

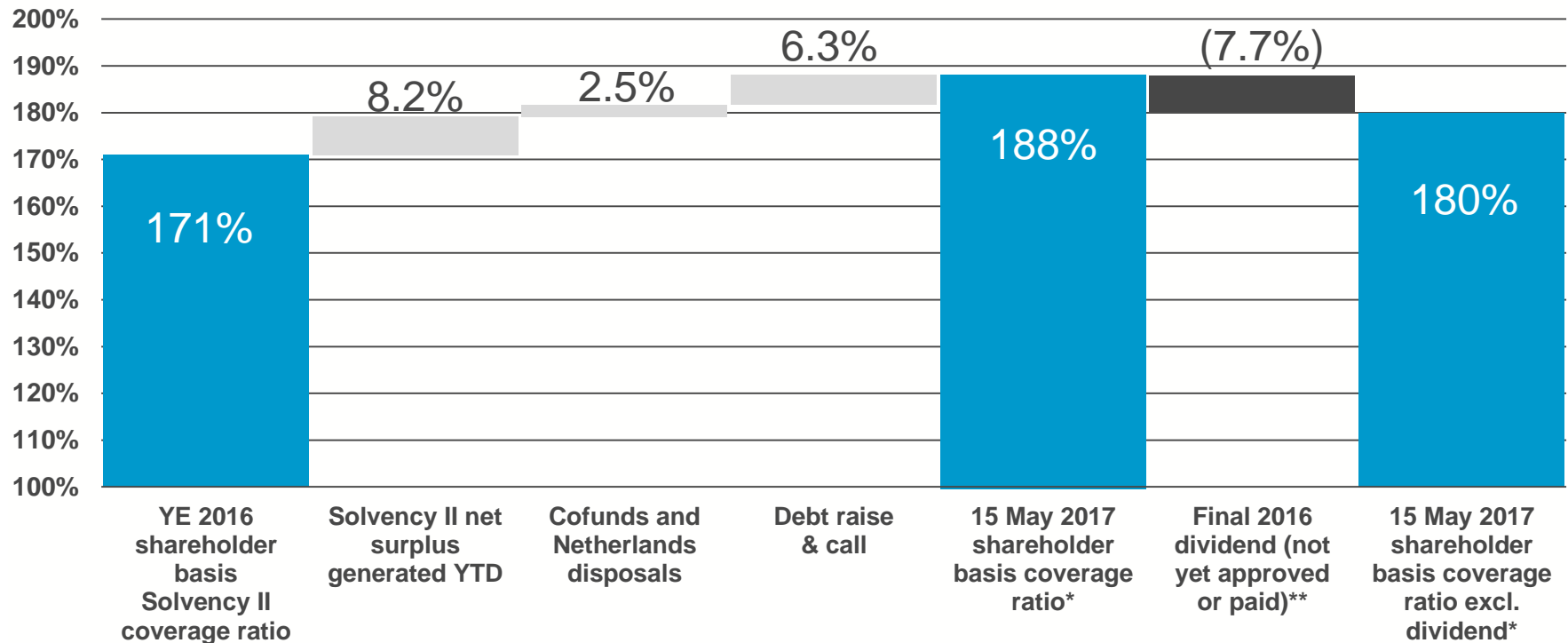
# 2016 Solvency and Financial Condition Report - SFCR

19 MAY 2017

LEGAL & GENERAL GROUP PLC



# L&G Group Solvency II position update (as at 15 May 2017)



- **£7.0bn** Solvency II net surplus with a **188%** coverage ratio on a shareholder basis **as at 15 May 2017**
- Includes recalculated 'dynamic' transitional measure of technical provision (TMTP)
- Eligible own funds of c.£14.9bn and Solvency Capital Requirement (SCR) of c.£7.9bn
- In the year to date, \$1,350m of Tier 2 debt raised (£1,100m) and £600m Tier 1 debt called
- £12bn (78%) of eligible own funds is Tier 1 capital

\* Estimated Solvency II position as at 15 May 2017

\*\* Represents recommended final 2016 dividend, not yet approved or paid

# SFCR requirements

## The SFCR summary

- First annual disclosure under Solvency II
- Narrative disclosure describing our Business and its Performance, System of Governance, Risk Profile, and SII Balance Sheet
- Concise summary which should be readable by policyholders
- As this is the first SFCR there will be no comparisons with previous periods, this will be included in future reports
- Narrative provides a bridge from the YE16 results disclosed on 8 March 2017 to the regulatory basis included in the main sections of the report

## What is new?

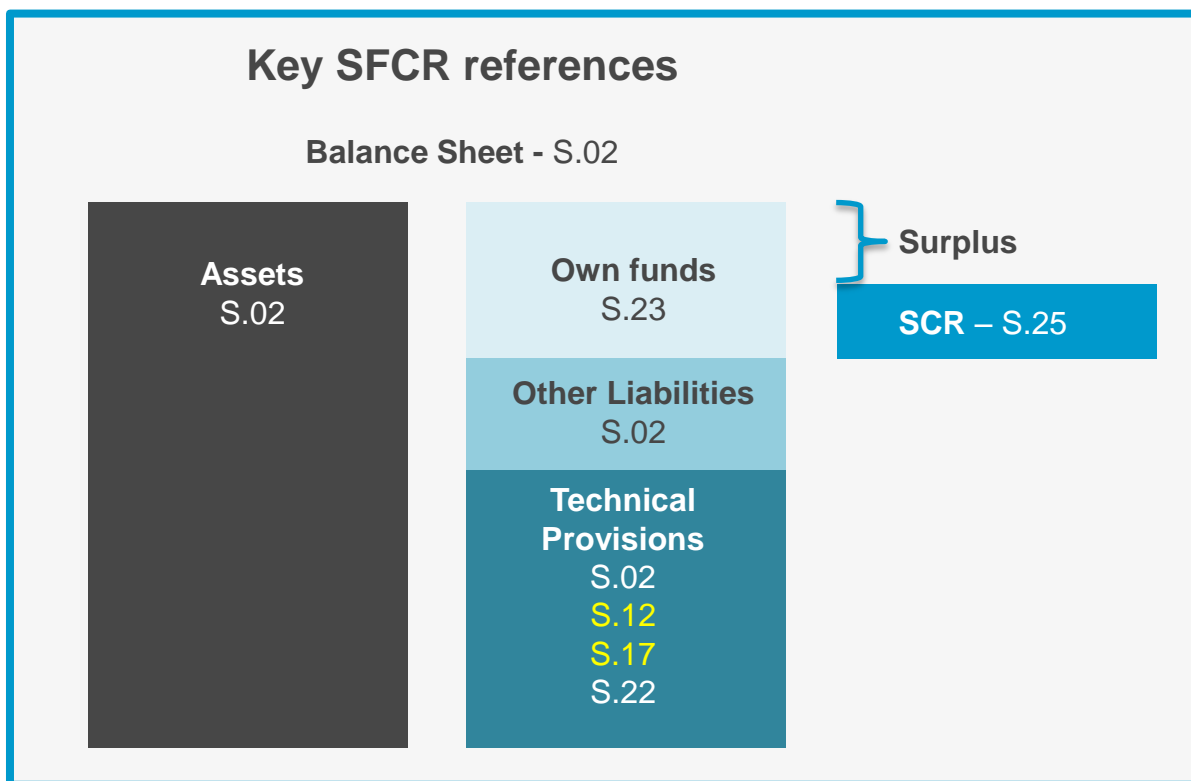
- Regulatory disclosures on:
  - Solvency II Balance sheet
  - SCR by risk category
  - Transitional Measures
  - Impact of Long Term Guarantee Measures
  - Derivation of Own Funds
  - Internal model disclosure
  - Breakdown of the Technical Provisions by line of business

**Draws heavily on existing Report & Accounts**

# Overview of Solvency II Qualitative Reporting Templates (QRTs)

Solvency & Financial Condition Reports for the following Solvency II firms have been published on 19 May 2017:

- Legal & General Group
- Legal and General Assurance Society (LGAS)
- Legal and General Assurance (Pensions Management) (PMC)
- Legal & General Insurance (LGI)



- **Technical Provisions** =  
Best Estimate  
Liabilities + Risk  
Margin – TMTP
- **Coverage Ratio** =  
Own Funds / SCR

**SCR:** Solvency Capital Requirement

**TMTP:** Transitional Measures on Technical Provisions

Note: Solo only QRTs highlighted in yellow

## Solvency II annual reporting: capital position

31 December 2016 (£m)	Regulatory basis	SFCR reference
SII value of total assets	405,800	S.02.01.02
SII value of total liabilities	394,304	S.02.01.02
<b>SII excess of assets over liabilities</b>	<b>11,495</b>	S.02.01.02
Subordinated debt	2,716	S.02.01.02
SII restriction on Own Funds for non-insurance participations	(142)	E.1.3
<b>SII Own Funds</b>	<b>14,069</b>	S.23.01.22
Group Solvency Capital Requirement	(8,635)	S25.02.22
<b>Group Solvency II surplus</b>	<b>5,434</b>	
<b>Regulatory Capital coverage ratio</b>	<b>163%</b>	

- Breakdown of SFCR regulatory position as at 31 December 2016, with surplus of £5.4bn and 163% coverage ratio
- Reconciliation to shareholder basis shown on the next slide

# High quality Solvency II capital

Solvency II 31 December 2016 (£m)	Shareholder basis	Add back Pension Scheme and WPSF	Change in TMTP (incl. 1 year amortisation)	Other adjustments	Regulatory basis	SFCR reference
Core Tier 1	11,038	726	(284)	15	11,495	E.1.3
Other Tier 1	608	-	-	-	608	E.1.3
Tier 2	2,108	-	-	-	2,108	E.1.3
Deductions	(142)	-	-	-	(142)	E.1.3
<b>Own Funds</b>	<b>13,612</b>	<b>726</b>	<b>(284)</b>	<b>15</b>	<b>14,069</b>	S.23.01.22
Capital Requirement	7,947	726	0	(38)	8,635	S.25.02.22
<b>Surplus</b>	<b>5,665</b>	<b>0</b>	<b>(284)</b>	<b>53</b>	<b>5,434</b>	
<b>Coverage ratio (%)</b>	<b>171</b>	<b>(6)</b>	<b>(3)</b>	<b>1</b>	<b>163</b>	

- Shareholder basis as at 31 December 2016, £11.0bn out of £13.6bn of Own Funds is core Tier 1, 81% and 139% of Solvency Capital Requirement covered by core Tier 1 capital
- The 'dynamic' TMTP included in Shareholder basis included a further 6 months amortisation reducing the coverage ratio by c.2%
- Additionally, the 'dynamic' TMTP included changes in market conditions, management actions and assumption changes in the second half of the year after the June recalculation. In total this increased the benefit of the TMTP by £0.5bn and the coverage ratio by c.5%

# IFRS to Solvency II reconciliation

	Total £m	Differences explained by			
		Consolidation approach £m Section D.Note 1	Held for sale under IFRS £m Section D.Note 2	Conversion to D&A method £m Section D.Note 3	Solvency II valuation differences £m Section D.Note 4
<b>IFRS equity</b>	<b>7,283</b>				
Difference in assets	(62,054)	(54,836)	41	(4,595)	(2,664)
Difference in Technical Provisions	10,722	-	(1,709)	3,404	9,027
Difference in other liabilities	55,544	54,489	1,715	688	(1,348)
<b>Total difference in assets and liabilities</b>	<b>4,212</b>	<b>(347)</b>	<b>47</b>	<b>(503)</b>	<b>5,015</b>

<b>Solvency II excess of assets over liabilities</b>	<b>11,495</b>
Subordinated debt	2,716
<b>Basic Own Funds</b>	<b>14,211</b>
Solvency II restrictions	(142)
<b>Eligible Own Funds</b>	<b>14,069</b>

Four main categories of difference in assets and liabilities between IFRS and Solvency II:

- **Consolidation approach** - includes deconsolidation of assets and liabilities of certain subsidiary entities and inclusion as holdings in related undertakings including participations
- **Held for sale** - unwinding of IFRS held for sale treatment of LGN and Cofunds
- **D&A** - deconsolidation of LGA firms and inclusion as participation on D&A basis
- **Solvency II valuation differences** - adjustments required where Solvency II valuation differs from IFRS, e.g. technical provisions

# Capital position for subsidiaries

## Regulatory basis

Solvency II 31 December 2016 (£m)	LGAS	PMC (part of LGIM)	LGI	SFCR reference
Own Funds	11,630	664	253	S.23.01
Solvency Capital Requirement	7,544	270	162	S.25.02
<b>Surplus</b>	<b>4,086</b>	<b>394</b>	<b>91</b>	
<b>Coverage ratio (%)</b>	<b>154%</b>	<b>246%</b>	<b>156%</b>	

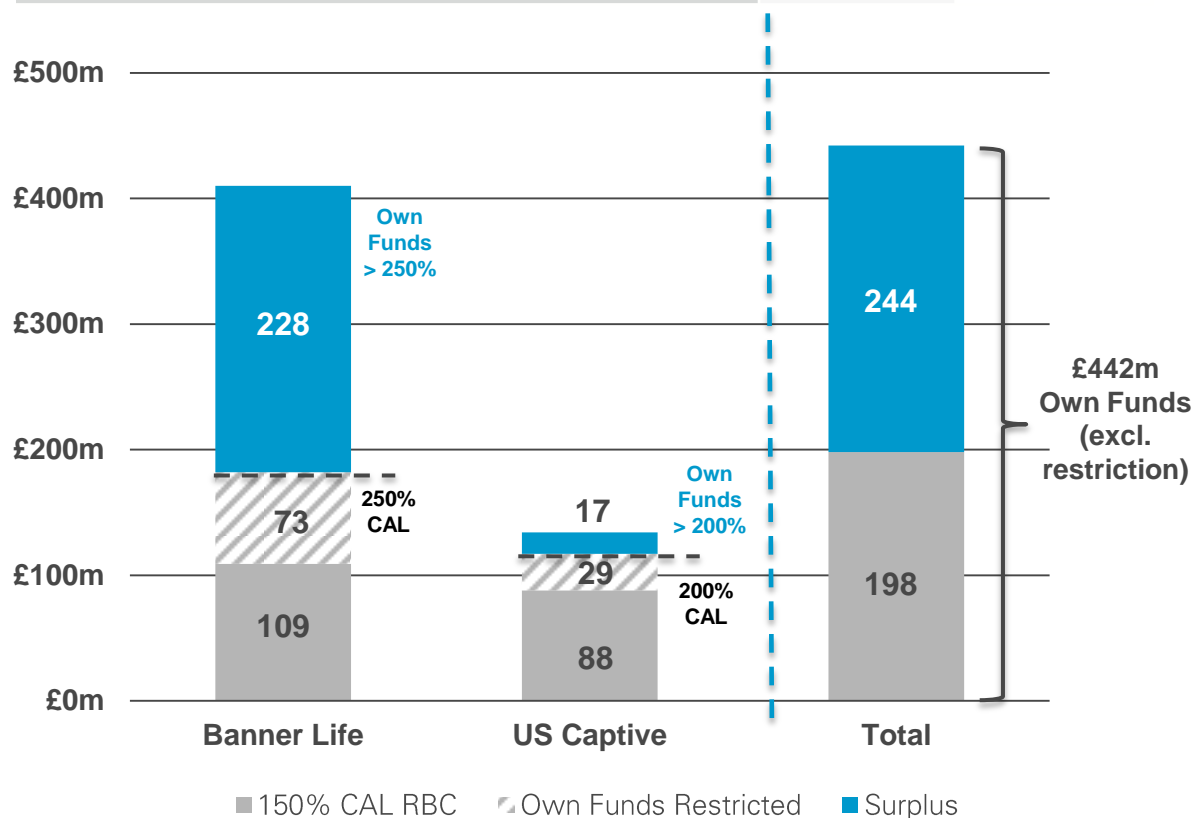
- LGAS coverage on a shareholder basis is 162%
- PMC and GI unchanged as no With-profits or Pension Scheme liabilities

**Subsidiaries show strong standalone capital positions**



# Deduction & Aggregation: US jurisdictions contribution to Solvency II

US Jurisdiction D&A position	£m	SFCR reference
D&A Own Funds (excl. restriction)	442	S.23.01.22
D&A SCR	198	S.25.02.22
<b>Surplus</b>	<b>244</b>	



- US has several levels of capital requirements based on the US Risk Based Capital (RBC) Model
- Authorised Control Level (ACL) is similar to the MCR and reflects a minimum level of capital. Company Action Level RBC (CAL) is equal to 200% of ACL
- We have agreed with the PRA that under Solvency II we will hold 150% CAL
- We assume that Own Funds (OFs) between 150% and 250% of CAL are restricted; surplus in excess of this is assessed as fungible and transferable to Group
- Banner's reinsurance captive's OF is restricted at 200% CAL. OF in excess of this is assessed as fungible and transferable to Banner and hence to Group (based on specific limitations in place with the state insurance commissioners)

## Impact of Transitional Measures for Technical Provisions (TMTP)

Solvency II 31 December 2016 (£m)	Regulatory View	Impact of removing TMTP	Without TMTP	SFCR reference
Technical Provisions	382,753	6,687	389,440	S22.01.22
Eligible Own Funds	14,069	(5,651)	8,418	S22.01.22
Solvency Capital Requirement	8,635	930	9,565	S22.01.22
<b>Surplus</b>	<b>5,434</b>	<b>(6,581)</b>	<b>(1,147)</b>	
<b>Coverage ratio (%)</b>	<b>163%</b>	<b>(75)%</b>	<b>88%</b>	D.2.1.4

- The TMTP has been calculated in line with PRA approvals
- The impact of TMTP on technical provisions **broadly equivalent** to the impact of the risk margin
- In line with PRA statements the TMTP is treated as **Tier 1 Capital** and is fundamental to ensuring a smooth transition to the new solvency regime requirements
- SCR increase results from loss of deferred tax relief following the 1 in 200 stress
- The equivalent Solvency II coverage ratio on 15 May excluding TMTP is **103%**

## Impact of matching adjustment

Solvency II 31 December 2016 (£m)	Regulatory View	Impact of removing Matching Adjustment	Without MA	SFCR reference
Technical Provisions	382,753	8,343	391,096	S22.01.22
Eligible Own Funds	14,069	(7,067)	7,002	S22.01.22
Solvency Capital Requirement	8,635	9,560	18,195	S22.01.22
<b>Surplus</b>	<b>5,434</b>	<b>(16,627)</b>	<b>(11,193)</b>	
<b>Coverage ratio (%)</b>	<b>163%</b>	<b>(125)%</b>	<b>38%</b>	D.2.1.6

- Losing MA approval is a remote risk for the business
- Article 296(2d) of the Solvency II Delegated Regulation requires the disclosure of the impact of a change to zero of the MA. We have an extensive controls framework to ensure our ongoing MA compliance and we have a regular dialogue with the PRA about our MA strategy
- This assumes no recalculation of TMTP

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## Forward looking statements

This document may contain certain forward-looking statements relating to Legal & General Group, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc. does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

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