. A further reinsurance treaty with Flood Re protects against flood losses in excess of £250 on policies ceded. A reinsurance treaty is in place allowing the company to cede the risk from individual policies in excess of £1m up to a limit of £3m.

C.4 LIQUIDITY RISK – EXPECTED PROFIT IN FUTURE PREMIUM

The total amount of the expected profit included in future premium (EPIFP) as calculated in accordance with Article 260(2) of the Solvency II Delegated Regulations was £20.4m as at 31 December 2017 as shown in the QRT S.23 in Annex 1.

C.5 RISK SENSITIVITY

Risk	Description	Impact on net of tax capital surplus (£m)	Impact on Solvency II Coverage Ratio
Underwriting	Premium Downside - 5% decrease in Aggregator GWP across all products and assumed 3 deals that have been included in the plan do not materialise	(2)	(2)%
	Premium Upside - 5% increase in GWP through Aggregator channel across all products and addition of 2 further small to medium partnerships deals in 2018 H2	0	0%
	Mean Weather Loss	(23)	(16)%
Market	1% increase in interest rates	(15)	(10)%
	40% decrease in equities	(39)	(28)%
	15% decrease in property	(10)	(7)%

The table above shows the risks that could have a significant impact on the business and the results of the stress tests that have been carried out. Overall the stress testing shows that the Company would be able to withstand moderate to severe scenarios. The above sensitivity analysis does not reflect management actions which could be taken to reduce the impacts. In practice, we manage asset and liability positions to respond to market movements.

The impacts of these stresses are not linear therefore these results should not be used to extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results could be different if performed at an alternative reporting date.

C.6 OTHER MATERIAL RISK INFORMATION

There is no other material risk information.

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D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

The assets as at 31 December 2017 under Solvency II are £422m compared to the total value of assets under IFRS of £646m.

£m	Section Reference	2017	2016
Total IFRS Assets		646	639
Solvency II valuation differences	D.1.2	(224)	(205)
Total Solvency II Assets		422	434

D.1.1 SOLVENCY II VALUATION BASIS

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

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

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

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

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

D.1.2 SOLVENCY II VALUATION DIFFERENCES

The assets as at 31 December 2017 and the impact of valuation differences under IFRS are shown below. There have been no changes to valuation bases used or estimations used during the period.

Assets (£m)	**Section reference**	**Solvency II 2017**	**IFRS valuation differences 2017**	**Solvency II 2016**	**IFRS valuation differences 2016**
Goodwill		-	-	-	-
Deferred acquisition costs	D.1.2.1	-	(58)	-	(50)
Intangible assets	D.1.2.1	-	(44)	-	(36)
Deferred tax assets		2	2	-	-
Pension benefit surplus		-	-	-	-
Property, plant & equipment held for own use		4	-	5	-
Investments (other than assets held for index-linked and unit-linked contracts)		376	-	392	(1)
Property (other than for own use)		-	-	-	-
Holdings in related undertakings, including participations		-	-	-	(2)
Equities		-	-	-	-
Bonds	D.1.2.2.1	90	-	76	-
Collective investments undertakings	D.1.2.2.2	284	-	314	-
Derivatives		2	-	1	-
Deposits other than cash equivalents		-	-	-	-
Other investments		-	-	-	-
Assets held for index-linked and unit-linked contracts		-	-	-	-
Loans and mortgages		-	-	-	-
Reinsurance recoverables	D.1.2.3	9	9	4	4
Deposits to cedants		-	-	-	-
Insurance and intermediaries receivables	D.1.2.4	-	(119)	-	(105)
Reinsurance receivables	D.1.2.3	-	(14)	-	(16)
Receivables (trade, not insurance)	D.1.2.5	19	1	11	0
Cash and cash equivalents	D.1.2.6	12	(1)	23	(0)
Any other assets, not elsewhere shown		-	-	-	-
Total assets		422	(224)	434	(205)

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

D.1.2.1 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

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

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

As at 31 December 2017, intangible assets did not meet these criteria and therefore they are valued at zero on the Solvency II balance sheet.

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

The impacts of these adjustments are £44m and £58m respectively.

D.1.2.2 INVESTMENTS (OTHER THAN ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED CONTRACTS)

D.1.2.2.1 BONDS

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

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

D.1.2.2.2 COLLECTIVE INVESTMENTS UNDERTAKINGS

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

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

D.1.2.3 REINSURANCE RECOVERABLES AND RECEIVABLES

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

D.1.2.4 INSURANCE AND INTERMEDIARIES RECEIVABLES

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

D.1.2.5 RECEIVABLES (TRADE, NOT INSURANCE)

Trade receivables are valued as financial assets in accordance with IAS39's fair value model. We have deemed cost to be materially consistent with fair value given that our trade receivables are short term in nature. Included within the £19m is £13m due to Group companies with the remaining amount relating to advance commission and accounts in trust with suppliers who have delegated authority for claims.

D.1.2.6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at fair value in accordance with IFRS. Cash equivalents under Solvency II are defined to include only deposits exchangeable for currency on demand at par and that can be used to make payments without penalty or restriction. Cash equivalents under Solvency II therefore exclude £1m of amounts held as collateral, which are reclassified to 'Receivables'.

D.1.3 VALUATION UNCERTAINTY

We value our assets in accordance with Article 10 of the Solvency II Delegated Regulation. Valuations of assets are underpinned by a system of processes and controls to ensure that we comply with Article 267 of the Solvency II Delegated Regulation. Included within these processes is an assessment of valuation uncertainty and the extent to which asset valuations are appropriate in light of uncertainties that exist. This processes focus on, although is not limited to, assets that are valued using alternative valuation techniques. We have concluded that our assets are valued appropriately in accordance with Article 10 of the Solvency II Delegated Regulation and appropriately reflect consideration of valuation uncertainty.

D.2 TECHNICAL PROVISIONS (TPS)

A summary of our technical provisions as at 31 December 2016 and 31 December 2017 is provided in the table below. Figures are gross of reinsurance.

2017

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

2016

Technical provisions (£m)	Section Reference	Income protection	Motor vehicle liability	Fire and other damage to property	General liability	Credit and suretyship	Misc. financial loss	Total
Claims provisions	D.2.1.5	2	1	70	9	-	5	86
Premium provisions	D.2.1.6	(1)	-	35	-	-	(2)	32
Best estimate	**D.2.1.1**	**1**	**1**	**105**	**9**	**-**	**4**	**118**
Risk margin	D.2.1.7	-	-	6	-	-	-	7
Total		**1**	**1**	**111**	**9**	**-**	**4**	**125**

The majority of the change from 2016 is due to premium provisions where we have seen an increase in exposure and risk premium as a result of the growth in the business and our latest view of the expected claims costs.

D.2.1 SOLVENCY II VALUATION BASIS

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

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

D.2.1.1 BEST ESTIMATE LIABILITIES (BEL)

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

The gross of reinsurance BEL is calculated without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, but includes expenses in respect of these arrangements. The BEL is calculated at a level deemed appropriate for homogeneous risk groupings, at a minimum by line of business segmented according to Chapter 10 of the technical provisions part of the PRA Rulebook for Solvency II firms. The BEL are based on exposures as at 31 December 2017 and is calculated using standard actuarial projection techniques.

Future premiums and their associated claims and expenses are only considered for the period up to where the policyholder has the option to automatically renew, extend, increase or resume the insurance contract. After this point we can vary the premiums and therefore the automatic renewal option point represents the appropriate contract boundary. The treatment for business distributed through Managing general Agents (MGAs)[5] depends on our contract with the MGA.

D.2.1.2 RISK MARGIN (RM)

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

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

D.2.1.3 DATA

The calculation of the technical provisions (TPs) is dependent on the quality of the data underlying the calculations. The data has been assessed in line with Articles 48 and 82 of Directive 2009/138/EC, Articles 264 and 272 of the Level II text, and the Level III text for Guidelines on Technical Provisions. This assessment has concluded that the quality and sufficiency of data complies with the above requirements.

D.2.1.4 METHODOLOGY

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

D.2.1.5 CLAIMS PROVISIONS

D.2.1.5.1 HOUSEHOLD

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

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[5] An MGA is a specialized type of insurance agent/broker that, unlike traditional agents/brokers, is vested with underwriting authority from an insurer. Accordingly, MGAs perform certain functions ordinarily handled only by insurers, such as binding coverage, underwriting and pricing, appointing retail agents within a particular area, and settling claims. Typically, MGAs are involved with non-standard lines of coverage, in which specialized expertise is required to underwrite the policies. However, MGAs also write some personal lines business, thereby providing an addition source through which to distribute insurance business. MGAs benefit insurers because the expertise they possess is not always available within the insurer's network and it would be more expensive and/or timeconsuming to develop on an in-house basis.

- incurred chain ladder projections – an incurred data set is projected to an ultimate position using a chain ladder technique. The loss date is selected as the accident period and development month is selected as the development period. The data is split by month. This method relies on the stability of the claims reporting, handling and settlement process underpinning the data in the past and whether this is representative of what we think would happen in the future given our knowledge of the business and operational aspects of the claims process;

- paid chain ladder projections – this is the same as the incurred chain ladder method except paid data is selected rather than incurred data;

- average cost per claim methods – an assumed average cost is multiplied by the expected number of claims to get the ultimate cost. This method can be based on all claims or closed claims. This method can be used if the data is not stable enough to form credible chain ladder ultimate costs;

- loss ratio method – a selected loss ratio is multiplied by the earned premium to estimate the ultimate cost;

- blended methods of the above – sometimes it is appropriate to put some reliance on current data and some reliance on past data. These methods are referred to as the 'Bornhuetter-Ferguson method'; and

- large and small claim split – if large and small claims have different development patterns then it may be appropriate to split the experience into two. The aim of this would be to give more stable results. The ultimate cost of the large and small claims may be calculated using the same or different methods as per above.

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

D.2.1.5.2 ASU (ACCIDENT, SICKNESS AND UNEMPLOYMENT)

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

- In the Course of Payment (ICOP) = monthly benefit x outstanding number of payments

- Notified but not but Accepted (NBNA) = monthly benefit x acceptance rate x outstanding claim duration

- Incurred but not reported (IBNR) = number of IBNR claims x monthly benefit x acceptance rate x claim duration

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

D.2.1.5.3 PET

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

- Incurred chain ladder projections

- Loss ratio method

- Blended methods of the above

D.2.1.5.4 OTHER ADJUSTMENTS

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

D.2.1.6 PREMIUM PROVISIONS

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

D.2.1.6.1 HOUSEHOLD

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

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

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

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

D.2.1.6.2 ACCIDENT, SICKNESS AND UNEMPLOYMENT (ASU)

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

D.2.1.6.3 PET

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

D.2.1.6.4 OTHER ADJUSTMENTS

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

D.2.1.7 RISK MARGIN (RM)

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

D.2.2 MAIN ASSUMPTIONS

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

Household

- For future exposure we adjust past data for actual and projected claims inflation. This uses a combination of actual data and external models to project the cost of future claims. External data is used for the expected cost of weather ENIDs within the expected cost per policy. Changes are fed through to the premium provisions;
- development factors – these are estimated and applied to claims projections with the objective of developing claims to their ultimate level;
- prior loss ratio assumptions, including seasonality adjustments – if recent data is volatile or lacks credibility then a prior loss ratio can be used. This will be based off past claims data, as will the seasonality adjustments;

- splits of ratios in Bornhuetter-Ferguson approaches – the weighting given to each method will be based on an appropriate measure and generally taken from past claims data;
- development ratios for current incurred claims to an ultimate position – based off past claims data and calculated by the software package ResQ;
- fee and recovery amounts and frequencies for recent periods – based of past data and calculated in excel, with the user selecting the appropriate value based on expert judgement of the trends;
- claims handling expenses – assumption based of historical claim handling expenses reported in the revenue account from finance;
- mid-term cancellation (MTC) rates – based off the historical experience of MTCs;
- mix of liability to non-liability claims – based off past data from the claim trends process; and
- amount of written but not incepted business – based off the prior month's GWP and the amount of premium expected to incept in future using system data. Appropriate allowances are made for MGAs

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

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

Pet:

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

Others:

- Amount of motor IBNR to hold – the assumption is that the current estimated amount on the system is the total left outstanding as there is only one low materiality claim left to settle

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

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

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

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

D.2.4 RECONCILIATION BETWEEN IFRS AND SOLVENCY II VALUATION

The table below bridges the BEL under Solvency II to the IFRS provisions for 31st December 2016 and 31st December 2017.

2017

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

2016

Technical provisions (£m)	Section reference	Solvency II	IFRS valuation differences
Claims provisions	D.2.1.5	86	(11)
Premium provisions	D.2.1.6	32	(139)
Best estimate	**D.2.1.1**	**118**	**(149)**
Risk margin	D.2.1.7	7	7
Total		**125**	**(143)**

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

D.2.5 MATCHING ADJUSTMENT, VOLATILITY ADJUSTMENT AND TRANSITIONAL MEASURES

The Company does not utilise any of these arrangements.

D.2.6 REINSURANCE RECOVERABLES

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

D.2.7 MATERIAL CHANGES FROM YEAR ENDED 2016

There are no material changes to report for the calculation methodology of the technical provisions. The majority of the change in provision from 2016 is due to premium provisions where we have seen an increase in exposure and risk premium as a result of the growth in the business and our latest view of the expected claims costs.

D.2.8 SIGNIFICANT SIMPLIFIED MEASURES

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

D.3 OTHER LIABILITIES

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

Other liabilities (£m)	Section reference	Solvency II 2017	IFRS valuation differences 2017	Solvency II 2016	IFRS valuation differences 2016
Deferred tax liabilities	D.3.1	0	(10)	3	(8)
Derivatives		2	0	3	0
Insurance and intermediaries payables	D.3.2	5	(5)	6	(4)
Reinsurance payables	D.3.3	0	(12)	0	(11)
Payables (trade, not insurance)	D.3.4	47	(8)	43	(10)
Total		54	(35)	56	(33)

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

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

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

D.3.1 DEFERRED TAX LIABILITIES

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

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

D.3.2 INSURANCE AND INTERMEDIARIES PAYABLES

Insurance and intermediaries payables are valued at fair value under IFRS. The difference between IFRS and SII (£5m) are payables such as commission, which are included within technical provisions.

D.3.3 REINSURANCE PAYABLES

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

D.3.4 PAYABLES (TRADE, NOT INSURANCE)

Payable (trade, not insurance) are valued at fair value under IFRS. The difference between IFRS and SII (£8m) are payables such including deferred income, reinsurers' share of deferred acquisition costs, both not recognised under Solvency II, and intercompany balances relating to commission which are included within technical provisions.

D.3.5 OFF BALANCE SHEET ITEMS

Legal & General Insurance Limited has provided an intercompany indemnity executed in favour of Legal & General Resources Limited (LGRL) in respect of Flood Re arrangements and the requirement to provide uncapped indemnity for any data protection breaches relating to data provided by Flood Re (which includes local authority/council tax data). The agreement with Flood Re also requires Tata Consultancy Services (TCS) (who provide software support and related systems maintenance to us under a separate contract between TCS and LGRL), to offer the indemnity as well as act as an outsourced party in the arrangement. As the liability of TCS is capped in the agreement between TCS and LGRL, we executed this indemnity in favour of LGRL for any claim by Flood Re against TCS for breach where the claim exceeds the £30m cap. As at the 31 December 2017, no contingent liabilities were identified in respect of the above indemnity, as the potential liability was considered immaterial.

Legal & General Insurance Ltd has entered into a 10-year arrangement with Legal & General Finance Plc and a five-year arrangement with Legal & General Group Plc to manage the cash flows of the Company. The arrangements are for the provision of a £25m working capital facility to the company, as well as a further £150m credit loan facility respectively. This has proved ample for day-to-day cash management and is sufficient to cover a 1-in-200 catastrophe event modelled in the stress and scenario testing exercise. The sufficiency of the facility is regularly monitored by GI PICC.

D.4 ALTERNATIVE METHODS OF VALUATION

No alternative methods of valuation have been used.

D.5 ANY OTHER INFORMATION

No further information to note.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 OBJECTIVES FOR MANAGING OWN FUNDS

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

E.1.2 QUANTITATIVE EXPLANATION OF OWN FUNDS

The components of the IFRS equity and the Solvency II Own Funds as at 31 December 2017 and 31 December 2016 are presented below:

Own Funds (£m)	**IFRS equity 2017**	**Solvency II basic Own Funds 2017**	**IFRS equity 2016**	**Solvency II basic Own Funds 2016**
Ordinary shares	7	7	7	7
Share premium	96	96	96	96
Retained earnings	164	-	179	-
Deferred Tax Asset	-	2	-	-
Reconciliation reserve	-	114	-	150
Total	267	219	282	253

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

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

£m	**Total 2017**	**Total 2016**
Solvency Capital Requirement	145	162
Solvency Surplus	74	91
Ratio of eligible Own Funds to SCR	1.51	1.56
Minimum Capital Requirement	40	41
Minimum Capital Surplus	178	213
Ratio of eligible Own Funds to MCR	5.43	6.24

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

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

E.1.4 RESTRICTIONS ON OWN FUNDS

As at 31 December 2017, there were no restrictions affecting the availability and transferability of Own Funds, or ring-fencing.

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

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

£m		2017	2016
IFRS shareholders' equity		267	282
Solvency II excess of assets over liabilities		219	253
Difference		(48)	(29)
Explained by:			
Difference in the valuation of assets	Section D1	(224)	(205)
Difference in the valuation of technical provisions	Section D2	141	143
Difference in the valuation of other liabilities	Section D3	35	33
Total:		(48)	(29)

E.1.6 RECONCILIATION RESERVE

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

The calculation of the reconciliation reserve is as follows:

£m	2017	2016	
Excess of assets over liabilities	219	235	(per QRT S.02.01.01)
Ordinary share capital	(7)	(7)	
Share premium account	(96)	(96)	
Deferred Tax Asset	(2)	-	
Reconciliation reserve	114	150	

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

E.2.1 SOLVENCY CAPITAL REQUIREMENT (SCR)

Our SCR as at 31 December 2017 was £145m. This was calculated using the PRA-approved Internal Model, with no capital add-ons applied, and as such, the Standard Formula model does not apply for the purposes of determining our regulatory capital requirements.

The SCR has reduced from £162m over the year. This is largely due to increased reinsurance coverage and updating the terms of the reinsurance treaty. However this is partly offset by increased business volumes and a model change to update to the latest version of the RMS catastrophe model.

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

E.2.2 MINIMUM CAPITAL REQUIREMENT (MCR)

The MCR as at 31 December 2017 was £40m. Calculation of the MCR uses data on net written premiums, net technical provisions and EIOPA specifications including exchange rates, and is subject to a minimum of

25% of SCR and maximum of 45% of SCR. Our MCR is calculated based on the level of technical provisions and written premiums.

The MCR has reduced slightly from £40.6m over the year. This is due to reductions in SCR meaning the MCR is no longer being set as 25% of the SCR.

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

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

E.4 INTERNAL MODEL INFORMATION

E.4.1 GENERAL INSURANCE USE OF INTERNAL MODEL

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

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

- Insurance
- Market
- Counterparty credit
- Operational

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

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

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

E.4.2 METHODS USED IN THE INTERNAL MODEL

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

Step	Explanation
Assess risk landscape	Risk drivers are identified every quarter for all risks that may affect our Own Funds. A probability distribution is determined for each risk driver, together with a dependency

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

E.4.2.1 THE RISK MEASURE AND TIME PERIOD USED IN THE INTERNAL MODEL

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

E.4.2.2 MAIN DIFFERENCES AGAINST THE STANDARD FORMULA APPROACH

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

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

E.4.3 COMPARISON TO STANDARD FORMULA

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

E.4.3.1 WEATHER CAT

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

- the Internal Model incorporates additional information such as property type, construction type, roof type and property age, all of which impact the risk for an individual property, whereas the Standard Formula implicitly uses an average assumption for these factors;
- the standard scenarios used by Standard Formula do not distinguish between industrial, commercial or residential risk. We only write residential risk so the standard scenarios don't reflect the risk profile of our business;
- Standard Formula uses CRESTA zone level which isn't as granular as the Internal Model which uses data at postcode level. This means that the Internal Model more accurately reflects our risk profile;
- the Standard Formula calculation is an instantaneous stress, whereas the Internal Model allows for business growth over the year; and

- The Internal Model allows for multiple events through the Event Loss Tables, which will include the impact of multiple smaller events. The Standard Formula only allows for a maximum of two weather events per peril over a single year while the Internal Model makes allowance for more events. The Internal Model therefore captures the risk of exhausting horizontal reinsurance coverage more accurately.

E.4.3.2 FREEZE RISK, CLAIMS VARIABILITY RISK, SUBSIDENCE RISK, ASU AND PET RISK

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

E.4.3.3 RESERVING RISK

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

E.4.3.4 MARKET RISK

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

E.4.3.5 OPERATIONAL RISK

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

E.4.3.6 COUNTERPARTY DEFAULT RISK

- Correlation between reinsurer defaults is allowed for in the Internal Model
- Capital in respect of type-1 counterparties is based on our exposure, which allows the capital to more accurately reflect our risks
- Type-1 counterparty default is included within the weather CAT and freeze modules of the Internal Model
- The Internal Model calculates the type-2 risk in more detail by allowing for exposure to individual intermediaries

E.4.3.7 CORRELATIONS

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

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

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

E.4.4 DATA USED IN THE INTERNAL MODEL

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

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

Data are used to assess:

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

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

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

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

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

E.6 ANY OTHER INFORMATION

No other material information.

ANNEX 1 – QUANTITATIVE REPORTING TEMPLATES (QRTS)

S.02.01 Balance Sheet Information

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	1,566
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	4,465
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	376,488
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	394
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	89,673
R0140	*Government Bonds*	89,673
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	284,573
R0190	*Derivatives*	1,848
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	9,118
R0280	*Non-life and health similar to non-life*	9,118
R0290	*Non-life excluding health*	9,033
R0300	*Health similar to non-life*	85
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	18,739
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	11,644
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	422,020

S.02.01 Balance Sheet Information (continued)

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	148,782
R0520	*Technical provisions - non-life (excluding health)*	147,187
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	139,470
R0550	*Risk margin*	7,716
R0560	*Technical provisions - health (similar to non-life)*	1,595
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	1,548
R0590	*Risk margin*	47
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	1,959
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	5,364
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	46,773
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**	202,878
R1000	**Excess of assets over liabilities**	219,142

S.05.01 Information On Premiums, Claims And Expenses, Using The Valuation And Recognition Principles Used In The Consolidated Financial Statements

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

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business		6,748		0			329,163	8,694	0			24,833					369,438
R0120	Gross - Proportional reinsurance accepted		0		0			0	0	0			0					0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share		273		0			23,742	534	0			409					24,957
R0200	Net		6,476		0			305,421	8,160	0			24,424					344,481
	Premiums earned																	
R0210	Gross - Direct Business		7,074		0			308,673	8,118	0			22,375					346,240
R0220	Gross - Proportional reinsurance accepted		0		0			0	0	0			0					0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share		273		0			24,800	504	0			409					25,985
R0300	Net		6,801		0			283,873	7,614	0			21,966					320,255
	Claims incurred																	
R0310	Gross - Direct Business		3,014		-781			146,254	4,708	-200			10,409					163,404
R0320	Gross - Proportional reinsurance accepted		0		0			0	0	0			0					0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share		64		655			637	773	0			49					2,177
R0400	Net		2,950		-1,436			145,617	3,935	-200			10,361					161,227
	Changes in other technical provisions																	
R0410	Gross - Direct Business		0		0			0	0	0			0					0
R0420	Gross - Proportional reinsurance accepted		0		0			0	0	0			0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share		0		0			0	0	0			0					0
R0500	Net		0		0			0	0	0			0					0
R0550	**Expenses incurred**		3,412		0			152,687	3,979	0			8,818					168,896
R1200	**Other expenses**																	
R1300	**Total expenses**																	168,896

S.17.01 Non-life Technical Provisions

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**		0		0			0	0	0			0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		0		0			0	0	0			0					0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross		-277		0			54,174	21	0			-4,295					49,623
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		40		0			7,580	109	0			25					7,753
R0150	**Net Best Estimate of Premium Provisions**		-317		0			46,594	-89	0			-4,320					41,869
	Claims provisions																	
R0160	Gross		1,825		209			71,394	13,533	0			4,435					91,395
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		45		75			529	681	0			35					1,364
R0250	**Net Best Estimate of Claims Provisions**		1,779		134			70,866	12,852	0			4,400					90,031
R0260	**Total best estimate - gross**		1,548		209			125,569	13,553	0			140					141,018
R0270	**Total best estimate - net**		1,463		134			117,460	12,763	0			80					131,900
R0280	**Risk margin**		47		0			7,346	191	0			179					7,764
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole		0		0			0	0	0			0					0
R0300	Best estimate		0		0			0	0	0			0					0
R0310	Risk margin		0		0			0	0	0			0					0
R0320	**Technical provisions - total**		1,595		209			132,915	13,744	0			319					148,782
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**		85		75			8,109	790	0			60					9,118
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**		1,510		134			124,806	12,955	0			259					139,664

S.19.01.21 Non-life insurance claims

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010	**Accident year / underwriting year**	Accident Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year					**Development year**							**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											1,918	1,918	1,918
R0160	2008	113,225	59,296	5,771	2,510	1,300	982	611	366	105	167		167	184,333
R0170	2009	89,558	54,787	6,457	1,649	2,930	417	380	510	201			201	156,890
R0180	2010	82,068	83,105	9,343	3,925	923	405	1,305	882				882	181,956
R0190	2011	73,088	39,654	6,311	1,561	815	1,101	609					609	123,139
R0200	2012	90,757	48,517	4,542	1,839	642	1,482						1,482	147,779
R0210	2013	78,997	60,253	5,747	1,735	2,677							2,677	149,410
R0220	2014	102,146	50,409	4,445	2,157								2,157	159,157
R0230	2015	87,246	61,121	5,866									5,866	154,234
R0240	2016	83,665	52,311										52,311	135,975
R0250	2017	96,304											96,304	96,304
R0260												**Total**	164,575	1,491,096

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year					**Development year**							**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											1,051	1,047
R0160	2008	75,326	11,979	6,189	3,403	1,721	582	715	31	113	-150		-149
R0170	2009	73,173	12,332	5,371	3,510	1,548	1,242	892	281	210			209
R0180	2010	89,553	23,032	11,406	7,622	7,102	1,283	756	365				363
R0190	2011	47,722	5,539	-1,415	-3,335	1,749	1,128	374					371
R0200	2012	71,817	9,151	3,111	1,569	1,265	177						176
R0210	2013	76,987	11,122	4,972	5,120	2,647							2,629
R0220	2014	65,985	9,982	3,852	3,420								3,397
R0230	2015	85,185	9,895	4,432									4,402
R0240	2016	61,822	8,506										8,451
R0250	2017	70,498											70,498
R0260												**Total**	91,395

S.23.01.01 Information on Own Funds, Including Basic Own Funds and Ancillary Own Funds

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)	7,000	7,000		0	
R0030	Share premium account related to ordinary share capital	96,053	96,053		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	114,523	114,523			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	1,566				1,566
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	219,142	217,576	0	0	1,566
	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	219,142	217,576	0	0	1,566
R0510	Total available own funds to meet the MCR	217,576	217,576	0	0	
R0540	Total eligible own funds to meet the SCR	219,142	217,576	0	0	1,566
R0550	Total eligible own funds to meet the MCR	217,576	217,576	0	0	
R0580	**SCR**	145,481				
R0600	**MCR**	40,080				
R0620	**Ratio of Eligible own funds to SCR**	150.63%				
R0640	**Ratio of Eligible own funds to MCR**	542.86%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	219,142
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	104,619
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	114,523
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	20,413
R0790	**Total Expected profits included in future premiums (EPIFP)**	20,413

S.25.03 Information on the Solvency Capital Requirement

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Row	C0010	C0020	C0030
1	10300I	Interest rate risk	18,998
2	10400I	Equity risk	50,749
3	10600I	Property risk	6,339
4	10700I	Spread risk	29,926
5	10900I	Currency Risk	6,636
6	11000I	Other Market Risk	8,047
7	19900I	Diversification within Market risk	-48,885
8	20200I	Type 2 counterparty risk	5,496
9	50150I	Premium & expense risk (premium prov & planned to be written in next 12 months)	116,381
10	50210I	Reserve risk	20,250
11	50300I	Non-life catastrophe risk (including Type 1 counterparty default risk)	103,785
12	59900I	Diversification within non-life underwriting risk	-78,755
13	70100I	Operational Risk	29,459
14	80100I	Other Risks	0
15	80400I	Future profits from new business	-9,041
16	80300I	Loss-absorbing capacity of deferred tax	-34,125

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	225,259
R0060	Diversification	-79,778
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	145,481
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	145,481
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	34,125
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01 Minimum Capital Requirement

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	40,080

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	1,463	6,476
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	134	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	117,460	305,421
R0090	General liability insurance and proportional reinsurance	12,763	8,160
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	80	24,424
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

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

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

	Overall MCR calculation	C0070
R0300	Linear MCR	40,080
R0310	SCR	145,481
R0320	MCR cap	65,467
R0330	MCR floor	36,370
R0340	Combined MCR	40,080
R0350	Absolute floor of the MCR	3,283
R0400	**Minimum Capital Requirement**	40,080