00423930

Legal & General

LEGAL & GENERAL INSURANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

2017

Legal & General Insurance Limited
Contents

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 2017

Principal activities
Legal & General Insurance Limited (the 'Company') is a private limited insurance company authorised in the UK by the Prudential Regulation Authority ('PRA'), and regulated by the Financial Conduct Authority ('FCA') and the 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 has focused on growing both its household and pet offerings. A combination of developing the customer proposition, obtaining and growing new partnerships and competitive pricing resulted in premium growth in household and pet of 13% and 61% respectively, in what remains a highly competitive market. The Company has however maintained its focus on the future profitability of the business and has been careful not to reduce policy prices to an extent that could risk this future profitability and the financial stability of the Company. The Company is therefore pleased to report gross written premium of £369,438,000 in the year (2016: £326,139,000).

The Company continues to be active in seeking opportunities to increase its market offering, successfully bringing on new partners during the year whilst developing existing relationships. The direct channel benefitted from continued investment in the digital offering combined with a competitve pricing policy. The focus on the customer journey resulted in the launch of "Smartquote" in the second half of the year, a market leading product enabling customers to obtain a home insurance quote after answering just five questions.

An industry wide rise in claims experience across a number of peril categories created a challenging backdrop for operations. Costs for non-weather claims perils, principally escape of water, have increased compared to previous years. We have taken action across pricing, underwriting and claims management to address this and expect claims experience to recover to be in line with previous years.

Higher expense spending during the year reflected a combination of higher operational costs in order to service the growing book, and investment in the customer proposition through project spend of £14,672,000. Underlying costs, excluding project spend, rose by £7,297,000 (16.5%), broadly in line with the growth in premium.

The Company continues to monitor the investment portfolio performance against return and volatility criteria agreed with the investment fund manager, Legal & General Investment Management Limited. Investment returns totalled £23,004,000 (2016: £31,998,000), representing a return of 5.9% against the long term strategic target of 3.9%. This is attributed to favourable equity performance with global markets continuing to rise during the year. Falls in the value of assets denominated in foreign currencies as a result of the gradual appreciation of Sterling during the year were successfully offset by the Company's hedging strategy. We benefit from being broadly diversified across asset classes and geographies as a way to manage the risk of unexpected market volatility.

Result for the year and dividend
The results of the Company show a pre-tax profit of £10,527,000 (2016: £52,389,000), details of which are set out on page 11. The directors have recommended the payment of an interim dividend of £30,000,000 in 2018 (2017: £23,000,000). The proposed interim dividend of £23,000,000 for 2017 on ordinary share capital was approved by the board and fully paid in March 2017.

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:

	2017	2016
Year end shareholders funds (£`000)	267,185	282,272
Gross written premium (£`000)	369,438	326,139
Combined operating ratio	103%	93%

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:

	2017	2016
Inforce Policies	1,975,710	1,801,138
Average monthly reportable complaints (% of inforce policies)	0.023%	0.014%

Future developments
The Company will continue to evolve its strategy in the 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. The Company is also investing in new technology both to enhance the customer journey and deliver cost savings across the business.

The Company continues to invest in and grow its pet insurance business, and the acqusition of Buddies Enterprises Limited in early 2018 will further enhance the offering in this market.

Principal risks and uncertainties
The Company's business involves the acceptance and management of insurance risk. The process of risk acceptance and risk management is managed through a risk framework, comprising formal committees, risk assessment processes and review functions with formal updates to the Board. A full review of risk is discussed in note 33.

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 tproviding cover up to a 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. The growth in sales of pet policies in 2017 has gone some way to diversify this risk, however household insurance continues to constitute the majority of the Company's business. 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. Overseas currency exposure in the fund is limited to a maximum of 10%.

Financial markets have seen continued growth in 2017, following on from those seen in 2016. However, the potential for volatility remains given the uncertainty which still surrounds the UK's decision to leave the EU, as well as other uncertainties in the global economy. The current period of negotiation around Britain's exit of the EU and uncertain outcome is creating on-going uncertainty for financial markets and the broader UK economy in which the Company operates, and the potential for asset price shifts remains. 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; 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 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 digitalises its business, it 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 and implement the new General Data Protection Regulation (GDPR) which becomes enforceable from 25 May 2018.

By Order of the Board

Andrew D Fairhurst

A.D. *Fairhurst*
for and on behalf of Legal & General Co Sec Limited
Company Secretary
5 March 2018

Legal & General Insurance Limited
Directors' Report
For the year ended 31 December 2017

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2017.

Result for the year and dividend

The results of the Company show a pre-tax profit of £10,527,000 (2016: £52,389,000), details of which are set out on page 11. The directors have recommended the payment of an interim dividend of £30,000,000 in 2018 (2017: £23,000,000). The proposed interim dividend of £23,000,000 for 2017 on ordinary share capital was approved by the board and fully paid in March 2017.

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 33 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:

C.M. Agius (Appointed 25 April 2017)
C.J. Wren-Kirkham (Appointed 30 March 2017)
S. Pollack (Appointed 29 January 2018)
M. Holweger (Resigned on 23 February 2018)
J.A. Hyde (Resigned on 2 November 2017)
K. Martin (Resigned on 19 April 2017)
S.G. Welch (Resigned on 21 June 2017)

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.

PricewaterhouseCoopers LLP are expected to continue as external auditors of the Company until the Annual General Meeting of Legal & General Group plc on 17 May 2018 at which point they are expected to resign as auditors of the Company and Group. KPMG LLP are expected to be formally appointed as auditors of the Company and Group from this date.

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.

By Order of the Board

Andrew D Fairhurst

A.D. Fairhurst
for and on behalf of Legal & General Co Sec Limited
Company Secretary
5 March 2018

Independent auditors' report to the members of Legal & General Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Legal & General Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

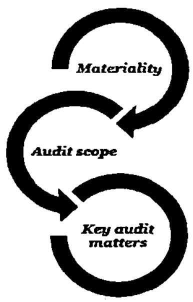
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality: £6.5 million, based on 1% of total assets.

- Based upon the outputs of our risk assessment, along with our understanding of the company, we have tailored the scope of our audit to ensure that we perform enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls, and the industry in which the company operates. In doing so, we also considered qualitative factors and checked that we have sufficient coverage across all financial statement line items in the company's financial statements.

- The risk that actuarial reserves could be incorrectly estimated due to the application of inappropriate methodology and assumptions or error.

Independent auditors' report to the members of Legal & General Insurance Limited (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Prudential Regulation Authority's and the Financial Conduct Authority's regulations, and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures and underlying supporting documentation, review of correspondence with the regulators, enquiries of management, and review of relevant internal audit reports. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
The risk that actuarial reserves could be incorrectly estimated due to the application of inappropriate methodology and assumptions or error (See Note 32 for further details.) Actuarial reserves comprise reserves for individual claims notified to the company and additional estimates for claims incurred but not reported at 31 December 2017 or for where claims have been notified but not enough reported (IBNR). There is a degree of uncertainty in relation to the estimation of the IBNR element of actuarial reserves. At 31 December 2017, the total claims reserve was £96m, of which £30m was in respect of IBNR. Actuarial reserving therefore continues to be an area of focus, particularly in those instances where changes in assumptions could result in material changes to the actuarial reserving position as at the year-end.	We understood the company's processes and controls to ensure the completeness and accuracy of the data used in determining the actuarial reserves. We independently estimated the material household reserves as at 30 September 2017 using standard actuarial techniques, and compared our results to the directors' best estimate reserves. For accident, sickness and unemployment classes we assessed the methodology and assumptions used by the company to estimate the reserves. For pet insurance, we performed key indicator reviews. We then performed an actual versus expected analysis of the movements between 30 September 2017 and 31 December 2017. We carried out additional re-projections as at 31 December 2017 for any classes where actual experience deviated significantly from that expected. Our work and that of the company is dependent upon the accuracy of underlying data used to project the claims outstanding provisions; our audit procedures included reconciling the data used back to the source system, and performing detailed testing over the individual case estimates held on the source system. No significant issues were identified during the course of carrying out our work.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£6.5 million
How we determined it	1% of total assets.
Rationale for benchmark applied	We believe total assets to be the most appropriate benchmark to use as the public interest is linked to the financial and capital strength of the company.

We agreed with the Board that we would report to them misstatements identified during our audit above £0.3 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the *company's ability to continue as a going concern.*

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did *not identify any material misstatements in the Strategic Report and Directors' Report.*

Independent auditors' report to the members of Legal & General Insurance Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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 other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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 kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 1 March 1985 to audit the financial statements for the year ended 31 December 1985 and subsequent financial periods. The period of total uninterrupted engagement is 33 years, covering the years ended 31 December 1985 to 31 December 2017.

David Roper

David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
5 March 2018

Legal & General Insurance Limited
Statement of Comprehensive Income
For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue			
Gross written premiums		369,438	326,139
Outward reinsurance premiums		(24,957)	(26,834)
Net change in provision for unearned premiums		(24,227)	4,698
Net premiums earned		320,254	304,003
Investment return on financial investments at fair value through profit or loss	3.	23,004	31,998
Interest receivable and similar income	9.	11,119	7,643
Total revenue		354,377	343,644
Expenses			
Claims and change in insurance liabilities		175,206	152,284
Reinsurance recoveries		(2,177)	(1,334)
Net claims and change in insurance liabilities	4.	173,029	150,950
Acquisition costs	5.	104,112	95,708
Finance costs	6.	400	257
Other expenses	10.	66,309	44,340
Total expenses		343,850	291,255
Profit before tax		10,527	52,389
Total tax expense	11.	(2,614)	(9,925)
Profit for the year and total comprehensive income		7,913	42,464

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 2017

	Notes	2017 £'000	2016 £'000
Assets			
Deferred acquisition costs	19.	58,401	50,166
Investments in subsidiaries	16.	-	2,000
Plant and equipment	15.	4,466	4,970
Intangible assets	14.	43,772	35,941
Financial investments	17.	376,122	390,873
Reinsurers' share of contract liabilities	22.	14,485	16,198
Receivables arising out of direct insurance operations - policyholders	20.	86,155	82,172
- intermediaries	20.	32,548	23,043
Amounts owed by group undertakings	20.	12,785	6,691
Prepayments and other receivables	20.	4,984	3,818
Cash and cash equivalents	21.	12,585	23,181
Total assets		646,303	639,053
Equity			
Share capital	28.	7,000	7,000
Share premium		96,053	96,053
Retained earnings	29.	164,132	179,219
Total equity		267,185	282,272
Liabilities			
Insurance contract liabilities	22.	290,081	267,697
Deferred tax liabilities	13.	9,780	10,911
Current tax liabilities	12.	4,014	11,882
Trade payables	24.	21,929	21,756
Other payables and financial liabilities	25.	53,314	44,535
Total liabilities		379,118	356,781
Total equity and liabilities		646,303	639,053

The notes on pages 15 to 37 form an integral part of the financial statements.

The financial statements on pages 11 to 37 were approved by the Board of directors on 5 March 2018 and were signed on their behalf by:

C. M. Agius
Director

C. J. Wren-Kirkham
Director

Company Registration Number: 00423930.

Legal & General Insurance Limited

Cash Flow Statement

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Profit before tax	10,527	52,389
Adjustments for:		
Depreciation and amortisation	3,586	2,822
Net fair value gains on financial instruments	(19,787)	(28,284)
Dividend and interest income	(3,217)	(3,714)
Impairment of investment in subsidiary	2,250	-
Interest payable	400	257
Changes in operating assets and liabilities:		
Net increase/(decrease) in insurance contract liabilities	22,384	(15,516)
Net (increase)/ decrease in reinsurers' share of contract liabilities	1,713	(2,229)
Net (increase)/decrease in deferred acquisition costs	(8,235)	1,567
Net (increase) in other assets	(17,643)	(4,300)
Net increase in operational liabilities	10,289	17,512
Net sales of financial investments	33,201	22,408
Cash inflow generated by operations	**35,468**	**42,912**
Interest received	3,251	4,083
Interest paid	(400)	(257)
Tax paid	(11,613)	(3,147)
Net cash inflow from operating activities	**26,706**	**43,591**
Cash flows from investing activities		
Purchase of plant and equipment	(75)	(1,167)
Purchase of intangible assets	(10,838)	(11,631)
Net (decrease) in loans from group undertakings	(3,139)	(1,945)
Capital contribution to wholly owned subsidiary	(250)	-
Net cash outflows from investing activities	**(14,302)**	**(14,743)**
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	(23,000)	(20,000)
Net cash outflows from financing activities	**(23,000)**	**(20,000)**
Net (decrease)/increase in cash or cash equivalents	(10,596)	8,848
Cash and cash equivalents at the beginning of the year	23,181	14,333
Cash and cash equivalents at the end of the year	**12,585**	**23,181**

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 2017

	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2017	7,000	96,053	179,219	282,272
Profit for the year and total comprehensive income	-	-	7,913	7,913
Dividends paid during the year	-	-	(23,000)	(23,000)
Balance at 31 December 2017	**7,000**	**96,053**	**164,132**	**267,185**

	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**

1. Accounting Policies

a) Basis of Preparation

The Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 management's 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 are outlined in note 32 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 and 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. Premiums are shown net of IPT and 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 statement of financial position, 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. 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 statement of financial position 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 if required 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 statement of financial position 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 statement of financial position 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 other comprehensive income.

Tax rates

Following the 2017 Budget announcement, the rate of corporation tax is expected to reduce progressively to 17% by 1 April 2020. To calculate the current tax charge, the rate of tax used is 19.25% (2016: 20%), which is the average rate of corporation tax applicable for the year. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operate and generate taxable income.

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 income statement in the period to which it relates to on an effective interest rate ('EIR') basis. Instalment fee income receivable is recognised within Receivables arising out of direct insurance operations and deferred 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 statement of financial position 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 statement of financial position 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 income statement.

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 income statement except when recognised in other comprehensive income as qualifying cash flow or net investment hedges.

q) 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 to lessors under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

r) Standards, Interpretations and amendments to published standards that are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the group's accounting periods beginning on or after 1 January 2018 or later periods but which the group has not adopted early, as disclosed below.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, 'Revenue from Contracts with Customers', issued in May 2014, is effective for annual periods beginning on or after 1 January 2018, and supersedes all current revenue recognition requirements under IFRSs. The standard provides clear guidance over when and how much revenue should be recognised, by introducing a principles-based recognition approach based on the concept of recognising revenue for obligations as they are satisfied. As the standard does not apply to business classified as insurance contracts, the main impact of IFRS 15 is expected to be on the accounting for revenue from investment management business. The company does not expect the impact to be significant.

IFRS 16 – Leases

IFRS 16, 'Leases', issued in January 2016, is effective for annual periods beginning on or after 1 January 2019 (subject to EU endorsement), and supersedes all current lease requirements under IFRSs. IFRS 16 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 statement of financial position. 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 expect the impact to be significant.

IFRS 17 – Insurance Contracts

IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021 (subject to EU endorsement). The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their valuation, income statement presentation and disclosure. The company has mobilised a project to assess the financial and operational implications of the standard and work will continue throughout 2018 to ensure technical compliance and to develop the required system capability to implement the standard.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 (subject to EU endorsement) until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. The company will qualify, and expects to apply this deferral of IFRS 9. During 2017 there was no significant change in the activities of the group that requires reassessment.

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.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The Interpretation clarifies the application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments.

Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements were issued in December 2017 and consist of minor amendments affecting IFRS 3 'Business combinations', IFRS 11 'Joint arrangements', IAS 12 'Income taxes' and IAS 23 'Borrowing costs'. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, subject to EU endorsement.

2. Profit before taxation

	2017 £'000	2016 £'000
Profit before taxation is stated after charging:		
Depreciation of tangible assets	579	495
Amortisation of intangible assets	3,007	2,327
Auditors' remuneration (see below for further analysis)	304	290

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

	2017 £'000	2016 £'000
Audit Services		
Audit of these financial statements	224	212
Non Audit Services		
Fees payable to the Company auditors for other services:		
- Audit related assurance services - required by national or EU legislation	46	47
- Audit related assurance services - other	34	31
Total	304	290

3. Investment return

	2017 £'000	2016 £'000
Investment income	3,217	3,714
Unrealised gains	11,876	37,299
Realised gains/(losses)	7,911	(9,015)
	23,004	31,998

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

	2017 £'000	2016 £'000
Claims paid		
- gross	176,021	164,765
- reinsurance recoveries	(2,862)	(769)
	173,159	163,996
Change in insurance liabilities		
- gross	(815)	(12,481)
- reinsurance recoveries	685	(565)
Net claims and change in insurance liabilities	173,029	150,950

5. Acquisition costs

	2017 £'000	2016 £'000
Acquisition costs	112,347	94,141
Change in deferred acquisition costs	(8,235)	1,567
	104,112	95,708

6. Finance costs

	2017 £'000	2016 £'000
Interest payable to group undertakings	400	257

7. Employee information

The company has no direct employees since they are employed by Legal & General Resources Limited, 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 (2016: £nil). Staff costs are transferred through intercompany re-charges.

8. Directors' emoluments

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

	2017 £'000	2016 £'000
In respect of services as directors:		
Aggregate emoluments [1]	819	1,096
Aggregate money purchase contributions	42	36

Defined benefits accrued to none (2016: none) of the directors under the Group defined benefit pension scheme.

No fees were paid by the Company to the directors (2016: £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.

	2017 £'000	2016 £'000
Highest paid director:		
Emoluments [1]	351	324
Money purchase contributions	7	-

[1]. For the year ended 31 December 2016, Key management personnel compensation included social security costs. These costs should not have been included in the analysis, as they are not an employee benefit. The table has therefore been restated to exclude these costs. The restatement has no impact on either Total expenses nor Profit before income tax in the Company's Statement of Comprehensive Income for the year ended 31 December 2016.

9. Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable and similar income: instalment fee income	11,119	7,643

10. Other expenses

	2017 £'000	2016 £'000
Administrative expenses	67,434	45,735
Reinsurance commissions and profit participations	(2,326)	(2,591)
Investment management expenses	1,201	1,196
	66,309	44,340

11. Total tax expense

	2017 £'000	2016 £'000
Current tax		
- Current tax for the year	3,766	11,840
- Adjustments in respect of prior years	(21)	25
Total current tax	3,745	11,865
Deferred tax		
- Movement in temporary differences	(1,049)	(1,597)
- Impact of reduction in UK corporate tax rate to 17% by 1 April 2020	(82)	(343)
Total deferred tax	(1,131)	(1,940)
Total tax expense	2,614	9,925

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

	2017 £'000	2016 £'000
Profit before tax attributable to equity holders	10,527	52,389
Corporation tax at 19.25% (2016: 20%)	2,026	10,478
Effects of:		
Adjustments in respect of prior years	(21)	25
Adjustments in respect of prior year deferred tax	203	(278)
Expenses not deductible for tax purposes	488	43
Impact of reduction in UK corporate tax rate to 19-17% by 1 April 2020 on deferred tax balances	(82)	(343)
Tax attributable to equity shareholders	2,614	9,925

12. Current tax liabilities

	2017 £'000	2016 £'000
Tax due within 12 months	4,014	11,882

13. Deferred tax

	Net tax (liabilities) as at 1 January 2017 £'000	Tax credited/(charged) to the income statement £'000	Net tax (liabilities) as at 31 December 2017 £'000
Excess of capital allowances over depreciation	(1,612)	(820)	(2,432)
Claims equalisation reserve	(9,299)	1,951	(7,348)
Deferred tax (liabilities)	(10,911)	1,131	(9,780)

	Net tax (liabilities) as at 1 January 2016 £'000	Tax credited/(charged) to the income statement £'000	Net tax (liabilities) as at 31 December 2016 £'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)

14. Intangible assets

	2017 £'000	2016 £'000
Cost		
Balance at beginning of year	38,748	27,117
Additions	10,838	11,631
Balance at end of year	49,586	38,748
Accumulated amortisation		
Balance at beginning of year	2,807	480
Amortisation charge for the year	3,007	2,327
Balance at end of year	5,814	2,807
Closing net book value	43,772	35,941
Opening net book value	35,941	26,637

Intangible assets relate to the costs directly associated with the development of computer software.

15. Plant and equipment

	2017 £'000	2016 £'000
Cost		
Balance at beginning of year	6,516	6,018
Additions	75	1,167
Disposals	(723)	(669)
Balance at end of year	5,868	6,516
Accumulated depreciation		
Balance at beginning of year	1,546	1,720
Depreciation charge for the year	579	495
Disposals	(723)	(669)
Balance at end of year	1,402	1,546
Closing net book value	4,466	4,970
Opening net book value	4,970	4,298

16. Investments

a) Investments in subsidiaries

Cost	2017 £'000	2016 £'000
Balance at beginning of year	2,000	2,000
Capital contribution	250	-
Impairment of investment in subsidiary	(2,250)	-
Balance at end of year	-	2,000

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

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

The registered office of the subsidiary is One Coleman Steet, London, EC2R 5AA. The subsidiary is 100% owned and has a 31 December financial year end.

Following the transfer of all responsibility for the distribution and operation of the pet business to the company from Legal & General Distribution Services Limited (LGDSL) during the year, an impairment charge of £2.25m was recognised in relation to the investment in LGDSL. The carrying amount of LGDSL has been reduced to zero through the recognition of the impairment charged through other expenses.

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 2017 our total interest in such entities, reflected on the Company's statement of financial position and classified as financial investments held at fair value through profit or loss, was £284,573k (2016: £313,583k). A summary of our holdings at 31 December 2017, with prior year comparatives, is provided below:

	2017 £`000	2016 £`000
Investment funds		
Analysed as:		
Unit Trusts	227,593	258,313
Specialised investment vehicles		
Analysed as:		
SICAVs	19,458	19,169
OEICs	37,522	36,101
Total	284,573	313,583

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.

17. Financial Investments

	2017 £'000	2016 £'000
Financial investments at fair value through the profit and loss:		
Investment funds	284,573	313,583
Debt securities and other fixed income securities	88,965	75,507
Accrued interest	736	770
Derivative assets	1,848	1,013
	376,122	390,873
Expected to be received within 12 months from the reporting date	2,584	1,783
Expected to be received after 12 months from the reporting date	373,538	389,090
	376,122	390,873

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 (2016: £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 2017	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investment funds	284,573	284,573	-	-
Debt securities and other fixed income securities	88,965	88,965	-	-
Accrued interest	736	736	-	-
Derivative Assets	1,848	1,848	-	-
Total financial investments	376,122	376,122	-	-

As at 31 December 2016	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'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	-	-

18. Derivative assets and liabilities

	Fair value Asset 2017 £'000	Fair value Liability 2016 £'000
Equity/ index derivatives	1,848	1,959

	Fair value Asset 2017 £'000	Fair value Liability 2016 £'000
Equity/ index derivatives	1,013	3,296

Derivative liabilities are reported in the statement of financial position within Other payables and financial liabilities.

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

As at 31 December 2017		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	1,848	1,848	-	-	-	-	1,848
Derivative liabilities	-	-	-	-	-	-	-
Total	1,848	1,848	-	-	-	-	1,848
Cash outflows							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	1,959	1,959	-	-	-	-	1,959
Total	1,959	1,959	-	-	-	-	1,959
Net cashflows	(111)	(111)	-	-	-	-	(111)

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)

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.

19. Deferred acquisition costs

	Gross 2017 £'000	RI 2017 £'000	Gross 2016 £'000	RI 2016 £'000
As at 1 January	50,166	(1,428)	51,733	(1,372)
Acquisition costs movement in provision	8,235	326	(1,567)	(56)
As at 31 December	58,401	(1,102)	50,166	(1,428)
To be amortised within 12 months from the reporting date	58,401	(1,102)	50,166	(1,428)

20. Receivables

	2017 £'000	2016 £'000
Receivables arising out of direct insurance operations - policyholders	86,155	82,172
- intermediaries	32,548	23,043
Amounts owed by group undertakings	12,785	6,691
Prepayments and other receivables	4,984	3,818
	136,472	115,724
Receivable within 12 months from the reporting date	136,472	115,724

As in the prior years, the Company does not have significant receivables that are past due and for which provision has not been made at 31 December 2017. A total bad debt provision of £1,782,000 was held at the statement of financial position date (2016: £876,000).

21. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	12,585	23,181

Included within cash is £941,000 (2016: £nil) held as collateral against derivative financial instruments.

22. *Insurance contract liabilities*

	Gross 2017 £'000	RI 2017 £'000	Gross 2016 £'000	RI 2016 £'000
Provision for unearned premiums	193,876	(13,109)	170,677	(14,137)
Claims outstanding	96,205	(1,376)	97,020	(2,061)
	290,081	(14,485)	267,697	(16,198)

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 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	79,670	8,492	2,950	1,718	1,999	94,829	94,829
As at 31 December 2016							
Claims outstanding	80,121	8,222	2,911	1,724	1,981	94,959	94,959

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

22 Insurance contract liabilities (continued)

Movement in claims outstanding

	Gross 2017 £'000	RI 2017 £'000	Gross 2016 £'000	RI 2016 £'000
As at 1 January	97,020	(2,061)	109,501	(1,496)
Claims arising	171,341	(605)	159,546	(884)
Claims paid	(176,021)	2,847	(164,765)	769
Adjustments to prior year liabilities	3,865	(1,557)	(7,262)	(450)
As at 31 December	96,205	(1,376)	97,020	(2,061)

Movement in unearned premium

	Gross 2017 £'000	RI 2017 £'000	Gross 2016 £'000	RI 2016 £'000
As at 1 January	170,677	(14,137)	173,712	(12,473)
Movement in provision	23,199	1,028	(3,035)	(1,664)
As at 31 December	193,876	(13,109)	170,677	(14,137)

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

23. Claims development tables

The tables below present changes in the historical provision for losses and loss adjustment expenses since 2013 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 statement of financial position date.

Gross of reinsurance

Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Estimate of ultimate claims costs:						
- At end of accident year	161,882	168,787	171,681	152,102	168,852	823,304
- One year later	156,295	163,341	157,937	144,514	-	622,087
- Two years later	155,771	161,481	158,306	-	-	475,557
- Three years later	157,657	163,206	-	-	-	320,863
- Four years later	157,849	-	-	-	-	157,849
Estimate of cumulative claims	157,849	163,206	158,306	144,514	168,852	792,726
Cumulative payments	(155,202)	(159,785)	(153,869)	(135,975)	(96,304)	(701,135)
Outstanding claims provision	2,647	3,420	4,436	8,539	72,548	91,590
Outstanding claims provision for prior accident years						2,029
Claims handling provision						2,586
Total claims liabilities recognised in the statement of financial position						96,205

Net of reinsurance

Accident year	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Estimate of ultimate claims costs:						
- At end of accident year	161,567	168,487	171,100	151,456	168,233	820,842
- One year later	154,892	163,113	157,312	143,731	-	619,049
- Two years later	154,379	161,165	157,693	-	-	473,237
- Three years later	155,711	162,883	-	-	-	318,595
- Four years later	155,497	-	-	-	-	155,497
Estimate of cumulative claims	155,497	162,883	157,693	143,731	168,233	788,037
Cumulative payments	(153,531)	(159,454)	(153,022)	(135,469)	(96,270)	(697,746)
Outstanding claims provision	1,967	3,429	4,671	8,262	71,962	90,291
Outstanding claims provision for prior accident years						1,952
Claims handling provision						2,586
Total claims liabilities recognised in the statement of financial position						94,829

24. Trade payables

	2017	2016
	£'000	£'000
Payables arising from insurance and reinsurance contracts		
- agents, brokers and intermediaries	10,194	10,323
- reinsurers	11,735	11,433
	21,929	21,756

All trade payables are expected to be settled no more than twelve months after the statement of financial position date.

25. Other payables and financial liabilities

	2017	2016
	£'000	£'000
Amounts owed to group undertakings	32,638	23,918
Other payables	13,862	12,427
Derivative liabilities	1,959	3,296
Reinsurance share of deferred acquisition costs	1,102	1,428
Deferred instalment fee income (note 9)	3,753	3,466
	53,314	44,535

All Other payables and financial liabilities are expected to be settled no more than twelve months after the statement of financial position 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 2017	£'000	£'000	£'000	£'000
Derivative liabilities	1,959	1,959	-	-

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

26. 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.

27. Commitments

a) Capital commitments
Authorised and contracted commitments payable after 31 December 2017 are £nil (2016: £nil).

27. Commitments (continued)

b) Operating lease commitments

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

	2017 £'000	2016 £'000
- Not later than 1 year	694	694
- Later than 1 year and not later than 5 years	579	1,273
- Later than 5 years	-	-
	1,273	1,967

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.

28. Share capital

	2017 £'000	2016 £'000
Issued and fully paid:		
6,999,999 ordinary shares of £1 each	7,000	7,000

29. Retained earnings

	2017 £'000	2016 £'000
Balance at 1 January	179,219	156,755
Retained profit for the year	7,913	42,464
Dividends	(23,000)	(20,000)
Balance at 31 December	164,132	179,219

30. 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 2017. 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.

31. 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 (LGAS) and other Group 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)	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
a. Investment management portfolio	(1,200)	(1,196)	(72)	(82)
b. Liquidity management	(58)	68	8,705	5,566
c. Group expense charges	(98,664)	(77,106)	(29,057)	(20,298)
d. Commission	(1,400)	(2,351)	(761)	(820)
e. Reinsurance premium (LGAS)	(6,169)	(12,822)	(3,968)	(6,100)
f. Reinsurance premium (LGRe)	(3,490)	-	(2,010)	-
g. Settlement of group expenses	1,274	1,022	(250)	401
h. Investments in group investment funds	1,263	(21,778)	217,343	251,644
i. Revolving credit facility	(300)	(240)	-	-
j. Agency commission	-	-	(1,677)	(1,539)

a. Legal & General Investment Management 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. LGAS 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/f. Reinsurance premium accepted by LGAS and Legal & General Reinsurance as part of a wider reinsurance treaty, net of commission.
g. The Company settles group recharges on behalf of Legal & General Distribution Services Limited, who subsequently reimburse the Company.
h. The Company holds investments in investment funds controlled and managed by Group companies that are classified as related parties.
i. Commitment fee charged on a revolving credit agreement facility provided by Legal & General Group PLC at 0.24%.
j. LGAS 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.

32. 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.

32. 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. The total margin held as at 31 December 2017 was 5% (2016: 9%) of the gross booked reserves (excluding claims handling expenses).

32. 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 2017.

Household
The household margin is 5% of the booked reserves (2016: 8%). This could be used to cover adverse IBNR 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 6% (2016: 5%) of the best estimate reserve for this class of business (assuming these claims have the 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% (2016: 16%) 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 22% (2016: 21%) of the best estimate reserve for this class of business. However, the probability of this occurrence is very small.

33. 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.

33. 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 £520m (2016: £30m and £509m) for a single 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 (2016: £0.75m). From 1 July 2017, the company has an additional layer that sits below the catastrophe excess of loss reinsurance treaty to protect against multiple events and triggered only after the first loss. This layer covers losses between £15m and £30m but has a £15m aggregate deductible. Two events of £30m would be required to recover £15m on this layer.

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 (2016: £1m). To mitigate the risk, accident excess of loss reinsurance is in place for claims in excess of £0.5m (2016: £0.5m).

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.

33. 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.

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 (2016: £nil) on the basis that balances are considered to be recoverable, other than that in respect of premium debtors disclosed in note 20.

	AAA £'000	AA £'000	A £'000	BBB £'000	BB & below £'000	Unrated £'000	Total £'000
As at 31 December 2017							
Government debt securities	30,232	19,802	-	32,569	6,362	-	88,965
Accrued interest	85	73	-	505	73	-	736
Derivative assets	-	-	1,848	-	-	-	1,848
Cash and cash equivalents	-	-	12,585	-	-	-	12,585
Financial assets excluding Investment funds	30,317	19,875	14,433	33,074	6,435	-	104,134
Reinsurers' share of contract liabilities	-	5,158	9,317			10	14,485
Receivables (note 20)	22	3,227	243	3,682	-	129,298	136,472
	30,339	28,260	23,993	36,756	6,435	129,308	255,091

33. 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 2016							
Government 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 20)	19	747	826	-	4,553	109,579	115,724
	20,185	29,585	30,431	30,811	9,568	111,813	232,393

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 10 year arrangement Legal & General Finance plc and a 5 year arrangement with Legal & 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 (which can be extended for short term requirements as agreed between both parties), as well as a further £150m revolving credit loan facility. This has proved ample for day to day cash management and is sufficient to cover the liquidity requirements arising from 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 General Insurance 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 2017 and 31 December 2016 was insignificant.

33. 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 2017 £'000	Impact on equity net of reinsurance 2017 £'000	Impact on pre-tax profit net of reinsurance 2016 £'000	Impact on equity net of reinsurance 2016 £'000
Sensitivity test				
Single storm event with 1 in 200 year probability	(57,845)	(46,854)	(62,478)	(50,451)
Subsidence event - worst claim ratio in last 30 years	(63,901)	(51,759)	(60,951)	(49,218)
5% decrease in overall claims ratio	15,829	12,821	7,397	5,973
5% surplus over claims liabilities	4,446	3,601	4,157	3,357

For any single event with claims in excess of £30m (2016: £30m) but less than £520m (2016: £509m) the ultimate cost to the Company would be £30m plus 50% of the £5m XS £30m layer (2016: £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 £295m (2016: £280m), with an estimated total cost to the Company of £350m (2016: £335m).

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 2017 £'000	Impact on equity 2017 £'000	Impact on pre-tax profit 2016 £'000	Impact on equity 2016 £'000
Sensitivity test				
100bps increase in interest rates	(7,590)	(6,148)	(4,010)	(3,238)
100bps increase in credit spreads	(7,681)	(6,221)	(5,455)	(4,405)
20% decrease in equity values	(22,591)	(18,298)	(20,635)	(16,663)
15% decrease in property values	(2,824)	(2,287)	(2,581)	(2,084)

Capital

The Company's capital resources are measured and monitored on a regulatory basis and to comply with the minimum capital requirements. Following the implementation of the Solvency II regulatory regime, as adopted by the Prudential Regulation Authority (PRA), which came into force on 1 January 2016, capital resources are managed on a Solvency II basis. The regulatory capital requirement is determined using the Company's Internal Model which was approved by the PRA following the Group's successful Internal Model Approval Process (IMAP) application. Whilst the PRA approved the use of a partial internal model for the Group Solvency Capital Requirement (SCR), within that calculation the Company's SCR is based on a full 'solo model' for which the Company's Board formally requested and received approval as part of the Group's IMAP submission. Amendments to this model have subsequently been approved by the PRA as part of the Group's annual Internal Model change applications.

The capital that the Company needs to hold above its liabilities to meet the Company's objectives and ensure continued solvency is assessed on a quarterly basis, and the results of these calculations are presented to GIPICC. Our risk-based capital model seeks to provide a quantitative assessment of the Company's risk exposures. It forms part of the suite of tools that the business uses to evaluate its strategic plans, set risk appetite, allocate capital and evaluate product pricing. The key output from the capital model is the regulatory SCR. The model is calibrated to ensure that we hold sufficient capital to survive an assessment of a 1-in-200 year event, equivalent to a 99.5% value at risk confidence level over one year.

The risk appetite, which is set by the Board of Directors, sets out the Company's approach for managing own funds, target capital coverage ratios and actions to be taken when managing Own Funds. The Company aims to maintain an appropriate buffer of capital resources over the regulatory capital requirements and the internal liquidity targets. The capital coverage is projected over the five-year business planning horizon. Solvency and liquidity levels are monitored on a monthly basis, and used to inform the dividend recommendations. In line with our risk management approach, we maintained an appropriate capital buffer throughout the year.

34 Post balance sheet events

On 5 January 2018, the Company acquired 100% of the issued share capital of Buddies Enterprises Limited, for a consideration of £5.5m. Buddies Enterprises Limited is an insurance intermediary specialising in the pet insurance market.

Given the timing of the acquisition, we are not able to disclose information regarding the assets and liabilities acquired or the fair values of these assets as these are subject to fair value assessments.