

**Legal & General Reinsurance Company Limited**  
**Report and Accounts 2022**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the Shareholder and Board of Directors of Legal & General Reinsurance Company Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Legal & General Reinsurance Company Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2022, the statements of profit and total comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRS').

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing ('ISA's'). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
27 April 2023

**Statement of Profit and Total Comprehensive Income**

For the year ended 31 December

	Notes	2022 £m	2021 £m
<b>Revenue</b>			
Gross written premiums	1E	<b>1,252</b>	1,046
Outward reinsurance premiums	1P	<b>(1)</b>	(1)
<b>Net premium earned</b>		<b>1,251</b>	1,045
Investment (loss) / return	1L/1M/3	<b>(5,112)</b>	204
Other income	1O	<b>12</b>	18
<b>Total revenue</b>		<b>(3,849)</b>	1,267
<b>Expenses</b>			
Claims and change in non-participating insurance contract liabilities	1E/4	<b>(4,193)</b>	692
Claims and change in non-participating investment contract liabilities	1F/4	<b>(131)</b>	4
Acquisition costs	1E	<b>7</b>	5
Other expenses	1N	<b>10</b>	13
<b>Total expenses</b>		<b>(4,307)</b>	714
<b>Profit for the year attributable to equity holder of the Company before tax</b>		<b>458</b>	553
Income tax expense attributable to equity holder	1D	<b>(2)</b>	(2)
<b>Profit and total comprehensive income for the year attributable to equity holder of the Company</b>		<b>456</b>	551


**Statement of Financial Position**

As at 31 December


	Notes	2022 £m	2021 £m
<b>Assets</b>			
Investment in subsidiary	17/18	–	1
Funds withheld	1G/7/9	16,045	20,723
Financial investments	1H/8/9/18(x)	1,178	1,388
Derivative assets	1J/8/9/10	91	58
Other assets	18(v)	26	31
Cash and cash equivalents	1I	25	28
<b>Total assets</b>		<b>17,365</b>	<b>22,229</b>
<b>Equity</b>			
Share capital	11	300	300
Contributed surplus		220	220
Retained earnings		1,867	1,735
<b>Total shareholder's equity</b>		<b>2,387</b>	<b>2,255</b>
<b>Liabilities</b>			
Non-participating insurance contract liabilities	1E/12/14	14,632	19,514
Non-participating investment contract liabilities	1F/13	225	353
Income tax liabilities	1D/15	1	2
Derivative liabilities	1J/10/15	84	54
Payables and other financial liabilities	1K/15/18(vi)	36	51
<b>Total liabilities</b>		<b>14,978</b>	<b>19,974</b>
<b>Total equity and liabilities</b>		<b>17,365</b>	<b>22,229</b>

The Notes on pages 9 to 36 are an integral part of these financial statements.

The financial statements on pages 5 to 8 were approved by the Board of Directors on 27 April 2023 and were signed on their behalf by:

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**T Stedman**  
 Chairperson

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**C Moxley**  
 Director

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**A Ellison**  
 Director

**Statement of Changes in Equity**

		<b>Share capital £m</b>	<b>Contributed surplus £m</b>	<b>Retained earnings £m</b>	<b>Total equity £m</b>
<b>For the year ended 31 December 2022</b>					
	Notes				
<b>As at 1 January</b>		<b>300</b>	<b>220</b>	<b>1,735</b>	<b>2,255</b>
Profit and total comprehensive income for the year		–	–	<b>456</b>	<b>456</b>
Dividends	6	–	–	<b>(324)</b>	<b>(324)</b>
<b>As at 31 December 2022</b>		<b>300</b>	<b>220</b>	<b>1,867</b>	<b>2,387</b>
<b>For the year ended 31 December 2021</b>					
As at 1 January		300	220	1,303	1,823
Profit and total comprehensive income for the year		–	–	551	551
Dividends	6	–	–	(119)	(119)
As at 31 December 2021		300	220	1,735	2,255

**Statement of Cash Flows**

For the year ended 31 December

	Notes	2022 £m	2021 £m
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b>		<b>456</b>	551
<b>Adjustments for non-cash movements in profit for the year</b>			
Net gains on financial investments		<b>106</b>	6
Investment income		<b>(1)</b>	1
Tax expense		<b>2</b>	2
Other adjustments		<b>(1)</b>	(2)
<b>Net (increase) / decrease in operating assets</b>			
Funds withheld <sup>1</sup>		<b>4,678</b>	(452)
Financial investments held for trading or designated as fair value through profit or loss		<b>(6)</b>	153
Other assets		<b>5</b>	4
<b>Net increase / (decrease) in operating liabilities</b>			
Non-participating Insurance contract liabilities		<b>(4,882)</b>	(175)
Non-participating Investment contract liabilities		<b>(128)</b>	198
Payables and other financial liabilities		<b>14</b>	(16)
<b>Cash generated from operating activities</b>		<b>243</b>	270
Interest received		<b>–</b>	3
Dividends received		<b>8</b>	8
<b>Net cash flows from operating activities</b>		<b>251</b>	<b>281</b>
<b>Cash flows from investing activities</b>			
Investments in subsidiaries		<b>1</b>	–
Purchases of financial investments		<b>(912)</b>	(655)
Proceeds from sales and maturities of financial investments		<b>966</b>	476
Income tax paid		<b>(2)</b>	(2)
Interest received		<b>1</b>	1
Dividends received		<b>16</b>	10
<b>Net cash flows from / (used in) investing activities</b>		<b>70</b>	<b>(170)</b>
<b>Cash flows from financing activities</b>			
Dividend distributions to ordinary equity holder of the Company during the year	6	<b>(324)</b>	(119)
<b>Net cash flows used in financing activities</b>		<b>(324)</b>	<b>(119)</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(3)</b>	<b>(8)</b>
Cash and cash equivalents at 1 January		<b>28</b>	<b>36</b>
<b>Cash and cash equivalents at 31 December</b>	<b>11</b>	<b>25</b>	<b>28</b>

<sup>1</sup> Includes non-cash movements of £4,384m decrease (2021: £752m increase).



## 1. Accounting Policies

### A Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB'). The Company's financial statements also comply with International Financial Reporting Interpretations Committee ('IFRIC') interpretations as issued by the IASB. The financial statements have been prepared under the historical cost convention, with the exception of certain financial assets (including funds withheld, financial investments and derivative assets) and derivatives liabilities, which are reported at fair value through profit or loss ('FVTPL').

These financial statements contain information about Legal & General Reinsurance Company Limited as an individual company and do not contain consolidated financial information. The Company is included in the consolidated Group accounts of Legal & General Group Plc ('Group'), a United Kingdom ('UK') domiciled publicly traded company.

The Company presents its Statement of Financial Position in order of increasing liquidity. This is considered to be more relevant than a before and after 12 months presentation, given the long term nature of the Company's core business. However, for each significant asset and liability line item, which combines amounts expected to be recovered or settled before and after 12 months from the Statement of Financial Position date, disclosure of the split is made by way of a note.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement of Profit and Total Comprehensive Income unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the Company, except for the investment management fees which are deducted from investment return.

### (i) Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in the Company's financial statements. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Company's results. Principal risks and uncertainties are detailed in Note 20.

The Directors have made an assessment of the Company's going concern, considering both the Company's current performance and the Company's outlook for a period of at least, but not limited to, 12 months from the date of approval of these financial statements.

The Company manages and monitors its capital and liquidity, and various stresses are applied to those positions to understand potential impacts from market downturns. The key sensitivities and the impacts on the Company's capital position from a range of stresses are disclosed in Note 20. These stresses, including high inflationary scenarios, do not give rise to any material uncertainties over the ability of the Company to continue as a going concern. Based upon the available information, the Directors consider that the Company has the plans and resources to manage its business risks successfully.

Having reassessed the principal risks and uncertainties (both financial and operational) in light of the current economic environment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements and therefore have considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

### (ii) New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has applied the following standards and amendments for the first time in its annual reporting year commencing 1 January 2022, which did not give rise to a material impact on the Company's financial statements.

#### Annual Improvements to IFRS Standards 2018-2020

These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial instruments', IAS 41 'Agriculture' and the Illustrative Examples accompanying IFRS 16 'Leases'.

#### Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets

These amendments, issued in May 2020, specify which costs a company includes when assessing whether a contract will be loss-making.

#### Amendments to IFRS 3 – Business Combinations

These amendments, issued in May 2020, update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. This amendment had no material impact to the Company.

### (iii) Standards, amendments and interpretations to published standards which are not yet effective

The Company will apply IFRS 17, 'Insurance Contracts' and IFRS 9, 'Financial Instruments' for the first time on 1 January 2023. These standards will bring significant changes to the accounting for insurance and reinsurance contracts and financial instruments and are expected to have an impact on the Company's financial statements in the period of initial application.

### (a) Introduction

#### IFRS 17, 'Insurance Contracts'

IFRS 17, 'Insurance Contracts' was originally issued in May 2017 by the IASB, and subsequent amendments were issued in June 2020. The standard is effective for annual periods beginning on or after 1 January 2023. The standard, which replaces IFRS 4, will be applied retrospectively, subject to the transitional options provided for in the standard and provides a comprehensive approach for accounting for insurance contracts including their measurement, income statement presentation and disclosure.

**Notes to the Financial Statements**  
For the year ended 31 December 2022

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**1. Accounting Policies (Continued)**

The key general principles of IFRS 17 are that an entity:

- identifies insurance contracts as those under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct non-insurance goods or services from insurance contracts and accounts for them in accordance with other accounting standards;
- aggregates the insurance contracts into groups it will recognise and measure (by portfolio, year of inception and profitability);
- recognises and measures groups of insurance contracts at:
  - a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all available information about the fulfilment cash flows; and
  - an amount representing the unearned profit in the group of contracts (the contractual service margin or CSM);
- recognises profit from a group of insurance contracts over the period the Company provides insurance coverage. If a group of contracts is expected to be onerous (i.e. loss making) over the remaining coverage period, a loss is recognised immediately; and
- presents insurance service results (including insurance revenue) separately from insurance finance income or expenses with an accounting policy choice to disaggregate insurance income and expense for the period between profit and other comprehensive income.

**IFRS 9, 'Financial Instruments'**

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which was effective for annual periods beginning on or after 1 January 2018. The standard replaced IAS 39, 'Financial Instruments: Recognition and Measurement'. It includes new principles around classification and measurement of financial instruments, introduces an impairment model based on expected credit losses (replacing the current model based on incurred losses) and new requirements on hedge accounting. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allowed entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17, 'Insurance Contracts' or 1 January 2021, whichever is the earlier. In June 2020, the IASB agreed to extend the temporary exemption in IFRS 4 from applying IFRS 9 to annual reporting periods beginning on or after 1 January 2023.

IFRS 9 classifies financial assets into the following three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets is based on the entity's business model for managing them, as well as their contractual cash flow characteristics. With the exception of financial assets measured under FVTPL, an expected credit loss impairment model applies to all financial assets in scope (including lease receivables and contract assets). The new impairment model requires utilising not only past events and current conditions but also reasonable and supportable forward-looking information, in order to assess the credit risk profiles of those financial assets in scope.

Most requirements around financial liabilities in IAS 39 have been retained by IFRS 9, and hedge accounting requirements have been revised by replacing some of the prescriptive rules in IAS 39 with more principle-based requirements, to be better aligned with the risk management activities of an entity and reflected accordingly in the financial statements.

**(b) Estimated impacts of the adoption of IFRS 17 and IFRS 9**

The Company has assessed the estimated impact that the initial application of IFRS 9 and 17 will have on its financial statements at the transition date of 1 January 2022. The total adjustment to the Company's shareholder's equity is estimated to be a reduction of £958m. The estimated impacts on the key line items in the Company's balance sheet are set out below.

	31 December 2021 (as reported)	Adjustments due to adoption of IFRS 17	Adjustments due to adoption of IFRS 9	1 January 2022 (restated)
	£m	£m	£m	£m
<b>Total shareholder's equity</b>	<b>2,255</b>	<b>(958)</b>	<b>-</b>	<b>1,297</b>

While the adoption of these accounting standards will have an impact on the timing and profile of profit recognition, the underlying economics and cash generation of the Company's business do not change.

The financial impacts noted above will be reflected in the Company's accounts for the year ending 31 December 2023. The financial impacts relating to the year ending 31 December 2022 have not yet been finalised and cannot be reasonably estimated for the purpose of inclusion in these financial statements.

**(i) Adjustments due to the adoption of IFRS 17**

The different timing of profit recognition will result in an increase in liabilities, and therefore decrease in shareholder's equity on adoption of IFRS 17. This reflects that a portion of profits previously recognised and accumulated in equity under IFRS 4 will be included in the measurement of the liabilities under IFRS 17.

**(c) Significant accounting policies – IFRS 17, 'Insurance Contracts'**

**Long term insurance contracts – initial measurement**

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS 17 are classified as investment contracts and are measured under IFRS 9. The scope of IFRS 17 is very closely aligned to IFRS 4.

## 1. Accounting Policies (Continued)

All of the Company's in scope insurance contracts are accounted for under the general measurement model which measures a group of insurance contracts as the total of:

- fulfilment cash flows
- a CSM representing the unearned profit the Company will recognise as it provides service under the insurance contracts in the Company

### *Fulfilment cash flows*

Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk. The Company's objective in estimating future cash flows is to determine the expected value, or the probability weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. The Company estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.

When estimating future cash flows, the Company includes all cash flows that are within the contract boundary. The contract boundary for the Company's contracts is very closely aligned with that applied under IFRS 4. The cash flows include:

- premiums and related cash flows
- claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims
- investment management costs incurred in the provision of an investment return service or to enhance the benefits of an insurance contract
- payments to policyholders resulting from embedded surrender value options
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs
- claims handling costs
- policy administration and maintenance costs, including recurring commissions that are expected to be paid to intermediaries
- an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts
- transaction-based taxes

The Company incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. The Company estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- information about claims already reported by policyholders
- other information about the known or estimated characteristics of the insurance contracts
- historical data about the Company's own experience, supplemented when necessary with data from other sources. Historical data is adjusted to reflect current conditions
- current pricing information, when available

The measurement of fulfilment cash flows includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract.

### *Risk adjustment*

The risk adjustment for non-financial risk for a group of contracts reflects the compensation that the Company would require for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk after diversification. We have calibrated the Company's risk adjustment using a Value at Risk ('VAR') methodology. The total Company risk adjustment at transition was £591m.

### *Discounting*

The insurance contract fulfilment cash flows are discounted at rates that reflect the characteristics of the insurance contract liabilities. Under IFRS4, these have been determined using the top down approach, starting from an appropriate asset portfolio with deductions to remove risks in the assets that are not present in the insurance liabilities. As is the case under IFRS 4, the discount rate is a key determinant of the measurement of the insurance liability, particularly for annuity business. These total an adjustment of 33bps. Under IFRS17 the discount rate is set using a different approach to IFRS4 with a liquidity premium added to the risk free rate which reflects the characteristics of the assets in the portfolio.

### *Contractual service margin*

The Company's CSM is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the Company will recognise as it provides services in the future. The Company measures the CSM on initial recognition at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- initial recognition of the fulfilment cash flows
- any cash flows arising from the contracts in the group at that date
- the derecognition at the date of initial recognition of:
  - any asset for insurance acquisition cash flows; and
  - any other asset or liability previously recognised related to the group of contracts.

### *Aggregation*

The level of aggregation determines the unit of account at which IFRS 17 calculations are performed. This is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of subsequently becoming onerous, and the remainder. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

### *Onerous contracts*

For groups of contracts assessed as onerous, the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the CSM of the group being zero. A loss component is established by the Company for the liability for remaining coverage for an onerous group depicting the losses recognised.

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**1. Accounting Policies (Continued)**

**Long term insurance contracts – subsequent measurement**

The Company measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of: (i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and the CSM of the group at that date; and (ii) the liability for incurred claims for the group reflecting the fulfilment cash flows related to past service allocated to the group at that date.

*Contractual service margin - measurement*

The CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts the carrying amount of the CSM of that group at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted, as follows:

- the effect of any new contracts added to the group
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition
- the changes in fulfilment cash flows relating to future service, except to the extent that:
  - such increases in the fulfilment cash flows exceed the current carrying amount of the CSM, giving rise to a loss; or
  - such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage
- the amount recognised as insurance revenue because of the transfer of services in the period, determined by allocation of the contractual service margin at the end of the period over the current and remaining coverage period.
- the effect of any currency exchange differences on the CSM

The changes in fulfilment cash flows relating to future service that adjust the CSM comprise of:

- experience adjustments that arise from the difference between the premium receipts (net of refunds) and any related cash flows such as insurance acquisition cash flows and insurance premium taxes and the estimate, at the beginning of the period, of the amounts expected. Differences related to premiums received (or due) related to current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted against the CSM
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, except those relating to the time value of money and changes in financial risk (recognised in the Statement of Profit and Total Comprehensive Income rather than adjusting the CSM)
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period
- changes in the risk adjustment for non-financial risk that relate to future service

Adjustments to the CSM noted above are measured at discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition (i.e. the weighted average of the rates applicable at the date of initial recognition of contracts that joined a group over a 12-month period).

*Onerous contracts*

Groups of contracts that were not onerous at initial recognition can also subsequently become onerous if assumptions and experience changes. The Company establishes a loss component for any onerous group depicting the future losses recognised. The loss component is released based on a systematic allocation of the subsequent changes in the fulfilment cash flows to: (i) the loss component; and (ii) the liability for remaining coverage excluding the loss component. The loss component is also updated for subsequent changes in estimates of the fulfilment cash flows related to future service. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss component will have been materialised in the form of incurred claims). The loss component ensures that over the duration of the contract, the correct amounts are recognised as insurance revenue and insurance service expenses.

*Contractual service margin – recognition*

The amount of contractual service margin recognised in the income statement for a group of insurance contracts reflects the insurance contract services provided. The proportion of the CSM earned is calculated from the amount of coverage units provided in the period divided by the sum of all the future and current period coverage units. The Company has elected to discount the future coverage units in this calculation. The table below indicates the main insurance contracts services provided under the Company's insurance contracts and selected 'coverage unit(s)' used to measure those services.

Insurance contract	Insurance service	Coverage unit(s)
Immediate annuity	Payment of insurance claims	Expected annual claims payments
Deferred annuity	Payment of insurance claims (payment phase)	Expected annual claims payments
	Investment return service (deferral phase)	Expected investment return on backing assets
	Lump sum death benefits (deferral phase)	Sum assured
Longevity swaps	Payment of floating leg of swap	Expected annual floating leg payments
Retail Protection	Potential mortality or morbidity claims	Sum assured

## 1. Accounting Policies (Continued)

Where a specific unit of account contains a mixture of services, and therefore coverage units, it is necessary to weight the coverage units so that the resulting profile of CSM release reflects the overall package of benefits provided. This is particularly pertinent to units of account incorporating a combination of immediate and deferred annuities. Under IFRS 17, deferred annuities usually provide multiple services, split between the two phases of benefit provision (the deferral phase and the payment phase). Significant judgement is therefore required to combine the different coverage units so that they fairly reflect the services provided. The weighting between the deferral phase and the payment phase coverage units is calculated so that the services provided in the deferral phase reflect the investment return provided and the probability weighted delivery of any lump sum death benefits, both adjusted to target that all of the CSM is earned in the deferral phase for all contracts which do not enter the payment phase either through transfer out, withdrawal of funds or death.

Earning the CSM over the coverage period will slow down profit recognition for annuities in comparison to IFRS 4 which allowed the recognition of profit on inception and more closely linked revenue recognition to risk release rather than the provision of service.

### *Investment components*

Investment components will not be included in insurance revenue and insurance service expenses under IFRS 17. As a result, revenue from some annuity and universal life contracts will be reduced in comparison with the premium recognised under IFRS 4. The Company will identify the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance.

### *Insurance finance income and expense*

IFRS 17 requires an accounting policy decision as to whether to recognise all finance income or expense in profit or loss, or whether to disaggregate the income or expense that relates to changes in financial assumptions into other comprehensive income. The Company has elected to include all finance income and expense in profit or loss.

## **Transition**

On transition to IFRS 17, the Company has applied the full retrospective approach unless impracticable. The full retrospective approach requires the Company to:

- identify, recognise and measure each group of insurance and reinsurance contracts as if IFRS 17 had always applied.
- derecognise any existing balances that would not exist had IFRS 17 always applied.
- recognise any resulting net difference in equity.

If it was impracticable to apply a full retrospective approach to a group of contracts then the Company has chosen between the modified retrospective approach and the fair value approach. However, if the Company could not obtain reasonable and supportable information necessary to apply the modified retrospective approach, then the fair value approach has been chosen.

The Company has applied the following transition approaches to the material portfolios on transition to IFRS 17 depending on the year of issue:

<b>Transition Approach</b>	<b>Annuities</b>	<b>US Protection</b>
Full retrospective	From 1 July 2021	2021
Fair Value	Pre-1 July 2021	

### **Full retrospective approach**

The full retrospective approach has been determined to be impracticable where the effects of retrospective application are not determinable because information required has not been collected (or not with sufficient granularity), application would require the application of hindsight, or information is unavailable because of system migrations, data retention requirements or other reasons. Specific examples include:

- historic calibration of IFRS 17 specific judgements, such as the scale of the risk adjustment,
- expectations about a contract's profitability and risks of becoming onerous required for identifying groups of contracts,
- information about historical cashflows and discount rates required for determining the estimates of cash flows on initial recognition and subsequent changes on a retrospective basis,
- information required to allocate fixed and variable overheads to groups of contracts, because the Company's current accounting policies do not require such information; and
- information about certain changes in assumptions and estimates because they were not documented on an ongoing basis.

### **Fair value approach**

The Company has applied the fair value approach on transition for certain groups of contracts as, prior to transition, it grouped contracts from multiple cohorts and years into a single unit for accounting purposes. Obtaining reasonable and supportable information to apply the full retrospective approach was impracticable without undue cost or effort. The Company has determined the CSM of the liability for remaining coverage at the transition date, as the difference between the fair value of the group of insurance contracts and the fulfilment cash flows measured at that date. In determining fair value, the Company has applied the requirements of IFRS 13 Fair Value Measurement, except for the demand deposit floor requirement. The fair value attributed to the in-scope annuity business is calculated with reference to a price generated using the Company's pricing models and pricing assumptions at the transition date. This incorporates an expected internal rate of return that has been validated against relevant market transactions.

The Company has aggregated contracts issued more than one year apart in determining groups of insurance contracts under the fair value approach at transition. The Company did not have reasonable and supportable information to aggregate groups into those including only contracts issued within one year.

For portfolios of protection contracts, the Company has elected to disaggregate insurance finance income or expenses between amounts included in profit or loss, and amounts included in other comprehensive income. For these portfolios, we have reset the cumulative amount of insurance finance income or expense recognised in other comprehensive income at the transition date to zero in line with the provisions of the standard.

## 1. Accounting Policies (Continued)

### (d) Significant accounting policies – IFRS 9, 'Financial Instruments'

#### Financial assets – classification and measurement

The classification and measurement of financial assets depends on their contractual cash flow characteristics and how they are managed (the entity's business model). The contractual cash flow characteristics test aims to identify those assets with cash flows consistent with a basic lending arrangement, i.e. which are 'solely payments of principal and interest' ('SPPI'). The business model test refers to how an entity manages its financial assets with the objectives of generating cash flows. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. In particular:

- amortised cost: financial assets with contractual terms that give rise solely to interest and principal cash flows and which are held in a business model whose objective is to hold the assets to collect their cash flows;
- fair value through other comprehensive income ('FVOCI'): financial assets with contractual terms that give rise solely to interest and principal cash flows and which are held in a business model whose objective is achieved by holding the assets to collect their cash flows and selling them;
- fair value through profit or loss ('FVTPL'): all other financial assets.

Notwithstanding the above, on initial recognition the Company may irrevocably designate to FVTPL a financial asset that would otherwise be measured at amortised cost or FVOCI if doing so eliminates or greatly reduces an accounting mismatch. Additionally, on initial recognition of an equity investment not held for trading the Company may irrevocably elect to present its subsequent changes in fair value in OCI.

Based on the new requirements, IFRS 9 will affect the classification and measurement of financial assets as follows:

- financial assets continuing to be measured at FVTPL including:
  - equity investments, measured at FVTPL under IAS 39, will continue to be measured at FVTPL under IFRS 9;
  - derivative assets are held-for-trading instruments under both IAS 39 and IFRS 9, and will therefore continue to be measured at FVTPL, unless designated as hedging items as part of a hedge accounting relationship;
  - debt instruments backing Annuities, including surplus assets, are currently accounted for at FVTPL as they are managed on a fair value basis. These will retain the same measurement under IFRS 9 as their business model does not naturally fit a 'held to collect' or 'held to collect and sell' business model, irrespective of their contractual cash flows characteristics;
  - other debt securities backing investment contract liabilities and surplus shareholder assets will continue to be accounted for at FVTPL as they are managed on a fair value basis, consistent with their IAS 39 measurement;
  - financial assets currently classified as funds withheld (Note 7) will be derecognized on the date of transition as they will now form part of the insurance contract liabilities as per IFRS 17.
- financial assets remeasured to amortised cost or FVOCI:
  - currently, it is not expected that any assets will be remeasured at amortised cost or FVOCI under IFRS 9. However, this decision remains under review and will be finalised in 2023.
  - pass the SPPI test and will be measured at amortised cost or FVOCI, depending on their business model.
- receivable balances are accounted for at amortised cost under both IAS 39 and IFRS 9.

#### Financial liabilities

IFRS 9 largely retains the requirements of IAS 39 for the classification and measurement of financial liabilities, which can be at either amortised cost or FVTPL. In contrast with IAS 39, under IFRS 9 the amount of fair value changes for financial liabilities at FVTPL attributable to changes in the credit risk of the liability is presented in OCI. However, if this treatment creates, or enlarges, an accounting mismatch in profit or loss, the Company must present all gains or losses for that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

The new requirements for financial liabilities did not affect the Company's classification and measurement of its instruments.

#### Transition

On transition, changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

For the Company, IFRS 9 has a date of initial application of 1 January 2023, which coincides with the implementation with IFRS 17. Despite this, on initial application, while IFRS 17 requires the presentation of at least one restated comparative period, IFRS 9 permits, but does not require, restatement of comparative periods. In line with IFRS 17 the Company has chosen to restate comparative periods under IFRS 9. The standard does not apply to financial assets already derecognised by 1 January 2023, however the Company has applied a 'classification overlay' introduced by the IASB per an amendment to IFRS 17 titled 'Initial Application of IFRS 9 and IFRS 17 – Comparative Information'. This allows an entity applying IFRS 17 and IFRS 9 at the same time to present comparative information as if the classification and measurement and impairment requirements of IFRS 9 had been applied to them, irrespective of derecognition date.

#### ***Amendments to IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2 – Making Materiality Judgements: Disclosure of Accounting Policies***

These amendments, issued in February 2021, intend to help preparers in deciding which accounting policies to disclose in their financial statements, by applying materiality judgements. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Company is currently revisiting its accounting policy disclosures to ensure compliance and consistency with the new requirements.

#### ***Amendments to IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors***

These amendments, issued in February 2021, aim to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The impact to the Company is not significant.

#### ***Amendments to IAS 12 – Income Tax***

These amendments, issued in May 2021, clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The impact to the Company is not significant.

## 1. Accounting Policies (Continued)

### ***Amendments to IAS 1 – Presentation of Financial Statements: ‘Classification of Liabilities as Current or Non-current’***

These amendments, issued in January 2020, clarify the existing requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

## **B Critical accounting policies and use of estimates**

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Financial Position and the Statement of Profit and Total Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, material adjustments could be made to carrying amounts of assets and liabilities within the next financial year. The Audit Committee reviews the reasonableness of judgements associated with and the application of significant accounting policies.

The preparation of the financial statements has also considered the impact of climate change and, as at 31 December 2022, management does not consider this to be a significant area of accounting judgement or source of estimation uncertainty. Specific considerations around climate change have been presented in this Annual Report and Accounts in the following sections:

- Financial investments (Note 8)
- IFRS sensitivity analysis (Note 20)

The major areas of critical accounting judgement on policy application are considered below:

### **Non-participating insurance and investment contract liabilities (Notes 1E, 1F, 12, 13) and associated balances**

This relates to the assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance or investment contract. Contracts which transfer significant insurance risk to the Company are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the Company but not significant insurance risk are classified as investment contracts.

Judgement is required in order to assess the significance of the transfer of insurance risk within a contract. This assessment is based on whether the occurrence of an insured event could cause the Company to make significant additional payments, i.e. does the occurrence of the event cause significantly higher cash outflow for the Company than its non-occurrence.

Insurance contracts are accounted for under IFRS 4, while investment contracts are accounted for as financial instruments under IAS 39.

The determination of long-term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The assumptions for the rate of future longevity and mortality are based on the Company's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs. The main estimates and assumptions used in calculating insurance liabilities are disclosed in more detail in Note 14.

Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic internal data. The valuation interest rate is also sensitive to the selection of assets chosen to back the liabilities.

Determination of the target long-term asset portfolio at certain period ends, depending on the quantum and timing of pension risk transfer ('PRT') volumes; this assumption is used to present the retirement new business metrics.

The Company has selected accounting policies which state fairly its financial position and financial performance for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

### **The determination of fair values of unquoted and illiquid financial investments (Notes 1G, 1H, 7, 8)**

Determination of fair value of unquoted and illiquid assets, involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets. For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

## **C Summary of significant accounting policies**

The Company has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting year. The accounting policies have been consistently applied to all years presented unless otherwise stated. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

Financial assets and financial liabilities are disclosed gross in the Statement of Financial Position unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement of Profit and Total Comprehensive Income unless required or permitted by any accounting standard, as detailed in the applicable accounting policies of the Company. Investment management fees are deducted from investment return.

The principal accounting policies adopted in preparing these financial statements are set out below.

## 1. Accounting Policies (Continued)

### D Tax balances

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

The Company is subject to tax in the UK on the profits that arise by reference to central management and control being undertaken by the Board of Directors in the UK. The Company is also subject to tax on the income it receives from its investments in UK property funds.

The Organisation for Economic Co-operation and Development ('OECD') released a framework in December 2021 to address concerns at a global level about tax contributions of large multinational corporations, with subsequent guidance issued in 2022 and early 2023. This reflects agreement from over 135 jurisdictions to introduce a global minimum tax rate of 15%. The UK has published draft legislation to implement the OECD framework and apply a top-up tax to profits that are otherwise taxed at less than 15%. As at 31 December 2022 this legislation has not yet been substantively enacted.

### E Non-participating insurance contract liabilities

Non-participating insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using the requirements under former UK Generally Accepted Accounting Principles ('GAAP'), as permitted by IFRS 4, 'Insurance contracts'.

The liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits.

Gross written premiums represent the total premiums written by the Company before deductions for reinsurance. Premiums are recognised as revenue when due for payment. Claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. These costs are charged to the Statement of Profit and Total Comprehensive Income when incurred.

### F Non-participating investment contract liabilities

Non-participating investment contract liabilities are measured at fair value. Fair value is based on a discounted cash flow analysis which incorporates an appropriate allowance for credit default risk.

Premiums received relating to investment contracts are not recognised as income, but are included in the Statement of Financial Position under non-participating investment contract liabilities. Claims are not included in the Statement of Profit and Total Comprehensive Income but are deducted from non-participating investment contract liabilities. The movement in non-participating investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the Statement of Financial Position and the investment return credited to policyholders.

### G Funds withheld

Funds withheld include assets contractually withheld by ceding companies in accordance with each respective reinsurance agreement. The value of the assets withheld and interest income are recorded in accordance with each specific treaty terms.

The funds withheld back the Company's non-participating policyholder liabilities and on initial recognition are designated at FVTPL. The funds withheld are measured at a value equal to the fair value of the underlying assets held by the withholding companies, with fair value gains and losses reflected in the Statement of Profit and Total Comprehensive Income. The funds withheld are measured on the basis of current information relating to the assets withheld and are designated as FVTPL to avoid an accounting mismatch in the Statement of Profit and Total Comprehensive Income.

### H Financial investments

The Company classifies its financial investments on initial recognition as held for trading ('HFT'), designated at FVTPL or receivables. Initial recognition of financial investments is on the trade date. The Company's policy is to measure financial investments at FVTPL. All derivatives are classified as HFT.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Statement of Profit and Total Comprehensive Income. Transaction costs are expensed as incurred.

Certain financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Company's Investment Committee and the Company's investment strategy. Assets designated as FVTPL include debt securities and equity. Assets backing non-participating policyholder liabilities are designated as FVTPL. The Company's non-participating insurance contract liabilities investments are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the Statement of Profit and Total Comprehensive Income.

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models.

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Française des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.



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**1. Accounting Policies (Continued)**

Receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

Financial investments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the Company transfers substantially all the risks and rewards of ownership to another entity.

**I Cash and cash equivalents**

Cash and cash equivalents include deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less from the date of acquisition.

**J Derivative financial instruments**

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses a variety of exchange traded and over-the-counter derivative financial instruments, including, futures, options, forward currency contracts and swaps, such as interest rate swaps and cross currency basis swaps measured at fair value to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the Statement of Profit and Total Comprehensive Income.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

**K Payables and other financial liabilities**

Payables and other financial liabilities comprise collateral received from banks and other liabilities.

Other financial liabilities balances, including broker, management fees and other payables, are measured at amortised cost. The carrying value of these liabilities approximates their fair value.

**L Foreign currency transactions**

Foreign currency transactions are translated into the functional currency (Pounds '£') using the exchange rate prevailing at the date of the transactions. The functional currency of the Company's foreign operations is the currency of the primary economic environment in which the entity operates. The monetary assets and liabilities of all of the Company's foreign operations are translated into Pounds, the Company's presentation currency, at the closing rate at the date of the Statement of Financial Position. The income and expenses for each Statement of Profit and Total Comprehensive Income line are translated at average or spot exchange rates, when feasible. Non-monetary assets and liabilities are translated at historical rates.

Foreign exchange gains and losses are recognised in the Statement of Profit and Total Comprehensive Income.

**M Investment return**

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at FVTPL and realised gains and losses from all financial assets and liabilities.

Investment income includes dividends and interest. Dividends are accrued on an ex-dividend basis. Interest is included on an accrual basis. Interest income for financial assets which is not classified as FVTPL is recognised using the effective interest method. Investment income is presented net of investment management fees.

**N Other expenses**

Other expenses comprise administrative expenses, management fees, corporate expenses and other charges. Other costs are accounted for as they arise. The Company does not have direct employees since they are employed by Legal & General Resources Bermuda Limited ('LGRB').

**O Other income**

Other income includes experience refund and is recognised on an accruals basis and accounted for in the period as it arises.

**P Outward reinsurance**

Outward reinsurance premiums are accounted for as paid in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

**2. Company information**

The Company is a long-term Class E reinsurer under Bermuda's Insurance Act of 1978. The principal activity of the Company is the provision of life reinsurance solutions internally within the Group.

The Company has long-term PRT business from the UK (for an affiliated company) and in Ireland and the Netherlands. During 2021 the Canadian PRT business was transferred to Legal & General Reinsurance Company No.2 Limited ('L&G Re No. 2'). Refer to Note 7 for details of the transaction.

The Company provides protection reinsurance to affiliates in the United States of America ('USA').

The Company was capitalised in 2014 with £220m. Legal & General Re Holdings Limited ('Re Holdings') is the direct parent and Legal & General Group Plc is the ultimate parent. In 2019, the Company issued an additional £300m of share capital.

The Company is incorporated and domiciled in Bermuda and its registered office and principal place of business is 19 Par-la-Ville Road, Hamilton, HM 11, Bermuda.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Pounds ('£'), which is the Company's functional currency.

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### 3. Investment return

Total investment return for the year was:

	2022 £m	2021 £m
Gross (loss) / gain (including interest and dividend income) on the funds withheld (See Note 7)	(4,924)	236
Net (loss) / gain on financial investments designated as FVTPL	(109)	11
Net (loss) / gain on derivative contracts	(29)	(6)
Investment management expenses	(42)	(43)
Net (loss) / gain from foreign exchange revaluation	(8)	6
<b>Total investment (loss) / profit</b>	<b>(5,112)</b>	<b>204</b>

### 4. Claims and change in non-participating liabilities

	2022 £m	2021 £m
<b>From non-participating insurance contract continuing operations</b>		
Claims paid	710	845
Change in non-participating insurance contract liabilities	(4,903)	(153)
<b>Total claims and change in non-participating insurance contract liabilities</b>	<b>(4,193)</b>	<b>692</b>

	2022 £m	2021 £m
<b>From non-participating investment contract continuing operations</b>		
Premiums received	(23)	(219)
Claims paid	20	24
Commissions paid	-	1
Change in non-participating investment contract liabilities	(128)	198
<b>Total claims and change in non-participating investment contract liabilities</b>	<b>(131)</b>	<b>4</b>

### 5. Foreign exchange and exchange rates

Investment return for the year includes a foreign exchange loss of £8m (2021: £6m gain) arising on conversion of foreign currency monetary assets and liabilities to functional currency. This includes gains arising from foreign currency financial investments amounting to £2m (2021: £2m gain).

Principal rates of exchange used for translation are:

	2022 Average	2022 Year-End	2021 Average	2021 Year-End
United States Dollar	1.237	1.208	1.376	1.353
Canadian Dollar	1.608	1.640	1.724	1.711
Euro	1.173	1.130	1.163	1.189

### 6. Dividend

During the 2022 financial year the Company paid four dividends totaling £324m (2021: £119m) to its parent company Re Holdings. The total dividend per share was 0.83p (2021: 0.31p).

### 7. Funds withheld

The Company's funds withheld ('FWH') includes the balance associated with its reinsurance of Legal & General Assurance Society Limited's ('LGAS') non-participating insurance contracts and investment contracts.

As part of the reinsurance agreement, LGAS contractually withholds assets of at least 101% (2021: 101%) of their IFRS reserves and these assets are managed according to an agreed investment policy set by the Company. The Company reflects these assets as funds withheld on the Company's Statement of Financial Position. In the event that LGAS was to become insolvent, the Company would need to assert a claim on the assets supporting its reserve liabilities. The Company attempts to mitigate its risk of loss by offsetting amounts for claims or allowances that it owes LGAS with amounts that LGAS owes to the Company. The Company is subject to the investment performance of the withheld assets, although it does not directly own them. The Company sets and monitors compliance with the investment guidelines followed by LGAS. The Company's risk of loss could increase if the investment guidelines are inappropriate or LGAS does not adhere to such guidelines. This could have a material adverse impact on the Company's financial condition and operations result. To mitigate this risk, the Company helps set the investment guidelines followed by LGAS and monitors compliance thereto. The funds withheld balance with LGAS as of 31 December 2022 amounts to £16,045m (2021: £20,723m).

On 24 August 2021, the Company entered into a Business Transfer Agreement with Legal & General Reinsurance Company No.2 Limited ('L&G Re No.2'). The Company transferred its rights and obligations related to its Canadian PRT business to L&G Re No.2. The agreement included the transfer of the Canadian Funds Withheld ('CFWH') from the Company to L&G Re No.2.

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**7. Funds withheld (Continued)**

Income accrued and return on the funds withheld assets, according to the terms defined in the reinsurance treaty, was a loss of £4,294m (2021: gain of £236m) for the year ended 31 December 2022. The ratings of the assets underlying the funds withheld are shown in Note 20 Table 2.

Funds withheld are expected to be received in line with the expected settlement of the backed liabilities as per Note 12(iii).

**8. Financial investments, including derivative assets**

**(i) Financial investments at fair value**

	Notes	2022 £m	2021 £m
<b>Financial investments at fair value designated as:</b>			
Fair value through profit or loss		<b>1,178</b>	1,388
Held for trading		<b>91</b>	58
<b>Total financial investments, including derivative assets</b>	<b>10</b>	<b>1,269</b>	1,446
Expected to be received within 12 months		<b>96</b>	340
Expected to be received after 12 months		<b>1,173</b>	1,106

The financial investments are comprised of Shareholder Fund and Euro Long-term Fund. The risks associated with financial investments are outlined in Note 20.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities.

Financial investments within the Euro Long-term Fund include £80m (2021: £114m) of debt securities pledged as collateral in the course of writing treaties with the Company's counterparties. The assets used as collateral are AAA, AA, A, BBB and BB Corporate and Government bonds (2021: AA, A, BBB Corporate bonds) having a residual maturity of up to 34 years (2021: 34 years). The Company is entitled to receive all of the cash flows from the assets during the period when they are pledged as collateral. The Company can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the security deed between the cedant and the Company are met.

Level 3 investments are included within equity securities and debt securities. A loss of £91m (2021: £7m profit) has been recognised in the Statement of Profit and Total Comprehensive Income in respect of the movement in fair value of these investments (Note 8(ii)).

**(ii) Fair value hierarchy of financial investments, derivative assets and funds withheld**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement basis are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

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**8. Financial investments, including derivative assets (Continued)**

The following table presents the Company's assets by IFRS 13 hierarchy levels:

As at 31 December 2022	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Equity securities	634	481	–	153
Debt securities	540	133	127	280
Accrued interest	4	1	2	1
Derivative assets	91	1	90	–
<b>Total financial investments, including derivative assets</b>	<b>1,269</b>	<b>616</b>	<b>219</b>	<b>434</b>
<b>Funds withheld financial investments<sup>1</sup></b>	<b>15,541</b>	<b>4,006</b>	<b>4,945</b>	<b>6,590</b>

<sup>1</sup> Funds withheld includes net receivables and payables at amortised cost of £504m not shown above.

As at 31 December 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Equity securities	801	747	–	54
Debt securities	583	146	134	303
Accrued interest	4	1	2	1
Derivative assets	58	4	54	–
<b>Total financial investments, including derivative assets</b>	<b>1,446</b>	<b>898</b>	<b>190</b>	<b>358</b>
<b>Funds withheld financial investments</b>	<b>20,723</b>	<b>8,017</b>	<b>5,125</b>	<b>7,581</b>

The Company's financial assets are valued, where possible, using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. In normal market conditions, the Company would consider these market prices to be observable and therefore classify them as level 1. Where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as level 2. Refer to level 3 assets section below for methodology.

**(iii) Significant transfers between level 1 and level 2:**

The Company's policy is to re-assess categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time. The following table presents the transfers that occurred in the Company during the year:

	Total 2022 £m	Total 2021 £m
Transfer into level 1 from level 2	7	12
Transfer into level 2 from level 1	8	42

**(a) Level 3 assets at fair value**

	Equity securities 2022 £m	Debt securities <sup>1</sup> 2022 £m	Funds withheld 2022 £m	Total 2022 £m	Equity securities 2021 £m	Debt securities <sup>1</sup> 2021 £m	Funds withheld 2021 £m	Total 2021 £m
<b>As at 1 January</b>	<b>54</b>	<b>304</b>	<b>7,581</b>	<b>7,939</b>	<b>47</b>	<b>318</b>	<b>6,521</b>	<b>6,886</b>
Total gains or losses for the period:	–	(96)	(1,911)	(2,007)	–	(14)	171	157
- realised and unrealised gains/(losses) in profit and loss	5	–	–	5	9	–	–	9
Purchases / additions	95	73	2,377	2,545	–	–	1,325	1,325
Sales / disposals	(1)	–	(1,470)	(1,471)	(2)	–	(411)	(413)
Transfers into level 3	–	–	15	15	–	–	2	2
Transfers out of level 3	–	–	(2)	(2)	–	–	(27)	(27)
<b>As at 31 December</b>	<b>153</b>	<b>281</b>	<b>6,590</b>	<b>7,024</b>	<b>54</b>	<b>304</b>	<b>7,581</b>	<b>7,939</b>

<sup>1</sup> Debt securities includes accrued interest.

## 8. Financial investments, including derivative assets (Continued)

The Company holds regular discussion with pricing providers to determine whether transfers or classifications between levels of the fair value hierarchy have occurred.

### Level 3 assets (including funds withheld)

Level 3 assets, where modelling techniques are used, comprise property, unquoted securities, untraded debt securities and securities where unquoted prices are provided by a single broker. Unquoted securities include suspended securities, investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans, income strips and lifetime and retirement interest only mortgages.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Company has classified within level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Company's credit standing, and liquidity and risk margins on unobservable inputs.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

### Asset valuation approach at 31 December 2022

The Company's asset portfolio can be exposed to climate change through both:

- Transition risks from the move to a low-carbon economy and the impact this has on asset valuation and the economy; and
- Physical risks from the impact on asset holdings as a result of severe weather events and longer-term shifts in climate.

Exposure to the physical risks of climate change are minimised in the direct investment portfolios through rigorous assessment of potential investments, particularly in ensuring there is low susceptibility to extreme weather events. The Company's ultimate controlling party is preparing a group Climate Report for the year ended 31 December 2022; therefore the Company has elected not to report its energy and carbon information.

### Equity securities

Level 3 equity securities amount to £153m (2021: £54m), of which the majority is made up of holdings of investment property vehicles and private investment funds. They are valued at the proportion of the Company's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are also included that are valued by a number of third party specialists using a range of techniques which depend on the maturity of the underlying investment but can also depend of the characteristics of individual investments. Primarily discounted cash flow models are utilised but for some early stage investments alternate valuation techniques are used such as earnings multiples and transaction values underpinned by analysis of milestone achievement and cash runway.

### Other financial investments

Lifetime mortgage ('LTM') loans amount to £1,522m (2021: £2,315m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM loan pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 250bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. The mortgages include a no negative equity guarantee (NNEG) to borrowers. This ensures that if there is a shortfall between the sale proceeds of the property and the outstanding loan balance on redemption of the loan, the value of the loan will be reduced by this amount. The NNEG on loan redemption is valued as a series of put options, which we calculate using a variant of the Black-Scholes formula. Key assumptions in the valuation of lifetime mortgages include short-term and long-term property growth rate assumptions equivalent to a flat rate of 2.6% annually, after allowing for the effects of dilapidation. The values of the properties collateralising the LTM loans are updated from the date of the last property valuation to the valuation date by indexing using UK regional house price indices.

Private credit loans (including commercial real estate loans) amount to £2,749m (2021: £3,150m). Their valuation is determined by discounted future cash flows which are based on the yield curve of the LGIM approved comparable bonds and the initial spread, both of which are agreed by IHS Markit who also provided independent valuation of comparable bonds. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments, which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 8.0 years, with a weighted average life of 10.6 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to BB.

### Investment property

Level 3 investment property amounting to £1,845m (2021: £1,009m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also includes an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. It is expected that the Company's property valuation as at 31 December 2022 would reflect similar equivalent yield ranges to Group between 2% and 20% and ERV between £1 and £357 per square foot.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The Company's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

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**8. Financial investments, including derivative assets (Continued)**

**(b) Effect of changes in significant unobservable inputs (level 3) to reasonable possible alternative assumptions**

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Where material, the Company assesses the sensitivity of fair values of level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. The table below shows the impacts of applying these sensitivities on the fair value of level 3 assets as at 31 December 2022:

	Fair value 2022 £m	Fair value 2021 £m	Most significant unobservable input	2022 Positive Impact £m	2022 Negative Impact £m	2021 Positive Impact £m	2021 Negative Impact £m
Lifetime mortgages	1,522	2,315	Illiquidity premium	52	(81)	79	(123)
Private credit loans	2,749	3,150	Credit spreads	144	(145)	172	(172)
Investment property	1,845	1,009	Equivalent rental yields	146	(128)	80	(70)
Other investments <sup>1</sup>	908	1,465	Various	29	(28)	79	(80)
<b>Total level 3 investments</b>	<b>7,024</b>	<b>7,939</b>		<b>371</b>	<b>(382)</b>	<b>410</b>	<b>(445)</b>

<sup>1</sup> Other investments includes debt security issued by Legal & General Finance Plc (See Note 18(x)). The valuation of the debt security is based on a discounted cashflow model with cashflows constructed according to the terms of the loan, i.e. coupon rate, coupon frequency and an assumption maturing at the first call date. The discount rate of the model is based on the comparable bond yield plus any adjustments on the differences between the comparable bond and the deal.

The sensitivities are not a function of stressing a single variable relating to the valuation of the asset, but rather a function of flexing multiple factors often at individual asset level.

**9. IFRS 9 'Financial Instruments' deferral**

(i) Fair value of financial assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (i.e. passing the SPPI test):

	Financial assets passing the SPPI test <sup>1,2</sup> 2022 £m	All other financial assets <sup>3,4</sup> 2022 £m	Financial assets passing the SPPI test <sup>1,2,5</sup> 2021 £m	All other financial assets <sup>3,4</sup> 2021 £m
Equity securities	–	634	–	801
Debt securities	–	540	–	583
Accrued interest	–	4	–	4
Derivative assets	–	91	–	58
Funds withheld financial investments	–	15,541	–	20,723
<b>Total financial investments at fair value</b>	<b>–</b>	<b>16,810</b>	<b>–</b>	<b>22,169</b>
Insurance and intermediaries receivables	7	–	–	–
Other receivables	19	–	31	–
<b>Total financial assets (excluding cash and cash equivalents)</b>	<b>26</b>	<b>16,810</b>	<b>31</b>	<b>22,169</b>

<sup>1</sup> Financial assets classified as fair value or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'All other financial assets'.

<sup>2</sup> For financial assets which pass the SPPI test there was a change in the fair value in the year of £Nil (2021: £Nil).

<sup>3</sup> For all other financial assets held, there was a net unrealised loss of £5,096m (2021: net unrealised gain £275m).

<sup>4</sup> The funds withheld includes net receivables and payables of £504m not shown above (2021: £Nil).

<sup>5</sup> Reclassified. 2021 included £22m of net payables to a related party in other receivables. This has been reclassified to payables and other financial liabilities.

(ii) Credit risk information of financial assets passing the SPPI test:

	AAA 2022 £m	AA 2022 £m	A 2022 £m	BBB 2022 £m	BB or below 2022 £m	Other <sup>1</sup> 2022 £m	Total 2022 £m
Insurance and intermediaries receivables	–	–	–	–	–	7	7
Other receivables	1	–	6	–	–	12	19
<b>Total financial assets (excluding cash and cash equivalents)</b>	<b>1</b>	<b>–</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>19</b>	<b>26</b>

<sup>1</sup> Financial assets classified as 'Other' are made up of unrated and short term receivables for which a formal credit rating is not assigned. All receivables within this category are deemed to have low credit risk.

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**9. IFRS 9 'Financial Instruments' deferral (Continued)**

	AAA 2021 £m	AA 2021 £m	A 2021 £m	BBB 2021 £m	BB or below 2021 £m	Other <sup>1,2</sup> 2021 £m	Total 2021 £m
Other receivables	–	–	7	–	–	24	31
Total financial assets (excluding cash and cash equivalents)	–	–	7	–	–	24	31

<sup>1</sup> Financial assets classified as 'Other' are made up of unrated and short term receivables for which a formal credit rating is not assigned. All receivables within this category are deemed to have low credit risk.

<sup>2</sup> Reclassified. 2021 included £22m of net payables to a related party in other receivables. This has been reclassified to payables and other financial liabilities.

**10. Derivative assets and liabilities**

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile:

	Maturity profile of undiscounted cash flows						
As at 31 December 2022	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
<b>Cash inflows</b>							
Derivative assets	91	87	108	98	33	9	335
Derivative liabilities	(84)	184	29	11	1	–	225
<b>Total</b>	<b>7</b>	<b>271</b>	<b>137</b>	<b>109</b>	<b>34</b>	<b>9</b>	<b>560</b>
<b>Cash outflows</b>							
Derivative assets	91	(65)	(92)	(81)	(32)	(9)	(279)
Derivative liabilities	(84)	(140)	(43)	(21)	(2)	–	(206)
<b>Total</b>	<b>7</b>	<b>(205)</b>	<b>(135)</b>	<b>(102)</b>	<b>(34)</b>	<b>(9)</b>	<b>(485)</b>
<b>Net derivative cash flows</b>		<b>66</b>	<b>2</b>	<b>7</b>	<b>–</b>	<b>–</b>	<b>75</b>

	Maturity profile of undiscounted cash flows						
As at 31 December 2021	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
<b>Cash inflows</b>							
Derivative assets	58	181	26	54	24	10	295
Derivative liabilities	(54)	96	73	87	48	12	316
<b>Total</b>	<b>4</b>	<b>277</b>	<b>99</b>	<b>141</b>	<b>72</b>	<b>22</b>	<b>611</b>
<b>Cash outflows</b>							
Derivative assets	58	(78)	(13)	(34)	(15)	(4)	(144)
Derivative liabilities	(54)	(124)	(87)	(107)	(57)	(15)	(390)
<b>Total</b>	<b>4</b>	<b>(202)</b>	<b>(100)</b>	<b>(141)</b>	<b>(72)</b>	<b>(19)</b>	<b>(534)</b>
<b>Net derivative cash flows</b>		<b>75</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>3</b>	<b>77</b>

The Company uses derivatives to reduce market risk. The most widely used derivatives are over the counter and exchange-traded swaps. The Company may use futures to facilitate efficient asset allocation. In addition, derivatives are used to improve asset-liability matching and to manage interest rate, inflation rate and foreign exchange risk. It is the Company's policy that all derivative transactions are on a covered basis against underlying holdings of assets. Derivative counterparty risk is managed by the posting of collateral on a daily basis.

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**11. Share capital**

	2022 Number of shares	2022 £	2021 Number of shares	2021 £
<b>Authorised share capital:</b>				
Ordinary shares of US\$1 each	500,000,000	386,953,870	500,000,000	386,953,870
<b>Issued share capital:</b>				
Fully paid ordinary shares of US\$1 each	388,295,388	300,495,192	388,295,388	300,495,192

In 2014, 250,000 authorised and issued ordinary shares of US\$1.00 were subscribed to by Legal & General Re Holdings Limited. In October 2019, the Company increased its authorised shares to 500,000,000, of which a further 388,045,388 were subscribed to by the same company at US\$1.00 each. There is one class of ordinary shares. All shares issued carry equal voting rights.

The holder of the Company's ordinary shares is entitled to receive dividends as declared and is entitled to one vote per share at shareholder meetings of the Company.

**12. Non-participating insurance contract liabilities**

**(i) Analysis of non-participating insurance contract liabilities**

	Note	Gross 2022 £m	Reinsurance 2022 £m	Gross 2021 £m	Reinsurance 2021 £m
Non-participating insurance contracts liabilities	12(iii)	14,632	–	19,514	–
<b>Total non-participating insurance contract liabilities</b>		<b>14,632</b>	<b>–</b>	<b>19,514</b>	<b>–</b>

**(ii) Expected non-participating insurance contract liability cash flows**

As at 31 December 2022	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
Non-participating insurance contracts liabilities	5,601	9,847	6,515	4,507	26,470	14,632
<b>Non-participating insurance contract liabilities</b>	<b>5,601</b>	<b>9,847</b>	<b>6,515</b>	<b>4,507</b>	<b>26,470</b>	<b>14,632</b>

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 4.97%.

As at 31 December 2021	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
Non-participating insurance contracts liabilities	5,198	9,395	6,468	4,650	25,711	19,514
Non-participating insurance contract liabilities	5,198	9,395	6,468	4,650	25,711	19,514

Insurance contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 1.87%.



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**12. Non-participating insurance contract liabilities (Continued)**

**(iii) Movement in non-participating insurance contract liabilities**

	Note	Gross 2022 £m	Gross 2021 £m
<b>As at 1 January</b>		<b>19,514</b>	19,689
New liabilities in the period		1,417	1,359
Liabilities discharged in the year		(1,146)	(1,103)
Unwinding of discount rates		355	270
Effect of change in non-economic assumptions	14	(102)	(121)
Effect of change in economic assumptions	14	(5,478)	(370)
Other		72	(210)
<b>As at 31 December</b>		<b>14,632</b>	19,514
Expected to be settled within 12 months		1,192	1,052
Expected to be settled after 12 months		13,440	18,462

**13. Non-participating investment contract liabilities**

**(i) Analysis of non-participating investment contract liabilities**

	Note	Gross 2022 £m	Reinsurance 2022 £m	Gross 2021 £m	Reinsurance 2021 £m
Non-participating investment contracts liabilities	13(iii)	225	–	353	–
<b>Total non-participating investment contract liabilities</b>		<b>225</b>	<b>–</b>	<b>353</b>	<b>–</b>

**(ii) Expected non-participating investment contract liability cash flows**

	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
<b>As at 31 December 2022</b>						
Non-participating investment contracts liabilities	29	94	103	154	380	225
<b>Non-participating investment contract liabilities</b>	<b>29</b>	<b>94</b>	<b>103</b>	<b>154</b>	<b>380</b>	<b>225</b>

Investment contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 4.89%.

	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying Value £m
<b>As at 31 December 2021</b>						
Non-participating investment contracts liabilities	32	115	134	193	474	353
Non-participating investment contract liabilities	32	115	134	193	474	353

Investment contract undiscounted cash flows are based on the expected date of settlement. The weighted average discount rate applied for the carrying value is 1.69%.

**(iii) Movement in non-participating investment contract liabilities**

	Note	Gross 2022 £m	Gross 2021 £m
<b>As at 1 January</b>		<b>353</b>	155
New liabilities in the year		9	196
Liabilities discharged in the year		(5)	–
Effect of change in economic assumptions	14	(138)	4
Investment return and related benefits		6	–
Other		–	(2)
<b>As at 31 December</b>		<b>225</b>	353
Expected to be settled within 12 months		4	5
Expected to be settled after 12 months		221	348

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#### 14. Long term insurance valuation assumptions

##### Non-participating business

The Company writes only non-participating business and it seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that previously used to determine the assumptions used for UK based Solvency I. The assumptions incorporate prudent margins in excess of our best estimate assumptions to minimise the possibility of actual experience being less favourable than assumed.

##### Valuation rates of interest and discount rates

The valuation interest rate ('VIR') for the underlying annuity business is based on the internal rate of return on the portfolio of assets backing the liabilities. The current dividend yield is used for equity investments and the rental income yield is used for property holdings.

For the VIR assumption, asset yields are adjusted to reflect the risk of default associated with the investments held. The Company applies a prudent c36bps (2021: c33bps) per annum reduction to asset yield to allow for the risk of default for all business, overall this leads to a total default provision of c£530m (2021: c£856m).

The Company believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

##### Annuitant Mortality

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation ('CMI') of the Institute and Faculty of Actuaries. These tables are based on industry wide mortality experience for insured lives. Mortality improvement rates are based on the CMI's mortality projections model and reflect expected improvements in longevity in the future.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the Company's experience differs from that of the industry and suggest appropriate adjustments which need to be made to derive the valuation assumptions. Prudent margins of between 6% and 10% are applied to the base mortality assumption for valuation purposes.

##### Expenses

The Company monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also includes an appropriate allowance for prudence.

The principal assumptions are:

2022	UK	Netherlands	Ireland	USA
<b>(i) Rate of interest / discount rate</b>				
Annuities in deferment	4.98% pa	3.97% pa	3.97% pa	Not applicable
Annuities in deferment (RPI linked; net rate after allowance for inflation)	-1.19% pa	Not applicable	Not applicable	Not applicable
Vested annuities	4.98% pa	3.97% pa	3.97% pa	Not applicable
Vested annuities (RPI linked; net rate after allowance for inflation)	-1.19% pa	Not applicable	Not applicable	Not applicable
Term assurance	Not applicable	Not applicable	Not applicable	Yield curve on USD Treasury bonds plus 1%
<b>(ii) Mortality tables</b>				
Annuities in deferment <sup>1</sup>	75.7% - 85.6% PCXA00/PNXA00	30.4% - 81.0% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
Vested annuities <sup>1</sup>				
- Bulk purchase annuities	75.7% - 85.6% PCMA00/PCFA00	58.1% - 100.5% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
- Other annuities <sup>2</sup>	66.4% - 106.0% PCMA00/PCFA00	Not applicable	Not applicable	Not applicable
LGA reinsured business <sup>3</sup>	Not applicable	Not applicable	Not applicable	Adjusted VBT2014 Table

<sup>1</sup> For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long Term Rate has been determined using a combination of L&Gs internal Cause of Death model and expert judgment. With the following parameters:

- Males (UK): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Females (UK): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Males (Dutch): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Females (Dutch): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Males (Irish): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.3%.
- Females (Irish): Long Term Rate of 1.25% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.3%.
- Males future mortality improvement term assurance factors of 0.7% to 1.5% p.a. with a constant deduction of 0.3%.
- Females future mortality improvement term assurance factors of 0.5 to 1.0% p.a. with a constant deduction of 0.3%.

<sup>2</sup> For certain annuities, a further allowance is made for the effect of initial selection.

<sup>3</sup> Additional adjustments are applied by policy term, issue age, face amount and duration in-force.

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**14. Long term insurance valuation assumptions (Continued)**

2021	UK	Netherlands	Ireland	USA
(i) Rate of interest / discount rate				
Annuities in deferment	1.88% pa	1.33% pa	1.33% pa	Not applicable
Annuities in deferment (RPI linked; net rate after allowance for inflation)	-1.42% pa	Not applicable	Not applicable	Not applicable
Vested annuities	1.88% pa	1.33% pa	1.33% pa	Not applicable
Vested annuities (RPI linked; net rate after allowance for inflation)	-1.42% pa	Not applicable	Not applicable	Not applicable
Term assurance	Not applicable	Not applicable	Not applicable	Yield curve on USD Treasury bonds plus 1%
(ii) Mortality tables				
Annuities in deferment <sup>1</sup>	76.2% - 86.3% PCXA00/PNXA00	30.4% - 81.0% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
Vested annuities <sup>1</sup>				
- Bulk purchase annuities	76.2% - 86.3% PCMA00/PCFA00	58.1% - 100.5% of M/F Dutch AG2016	73.8% - 113.9% of M/F PNMA00/PNFA00	Not applicable
- Other annuities <sup>2</sup>	66.0% - 109.3% PCMA00/PCFA00	Not applicable	Not applicable	Not applicable
LGA reinsured business <sup>3</sup>	Not applicable	Not applicable	Not applicable	96.4% - 150.0% of VBT2014 Table

<sup>1</sup> For vested and deferred annuities, mortality rates are assumed to reduce according to an adjusted CMI's mortality improvement model. The model reflects population experience and projects current rates of mortality improvements to a user defined Long Term Rate. The Long Term Rate has been determined using a combination of L&Gs internal Cause of Death model and expert judgment. With the following parameters:

- Males (UK): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Females (UK): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Males (Dutch): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Females (Dutch): Long Term Rate of 1.0% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.34%.
- Males (Irish): Long Term Rate of 1.5% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.3%.
- Females (Irish): Long Term Rate of 1.25% p.a. up to age 85 tapering to 0% at 110 with a constant addition of 0.3%.
- Males future mortality improvement term assurance factors of 1.0% p.a. with a constant deduction of 0.3%.
- Females future mortality improvement term assurance factors of 1.0% p.a. with a constant deduction of 0.3%.

<sup>2</sup> For certain annuities, a further allowance is made for the effect of initial selection.

<sup>3</sup> Additional adjustments are applied by policy term, issue age, face amount and duration in-force.

**Persistency assumptions**

Lapse rates assumptions are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For term assurance business, the margin acts to increase the best estimate lapse rate.

A summary of the lapse basis for major classes of non-profit business is shown below:

Term	Lapse rates assumed by term	
	2022 %	2021 %
10	5.39%	5.42%
15	3.03%	3.04%
20	2.26%	2.26%
25	2.47%	2.43%
30	2.05%	2.05%
35	2.66%	2.65%
40	2.53%	2.58%

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**15. Payables and other financial liabilities, including derivative liabilities**

	Notes	2022 £m Total	2021 <sup>1,2</sup> £m Total
Derivative liabilities	10	84	54
Other financial liabilities		3	6
Collateral received from banks		8	6
Other balances due	18	25	39
<b>Payables and other financial liabilities, including derivative liabilities</b>		<b>120</b>	<b>105</b>
Settled within 12 months		43	56
Settled after 12 months		77	49

<sup>1</sup> Reclassified. 2021 included £22m of net payables to a related party in other assets which has been reclassified to payables and other financial liabilities.

<sup>2</sup> Reclassified. 2021 included income tax liabilities within other financial liabilities which has been reclassified as a separate line item on the Statement of Financial Position.

During the year ended 31 December 2021 the Income tax liability formed part of the Other financial liabilities in the above table. During the year ended 31 December 2022 the balance is included in a separate line on the Statement of Financial Positions.

Payables and other financial liabilities settled after 12 months are expected to be settled within five years, with the exception of derivative liabilities, as disclosed in Note 10.

**Fair value hierarchy**

As at 31 December 2022	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	84	4	80	–	–
Other financial liabilities	3	–	–	–	3
Collateral received from banks	8	–	–	–	8
Other balances due <sup>1</sup>	25	–	–	–	25
<b>Payables and other financial liabilities, including derivative liabilities</b>	<b>120</b>	<b>4</b>	<b>80</b>	<b>–</b>	<b>36</b>

<sup>1</sup> See Note 18(vi) Related party transactions.

As at 31 December 2021	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost <sup>1,2</sup> £m
Derivative liabilities	54	1	53	–	–
Other financial liabilities	6	–	–	–	6
Collateral received from banks	6	6	–	–	–
Other balances due <sup>3</sup>	39	–	–	–	39
<b>Payables and other financial liabilities, including derivative liabilities</b>	<b>105</b>	<b>7</b>	<b>53</b>	<b>0</b>	<b>45</b>

<sup>1</sup> Reclassified. 2021 included £22m of net payables to a related party in other assets which has been reclassified to payables and other financial liabilities.

<sup>2</sup> Reclassified. 2021 included income tax liabilities within other financial liabilities which has been reclassified as a separate line item on the Statement of Financial Position.

<sup>3</sup> See Note 18(vi) Related party transactions.

There have been no significant transfers between levels (2021: No significant transfers).

**16. Contingent liabilities, guarantees and indemnities**

**(i) Reserves assumptions**

Provisions for the liabilities arising under contracts with policyholders are based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the regulators.

**(ii) Liquidity facility**

The Company has access to a rolling credit facility ('RCF') from Legal & General Group Plc. In the event of a liquidity need, most likely due to a pandemic, the Company can call upon this facility to meet its obligations (See Note 18 (ix)).

**(iii) Letters of Credit Contracts ('LOC')**

The Company has entered into three credit facility agreements totaling \$0.075m (2021: \$0.075m), \$0.075m (2021: \$0.075m), and €31m (2021: €31m). These credit facilities expire in July 2023, August 2023 and December 2025.

The Company does not have any other contingent liabilities, guarantees or indemnities (2021: £Nil) arising as part of its normal course of business.

## 17. Parent companies and subsidiary undertaking

The immediate parent company of Legal & General Reinsurance Company Limited is Legal & General Re Holdings Limited, a company incorporated in England and Wales. The ultimate holding company for both of those entities is Legal & General Group Plc. These accounts provide information about Legal & General Reinsurance Company Limited as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available on the Legal & General Group Plc website at <https://group.legalandgeneral.com/en/investors/results-reports-and-presentations>.

On 15 January 2015, Legal & General SAC Limited ('L&G SAC') (License No. 49929) was incorporated as a Bermuda exempted company limited by shares and was subsequently licensed on 12 October 2015 as a Class C Insurer under the Insurance Act 1978 and as a Segregated Accounts Company under the Segregated Accounts Companies Act 2000. In February 2015, the Company subscribed to L&G SAC's 250,000 authorised and issued ordinary shares of US\$1.00. There was one class of ordinary shares and all shares issued carried equal voting rights. In October 2015, the Company completed a US\$0.65m (£0.43m) capital injection into L&G SAC as required by local Bermuda requirements. Furthermore, in November 2016, the Company completed a US\$0.12m (£0.10m) capital injection into L&G SAC. L&G SAC wrote no business since inception.

In November 2021, L&G SAC's Class C Insurer Registration was cancelled by the Bermuda Monetary Authority ('BMA') and L&G SAC was deregistered as a Segregated Accounts Company by the Bermuda Registrar of Companies, both at the Company's request. In January 2022, the Company, as sole shareholder of L&G SAC, approved the voluntary liquidation of L&G SAC as it had remained dormant since its incorporation. The final dividend and distribution of cash was paid by L&G SAC to the Company in January 2022.

## 18. Related party transactions

### (i) Reinsurance

The Company is acting as a quota share reinsurer to a related party, LGAS. The Company accepted £1,205m (2021: £1,020m) of reinsurance premium for reinsuring non-participating insurance contract business, paid £7m (2021: £5m) in commission and paid £631m (2021: £641m) in claims during the year. In total, a non-participating insurance liability of £14,459m (2021: £19,293m) is held to cover this business. Under the same contract, the Company accepted £23m (2021: £219m) of reinsurance premium for reinsuring non-participating investment contract business, paid £Nil (2021: £1m) in commission and paid £20m (2021: £24m) in claims during the year. In total, a non-participating investment liability of £225m (2021: £353m) is held to cover this business. The premiums, claims and changes in reserves for the non-participating investment contracts are shown net of premiums, claims and changes in reserve in the Statement of Profit and Total Comprehensive Income.

The Company is acting as reinsurer to the related party, Banner Life Insurance Company, ('Banner'), and during 2022 was also acting as a reinsurer to the related party, First British Bermuda Reinsurance Company III Ltd. ('FBBRC III'), to cover mortality business via excess of loss reinsurance agreements.

In 2022, mortality business previously reinsured from FBBRC III was reinsured via Banner and consequently, all mortality policies are now with Banner.

Regarding FBBRC III, the Company accepted £13m (2021: £23m) of reinsurance premium for reinsuring non-participating insurance contract business and paid £14m (2021: £57m) in claims during the year. A non-participating insurance negative liability of £Nil (2021: £58m) is held to cover this business, excluding the In Course Of Settlement ('ICOS') claims of £Nil (2021: £18m) and the Incurred but not reported ('IBNR') claims of £Nil (2021: £6m), which results in a net liability in respect of FBBRC III of £Nil (2021: £34m). The net liability of £Nil (2021: £34m) is included within non-participating insurance contract liabilities on the Statement of Financial Position. ICOS represents liabilities for claims reported and received but not yet settled and paid as of the valuation date. IBNR are liabilities for claims that are anticipated but have not been reported as of the valuation date. Under the contracts with FBBRC III, the Company has recognised an experience refund in other income of £8m (2021: £9m).

Regarding Banner, the Company accepted £22m (2021: £Nil) of reinsurance premium for reinsuring non-participating insurance contract business and paid £34m (2021: £Nil) in claims during the year. A non-participating negative insurance liability of £77m (2021: £22m) is held to cover this business, excluding the ICOS claims of £51m (2021: £29m) and the IBNR claims of £13m (2021: £6m), which results in a net negative liability for Banner of £13m (2021: £13m). The net negative liability of £13m (2021: £13m) is included within non-participating insurance contract liabilities on the Statement of Financial Position. Under the contracts with Banner, the Company has recognised an experience refund in other income of £4m (2021: £Nil).

The Company accepted £12m (2021: £3m) of reinsurance premium for contracts previously reinsured to First British Vermont Reinsurance Company II for reinsuring non-participating insurance contract business and paid £23m (2021: £Nil) in claims during the year. A non-participating negative insurance liability of £9m (2021: £11m) is held to cover this business, excluding the ICOS claims of £10m (2021: £11m) and IBNR claims of £2m (2021: £3m), which results in a net liability for Banner of £3m (2021: £3m). The net liability of £3m (2021: £3m) is included within non-participating insurance contract liabilities on the Statement of Financial Position. Under the contracts with Banner, the Company has recognised an experience refund in other income of £Nil (2021: £8m).

### (ii) Investments in Group unit trusts and the Group liquidity funds

The Company held £404m (2021: £602m) of investments in unit trusts, controlled and managed by Legal & General Group Plc subsidiary companies that are classified as other related parties. The Company made a gain of £10m (2021: £5m gain) from those unit trusts.

### (iii) Investments in funds withheld

The Company held £16,045m (2021: £20,723m) in funds withheld by a related party, LGAS. Net loss of £4,924m (2021: net gain of £236m) arose in the year on the funds withheld (See Note 3 and 7).

### (iv) Investment in subsidiary

The Company held a £Nil (2021: £528k) investment in its subsidiary L&G SAC (See Note 17).

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**18. Related party transactions (Continued)**

**(v) Other assets**

As at 31 December	2022 £m	2021 £m
- Premium receivable from FBBRC III <sup>1</sup>	7	–
- Premium receivable from Banner	–	11
<b>Total</b>	<b>7</b>	<b>11</b>

<sup>1</sup> Reclassified. 2021 included net payable to FBBRC III of £28m and COVID claim refund receivable from FBBRC III of £6m as other assets. The net payable balance of £22m has been reclassified to payables and other financial liabilities.

**(vi) Payables and other financial liabilities**

As at 31 December	2022 £m	2021 £m
- Premium payable to FBBRC III <sup>1</sup>	–	22
- Premium payable to Banner	2	–
- Resources management charges due <sup>2</sup>	4	2
- Investment management charges due	14	15
<b>Total</b>	<b>20</b>	<b>39</b>

<sup>1</sup> Reclassified. 2021 included net payable to FBBRC III of £28m and COVID claim refund receivable from FBBRC III of £6m as other assets. The net payable balance of £22m has been reclassified to payables and other financial liabilities. There were no COVID claim refunds during 2022 and the amount from 2021 was settled during 2022.

<sup>2</sup> The management charges due relate to expenses owed by the Company to affiliates within the Legal & General Group. These charges have accrued over the year and relate to the operation costs including employee benefits. Legal & General Resources Limited which employs all UK staff, charges all of its costs pertaining to secondees to Legal & General Resources Bermuda Limited ('LGRB') from the UK offices. LGRB employs Bermuda based staff and incurs all costs of operation, which is recharged to the Company.

**(vii) Other expenses**

For the year ended 31 December	2022 £m	2021 £m
Management charges <sup>1</sup>	9	12
<b>Total</b>	<b>9</b>	<b>12</b>

<sup>1</sup> £5m (2021: £8m) of management charges are staff related costs.

**(viii) Dividends**

During the 2022 financial year, the Company paid a dividend of £324m (2021: £119m) to its parent company Legal & General Re Holdings Limited.

**(ix) Finance costs**

On 20 December 2018, the Company received a rolling credit facility from its ultimate parent company, Legal & General Group Plc. The facility is available for use to remedy a liquidity deficit, most likely to arise in the event of a US pandemic (for example, following severe adverse development of COVID) in respect of the non-participating business entered into with related parties, FBBRC III and Banner. The facility was renewed on 19 August 2022 until 31 December 2026. Under the new facility the Company is allowed to apply any amounts borrowed to remedy any liquidity deficit. The facility available is \$130m (2021: \$130m) and a commitment fee of 0.45% (2021: 0.45%) is payable on the undrawn portion of the facility quarterly. The loan balance at the end of the year was £Nil (2021: £Nil). Interest expense from the facility for the year was £472k (2021: £425k).

**(x) Financial assets - debt security**

In 2019, the Company invested in debt issued by Legal & General Finance Plc, an affiliate company. The fair value of the debt security as at 31 December 2022 was £212m (2021: £303m). The investment return of the security was a profit of £7m (2021: profit of £7m) and the unrealised loss was £88m (2021: £14m loss).

**(xi) Novation agreement**

On 24 August 2021, the Company entered into a Business Transfer Agreement with L&G Re No.2, a related party. The Company transferred to L&G Re No.2 its rights and obligations related to its Canadian PRT business. At the inception of the agreement, the Company recorded a novation loss of £128m and disposed of £12m of claims paid offset by a £141m release of non-participating insurance liability. During the year ended 31 December 2022 a true-up premium was received from L&G Re No.2 amounting to £2.2m (2021: £Nil).

**19. Management of capital resources**

**Capital management policies and objectives**

The Company aims to manage its capital resources to maintain financial strength, ensure policyholder security, meet local capital requirements and maintain the Company's strong financial strength rating which provides a competitive advantage.

**Capital measures**

The Company measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Company operates, and those which the Directors consider most appropriate for managing the business. The measures used by the Company include Bermuda Economic Balance Sheet ('EBS') regulatory capital and a bespoke economic capital model used in the Company's annual CISSA (Commercial Insurer's Solvency Self-Assessment) exercise.

## 19. Management of capital resources (Continued)

### Accounting bases

Management uses the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend paying capacity.

### Bermuda statutory requirements

The Company is licensed as a long-term Class E reinsurer under the Bermuda's Insurance Act 1978. Under the Act, the Company is required to maintain a minimum capital and surplus. There are no statutory restrictions on the payment of dividends from retained earnings of the Company as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid in capital. However, approval from the BMA must be obtained before the statutory capital is reduced by more than 25% of the previous year's statutory filing. In all cases, the Approved Actuary needs to provide support for any proposed dividends.

### Capital resources

The financial strength of the Company is measured by reference to its Bermudian statutory accounts which are a requirement of all Class E reinsurers. The Company's total capital resources of £2,343m (2021: £2,255m) comprise an initial capital contribution received in 2014 from the ultimate parent of £220m, a further £300m of issued share capital to the ultimate parent in 2019 and £1,823m (2021: £1,735m) in respect of retained earnings after payment of a £324m dividend in 2022 (2021: £119m).

These resources are in excess of the required minimum capital and solvency requirements.

### Available regulatory capital resource risks

The Company's capital resources are sensitive to changes in market conditions, due to both changes in the value of the assets and to the effect that changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality, longevity and to a lesser extent expenses.

The most significant risks arise from:

- Credit risk: this materialises if the default and downgrade experience of the assets backing the liabilities exceed the reserving assumptions,
- Longevity risk: losses occur if the mortality of annuitants is lower than the assumptions used for reserving, and
- Mortality risk: losses occur if the mortality of reinsured policyholders is higher than the assumptions used for reserving.

## 20. Risk management and control

This section describes the Company's approach to risk management. It covers the overall approach that applies to all risks and includes a detailed review of risks within the Company's business.

### Insurance risk

*Exposure to loss arising from claims experience being different to that anticipated.*

Insurance risk is implicit in the Company's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. Insurance risk is managed with policies for underwriting, pricing and reinsurance. The Company's insurance risk policy sets out the overall framework for the management of insurance risk. Areas where the Company is primarily exposed to insurance risk are longevity, rates of longevity improvement and mortality. Insurance risk also arises from incomplete scheme demographic data, specifically where information concerning spouses is unavailable (spouse risk).

Pricing is based on a fixed set of assumptions, such as mortality, which consider past experience, recent trends, and expert opinion. Actual experience may vary from the pricing assumptions, leading to profits or losses. Insurance exposures are limited through reinsurance for specific cohorts of business. Overall, the Company seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits.

### Operational risk

*Exposure to loss arising from inadequate or failed internal processes, people, systems or external events.*

Potential for exposure to operational risk extends to all aspects of the business. The Company 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.

### Concentration risk

*Exposure to loss arising from a specific geographic location or type of loss event.*

As part of the ongoing risk assessment processes the Company considers the concentration of risk. The Company seeks to manage concentrations by setting limits around the maximum exposure to loss that it can tolerate from a series of related events. Limits set include maximum exposures to single lives, financial instruments and reinsurance balances. Insurance risk may be concentrated in geographic regions, altering the risk profile of the Company. The most significant exposure of this type arises for the Group protection business, where a single event could result in a large number of related claims.

### Market risk

*Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.*

The Company's exposure to market risk is influenced by one or more external factors, including changes to interest rates, inflation, financial instrument prices, foreign exchange rates and indices of prices or rates.

Significant areas where the Company is exposed to these risks are:

- assets backing insurance contracts;
- assets and liabilities denominated in foreign currencies; and
- other financial assets and liabilities.

The Company's market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

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**20. Risk management and control (Continued)**

The Company is ultimately responsible for the management of market risk. The Company has chosen to outsource the execution of the funds withheld investment risk policy, as noted below, to LGAS. The Company manages market risk using the following methods:

Asset liability matching

The Company manages its assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it has on the Company's Statement of Financial Position.

For business such as immediate annuities, which is sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change. This type of analysis helps protect profits from changing interest rates. Interest rate risk cannot be completely eliminated, due to the nature of the liabilities and any early redemption options contained in the assets.

The Company holds a range of asset types to meet liabilities and stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities. This allows the Company to devise an investment strategy which maximises risk-adjusted returns to its shareholder.

Derivatives

The Company uses derivatives to reduce the market risk arising in the funds. The most widely used derivatives are exchange-traded swaps. The Company may use futures to facilitate efficient asset allocation within the long term funds. In addition, derivatives within the long term fund are used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is the Company's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets and that swaps are collateralised as appropriate to reduce counterparty risk.

The most significant risks arise from:

Interest rate risk

Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

The Company is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.

To mitigate the risk that guarantees and commitments are not met, the Company purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance liabilities, the expected risk-adjusted rate of return and the expected impact on the capital requirement.

Asset liability matching significantly reduces the Company's exposure to interest rate risk. Sensitivity to interest rate changes is included in Table 3 of Note 20.

Currency risk

The Company operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. The Company has exposure to currency risk from financial instruments held in currencies other than their functional currency. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts, cross currency basis swaps and futures.

The Company aims to maintain sufficient assets in local currency to meet local currency liabilities however movements may impact the value of the Company's shareholder's equity which is expressed in GBP Sterling. This aspect of foreign exchange risk is monitored and managed, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Company's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

As at 31 December 2022, the Company held net assets of £4,952m in US dollar (2021: £5,056m), net assets of £506m in Euro (2021: £382m) and net liabilities of £6m in Canadian dollar (2021: £Nil). The Company mitigates exchange rate risk through the use of derivatives such as forward currency contracts.

The Company's management of currency risk reduces the shareholder's exposure to exchange rate fluctuations. The Company's exposure to a 10% exchange movement in the US dollar, Canadian dollar and Euro on an IFRS basis, where the values of economic hedging instruments are reflected at their carrying value as opposed to their notional amounts, are:

	A 10% increase in USD:GBP exchange rate		A 10% decrease in USD:GBP exchange rate	
	2022	2021	2022	2021
	£m	£m	£m	£m
<b>Net assets attributable to USD exposures</b>	<b>21</b>	<b>19</b>	<b>(17)</b>	<b>(17)</b>

	A 10% increase in EUR:GBP exchange rate		A 10% decrease in EUR:GBP exchange rate	
	2022	2021	2022	2021
	£m	£m	£m	£m
<b>Net assets attributable to EUR exposures</b>	<b>6</b>	<b>3</b>	<b>(5)</b>	<b>(3)</b>



## 20. Risk management and control (Continued)

### Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. These changes may be as a result of features of the individual instrument, its issuer, or factors affecting all similar financial instruments traded in the market.

The Company controls its exposure to geographical price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments.

Table 1 indicates the Company's exposure to different equity markets around the world.

**Table 1 - Exposure to worldwide equity markets including funds withheld**

	Shareholder 2022 £m	Shareholder 2021 £m
UK	4	2
North America	6	6
Europe	2	2
Asia Pacific	20	2
Multiple jurisdictions	8	7
<b>Listed equities</b>	<b>40</b>	<b>19</b>
Holdings in unit trusts	1,478	2,038
<b>Total equities</b>	<b>1,518</b>	<b>2,057</b>

### **Credit risk**

*Exposure to loss if another party fails to perform its financial obligations to the Company.*

The Company's credit risk policy defines the overall framework for the management of credit risk. Credit risk exposures primarily arise in relation to corporate bonds held by the Company and those held by LGAS in relation to the funds withheld.

The Company holds fixed and variable rate securities within the financial investments and funds withheld to back part of its non-participating insurance liabilities. Significant exposures are managed by the application and regular review of concentration limits, with allowance being made in the actuarial valuation of the insurance liabilities for possible defaults.

The funds withheld includes LTMs, property lending and sale and leaseback investments. The Company is inherently exposed to the risk of default by a borrower or tenant. Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that the risk of default has been appropriately mitigated. The Company protects its interests through taking security over the underlying property associated with the investment transaction.

The Company limits its exposure to insurance risk by ceding part of the risks it assumes to the reinsurance market. To limit the risk of reinsurer default, the Company operates a credit rating policy when arranging cover. When selecting new reinsurance partners, the Company considers only companies which have a minimum credit rating equivalent to A-. Exposure limits for new and existing reinsurers are determined based on credit ratings and projected exposure.

The credit profile of the Company's financial investments and funds withheld exposed to credit risk is shown in Table 2. The credit rating bands are provided by independent rating agencies. Credit risk bands are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies Standard & Poor's, Moody's, and Fitch. For unrated assets, such as cash and derivatives, not exposed to credit risk, the Company maintains internal ratings which are used to manage exposure to these counterparties.

The carrying amount of assets included in the Statement of Financial Position represents the maximum credit exposure. No impairment provisions have been made.

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**20. Risk management and control (Continued)**

**Table 2 – Exposure to credit risk including funds withheld**

As at 31 December 2022	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Other <sup>1</sup> £m	Total £m
Government securities	221	71	108	368	16	–	784
Other fixed rate securities	201	569	3,017	3,598	3,072	148	10,605
Variable rate securities	40	203	806	554	383	6	1,992
Lifetime mortgages	–	–	–	–	–	1,343	1,343
<b>Total debt securities</b>	<b>462</b>	<b>843</b>	<b>3,931</b>	<b>4,520</b>	<b>3,471</b>	<b>1,497</b>	<b>14,724</b>
Accrued interest	5	10	39	73	10	–	137
Derivatives	–	–	91	–	–	(908)	(817)
Cash and cash equivalents	–	–	25	–	–	–	25
<b>Financial assets</b>	<b>467</b>	<b>853</b>	<b>4,086</b>	<b>4,593</b>	<b>3,481</b>	<b>589</b>	<b>14,069</b>
Investment in subsidiary	–	–	–	–	–	–	–
Other assets	1	–	6	–	–	1,771	1,778
<b>Total<sup>2</sup></b>	<b>468</b>	<b>853</b>	<b>4,092</b>	<b>4,593</b>	<b>3,481</b>	<b>2,360</b>	<b>15,847</b>

<sup>1</sup> Of the total debt securities and accrued interest that have been internally rated and unrated £94m is rated AAA, £231m AA, £1,565m A, £1,322m BBB, £48m BB and below.

<sup>2</sup> Excludes equity securities (listed equity and holdings in unit trusts) which are included in Note 20 Table 1.

There are no impaired or past due financial assets within the portfolios in 2022.

As at 31 December 2021	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated Other <sup>1</sup> £m	Total £m
Government securities	169	1,083	12	90	–	45	1,399
Other fixed rate securities	276	1,063	3,842	4,279	188	3,006	12,654
Variable rate securities	1	353	666	541	10	744	2,315
Lifetime mortgages	–	–	–	–	–	1,901	1,901
<b>Total debt securities</b>	<b>446</b>	<b>2,499</b>	<b>4,520</b>	<b>4,910</b>	<b>198</b>	<b>5,696</b>	<b>18,269</b>
Accrued interest	4	10	35	67	9	1	126
Derivatives	–	–	58	–	–	(162)	(104)
Cash and cash equivalents	–	–	28	–	–	–	28
<b>Financial assets</b>	<b>450</b>	<b>2,509</b>	<b>4,641</b>	<b>4,977</b>	<b>207</b>	<b>5,535</b>	<b>18,319</b>
Investment in subsidiary <sup>2</sup>	–	–	–	–	–	1	1
Other assets <sup>3</sup>	–	–	6	–	–	1,846	1,852
<b>Total Assets<sup>4</sup></b>	<b>450</b>	<b>2,509</b>	<b>4,647</b>	<b>4,977</b>	<b>207</b>	<b>7,382</b>	<b>20,172</b>

<sup>1</sup> Of the total debt securities and accrued interest that have been internally rated and unrated £88m is rated AAA, £323m AA, £1,600m A, £1,316m BBB, £13m BB and below.

<sup>2</sup> Reclassified. 2021 disclosed £Nil as investment in subsidiary. This has been reclassified to present the £1m investment in subsidiary.

<sup>3</sup> Reclassified. 2021 included a net payable to FBBRC III of £28m and a COVID claim refund receivable from FBBRC III of £6m as other assets. The net payable balance of £22m has been reclassified to payables and other balances due.

<sup>4</sup> Excludes equity securities (listed equity and holdings in unit trusts) which are included in Note 20 Table 1.

There are no impaired or past due financial assets within the portfolios in 2021.

**Liquidity risk**

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

The Company's liquidity risk policy defines the overall framework for the management of liquidity risk. The Company does not seek exposure to liquidity risk in its own right, but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

The liquidity risks to which the Company's business may be exposed, primarily stem from low probability events that if not adequately planned for, may result in unanticipated liquidity requirements.

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**20. Risk management and control (Continued)**

A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Company's insurance business seeks to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity to be maintained by insurance funds is identified using techniques including cash flow analysis for ranges of extreme scenarios and stress tests for shock events.

To ensure an appropriate pool of liquid assets are maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business are structured to include an appropriate proportion of cash and other readily realisable assets. The required profile is formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmark.

Specific liquidity risks associated with the Company's core product lines and the risk mitigation techniques are as follows:

**Annuities:** Potential for liquidity risk arises within two specific aspects of the Company's annuity business (i) changes in future pension commitments and (ii) collateral requirements risk hedging strategies.

**(i) Changes in future pension commitments** - once business has been written, cash outflows for pensions in payment are generally predictable, enabling the Company to structure the liquidity, income and maturity profile of investment assets backing long term liabilities to meet projected cash outflows. Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies.

**(ii) Collateral requirements for risk hedging strategies** - as part of the investment asset management strategy for the Company's annuity business, financial instruments are utilised to manage exposure to fluctuations in interest rates, inflation and foreign currency, which may otherwise result in long term liabilities being unmatched. The use of such financial instruments can require the posting of liquid collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.

The Company manages its banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends, with support from its ultimate holding company, Legal & General Group Plc's treasury function. The Company seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Company maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under adverse conditions, the Company has access to the funds necessary.

**Protection:** Potential for liquidity risk within the Company's protection businesses may arise should the rate of claims diverge significantly from that anticipated, typically as a consequence of an extreme event.

The risk of being unable to settle claims as they fall due is actively managed with provision being made and cash pools maintained within investment portfolios for a prudent estimate of the potential claims that may arise from in-force business, taking account of extreme events. Such provisions are validated using stress tests. An RCF is provided by Legal & General Finance Plc, should the Company require additional cash to meet claims obligations (See Note 18 (ix)). The exposure to pandemic risk has been partially mitigated through an adverse mortality stop-loss reinsurance treaty with third parties.

**Table 3 – Sensitivity analysis including funds withheld**

Table 3 shows the impact on pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the non-participating business.

	Impact on pre- tax profit net of reinsurance 2022 £m	Impact on equity net of reinsurance 2022 £m	Impact on pre- tax profit net of reinsurance 2021 £m	Impact on equity net of reinsurance 2021 £m
<b>Sensitivity test</b>				
100 bps increase in interest rates	(90)	(90)	(53)	(53)
50 bps decrease in interest rates	42	42	24	24
50 bps increase in future inflation expectations	28	28	17	17
Credit spread widens by 100 bps with no change in expected defaults	(169)	(169)	(151)	(151)
10% increase in maintenance expenses	(5)	(5)	(6)	(6)
15% rise in property values <sup>1</sup>	95	95	168	168
15% fall in property values <sup>1</sup>	(107)	(107)	(186)	(186)
25% rise in equity markets	38	38	40	40
25% fall in equity markets	(38)	(38)	(40)	(40)
10bps increase in credit default assumptions	(113)	(113)	(170)	(170)
10bps decrease in credit default assumptions	112	112	169	169
1% increase in annuitant mortality	25	25	37	37
1% decrease in annuitant mortality	(26)	(26)	(38)	(38)
5% increase in assurance mortality	(252)	(252)	(227)	(227)

<sup>1</sup> The impact from residential and commercial properties is included.

- In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Company's experience may be correlated.
- The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position.
- These stresses use the assets that back the liabilities. Any excess assets have not been stressed in these calculations.

## **20. Risk management and control (Continued)**

- The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
- The change in interest rate test assumes a 100/50 basis point change in the gross redemption yield on fixed interest securities together with a 100/50 basis point change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations.
- In the sensitivity for credit spreads corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
- The inflation stress adopted is a 0.5% pa increase in inflation resulting in a 0.5% pa reduction in real yield and no change to the nominal yield. In addition, the expense inflation rate is increased by 0.5% pa.
- The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates (so for example, a rate that was 80% of a standard table would become 79.2% (80% \* 99%) of that standard table).

The sensitivity analyses do not take into account management actions that could be taken to reduce the impacts. The Company seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Company asset and liability position. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.

### **Climate Change**

As mentioned in Note 8, the Company is exposed to climate change.

Climate change impacts will emerge through risks that we are already exposed to, with the key existing risk exposures covered by the economic and non-economic sensitivities shown in this section. In addition, given the uncertain nature of the risks from climate change, and the lack of historical data to support decision making, a specific scenario testing approach over a longer term time horizon has been developed by the Group to manage the risks from climate change.

## **21. Subsequent events**

There were no adjusting or non-adjusting subsequent events between 31 December 2022 and the approval of the report and accounts of the Company that require disclosure.