00423930

LEGAL & GENERAL INSURANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

2016

Legal & General Insurance Limited
Contents

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Registered office

One Coleman Street,
London EC2R 5AA

Registered in England and Wales No. 00423930

Legal & General Insurance Limited
Strategic Report
For the year ended 31 December 2016

Principal activities

Legal & General Insurance Limited (the 'Company') is an insurance company authorised in the UK by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'). The principal activity of the Company is the transaction of general insurance business in the personal sector marketplace, specifically relating to risk covers for household, short term income protection and pet insurance.

Business review

During the year, the Company continued its strategy focused on the housing marketplace, including leveraging the distribution relationships from the wider Legal & General proposition focused on the housing purchase event. The Company experienced success in obtaining a number of new distribution partners and has commenced underwriting pet insurance which provides some diversification of risk. The Company has maintained its focus on the future profitability of the business and despite challenging market conditions has been careful not to reduce policy prices to an extent that could risk this future profitability and the financial stability of the Company. In view of this, the Company is pleased to report gross written premium of £326,139,000 in the year.

The Company continues to be active in seeking opportunities to increase its market offering, and secured a number of new deals, of which some commenced towards the end of 2016 and others are due to commence early 2017. 2016 also showed growth in the Company's direct channel supported by the launch of a pet product underwritten by the Company. 2016 was the first full year of the Company's new GI digital system, launched for direct business in November 2015 and went live for renewals in late 2016. This strategic platform delivers a digital customer experience which is mobile and tablet friendly as well as a pricing capability which allows us to rate and price risks in a more agile fashion.

The underwriting result of £21,879,000 (2015: £18,471,000) was mainly attributable to benign weather conditions in comparison to 2015 offset by the introduction of the Flood Re Levy amounting to £9,400,000. Flood Re is a not-for-profit organisation which will accept the transfer of the flood risk component of home insurance policies, subject to meeting certain specified criteria. The Company has continued to focus on its cost base throughout 2016 and in streamlining its critical processes. As a consequence of these long term cost saving initiatives, restructuring costs of £875,000 were incurred in 2016 (2015: £1,374,000).

The Company continues to monitor the investment portfolios performance against return and volatility criteria agreed with the investment fund manager, Legal & General Investment Management Limited. Investment returns totalled £31,998,000 (2015: £7,046,000), representing a return of 8.4% against the long term strategic goal of 4.0%. This is attributed to very favourable equity and fixed interest performance and, although overseas currency exposure is limited by the mandate, the sharp depreciation in the rate of the GBP resulted in significant gains for the Company on non-sterling exposure within the fund. The Company benefited from being broadly diversified across all asset classes and geographies as a means of managing the risk of unexpected market events which helped to mitigate the market volatility before and after the Brexit vote, further benefiting from the Bank of England rate cut with bond values rising and global equity markets being relatively resilient throughout. Equities reacted positively to the Trump victory in the US Presidential Elections, albeit with sharp divergence between sectors.

Result for the year and dividend

The results of the Company shows a pre-tax profit of £52,389,000 (2015: £24,181,000), details of which are set out on page 9. The directors have recommended the payment of an interim dividend of £23,000,000 in 2017 (2016: £20,000,000). The proposed interim dividend of £20,000,000 for 2016 on ordinary share capital was approved by the board and fully paid in March 2016.

Financial key performance indicators

In addition to the pre-tax performance noted above, other key financial measures monitored by the Board of Directors (the 'Board') are as follows:

	2016	2015
Year end shareholders funds (£'000)	282,272	259,808
Gross written premium (£'000)	326,139	336,731
Combined operating ratio	93%	94%

The combined operating ratio is: $\frac{\text{(Net Incurred Claims + Expenses + Net Commission)}}{\text{Net Premiums Earned}}$

Other key performance indicators

The Board also monitor a number of non-financial key performance measures, including:

	2016	2015
Inforce Policies	1,801,138	1,765,128
Average monthly reportable complaints (% of inforce policies)	0.014%	0.014%

Future developments
The Company will continue to evolve its strategy in the household insurance marketplace, focusing on the development of sustainable profitable relationships and strong management of loss ratios through improved underwriting and claims management techniques. As well as providing a more seamless service for customers, it is anticipated that this should continue to provide additional opportunities for the sale of general insurance products to existing Legal & General Group customers.

Principal risks and uncertainties
The Company's business involves the acceptance and management of risk. The process of risk acceptance and risk management is managed through a risk framework, comprising formal insurance division committees, risk assessment processes and review functions with formal updates to the Board. A full review of risk is discussed in note 32.

The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed. The principal risks and uncertainties facing the Company are noted below.

Weather Catastrophe Events
Weather related risk is the largest area of risk faced by an insurer writing household business. The risk of adverse claims experience is fully assessed and reflected in the Company's capital requirement, and reinsurance is in place to protect against a 1 in 7 to 1 in 200 year event. However, a severe storm or series of weather events (including prolonged dry weather leading to subsidence) would adversely impact the profitability of the business. If the event was coupled with the default of a re-insurer this could significantly impact the capital available to the Company.

Market and Economic Conditions
Competitor activity and changes in customer buying patterns would impact the achievement of sales targets. A number of the Company's business channels have close links to the housing market. Uncertainty in this market would restrict sales opportunities and adversely impact profitability. The Company's strategic focus on household insurance means the Company has limited product diversification, and the income protection products are at risk of being impacted by any downturn in economic conditions. In 2016, the Company diversifed its product base to underwrite pet insurance. An increasing number of competitors and market pricing sensitivities are the main risks associated with pet insurance.

The Company is also exposed to the impact of adverse economic conditions on its investment portfolio. The Company's investment portfolio consists of collective investment schemes, exchange traded funds, and bonds, which are affected by movements in the equity markets, interest rates and credit spreads.

2016 has seen volatility in financial markets as they have responded to uncertainties in the global economy and political events, such as the UK referendum on membership of the EU. The vote to leave has little direct impact on trading as the Company's customer base is located within the UK. It is probable that a potentially lengthy period of negotiation and an uncertain outcome will create on-going uncertainty for financial markets and the broader UK economy in which the Company operates, with potential for asset price shifts should markets reappraise their value in the light of uncertainties. Potential also exists for renewed financial stress in Europe driven by the political uncertainty and residual weaknesses in the Euro currency banking systems. Broader geo-political events also have potential to cause shocks to financial markets, with on-going illiquidity in bond markets having the potential to exaggerate the impacts of any significant market corrections.

Confidence in the Financial Services sector and specifically the Company
Events in the financial services sector outside the control of the Company and Legal & General Group (the 'Group') may impact earnings and profitability. Historically such events have included:

- Failings by competitors;
- Actions by regulators within the industry;
- Adverse performance of investment markets; and
- Adverse media coverage

Resources

The Group has market-leading expertise in a number of the markets in which it operates. The Company, as part of a larger Group, actively focuses on retaining the best personnel and ensuring that key dependencies do not arise through employee training and development programmes, remuneration strategies, and succession planning. However, the loss of key personnel may impact earnings in the short term.

Regulation and Legislation
There are a number of aspects to the way in which legislation and regulation impacts the Company's business:

- Government fiscal policy;
- Regulation of product design, marketing, sales and administration;
- Prudential capital requirements; and
- Solvency II and its impact on capital requirements and business risk management.

The Company's activities and strategies are always based upon prevailing legislation and regulation. However, significant changes in legislation, and differing interpretation and application of regulation over time, may have a detrimental effect on the Company's strategy and profitability. Additionally, there is an increasing international dimension and volume of regulatory and legislative change impacting the financial services sector.

Outsourcing and Key Supplier Risk
There are some core Company functions that are outsourced and a reliance on suppliers to satisfy buildings and contents claims. This involves the Company in the management of a number of customer related third party relationships. Despite the rigorous selection process including supplier financial evaluations and the preparation of contingency plans to maintain service levels, the financial failure of a third party or provision of inadequate service could impact the reputation and regulatory compliance of the Company.

Digital Risk
As the Company increasingly digitalise its business, the Company is inherently exposed to new risks. The Company is alive to cyber threats, in terms of protecting its customers' data, minimising damage to its reputation and potential for financial loss and is working closely with its business partners to proactively manage emerging threats.

By Order of the Board

Andrew D Fairhurst

A.D. Fairhurst
for and on behalf of Legal & General Co Sec Limited
Company Secretary
2 March 2017

Legal & General Insurance Limited
Directors' Report
For the year ended 31 December 2016

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2016.

Result for the year and dividend

The results of the Company shows a pre-tax profit of £52,389,000 (2015: £24,181,000), details of which are set out on page 9. The directors have recommended the payment of an interim dividend of £23,000,000 in 2017 (2016: £20,000,000). The proposed interim dividend of £20,000,000 for 2016 on ordinary share capital was approved by the board and fully paid in March 2016.

Financial Risk Management
The Company uses financial instruments to manage certain financial risks. The Company's exposure to financial risk through its financial assets and liabilities is provided in the Strategic Report and in note 32 of the financial statements.

Political Donations
The Company made no political donations and incurred no political expenditure during the year.

Directorate
The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown below:

M. Holweger
J.A. Hyde
K. Martin
S.G. Welch (appointed 2 March 2016)
D.A. Finch (resigned 31 December 2016)
D. Flood (resigned 31 December 2016)
M.C. Noone (resigned 31 December 2016)

Company Secretary
Legal & General Co Sec Limited

Directors' Indemnities and Insurance
As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent Company, Legal & General Group Plc, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Independent Auditors
The Company has appointed PricewaterhouseCoopers LLP as auditors. There is no requirement under the Companies Act or the Company's Articles of Association to hold an Annual General Meeting or lay the Company's Report and Financial Statements before the shareholders. The Company has also elected to dispense with the need to appoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office.

During 2016 the Group Audit Committee undertook a full audit tender process for the Group and all subsidiaries, including Legal & General Insurance Limited, for the audit for the year ended 31 December 2018. Following this process KPMG LLP were selected to be the auditors for the Group and all subsidiaries. Further details of the process can be found in the Audit Committee Report in the Group Annual Report and Financial Statements.

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement as to Disclosure of Information to Auditors
In accordance with section 418, Directors' reports shall include a statement, in the case of each Director in office at the date the Directors' report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
(b) he/she has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given in accordance with Section 418(2) of the Companies Act 2016.

By Order of the Board

A.D. Fairhurst
for and on behalf of Legal & General Co Sec Limited
Company Secretary
2 March 2017

Legal & General Insurance Limited

Independent Auditors' Report to the Members of Legal & General Insurance Limited

Report on the financial statements

Our opinion

In our opinion, Legal & General Insurance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
8 March 2017

Legal & General Insurance Limited
Statement of Comprehensive Income
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue			
Gross written premiums		326,139	336,731
Outward reinsurance premiums		(26,834)	(24,946)
Net change in provision for unearned premiums		4,698	19,863
Net premiums earned		304,003	331,648
Investment return on financial investments at fair value through profit or loss	3.	31,998	7,046
Interest receivable and similar income	9.	7,643	10,787
Total revenue		343,644	349,481
Expenses			
Claims and change in insurance liabilities		152,284	178,652
Reinsurance recoveries		(1,334)	(963)
Net claims and change in insurance liabilities	4.	150,950	177,689
Acquisition costs	5.	95,708	110,123
Finance costs	6.	257	309
Other expenses	9.	44,340	37,179
Total expenses		291,255	325,300
Profit before tax		52,389	24,181
Total tax expense	10.	(9,925)	(4,121)
Profit for the year and total comprehensive income		42,464	20,060

All activities of the Company are classified as continuing.

The profit for the year and total comprehensive income is entirely attributable to the equity holders of the Company.

Legal & General Insurance Limited
Statement of Financial Position
As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Deferred acquisition costs	18.	50,166	51,733
Investments in subsidiaries	15.	2,000	2,000
Plant and equipment	14.	4,970	4,298
Intangible assets	13.	35,941	26,637
Financial investments	16.	390,873	387,379
Reinsurers' share of contract liabilities	21.	16,198	13,969
Receivables arising out of direct insurance operations - policyholders	19.	82,172	80,639
- intermediaries	19.	23,043	20,759
Amounts owed by group undertakings	19.	6,691	1,829
Prepayments and other receivables	19.	3,818	4,190
Cash and cash equivalents	20.	23,181	14,333
Total assets		639,053	607,766
Equity			
Share capital	27.	7,000	7,000
Share premium		96,053	96,053
Retained earnings	28.	179,219	156,755
Total equity		282,272	259,808
Liabilities			
Insurance contract liabilities	21.	267,697	283,213
Deferred tax liabilities	12.	10,911	12,851
Current tax liabilities	11.	11,882	3,164
Trade payables	23.	21,756	16,086
Other payables and financial liabilities	24.	44,535	32,644
Total liabilities		356,781	347,958
Total equity and liabilities		639,053	607,766

The notes on pages 13 to 34 form an integral part of the financial statements.

The financial statements on pages 9 to 34 were approved by the Board of directors on 2 March 2017 and were signed on their behalf by:

SGWelch

S.G. Welch
Director

Company Registration Number: 00423930.

Legal & General Insurance Limited

Cash Flow Statement

For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Profit before tax	52,389	24,181
Adjustments for:		
Depreciation, amortisation and impairment	2,822	963
Net fair value gains on financial instruments	(28,284)	(3,249)
Dividend and interest income	(3,714)	(3,797)
Interest payable	257	309
Changes in operating assets and liabilities:		
Net decrease in insurance contract liabilities	(15,516)	(3,907)
Net (increase)/ decrease in reinsurers' share of contract liabilities	(2,229)	1,308
Net decrease in deferred acquisition costs	1,567	9,534
Net (increase)/ decrease in other assets	(4,300)	4,265
Net increase/ (decrease) in operational liabilities	17,512	(9,922)
Net sales of financial investments	22,408	3,819
Cash inflow/ (outflow) generated by operations	**42,912**	**23,504**
Interest received	4,083	3,409
Interest paid	(257)	(309)
Tax paid	(3,147)	(9,095)
Net cash inflow/ (outflow) from operating activities	**43,591**	**17,509**
Cash flows from investing activities		
Purchase of plant and equipment	(1,167)	(610)
Purchase of intangible assets	(11,631)	(8,358)
Net increase in loans from group undertakings	(1,945)	(2,596)
Net cash outflows from investing activities	**(14,743)**	**(11,564)**
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	(20,000)	-
Net cash outflows from financing activities	**(20,000)**	**-**
Net increase in cash or cash equivalents	8,848	5,945
Cash and cash equivalents at the beginning of the year	14,333	8,388
Cash and cash equivalents at the end of the year	**23,181**	**14,333**

The Company's cash flow statement includes all cash and cash equivalent flows, including those relating to the UK policyholders.

Legal & General Insurance Limited
Statement of Changes in Equity
For the year ended 31 December 2016

	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	7,000	96,053	156,755	259,808
Profit for the year and total comprehensive income	-	-	42,464	42,464
Dividends paid during the year	-	-	(20,000)	(20,000)
Balance at 31 December 2016	7,000	96,053	179,219	282,272

	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015	7,000	96,053	136,695	239,748
Profit for the year and total comprehensive income	-	-	20,060	20,060
Balance at 31 December 2015	7,000	96,053	156,755	259,808

Legal & General Insurance Limited
Notes to the Financial Statements
For the year ended 31 December 2016

1. Accounting Policies

a) Basis of Preparation

The Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The Company's financial statements also comply with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the IASB. The financial statements have been prepared under the historical cost convention on a going concern basis, as modified by the revaluation of financial assets at fair value through profit and loss. Accounting policies have been applied consistently to all years presented except as otherwise stated.

The Company is exempt from preparing consolidated financial statements by virtue of the Companies Act 2006, as its ultimate parent Company prepares publicly available consolidated financial statements that are deemed to satisfy the equivalence requirement of section 401 of the Companies Act 2006. The Company is domiciled in the United Kingdom.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

b) Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on managements' best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant to the estimation of incurred but not reported ('IBNR') estimates within insurance contract liabilities. The basis of accounting for these liabilities is set out in (c) below and the significant judgements used in determining the estimate is outlined in note 31 to the financial statements.

c) General Insurance

Results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting. has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Premiums are accounted for in the period in which the risk commences as gross written premium. Estimates are included for premiums not notified by the year end. For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of gross written premium on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the provision for unearned premium. Premiums are shown before deduction of commission. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time-apportioned basis. A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition costss ('DAC') or, with regard to reinsurance outwards, as deferred income. Deferred acquisition costs are deferred over the period in which the related premiums are earned. All other costs are recognised as expenses when incurred.

Claims incurred comprises of claims and related expenses paid in the year and changes in the provisions for outstanding claims. This includes provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Provision is made at the balance sheet date for the estimated cost of claims and related insurance recoveries incurred but not settled at that date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

1. Accounting Policies (continued)

c) General Insurance (continued)

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these reserves. In calculating the estimated cost of IBNR and notified unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made however for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums after taking account of investment return.

d) Reinsurance

The Company cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses. Outward reinsurance premiums are recognised in the same accounting period as the related premiums for the direct or inward insurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses, loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the balance sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

e) Investments in subsidiaries

Shares in subsidiary undertakings are stated at cost less impairment. The Company reviews the carrying value of its subsidiary at each balance sheet date where there has been an indication that impairment has occurred. If the carrying value of the subsidiary undertaking is impaired, the carrying value is reduced through a charge to the statement of comprehensive income.

f) Financial Investments

The Company classifies its financial investments on initial recognition as held for trading ('HFT'), designated at fair value through profit or loss ('FVTPL'), or loans and receivables. Initial recognition of financial investments is on the trade date.

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 Group Investment and Market Risk Committee and the Company's investment strategy. Assets designated as FVTPL include collective investments and debt securities which would otherwise have been classified as available for sale ('AFS') under IAS 39, 'Financial instruments: recognition and measurement'.

The fair values of quoted financial investments are based on bid prices, which management believe to be representative of fair value. 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.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the income statement. Transaction costs are expensed as incurred.

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

g) Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange rates. The Company uses derivatives such as foreign exchange forward contracts to hedge these exposures.

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.

1. Accounting Policies (continued)

h) 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.

Investment income comprises interest, which is included on an accruals basis. Interest income for financial assets which are not classified as FVTPL is recognised using the effective interest method.

i) Taxation

Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous years. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

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

Tax rates

Following the 2016 Budget announcement, the rate of corporation tax is expected to reduce progressively to 17% by 1 April 2020. To calculate the current tax on profits, the rate of tax used is 20% (2015: 20.25%), which is the average rate of corporation tax applicable for the year.

The rate of tax used for the calculation of deferred tax is the rate of corporation tax that is expected to apply when the differences reverse.

j) Interest receivable and similar income

Interest receivable and similar income relates to instalment fee income on policyholder debt. Income is recognised through the Statement of Comprehensive Income in the period it relates to on an effective interest rate ('EIR') basis. This is a change in policy from 2015 when instalment fee income was recognised in full from the effective date. Instalment fee income due is recognised within Receivables and unearned income within Other payables and financial liabilities.

k) Dividend recognition

Dividend distributions to the Company's shareholders are recognised as a liability in the year in which the dividends are authorised and are no longer at the discretion of the company.

l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

m) Intangible Assets

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Company which will generate future economic benefits and where costs can be reliably measured. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Such intangible assets are stated at cost less cumulative amortisation and impairment losses. Amortisation begins when the asset becomes available for operational use and is charged to the income statement within administrative expenses on a straight- line basis over the estimated useful life of the software, which is considered to be 10 years. The amortisation periods used are reviewed annually.

Assets are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1. Accounting Policies (continued)

n) Plant and equipment

The initial cost of an item of plant or equipment is capitalised where it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost is then depreciated on a straight line basis over the item's estimated useful working life over 3 to 10 years.

The Company reviews the carrying value of Plant & Equipment at each balance sheet date where there has been an indication that impairment has occurred. If the carrying value of an item of Plant & Equipment is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income.

o) Share Capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

p) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses are recognised in the Statement of Comprehensive Income except when recognised in equity as qualifying cash flow or net investment hedges.

q) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

Certain new standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2017 or later periods but which the Company has not adopted early, as follows:

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement and the IASB's consideration of its exposure draft, "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts". On adoption, IFRS 9 contains three key elements:

- A principle-based model for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held. Financial assets are classified under either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss;
- A single expected loss impairment model that will require more timely recognition of expected credit losses on assets classified as amortised cost or FVOCI. Specifically, the new standard requires entities to account for expected credit losses from when from when financial instruments are first recognised, and it lowers the threshold for recognition of full lifetime expected losses; and
- A substantially-reformed model for hedge accounting with enhanced disclosures about risk management activities, enabling entities to better reflect these activities in their financial statements.

The impact of IFRS 9 on the Company's financial statements will depend on the interaction of the asset classification and measurement with the insurance contract measurement at the date of transition, particularly for liabilities which are measured using locked in discount rates. Given the IASB's consideration of deferral of IFRS 9 for certain insurance companies, the Company does not intend to early adopt this Standard.

In January 2016, the IASB issued IFRS 16, "Leases", effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing commitments in relation to operating leases (as currently defined in IAS 17, "Leases") onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17 although the IASB have issued updated guidance on the definition of a lease. The Company does not intend to early adopt this standard.

1. Accounting Policies (continued)

r) Leases

Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made a lesses under operating leases (net of any incentives from the lessor) are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

2. Profit on ordinary activities before taxation

	2016	2015
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible assets	495	483
Amortisation of intangible assets	2,327	480
Auditors' remuneration (see below for further analysis)	290	215
	3,112	1,178

During the year fees (excluding VAT) were paid to the Company auditors for the following services:

Audit Services		
Audit of these financial statements	212	201
Non Audit Services		
Fees payable to the Company auditors for other services:		
- Other services pursuant to legislation	78	15
Total	290	216

3. Investment return

	2016	2015
	£'000	£'000
Investment income	3,714	3,797
Unrealised gains	37,299	470
Realised gains/(losses)	(9,015)	2,779
	31,998	7,046

All of the investment return arose on financial investments designated as fair value through profit or loss.

4. Net claims and change in insurance liabilities

	2016	2015
	£'000	£'000
Claims paid		
- gross	164,765	161,120
- reinsurance recoveries	(769)	(695)
	163,996	160,425
Change in insurance liabilities		
- gross	(12,481)	17,532
- reinsurance recoveries	(565)	(268)
Net claims and change in insurance liabilities	150,950	177,689

5. Acquisition costs

	2016	2015
	£'000	£'000
Acquisition costs	94,141	100,589
Change in deferred acquisition costs	1,567	9,534
	95,708	110,123

6. Finance costs

	2016	2015
	£'000	£'000
Interest payable to group undertakings	257	309
	257	309

7. Employee information

The company has no direct employees since they are employed by a fellow subsidiary of Legal & General Group Plc. As a result the Company incurs no direct staff costs and makes no direct contributions towards retirement benefits (2015: £nil).

8. Directors' emoluments

These figures represent that portion of the directors' emoluments that are estimated to relate to their services to the Company:

	2016	2015
	£'000	£'000
In respect of services as directors:		
Aggregate emoluments	1,193	1,072
Aggregate money purchase contributions	36	54

Defined benefits accrued to none (2015: none) of the directors under the Group defined benefit pension scheme.

No fees were paid by the Company to the directors (2015: £nil).

The emoluments received by the directors have been settled by a fellow group company, Legal & General Resources Limited, and included within the recharge made to the Company.

	2016	2015
	£'000	£'000
Highest paid director:		
Emoluments	341	310
Money purchase contributions	16	-

9. Other income and expenses

	2016	2015
	£'000	£'000
Other income: instalment fee income	7,643	10,787
Other expenses:		
Administrative expenses	45,735	38,925
Reinsurance commissions and profit participations	(2,591)	(2,773)
Investment management expenses	1,196	1,027
	44,340	37,179

Instalment fee income is shown separately, previously reported within administrative expenses, and for 2016 includes the establishment of £3,466k deferred income on an effective interest basis. 2016 administrative expenses includes £9,400k Flood Re levy (2015: £nil).

10. Total tax expense

	2016 £'000	2015 £'000
Current tax		
- Current tax for the year	11,840	3,702
- Adjustments in respect of prior years	25	(47)
Total current tax	11,865	3,655
Deferred tax		
- Movement in temporary differences	(1,597)	1,291
- Impact of reduction in UK corporate tax rate to 17% by 1 April 2020	(343)	(825)
Total deferred tax	(1,940)	466
Total tax expense	9,925	4,121

The tax attributable to equity holders differs from the tax calculated at the standard UK corporation tax rate as follows:

	2016 £'000	2015 £'000
Profit before tax attributable to equity holders	52,389	24,181
Corporation tax at 20% (2015: 20.25%)	10,478	4,897
Effects of:		
Adjustments in respect of prior years	25	(47)
Adjustments in respect of prior year deferred tax	(278)	47
Expenses not deductible for tax purposes	43	49
Impact of reduction in UK corporate tax rate to 17% by 1 April 2020 on deferred tax balances	(343)	(825)
Tax attributable to equity shareholders	9,925	4,121

11. Current tax liabilities

	2016 £'000	2015 £'000
Tax due within 12 months	11,882	3,164
Current tax liabilities	11,882	3,164

12. Deferred tax

	Net tax assets/(liabilities) as at 1 January 2016	Tax credited/(charged) to the income statement	Net tax assets/(liabilities) as at 31 December 2016
	£'000	£'000	£'000
Excess of capital allowances over depreciation	(1,348)	(264)	(1,612)
Claims equalisation reserve	(11,503)	2,204	(9,299)
Deferred tax (liabilities)	(12,851)	1,940	(10,911)

	Net tax assets/(liabilities) as at 1 January 2015	Tax credited/(charged) to the income statement	Net tax assets/(liabilities) as at 31 December 2015
	£'000	£'000	£'000
Excess of capital allowances over depreciation	(666)	(682)	(1,348)
Claims equalisation reserve	(11,719)	216	(11,503)
Deferred tax (liabilities)	(12,385)	(466)	(12,851)

13. Intangible assets

	2016	2015
Cost	£'000	£'000
Balance at beginning of year	27,117	18,759
Additions	11,631	8,358
Balance at end of year	38,748	27,117
Accumulated amortisation		
Balance at beginning of year	480	-
Amortisation charge for the year	2,327	480
Balance at end of year	2,807	480
Closing net book value	35,941	26,637
Opening net book value	26,637	18,759

Intangible assets relate to the costs directly associated with the development of computer software. No amortisation has been charged for assets not yet available for operational use.

14. Plant and equipment

	2016	2015
Cost	£'000	£'000
Balance at beginning of year	6,018	5,408
Additions	1,167	610
Disposals	(669)	-
Balance at end of year	6,516	6,018
Accumulated depreciation		
Balance at beginning of year	1,720	1,237
Depreciation charge for the year	495	483
Disposals	(669)	-
Balance at end of year	1,546	1,720
Closing net book value	4,970	4,298
Opening net book value	4,298	4,171

15. Investments

a) Investments in subsidiaries

	2016	2015
	£'000	£'000
As at 1 January and 31 December	2,000	2,000

The detail of the Company's subsidiaries are set out below:

Held directly by the business	Nature of business	Incorporated In
Legal & General Distribution Services Limited	Trading company	England & Wales

The subsidiary is 100% owned and has a 31 December financial year end.

b) Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The Company has interests in investment vehicles which are classified unconsolidated structured entities. These interests are explained below.

All of the Company's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

As part of its investment activities, the Company invests in structured entities. As at 31 December 2016 our total interest in such entities, reflected on the Company's balance sheet and classified as financial investments held at fair value through profit or loss, was £313,583k (2015: £266,560k). A summary of our holdings at 31 December 2016, with prior year comparatives, is provided below:

	2016	2015
	£`000	£`000
Investment funds		
Analysed as:		
Unit Trusts	258,313	253,076
Specialised investment vehicles		
Analysed as:		
SICAVs	19,169	13,484
OEICs	36,101	-
Total	**313,583**	**266,560**

The Company does not manage the above investments and as such the maximum exposure to loss in respect of the interests presented above is the carrying amount of the Company's investments. We do not sponsor, or provide any guarantees or support to the above entities. The 2015 OEICs have been reclassified to Unit Trusts inline with 2016.

16. Financial investments

	2016	2015
	£'000	£'000
Financial investments at fair value through the profit and loss:		
Investment funds	313,583	266,560
Debt securities and other fixed income securities	75,507	119,680
Accrued interest	770	1,139
Derivative assets	1,013	-
	390,873	387,379
Expected to be received within 12 months from the reporting date	1,783	1,139
Expected to be received after 12 months from the reporting date	389,090	386,240
	390,873	387,379

All financial investments have been designated as fair value through profit and loss. Financial investments have been allocated between those expected to be received within 12 months and after 12 months.

None of the financial investments (2015: £nil) have been pledged as collateral against derivative liabilities.

Fair value hierarchy

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 on 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 bases 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).

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

As at 31 December 2016	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Investment funds	313,583	313,583	-	-
Debt securities and other fixed income securities	75,507	75,507	-	-
Accrued interest	770	770	-	-
Derivative Assets	1,013	1,013	-	-
Total financial investments	390,873	390,873	-	-

As at 31 December 2015	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Investment funds	266,560	266,560	-	-
Debt securities and other fixed income securities	119,680	119,680	-	-
Accrued interest	1,139	1,139	-	-
Derivative Assets	-	-	-	-
Total financial investments	387,379	387,379	-	-

17. Derivative assets and liabilities

	Contract notional 2016 £'000	Fair value Asset 2016 £'000	Fair value Liability 2016 £'000
Equity/ index derivatives	146,768	1,013	3,296

	Contract notional 2015 £'000	Fair value Asset 2015 £'000	Fair value Liability 2015 £'000
Equity/ index derivatives	145,487	-	2,210

Derivative liabilities are reported in the balance sheet within Other payables and financial liabilities.

The notional amounts of some derivative instruments provide a basis for comparison with instruments recognised on the balance sheet. However, these amounts do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks.

The contractual undiscounted cash flows in relation to derivatives have the following maturity profile:

As at 31 December 2016		Maturity profile of undiscounted cash flows					
	Fair value £'000	Within 1 year £'000	1- 5 years £'000	5-15 years £'000	15-25 years £'000	Over 25 years £'000	Total £'000
Cash inflows							
Derivative assets	1,013	1,013	-	-	-	-	1,013
Derivative liabilities	-	-	-	-	-	-	-
Total	1,013	1,013	-	-	-	-	1,013
Cash outflows							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	3,296	3,296	-	-	-	-	3,296
Total	3,296	3,296	-	-	-	-	3,296
Net cashflows	(2,283)	(2,283)	-	-	-	-	(2,283)

As at 31 December 2015		Maturity profile of undiscounted cash flows					
	Fair value £'000	Within 1 year £'000	1- 5 years £'000	5-15 years £'000	15-25 years £'000	Over 25 years £'000	Total £'000
Cash inflows							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Cash outflows							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	2,210	2,210	-	-	-	-	2,210
Total	2,210	2,210	-	-	-	-	2,210
Net cashflows	(2,210)	(2,210)	-	-	-	-	(2,210)

Cash inflows and outflows are presented on a net basis where the Company is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

18. Deferred acquisition costs

	Gross 2016 £'000	RI 2016 £'000	Gross 2015 £'000	RI 2015 £'000
As at 1 January	51,733	(1,372)	61,267	(1,531)
Acquisition costs movement in provision	(1,567)	(56)	(9,534)	159
As at 31 December	50,166	(1,428)	51,733	(1,372)
To be amortised within 12 months from the reporting date	50,166	(1,428)	51,733	(1,372)

19. Receivables

	2016 £'000	2015 £'000
Receivables arising out of direct insurance operations - policyholders	82,172	80,639
- intermediaries	23,043	20,759
Amounts owed by group undertakings	6,691	1,829
Prepayments and other receivables	3,818	4,190
	115,724	107,417
Receivable within 12 months from the reporting date	115,724	107,417

As in the prior years, the Company does not have significant receivables that are past due or considered impaired at 31 December 2016. A total bad debt provision of £876,000 was held at the balance sheet date (2015: £438,000).

20. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	23,181	14,333

21. Insurance contract liabilities

	Gross 2016 £'000	RI 2016 £'000	Gross 2015 £'000	RI 2015 £'000
Provision for unearned premiums	170,677	(14,137)	173,712	(12,473)
Claims outstanding	97,020	(2,061)	109,501	(1,496)
	267,697	(16,198)	283,213	(13,969)

Expected net insurance claim cash flows

	Date of undiscounted cash flow						Carrying
	0-1 year	1-2 years	2-3 years	3-4 years	4+ years	Total	value
As at 31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	80,121	8,222	2,911	1,724	1,981	94,959	94,959
As at 31 December 2015							
Claims outstanding	93,857	9,809	1,925	1,152	1,262	108,005	108,005

Insurance cash flows are based on the expected date of settlement.

21. Insurance contract liabilities (continued)

Movement in claims liabilities

	Gross 2016 £'000	RI 2016 £'000	Gross 2015 £'000	RI 2015 £'000
As at 1 January	109,501	(1,496)	91,969	(1,228)
Claims arising	159,546	(884)	180,520	(190)
Claims paid	(164,765)	769	(161,120)	695
Adjustments to prior year liabilities	(7,262)	(450)	(1,868)	(773)
As at 31 December	97,020	(2,061)	109,501	(1,496)

Movement in unearned premium

	Gross 2016 £'000	RI 2016 £'000	Gross 2015 £'000	RI 2015 £'000
As at 1 January	173,712	(12,473)	195,151	(14,049)
Movement in provision	(3,035)	(1,664)	(21,439)	1,576
As at 31 December	170,677	(14,137)	173,712	(12,473)

All unearned premiums are expected to be earned within one year.

22. Claims development tables

The tables below present changes in the historical provision for losses and loss adjustment expenses since 2012 and the provision for losses and loss adjustment expenses arising in each subsequent accident year.

The top section of the tables illustrate how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amounts appearing in the balance sheet.

Gross of reinsurance

Accident year	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate claims costs:						
- At end of accident year	163,875	161,882	168,787	171,681	152,102	818,327
- One year later	149,724	156,295	163,341	157,937	-	627,297
- Two years later	147,736	155,771	161,481	-	-	464,988
- Three years later	148,357	157,657	-	-	-	306,014
- Four years later	148,697	-	-	-	-	148,697
Estimate of cumulative claims	148,697	157,657	161,481	157,937	152,102	777,874
Cumulative payments	(147,424)	(152,524)	(157,628)	(148,003)	(83,665)	(689,244)
Outstanding claims provision	1,273	5,133	3,853	9,934	68,437	88,630
Outstanding claims provision for prior accident years						5,825
Claims handling provision						2,565
Total claims liabilities recognised in the balance sheet						97,020

Net of reinsurance

Accident year	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate claims costs:						
- At end of accident year	163,523	161,567	168,487	171,100	151,456	816,133
- One year later	149,281	154,892	163,113	157,312	-	624,598
- Two years later	147,292	154,379	161,165	-	-	462,836
- Three years later	147,909	155,711	-	-	-	303,620
- Four years later	148,247	-	-	-	-	148,247
Estimate of cumulative claims	148,247	155,711	161,165	157,312	151,456	773,891
Cumulative payments	(146,975)	(152,075)	(157,313)	(147,357)	(83,602)	(687,322)
Outstanding claims provision	1,272	3,636	3,852	9,955	67,854	86,569
Outstanding claims provision for prior accident years						5,825
Claims handling provision						2,565
Total claims liabilities recognised in the balance sheet						94,959

23. Trade payables

	2016	2015
	£'000	£'000
Payables arising from insurance and reinsurance contracts		
- agents, brokers and intermediaries	10,323	10,707
- reinsurers	11,433	5,379
	21,756	16,086

All trade payables are expected to be settled no more than twelve months after the balance sheet date.

24. Other payables and financial liabilities

	2016	2015
	£'000	£'000
Amounts owed to group undertakings	23,918	21,329
Other payables	12,427	7,733
Derivative liabilities	3,296	2,210
Reinsurance share of deferred acquisition costs	1,428	1,372
Deferred instalment fee income	3,466	-
	44,535	32,644

2016 Other payables and financial liabilities includes Deferred instalment fee income relating to unearned interest with the corresponding entry within Receivables. This is a change in policy from 2015 when installment fee income was recognised in full from the effective date.

All Other payables and financial liabilities are expected to be settled no more than twelve months after the balance sheet date.

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

	Total	Level 1	Level 2	Level 3
As at 31 December 2016	£'000	£'000	£'000	£'000
Derivative liabilities	3,296	3,296	-	-

	Total	Level 1	Level 2	Level 3
As at 31 December 2015	£'000	£'000	£'000	£'000
Derivative liabilities	2,210	2,210	-	-

25. Contingent liabilities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them.

Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them (together in this paragraph "liabilities"). The extent of such liabilities is influenced by the actions of the PRA and FCA, by ombudsman rulings, by industry compensation schemes and by court judgements. It is not possible to predict, with certainty, the extent and the timing of the financial impact to which these liabilities may give rise. The Company considers that it has made prudent provision for such liabilities, as and when circumstances calling for such provision become clear, and that it has adequate capital and reserves to meet all reasonably foreseeable eventualities.

26. Commitments

a) Capital commitments

Authorised and contracted commitments payable after 31 December 2016 are £nil (2015: £nil).

26. Commitments (continued)

b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	£'000	£'000
- Not later than 1 year	694	694
- Later than 1 year and not later than 5 years	1,273	1,967
- Later than 5 years	-	-
	1,967	2,661

c) Guarantee

The Company has provided an intercompany indemnity executed in favour of Legal & General Resources Limited (LGRL) in respect of Flood Re arrangements and the requirement to provide uncapped indemnity for any data protection breaches relating to data provided by Flood Re (which includes local authority/council tax data). The agreement with Flood Re also requires Tata Consultancy Services (TCS), that provide software support and related systems maintenance to the Company under a separate contract between TCS and LGRL, to offer the indemnity as well as they act as an outsourced party in the arrangement. As the liability of TCS is capped in the agreement between TCS and LGRL, the Company executed this indemnity in favour of LGRL for any claim by Flood Re against TCS for breach where the claim exceeds the £30m cap.

27. Share capital

	2016	2015
	£'000	£'000
Issued and fully paid:		
6,999,999 ordinary shares of £1 each	7,000	7,000

28. Retained earnings

	2016	2015
	£'000	£'000
Balance at 1 January	156,755	136,695
Retained profit for the year	42,464	20,060
Dividends	(20,000)	-
Balance at 31 December	179,219	156,755

29. Holding company

The Company's immediate parent undertaking is Legal & General Assurance Society Limited. The ultimate parent company and controlling party is Legal & General Group Plc, a company incorporated in England and Wales.

Legal & General Group Plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2016. The consolidated financial statements of Legal & General Group Plc are available from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA or on the Group website, www.legalandgeneralgroup.com.

30. Related party transactions

i) Key management personnel

Key management personnel represented by the members of the board of Directors are listed on page 5. Director remuneration is discussed in detail in note 8.

ii) Transactions with group companies

The Company performed a number of transactions with its parent, Legal & General Assurance Society Limited and its fellow subsidiary companies during the normal course of business. The following transactions were undertaken, and the corresponding balances payable/ receivable at the year end:

	Credit/ (charge)		Receivable/ (payable)	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
a. Investment management portfolio	(1,196)	(1,020)	(82)	(82)
b. Liquidity management	68	(29)	5,566	1,559
c. Group expense charges	(77,106)	(72,573)	(20,298)	(15,261)
d. Commission	(2,351)	(3,149)	(820)	(1,786)
e. Reinsurance premium	(12,822)	(12,296)	-	256
f. Settlement of group expenses	1,022	-	401	(287)
g. Investments in group investment funds	(21,778)	2,705	251,644	231,068
h. Revolving credit facility	(240)	(240)	-	-
i. Agency commission	-	-	(1,539)	(2,540)

a. Legal & General Investment Management (Holdings) Limited ('LGIM') manage the investment portfolio of the Company, and charge the Company a monthly portfolio administration fee.
b. Interest charged/(credited) on loan facilities by Legal & General Finance PLC at LIBOR plus/ (minus) 0.125% respectively.
c. Legal & General Assurance Society Limited recharges the Company for all direct costs associated with the business and an allocated proportion of centralised costs.
d. The Company pays commission for business introduced by Legal & General Partnership Services Limited.
e. Reinsurance premium accepted by Legal & General Assurance Society Limited ('LGAS') as part of a wider reinsurance treaty.
f. The Company settles group recharges on behalf of Legal & General Distribution Services Limited, who subsequently reimburse the Company.
g. The company holds investments in investment funds controlled and managed by Group companies that are classified as related parties.
h. Commitment fee charged on a revolving credit agreement facility provided by Legal and General Group PLC at 0.24%.
i. Legal & General Assurance Society Limited recharge for agency commission that it pays on the Company's behalf

None of the above balances are secured on the assets of any group undertaking.

31. Critical accounting estimates and judgements

General comments regarding assumptions and methodology

Actuarial and statistical methods have been applied to the claims data to arrive at the estimates of the claim reserves gross and net of reinsurance. The reserve is the sum of the outstanding case estimates (which are known) plus an amount for claims which have been incurred but have not yet been reported and an allowance for changes in case estimates. The most uncertain element of the reserve is the incurred but not reported (IBNR) amount.

The IBNR reserve can be thought of as the difference between the amount which will ultimately be paid minus the amount that has already been paid minus the amount reserved for as case estimates.

31. Critical accounting estimates and judgements (continued)

General comments regarding assumptions and methodology (continued)

For the household and motor classes of business, IBNR includes not only claims which have not yet been reported, but also the positive or negative development of the case estimates attributed to reported cases, also known as IBNER (Incurred but not enough reported).

In cases where the claims data provided contains claims handling expenses, these are included and projected in the estimates of the claim reserves. In addition, allowance is made for unallocated claims handling expenses on outstanding and IBNR claims.

A margin is held over and above the best estimate IBNR reserve to allow for the uncertainty in reserves.

Various methods are used to determine the IBNR. The choice of method depends on the class of business and the peril being assessed. The methods are explained below:

Projection of incurred claim amounts using the basic chain ladder method

This is a method for estimating the ultimate cost (and therefore the incurred but not reported claims) based on the incurred claims data (i.e. the paid claims plus the notified case estimates).

Development factors are calculated for each origin period which reflect the patterns of claim reporting and payment, and the relative adequacy of the notified case estimates over time. The choice of historic period for determining development factors is a matter of judgement. The method also assumes that inflation, investment income and the economic environment remain unchanged over the origin period selected.

Projection of the number of claims reported using the basic chain ladder method and application of average cost per claim methods

The basic chain ladder method described above is used to project the ultimate number of claims (and therefore the incurred but not reported claims) for each period. The ultimate cost is then estimated by multiplying the ultimate number of claims for each origin year by an appropriate average cost assumption. The average cost assumption is derived by taking account of historical data, trends and external industry data, and applying appropriate judgement.

Exposure based methods

Exposure based methods estimate the ultimate cost (and therefore the incurred but not reported claims) based on exposure measures relating to the origin years considered. The simplest exposure based method is the expected loss ratio method. The ultimate cost is estimated by multiplying the earned premium for the relevant origin year by an estimate of the loss ratio for that origin year. This selected loss ratio takes account of historical data, trends and other available information such as premium rating activity and requires judgement. This method effectively ignores the actual development of the claims to date for that origin period. The Bornhuetter-Ferguson approach combines the chain ladder method described above with the expected loss ratio method. This moderates the influence of the current development of the most recent origin years on the estimate of the ultimate cost. This can be beneficial in circumstances where the data for the most recent origin years is sparse or for longer tailed classes.

Key drivers of uncertainty in the Company's reserves

Uncertainty in the Company's reserves can arise from a number of factors both internal and external. For example:

- On Household, our biggest driver of uncertainty, IBNR claims could increase due to the emergence of latent claims for example, in liability following an adverse court judgement, or in subsidence as an improvement in the housing market leads to an increase in surveys and hence a greater number of cracks being noticed.
- A downturn in the economy could drive increased IBNR unemployment claims on the Accident, Sickness and Unemployment product, both in terms of increased frequency and increased claim duration.

Given this uncertainty, it is Company policy to hold reserves above the best estimate. Usual policy is to hold reserves between the mean and 75th percentile of the overall distribution. The precise choice of percentile is based on seven criteria, which are given a low, medium or high rating. The overall score determines the percentile booked. Exceptionally, as at 31 December 2016 this the margin is being held just above the 75th percentile for household business. This is due to a substantial level of additional uncertainty arising from changes in processes and which have affected development patterns on certain household perils, as well as the impact of settling claims on a matching of items basis, possible change in some modest changes in claims philosophy and the potential impact on risk profile as we write of writing more direct business, coupled with and general uncertainty in inflation. In addition, for motor insurance, there is uncertainty relating to the impact of proposed changes to the Ogden discount rate which could have an impact on a historical liability claim. The total margin held as at 31 December 2016 was 9% (2015: 5%) of the gross booked reserves (excluding claims handling expenses).

31. Critical accounting estimates and judgements (continued)

Key drivers of uncertainty in the Company's reserves (continued)
Reserving at this level provides a margin against reasonable levels of uncertainty, whilst avoiding excessive prudence for IFRS reporting purposes.

Financial impact of the uncertainty
All figures in this section are based on the reserving exercise performed as at 31 December 2016.

Household
The household margin is 8% of the booked reserves (2015: 5%). This could be used to cover adverse liability experience, as well as adverse claims development.

Accident, Sickness and Unemployment
If non reinsurance backed IBNR claims increased by 50% the Company would need to hold an extra 5% (2015: 8%) of the best estimate reserve for this class of business (assuming these claims have same average monthly benefit and duration as assumed in the best estimate calculation).

If all non reinsurance backed claimants were to claim for an extra month on top of what was assumed in the best estimate the Company would need to hold an extra 16% (2015: 17%) of the best estimate reserve for this class of business.

If these two events occurred at the same time the Company would need to hold an extra 21% (2015: 24%) of the best estimate reserve for this class of business. However, the probability of this occurrence would be very small.

32. Risk management and control

The Company's primary objective in undertaking risk management activity is to manage risk exposure in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Company's risk appetite, is in place for material exposures.

A significant part of the Company's business involves the acceptance and management of risk. The Company operates a formal risk management framework to ensure that all significant risks are identified and managed.
Financial risk is categorised as follows:

- Insurance risk;
- Market risk;
- Credit risk;
- Foreign exchange risk;
- Liquidity risk; and
- Operational risk.

Insurance risk
Insurance risk 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 using the following techniques:

Policies and delegated authorities for underwriting, pricing and reinsurance
The Company's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place. Pricing is based on assumptions which have regard to past experience and expected future trends. Insurance exposures are limited through reinsurance.

The principal general insurance reinsurances are excess of loss catastrophe treaties, under which the cost of claims from a weather event, in excess of an agreed retention level, is recoverable from reinsurers.

Reserving policy
The Company has a documented reserving policy setting out the basis on which liabilities are to be determined using statistical analysis and actuarial experience.

32. Risk management and control (continued)

Insurance risk (continued)

The principal products of the Company are:

Household. These contracts provide cover in respect of householders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. The Company uses reinsurance to manage the exposure to an accumulation of claims arising from any one incident, usually severe weather. The catastrophe cover runs from 1 July to 30 June and reinsures the Company for losses between £30m and £509m (2015: £30m and £496m) for a single weather event. A single household policy can result in a large liability claim. To mitigate the risk, accident excess of loss reinsurance is in place for claims in excess of £0.75m (2015: £0.75m).

Accident, Sickness and Unemployment. These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

Pet. These contracts provide cover in respect of veterinary expenses incurred treating customers pets. Liability cover is also provided up to a limit of £1m. To mitigate the risk, accident excess of loss reinsurance is in place for claims in excess of £0.5m.

Motor (in run-off). These contracts provide cover in respect of customers' private cars and their liability to third parties in respect of third party damage. Exposure is normally limited to the replacement value of the vehicle, and a policy limit in respect of third party property damage. Exposure to third party bodily injury is unlimited in accordance with the statutory requirements. The motor book continues in run-off, the final policy having expired in August 2007.

Domestic Mortgage Indemnity. These contracts (in run-off) protect a mortgage lender should an insured property be repossessed and subsequently sold at a loss. Since 1993, the contract has included a maximum period of cover of ten years, and a cap on the maximum claim. For business accepted prior to 1993, cover is unlimited and lasts until the insured property is remortgaged or redeemed.

Key risk factors

Weather events

Significant weather events such as windstorms, and coastal and river floods can lead to significant claims.

Concentration

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

Subsidence

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

Economic downturn

Periods of rapid and prolonged national economic downturn can create significant variation in the frequency and severity of accident, sickness and unemployment claims' experience.

32. Risk management and control (continued)

Market risk

The Company's exposure to market risk is influenced by external factors such as changes in interest rates and credit spreads, or equity and property price fluctuations. Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates. Credit spread risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in credit spreads above the risk-free rate. Equity and property price risk exists as the Company is exposed to underlying equity and property price movements through its investments in funds which have underlying investments in equity securities and properties. The Company is exposed to these risks on the investment portfolio that is maintained to meet the obligations to policyholders.

The sensitivity analysis considers the impact on the value of the Company's assets of a 1% increase in interest rates, a 1% increase in credit spreads, a 20% fall in equity values and a 15% fall in property values. The calculation is based on the market value of relevant assets and in the case of the impact of interest rate and credit spread movements, the duration of the bond assets in the fund (excluding gilts in the case of a credit spread change). As liabilities are not discounted no change is assumed in the value of liabilities as a result of market risk.

The methods and assumptions used are unchanged from the previous year end.

Credit risk

Credit risk is the exposure to loss if another party fails to perform its financial obligations to the company.

The Company's exposure to credit risk includes:
- Banking counterparty risk;
- Investment counterparty risk;
- Reinsurer credit risk; and
- Premium debtor and supplier prepayment risk.

Banking and investment counterparty risks are controlled through limits on the exposure to individual counterparties. Reinsurer credit risk is controlled through a requirement that all reinsurers have S&P ratings of A- or better or AM Best rating of A- or better and who are approved by its reinsurance broker's Security Committee for the type of business being reinsured. Limits are placed on premium and supplier risks to mitigate exposure.

The credit profile of the Company's assets exposed to credit risk is shown in the table below. The credit rating bands are provided by independent rating agencies. For unrated assets, internal ratings are maintained which are used to manage exposure to these counterparties. No provision for impairment has been made at year end (2015: £nil) on the basis that balances are considered to be recoverable, other than that in respect of premium debtors disclosed in note 19.

	AAA	AA	A	BBB	BB & below	Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2016							
Government securities	20,109	20,335	-	30,160	4,903	-	75,507
Other fixed rate securities	-	-	-	-	-	-	-
Variable rate securities	-	-	-	-	-	-	-
Total debt securities	20,109	20,335	-	30,160	4,903	-	75,507
Accrued interest	57	64	-	537	112	-	770
Derivative assets	-	-	1,013	-	-	-	1,013
Cash and cash equivalents	-	-	23,181	-	-	-	23,181
Financial assets excluding Investment funds	20,166	20,399	24,194	30,697	5,015	-	100,471
Reinsurers' share of contract liabilities	-	8,439	5,411	114	-	2,234	16,198
Receivables (note 19)	19	747	826	-	4,553	109,579	115,724
	20,185	29,585	30,431	30,811	9,568	111,813	232,393

32. Risk management and control (continued)

Credit risk (continued)	AAA £'000	AA £'000	A £'000	BBB £'000	BB & below £'000	Unrated £'000	Total £'000
As at 31 December 2015							
Government securities	27,729	58,967	-	28,243	4,741	-	119,680
Other fixed rate securities	-	-	-	-	-	-	-
Variable rate securities	-	-	-	-	-	-	-
Total debt securities	27,729	58,967	-	28,243	4,741	-	119,680
Accrued interest	160	355	-	515	109	-	1,139
Derivative assets	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	14,333	-	-	-	14,333
Financial assets excluding Investment funds	27,889	59,322	14,333	28,758	4,850	-	135,152
Reinsurers' share of contract liabilities	-	7,769	3,811	160	-	2,229	13,969
Receivables (note 19)	-	256	45	-	3,395	103,721	107,417
	27,889	67,347	18,189	28,918	8,245	105,950	256,538

Liquidity risk

Liquidity risk is the risk that the Company either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can only secure such liquid financial resources either at an excessive borrowing cost relative to that achieved in the recent past or that typically payable by a comparably rated borrower or through the sale of illiquid assets at a price significantly below the fair value of such assets in the recent past.

The Company maintains sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from all contingent events with a probability of occurrence of up to 1 in 200 years, as identified through stress and scenario testing and the annual planning process.

The Company has entered into a ten-year arrangement with Legal & General Finance PLC and a 5 year arrangement with Legal and General Group Plc to manage the cash flows of the general insurance business. The arrangements are for the provision of a £25m working capital facility to the Company, as well as a further £100m facility revolving credit loan facility. This has proved ample for day to day cash management and is sufficient to cover a 1 in 200 catastrophe event modelled in the stress and scenario testing exercise. The sufficiency of the facility is regularly monitored by Legal & General's Insurance Division's Product, Investments and Capital Committee ('GIPICC').

The following aspects of liquidity risk are relevant to the Company.

Projected market conditions cash flow risk. the risk that a change in the economy, market conditions or the business environment may change the size or timing of the financial obligations resulting in the need to increase its liquidity levels.

Cash flow timing risk. the risk that the actual timing of cash flows may vary to those projected. However, the nature, type and effect of timing differences will differ for those associated with insurance business funds.

Contingent liquidity risk. the risk from the occurrence of high impact events for which no provision has been made in liquidity forecasts due to the events having an extremely low probability of occurrence.
Such events giving rise to contingent liquidity risk may include:

- External events, particularly those of a catastrophic nature, which may give rise to significant number of claims or policy withdrawals requiring settlement; and

- A significant failure in internal controls either resulting in direct financial loss or the need to pay redress to customers who may have suffered disadvantage as a result of failure.

Currency risk. the Company is potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. The Company manages its currency risk exposure in respect of these assets denominated in non-sterling currencies by entering into derivative contracts including foreign exchange forward contracts to hedge these exposures.

Due to the hedge relationships in place, the Company's exposure to foreign exchange at 31 December 2016 and 31 December 2015 was insignificant.

32. Risk management and control (continued)

Operational risk

The Company aims to implement cost-effective controls to reduce operational risk exposures. Control performance is monitored regularly and weaknesses or failures reported, with appropriate action plans. The Risk and Compliance Committee reviews operational risk exposures and controls bi-monthly.

Internal processes and customer service standards while carefully controlled and managed may fail or be impacted by external factors such as fraud or terrorist action giving rise to adverse customer reaction and a resultant loss to the Company; either a monetary loss or a loss of future sales.

Sensitivity analysis

a) Claims events

The table below shows material sensitivities to claims events for the Company on pre-tax profit and equity, net of reinsurance:

	Impact on pre-tax profit net of reinsurance 2016 £'000	Impact on equity net of reinsurance 2016 £'000	Impact on pre-tax profit net of reinsurance 2015 £'000	Impact on equity net of reinsurance 2015 £'000
Sensitivity test				
Single storm event with 1 in 200 year probability	(62,478)	(50,451)	(66,611)	(53,289)
Subsidence event - worst claim ratio in last 30 years	(60,951)	(49,218)	(71,655)	(57,324)
5% decrease in overall claims ratio	7,397	5,973	8,884	7,107
5% surplus over claims liabilities	4,157	3,357	4,983	3,986

For any single event with claims in excess of £30m (2015: £30m) but less than £509m (2015: £496m) the ultimate cost to the Company would be £30m plus 50% of the £5m XS £30m layer (2015: £30m plus 50% of the £5m XS £30m layer) plus the cost of the reinsurance reinstatement premium. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the catastrophe cover by approximately £280m (2015: £270m), with an estimated total cost to the Company of £335m (2015: £330m).

b) Market conditions

The table below provides management estimates of the impact on the Company's pre-tax profit and equity to changes in market conditions:

	Impact on pre-tax profit 2016 £'000	Impact on equity 2016 £'000	Impact on pre-tax profit 2015 £'000	Impact on equity 2015 £'000
Sensitivity test				
100bps increase in interest rates	(4,010)	(3,238)	(3,950)	(3,160)
100bps increase in credit spreads	(5,455)	(4,405)	(2,859)	(2,287)
20% decrease in equity values	(20,635)	(16,663)	(12,855)	(10,284)
15% decrease in property values	(2,581)	(2,084)	(2,519)	(2,015)

Capital

From 1st January 2016 the Solvency II regime came into force. This means that capital requirements were no longer set according to the ICAS regime. The Company attained internal model approval in December 2015 from the PRA and so solvency capital requirements are calculated using that model rather than the standard formula approach under solvency II.

Capital requirements were and will continue to be calculated each quarter, and the results of these calculations will be presented to GIPICC. The surplus of available capital is also monitored and reported within monthly reporting.