00423930

Legal & General

LEGAL & GENERAL INSURANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018

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Legal & General Insurance Limited
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Registered office

One Coleman Street
London EC2R 5AA

Registered in England and Wales No. 00423930

Legal & General Insurance Limited
Strategic Report
For the year ended 31 December 2018

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 continued to grow both its household and pet offerings in the direct to customer space as well as successfully bringing on new partners. This has included growth within the Managing General Agent ("MGA") market segment, through developing existing relationships with partners, as well as entering into relationships with new MGAs. This has enabled significant access to new customers, and consequently rapid growth in premium. Such efforts have resulted in gross written premium growth in household and pet of 10% and 61% respectively. The Company is therefore pleased to report gross written premium of £409,884,000 in the year (2017: £369,438,000).

As part of the drive to increase its footprint in the pet insurance market, the Company purchased the entire share capital of Buddies Enterprises Limited ("Buddies") on 5 January 2018. Buddies operates as an intermediary in the Pet insurance sector, primarily offering policies through specialist breeders and on line. Policies sold by Buddies are now underwritten by the Company.

The Company has continued to invest significantly in our technology platforms, including enhancements to our market leading "Smartquote" product, as well as the introduction of a new policy administration platform for our pet business. There has also been significant investment on improving the customer journey from sale and policy servicing through to the claims journey.

The claims experience during the year has been adversely affected by a number of weather factors. The "Beast from the East" in March resulted in significant freeze claims, followed fairly quickly by flooding in May. A long spell of dry weather over the summer has then resulted in notably higher fire and subsidence claims. The total impact of the weather extremes experienced in 2018 is estimated to be in excess of £26m compared to average historic experience.

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. The risk of market volatility is managed by diversifying investments across asset classes and geographies. Loss on investments totalled £9,683,000 (2017: £23,004,000 profit), representing a loss of 2.49% compared to the long term strategic target of 4.5%. The adverse performance is largely attributed to increased market volatility driving poor performance notably in global equity markets over the year.

As a result of the investment losses and significant adverse claims experience during 2018, the Company received £30m additional capital from its parent entity, Legal & General Assurance Society Limited, in December 2018. The Company has also entered into quota share reinsurance arrangements with fellow Group companies as part of its capital management strategy.

Result for the year and dividend
The results of the Company show a pre-tax loss of £63,730,000 (2017: £10,527,000 profit), details of which are set out on page 11. The directors do not recommend any dividend payment in 2019 (2018: £nil).

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:

	2018	2017
Year end shareholders funds (£`000)	246,889	267,185
Gross written premium (£`000)	409,884	369,438
Combined operating ratio	118%	103%

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:

	2018	2017
Inforce Policies	2,113,840	1,975,710
Average monthly reportable complaints (% of inforce policies)	0.070%	0.055%

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. The Company is also investing in new technology both to enhance the customer journey, providing a more seamless service, and deliver cost savings across the business.

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.

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 providing 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 2018 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 20%. This limit has been relaxed from 10% in Q4 2018 as we are cognisant that certain household repair costs may be linked to the cost of imported goods so have taken this action to hedge some of the increased exposure which is considered to exist as a result of Brexit.

The potential for volatility in financial markets remains, and uncertainty surrounds the UK's decision to leave the EU, as well as other factors in the global economy. The on-going negotiation around Britain's exit of the EU, with uncertainty of clear direction and outcome, is leading to a protracted period of uncertainty for financial markets and the broader UK economy. The Company has and will continue to review the potential Brexit impact with our investment managers and will look to take appropriate actions should events change such that there is a material downside risk to the portfolio. The Company's insurance business is almost entirely carried out within the UK, and the direct impact of any change in the UK's international trading relationships is therefore unlikely to be significant. Notwithstanding this, any secondary impact on the wider UK economy could result in changes to sales and claims experience for household and income protection products, as noted above. However, given the globally diversified nature of the investment portfolio, and the UK focused insurance business, the impact of Brexit is considered unlikely to be material, but continues to be monitored by the Company's Board.

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.

The Company is participating in the FCA's market pricing study covering pricing practices in the UK home and motor insurance markets. This started at the end of 2018 and is expected to deliver conclusions towards the end of 2019, and may lead to market-wide changes in pricing practices. The Company is fully compliant with all regulations currently in place through internal pricing controls but we recognise changes to these regulations may arise as a result of this study.

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. The Company undertook a programme of works in 2017 and into 2018 so as to ensure its compliance with General Data Protection Regulations (GDPR) effective 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
22 February 2019

Legal & General Insurance Limited
Directors' Report
For the year ended 31 December 2018

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2018.

Result for the year and dividend
The results of the Company show a pre-tax loss of £63,730,000 (2017: £10,527,000 profit), details of which are set out on page 11. The directors do not recommend any dividend payment in 2019 (2018: £nil).

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
H.C. Baldock (Appointed 10 December 2018)
S. Pollack (Appointed 29 January 2018)
C.J. Wren-Kirkham
M. Holweger (Resigned on 23 February 2018)

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 Auditor
On 17 May 2018, PricewaterhouseCoopers LLP resigned as auditors. Following a tender process in 2017, KPMG LLP were appointed as the Company's external auditor commencing with the 2018 financial year and its appointment was approved by the Company's Shareholder. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Legal & General Group Plc Annual General Meeting.

Legal & General Insurance Limited
Directors' Report (continued)
For the year ended 31 December 2018

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 auditor is 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

A.D. Fairhurst
for and on behalf of Legal & General Co Sec Limited
Company Secretary
22 February 2019

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

1 Our opinion is unmodified

We have audited the financial statements of Legal & General Insurance Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Cash Flow Statement, Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholder on 17 May 2018. The period of total uninterrupted engagement is for the one financial year ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit ("Brexit") *Refer to page 3, (Strategic Report)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates and the appropriateness of the going concern basis of preparation of the financial statements. These depend on assessments of the future economic environment and the Company's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. *Brexit is one of the most significant* economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Assessing transparency:** We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — We found disclosures of these matters and disclosures in relation to going concern to *be acceptable. However, no audit should* be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Valuation of incurred but not reported (IBNR) claim liabilities (IBNR claim liabilities were included within insurance contract liabilities of £347 million; 2017: £30 million within insurance contract liabilities of £290 million) *Refer to page 16, (accounting policy) and page 27 (financial disclosures).*	**Subjective valuation:** The valuation of IBNR claim liabilities is an inherently subjective area, requiring management judgment in the setting of key assumptions. The valuation of the IBNR claim liabilities is complex as it is based on assumptions that involve judgement, estimates and material uncertainties in setting these reserves. There is a risk that inappropriate assumptions may be used to determine the balance. A change in valuation assumptions and methodology can have a significant impact on the valuation of IBNR and the reported performance of the Company. *Estimation uncertainty* The effect of these matters is that, as part of our risk assessment, we determined that the valuation of IBNR claim liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 33) disclose the sensitivity of claims events estimated by the Company.	Our procedures included: — **Control design:** testing the design of the governance of the overall reserving process. — **Methodology and assumptions choice:** using actuarial specialists to assess the appropriateness of the Company's reserving methodology and assumptions such as tail assumptions in relation to subsidence, challenging this against our understanding of the business, historical experience, and expectations derived from our market experience. — **Test of detail:** testing the accuracy of data used in the valuation of IBNR by agreeing policyholder data back to source documents on a sample basis. — **Independent re-performance:** in respect of a significant proportion of the Company's household business, performing alternative projections using our own tool and comparing this to the Company's estimate, as this was identified as the most material area of risk to the audit; — **Assessing transparency:** assessing whether the disclosures in relation to the valuation of IBNR claims liabilities are compliant with the relevant financial reporting requirements. **Our results** — We found the resulting estimate of the valuation of IBNR to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £2,900,000, determined with reference to a benchmark of gross written premiums, of which it represents 0.7%.
We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding £145,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.
Our audit of the company was undertaken to the materiality level specified above and was performed at the company's office in Birmingham.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- a deterioration in claims experience, potentially caused by market wide catastrophe event(s); and
- a deterioration in the valuation of the Company's investments.

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

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the valuation of the Company's investments, and the erosion of customer or reinsurer confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

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

- 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
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the area of regulatory capital and liquidity as that most likely to have such an effect, recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
22 February 2019

Legal & General Insurance Limited
Statement of Comprehensive Income
For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue			
Gross written premiums		409,884	369,438
Outward reinsurance premiums		(147,943)	(24,957)
Net change in provision for unearned premiums		37,568	(24,227)
Net premiums earned		299,509	320,254
Investment return on financial investments at fair value through profit or loss	3.	(9,683)	23,004
Interest receivable and similar income	9.	11,722	11,119
Total revenue		301,548	354,377
Expenses			
Claims and change in insurance liabilities		242,210	175,206
Reinsurance recoveries		(51,585)	(2,177)
Net claims and change in insurance liabilities	4.	190,625	173,029
Acquisition costs	5.	114,501	104,112
Finance costs	6.	445	400
Other expenses	10.	59,707	66,309
Total expenses		365,278	343,850
(Loss)/profit before tax		(63,730)	10,527
Total tax credit/(expense)	11.	13,434	(2,614)
(Loss)/profit for the year and total comprehensive (expense)/income		(50,296)	7,913

All activities of the Company are classified as continuing.

The (loss)/profit for the year and total comprehensive (expense)/income is entirely attributable to the equity holders of the Company.

Legal & General Insurance Limited
Statement of Financial Position
As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Deferred acquisition costs	19.	64,104	58,401
Investments in subsidiaries	16.	5,750	-
Plant and equipment	15.	3,953	4,466
Intangible assets	14.	57,301	43,772
Income tax recoverable	12.	12,548	-
Financial investments	17.	351,341	376,122
Reinsurers' share of contract liabilities	22.	72,376	14,485
Receivables arising out of direct insurance operations - policyholders	20.	85,037	86,155
- intermediaries	20.	46,739	32,548
Amounts owed by group undertakings	20.	13,686	12,785
Prepayments and other receivables	20.	11,287	4,984
Cash and cash equivalents	21.	14,764	12,585
Total assets		738,886	646,303
Equity			
Share capital	28.	37,000	7,000
Share premium		96,053	96,053
Retained earnings	29.	113,836	164,132
Total equity		246,889	267,185
Liabilities			
Insurance contract liabilities	22.	347,161	290,081
Deferred tax liabilities	13.	9,140	9,780
Current tax liabilities	12.	-	4,014
Trade payables	24.	61,335	21,929
Other payables and financial liabilities	25.	74,361	53,314
Total liabilities		491,997	379,118
Total equity and liabilities		738,886	646,303

The notes on pages 15 to 38 form an integral part of the financial statements.

The financial statements on pages 11 to 38 were approved by the Board of directors on 22 February 2019 and were signed on their behalf by:

C. J. Wren-Kirkham
Director

Company Registration Number: 00423930.

Legal & General Insurance Limited

Cash Flow Statement

For the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
(Loss)/profit before tax	(63,730)	10,527
Adjustments for:		
Depreciation and amortisation	5,042	3,586
Net fair value losses/(gains) on financial instruments	12,784	(19,787)
Dividend and interest income	(3,101)	(3,217)
Impairment of investment in subsidiary	-	2,250
Interest payable	445	400
Changes in operating assets and liabilities:		
Net increase in insurance contract liabilities	57,080	22,384
Net (increase)/decrease in reinsurers' share of contract liabilities	(57,891)	1,713
Net (increase) in deferred acquisition costs	(5,703)	(8,235)
Net (increase) in other assets	(19,464)	(17,643)
Net increase in operational liabilities	61,520	10,289
Net sales of financial investments	10,701	33,201
Cash (outflow)/inflow generated by operations	**(2,317)**	**35,468**
Interest received	3,023	3,251
Interest paid	(445)	(400)
Tax paid	(3,711)	(11,613)
Net cash (outflow)/inflow from operating activities	**(3,450)**	**26,706**
Cash flows from investing activities		
Purchase of plant and equipment	(66)	(75)
Purchase of intangible assets	(17,992)	(10,838)
Net (decrease) in loans to group undertakings	(813)	(3,139)
Capital contribution to wholly owned subsidiary	-	(250)
Purchase of wholly owned subsidiary	(5,500)	-
Net cash outflows from investing activities	**(24,371)**	**(14,302)**
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	-	(23,000)
Issuance of share capital	30,000	-
Net cash inflow/(outflow) from financing activities	**30,000**	**(23,000)**
Net increase/(decrease) in cash or cash equivalents	2,179	(10,596)
Cash and cash equivalents at the beginning of the year	12,585	23,181
Cash and cash equivalents at the end of the year	**14,764**	**12,585**

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 2018

	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	7,000	96,053	164,132	267,185
Issuance of share capital	30,000	-	-	30,000
Loss for the year and total comprehensive expense	-	-	(50,296)	(50,296)
Balance at 31 December 2018	**37,000**	**96,053**	**113,836**	**246,889**

	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**

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.

New standards, interpretations and amendments to published standards that have been adopted by the company

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments to IFRS 4 provide an option to entities which meet certain requirements to defer implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In November 2018 the IASB agreed to issue an exposure draft proposing to extend the deferral by one year, to align with the proposed delay in the adoption date of IFRS 17.

For an insurer to apply this deferral:
(i) Total liabilities related to insurance must exceed 90% of total liabilities; or
(ii) Total liabilities related to insurance are greater than 80% of total liabilities but less than 90% of total liabilities so long as the insurer does not engage in significant activity unconnected to insurance.

Total liabilities connected to insurance within the company at the initial assessment date 31 December 2015 were 91% of total liabilities; the company therefore qualifies to defer implementation of IFRS 9 and is making use of this deferral.

The company is required to retest if it is eligible for deferral of IFRS 9 if and only if there is a significant change in business activities in the year. There have been no indicators of such a change in 2018 and therefore the company continues to apply the deferral.

As required by the amendments, the disclosures below are presented in order to provide users of the financial statements with information which allows them to compare financial assets with those of entities applying IFRS 9.

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

	Financial assets passing the SPPI test[1,2] 2018 £'000	All other financial assets[3] 2018 £'000
Investment funds		239,891
Debt securities		108,627
Accrued interest		814
Derivative assets		2,009
Total financial investments at fair value		351,341
Insurance and intermediaries receivables	131,776	
Other receivables	31,346	
Total financial assets (excluding cash and cash equivalents)	**163,122**	**351,341**

1. Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in 'All other financial assets'.
2. For financial assets which pass the SPPI test held at 31 December 2018 there was a change in the fair value in the year of (£2,900k)
3. For all other financial assets held at 31 December 2018 there was a change in the fair value in the year of (£12,784k)

1. Accounting Policies

New standards, interpretations and amendments to published standards that have been adopted by the company (cont.)

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

	AAA	AA	A	BBB	BB or below[1]	Other[2]	Total
	2018	2018	2018	2018	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Insurance and intermediaries receivables and other receivables	-	3,718	9,593	-	420	149,391	163,122
Total financial assets (excluding cash and cash equivalents)	**-**	**3,718**	**9,593**	**-**	**420**	**149,391**	**163,122**

1. Financial assets classified as 'Other' are made up of unrated and short term receivables for which a formal credit rating is not assigned. The fair value of financial assets in this category that are not deemed to have low credit risk as at 31 December 2018 is £nil.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, 'Revenue from Contracts with Customers', is the new revenue recognition reporting standard, which became effective from 1 January 2018. IFRS 15 has replaced all of the previous revenue standards and interpretations in IFRS, in particular IAS 18 'Revenue' and IAS 11 'Construction Contracts'.

IFRS 15 does not cover insurance income, and consequently there has been no material impact on the Company's financial statements from the implementation of IFRS 15 and therefore the Company's financial statements have not been restated.

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 costs ('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% (2017: 19.25%), 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 operates and generates 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) 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.

n) 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)

o) 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.

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 Company's accounting periods beginning on or after 1 January 2019 or later periods but which the Company has not adopted early, as disclosed below.

IFRS 16 – Leases

IFRS 16, 'Leases', issued in January 2016, is effective for annual periods beginning on or after 1 January 2019, and replaces all existing lease requirements and guidance under IFRS, including IAS 17 'Leases', IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'. 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 many commitments in relation to operating leases (as currently defined in IAS 17) onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17, although the IASB have issued updated guidance on the definition of lease modifications and sub-lease arrangements.

The Company plans to adopt IFRS 16 by using the modified retrospective approach, and not restate comparative financial information. At the date of the initial application the Company will recognise a lease liability and a right-of-use asset of an equal amount (adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application), as allowed by the standard. Additionally the Company plans to elect to apply the standard to contracts that were previously assessed as leases applying IAS 17 and IFRIC 4. On transition, the group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company is planning to elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

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). In November 2018 the IASB agreed to issue an exposure draft proposing a one year delay in the adoption date which, if approved would delay the date of application to 1 January 2022. 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 measurement, 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 2019 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 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In November 2018 the IASB agreed to issue an exposure draft proposing to extend the deferral by one year, to align with the proposed delay in the adoption date of IFRS 17. The Company meets the requirements as detailed in 'Amendments to IFRS 4' in 'New standards, interpretations and amendments to published standards that have been adopted by the Company' and will therefore apply this deferral of IFRS 9.

1. Accounting Policies (continued)

r) Standards, interpretations and amendments to published standards that are not yet effective (continued)

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. The Company does not expect the impact to be significant

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. The Company does not expect the impact to be material

2. (Loss)/profit before taxation

	2018 £'000	2017 £'000
(Loss)/profit before taxation is stated after charging:		
Depreciation of tangible assets	579	579
Amortisation of intangible assets	4,463	3,007
Auditor's remuneration (see below for further analysis)	259	304

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

	2018 £'000	2017 £'000
Audit Services		
Audit of these financial statements	204	224
Non Audit Services		
Fees payable to the Company auditor for other services:		
- Audit related assurance services - required by national or EU legislation	55	46
- Audit related assurance services - other	-	34
Total	259	304

3. Investment return

	2018 £'000	2017 £'000
Investment income	3,101	3,217
Unrealised (losses)/gains	(5,405)	11,876
Realised (losses)/gains	(7,379)	7,911
	(9,683)	23,004

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

	2018 £'000	2017 £'000
Claims paid		
- gross	205,473	176,021
- reinsurance recoveries	(51,605)	(2,862)
	153,868	173,159
Change in insurance liabilities		
- gross	36,737	(815)
- reinsurance recoveries	20	685
Net claims and change in insurance liabilities	190,625	173,029

5. Acquisition costs

	2018 £'000	2017 £'000
Acquisition costs	120,204	112,347
Change in deferred acquisition costs	(5,703)	(8,235)
	114,501	104,112

6. Finance costs

	2018 £'000	2017 £'000
Interest payable to group undertakings	445	400

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 (2017: £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:

	2018 £'000	2017 £'000
In respect of services as directors:		
Aggregate emoluments	1,161	819
Aggregate money purchase contributions	20	42

Defined benefits accrued to none (2017: none) of the directors under the Group defined benefit pension scheme.

No fees were paid by the Company to the directors (2017: £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.

	2018 £'000	2017 £'000
Highest paid director:		
Emoluments	576	351
Money purchase contributions	10	7

9. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable and similar income: instalment fee income	11,722	11,119

10. Other expenses

	2018 £'000	2017 £'000
Administrative expenses	73,050	67,434
Reinsurance commissions and profit participations	(14,449)	(2,326)
Investment management expenses	1,106	1,201
	59,707	66,309

11. Total tax (credit)/expense

	2018 £'000	2017 £'000
Current tax		
- Current tax for the year	(11,345)	3,766
- Adjustments in respect of prior years	(1,449)	(21)
Total current tax	(12,794)	3,745
Deferred tax		
- Movement in temporary differences	(569)	(1,049)
- Impact of reduction in UK corporate tax rate to 17% by 1 April 2020	(71)	(82)
Total deferred tax	(640)	(1,131)
Total tax (credit)/expense	(13,434)	2,614

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

	2018 £'000	2017 £'000
(Loss)/Profit before tax attributable to equity holders	(63,730)	10,527
Corporation tax at 19% (2017: 19.25%)	(12,109)	2,026
Effects of:		
Adjustments in respect of prior years	(1,449)	(21)
Adjustments in respect of prior year deferred tax	681	203
Expenses not deductible for tax purposes	151	488
Impact of reduction in UK corporate tax rate to 17% by 1 April 2020 on deferred tax balances	(71)	(82)
Income not subject to tax	(637)	-
Tax attributable to equity shareholders	(13,434)	2,614

12. Current tax assets/(liabilities)

	2018 £'000	2017 £'000
Tax due within 12 months	12,548	(4,014)

13. Deferred tax

	Net tax (liabilities) as at 1 January 2018 £'000	Tax credited/(charged) to the income statement £'000	Net tax (liabilities) as at 31 December 2018 £'000
Excess of capital allowances over depreciation	(2,432)	(1,285)	(3,717)
Claims equalisation reserve	(7,348)	1,925	(5,423)
Deferred tax (liabilities)	(9,780)	640	(9,140)

	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)

14. Intangible assets

	2018 £'000	2017 £'000
Cost		
Balance at beginning of year	49,586	38,748
Additions	17,992	10,838
Balance at end of year	67,578	49,586
Accumulated amortisation		
Balance at beginning of year	5,814	2,807
Amortisation charge for the year	4,463	3,007
Balance at end of year	10,277	5,814
Closing net book value	57,301	43,772
Opening net book value	43,772	35,941

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

15. Plant and equipment

	2018 £'000	2017 £'000
Cost		
Balance at beginning of year	5,868	6,516
Additions	66	75
Disposals	-	(723)
Balance at end of year	5,934	5,868
Accumulated depreciation		
Balance at beginning of year	1,402	1,546
Depreciation charge for the year	579	579
Disposals	-	(723)
Balance at end of year	1,981	1,402
Closing net book value	3,953	4,466
Opening net book value	4,466	4,970

16. Investments

a) Investments in subsidiaries

Cost	2018 £'000	2017 £'000
Balance at beginning of year	-	2,000
Acquisition of wholly owned subsidiary	5,500	-
Capital contribution	250	250
Impairment of investment in subsidiary	-	(2,250)
Balance at end of year	5,750	-

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 (LGDSL)	Distribution company	England & Wales
Buddies Enterprises Limited (Buddies)	Pet insurance intermediary	England & Wales

The registered office of both subsidiaries is One Coleman Steet, London, EC2R 5AA. The subsidiaries are 100% owned and have a 31 December financial year end.

In January 2018, the Company acquired 100% share capital of Buddies for an initial consideration of £5,500,000. A loan of £250,000 was subsequently converted into equity in August 2018 through a purchase of new shares issued.

In the prior year, LGDSL transferred all responsibility for the distribution and operation of the pet business to the Company and the carrying amount of LGDSL was reduced to zero through the recognition of an impairment charged in 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 2018 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 £239,891k (2017: £284,573k). A summary of our holdings at 31 December 2018, with prior year comparatives, is provided below:

	2018 £`000	2017 £`000
Investment funds		
Analysed as:		
Unit Trusts	183,511	227,593
Specialised investment vehicles		
Analysed as:		
SICAVs	19,779	19,458
OEICs	36,601	37,522
Total	239,891	284,573

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

	2018 £'000	2017 £'000
Financial investments at fair value through the profit and loss:		
Investment funds	239,891	284,573
Debt securities and other fixed income securities	108,627	88,965
Accrued interest	814	736
Derivative assets	2,009	1,848
	351,341	376,122
Expected to be received within 12 months from the reporting date	2,823	2,584
Expected to be received after 12 months from the reporting date	348,518	373,538
	351,341	376,122

All financial investments have been designated as fair value through profit and loss, except derivative assets which are designated as held for trading. Financial investments have been allocated between those expected to be received within 12 months and after 12 months.

None of the financial investments (2017: £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 2018	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investment funds	239,891	239,891	-	-
Debt securities and other fixed income securities	108,627	108,627	-	-
Accrued interest	814	814	-	-
Derivative Assets	2,009	2,009	-	-
Total financial investments	351,341	351,341	-	-

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	-	-

18. Derivative assets and liabilities

	Fair value Asset 2018 £'000	Fair value Liability 2018 £'000
Equity/ index derivatives	2,009	892

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

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 2018		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	2,009	2,009	-	-	-	-	2,009
Derivative liabilities	-	-	-	-	-	-	-
Total	2,009	2,009	-	-	-	-	2,009
Cash outflows							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	892	892	-	-	-	-	892
Total	892	892	-	-	-	-	892
Net cashflows	1,117	1,117	-	-	-	-	1,117

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)

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 2018 £'000	RI 2018 £'000	Gross 2017 £'000	RI 2017 £'000
As at 1 January	58,401	(1,102)	50,166	(1,428)
Acquisition costs movement in provision	5,703	(11,623)	8,235	326
As at 31 December	64,104	(12,725)	58,401	(1,102)
To be amortised within 12 months from the reporting date	64,104	(12,725)	58,401	(1,102)

20. Receivables

	2018 £'000	2017 £'000
Receivables arising out of direct insurance operations - policyholders	85,037	86,155
Receivables arising out of direct insurance operations - intermediaries	46,739	32,548
Amounts owed by group undertakings	13,686	12,785
Prepayments and other receivables	11,287	4,984
	156,749	136,472
Receivable within 12 months from the reporting date	156,749	136,472

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 2018. A total bad debt provision of £2,900,000 was held at the statement of financial position date (2017: £1,782,000).

21. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	14,764	12,585

Included within cash is £nil (2017: £941,000) held as collateral against derivative financial instruments.

22. Insurance contract liabilities

	Gross 2018 £'000	RI 2018 £'000	Gross 2017 £'000	RI 2017 £'000
Provision for unearned premiums	214,219	(71,020)	193,876	(13,109)
Claims outstanding	132,942	(1,356)	96,205	(1,376)
	347,161	(72,376)	290,081	(14,485)

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 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	100,567	19,037	5,178	2,846	3,958	131,586	131,586
As at 31 December 2017							
Claims outstanding	79,670	8,492	2,950	1,718	1,999	94,829	94,829

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

22. Insurance contract liabilities (continued)

Movement in claims outstanding

	Gross 2018 £'000	RI 2018 £'000	Gross 2017 £'000	RI 2017 £'000
As at 1 January	96,205	(1,376)	97,020	(2,061)
Claims arising	238,812	(50,811)	171,341	(605)
Claims paid	(205,473)	51,605	(176,021)	2,847
Adjustments to prior year liabilities	3,398	(774)	3,865	(1,557)
As at 31 December	132,942	(1,356)	96,205	(1,376)

Included within reinsurance claims paid are those claims which have been settled net of premium due on the quota share contracts

Movement in unearned premium

	Gross 2018 £'000	RI 2018 £'000	Gross 2017 £'000	RI 2017 £'000
As at 1 January	193,876	(13,109)	170,677	(14,137)
Movement in provision	20,343	(57,911)	23,199	1,028
As at 31 December	214,219	(71,020)	193,876	(13,109)

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 2014 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	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of ultimate claims costs:						
- At end of accident year	168,787	171,681	152,102	168,852	234,502	895,924
- One year later	163,341	157,937	144,514	163,728		629,520
- Two years later	161,480	158,306	146,021			465,807
- Three years later	163,205	157,938				321,143
- Four years later	163,513					163,513
Estimate of cumulative claims	163,513	157,938	146,021	163,728	234,502	865,702
Cumulative payments	(161,524)	(155,659)	(141,690)	(151,419)	(125,288)	(735,580)
Outstanding claims provision	1,989	2,279	4,331	12,309	109,214	130,122
Outstanding claims provision for prior accident years						1,375
Claims handling provision						1,445
Total claims liabilities recognised in the statement of financial position						132,942

Net of reinsurance

Accident year	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of ultimate claims costs:						
- At end of accident year	168,487	171,100	151,456	168,233	183,691	842,967
- One year later	163,113	157,312	143,731	163,096		627,252
- Two years later	161,165	157,693	145,240			464,098
- Three years later	162,883	157,067				319,950
- Four years later	163,049					163,049
Estimate of cumulative claims	163,049	157,067	145,240	163,096	183,691	812,143
Cumulative payments	(160,990)	(154,789)	(140,995)	(151,130)	(75,449)	(683,353)
Outstanding claims provision	2,059	2,278	4,245	11,966	108,242	128,790
Outstanding claims provision for prior accident years						1,351
Claims handling provision						1,445
Total claims liabilities recognised in the statement of financial position						131,586

24. Trade payables

	2018 £'000	2017 £'000
Payables arising from insurance and reinsurance contracts		
- agents, brokers and intermediaries	13,036	10,194
- reinsurers	48,299	11,735
	61,335	21,929

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

	2018 £'000	2017 £'000
Amounts owed to group undertakings	41,262	32,638
Other payables	16,303	13,862
Derivative liabilities	892	1,959
Reinsurance share of deferred acquisition costs	12,725	1,102
Deferred instalment fee income	3,179	3,753
	74,361	53,314

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 2018	£'000	£'000	£'000	£'000
Derivative liabilities	892	892	-	-

	Total	Level 1	Level 2	Level 3
As at 31 December 2017	£'000	£'000	£'000	£'000
Derivative liabilities	1,959	1,959	-	-

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 2018 are £nil (2017: £nil).

27. Commitments (continued)

b) Operating lease commitments

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

	2018 £'000	2017 £'000
- Not later than 1 year	579	694
- Later than 1 year and not later than 5 years	-	579
- Later than 5 years	-	-
	579	1,273

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

	2018 £'000	2017 £'000
Issued and fully paid:		
36,999,999 ordinary shares of £1 each (2017: 6,999,999 ordinary shares of £1 each)	37,000	7,000

During the year, the Company issued 30,000,000 ordinary shares of £1 each.

29. Retained earnings

	2018 £'000	2017 £'000
Balance at 1 January	164,132	179,219
Retained (loss)/profit for the year	(50,296)	7,913
Dividends	-	(23,000)
Balance at 31 December	113,836	164,132

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 2018. 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.

Legal & General Insurance Limited
Notes to the Financial Statements
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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)	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
a. Investment management portfolio	(1,106)	(1,200)	(157)	(72)
b. Liquidity management	(31)	(58)	9,517	8,705
c. Group expense charges	(110,388)	(98,664)	(39,273)	(29,057)
d. Commission	1,213	(1,400)	-	(761)
e. i) Reinsurance premium (LGAS)	(101,844)	(6,854)	(39,977)	(3,968)
ii) Reinsurance commission (LGAS)	20,474	685	-	-
iii) Reinsurance claims (LGAS)	35,464	-	-	-
f. i) Reinsurance premium (LGRe)	(28,914)	(3,878)	(5,215)	(2,010)
ii) Reinsurance commission (LGRe)	4,682	388	-	-
iii) Reinsurance claims (LGRe)	14,358	-	-	-
g. Settlement of group expenses	277	1,274	(304)	(250)
h. Investments in group investment funds	1,223	1,263	173,988	217,343
i. Revolving credit facility	(330)	(300)	-	-
j. Agency commission	-	-	(1,527)	(1,677)
k. Intermediary relationship with Buddies	960	-	1,553	-
l. Loan to Buddies	-	-	449	-

a. Legal & General Investment Management (Holdings) Limited (LGIM) manage the investment portfolio of the Company, and charge the Company a monthly portfolio administration fee.
b. Interest charged/(credited) on loan facilities by Legal & General Finance PLC at LIBOR plus/ (minus) 0.125% respectively.
c. LGAS recharges the Company for all direct costs associated with the business and an allocated proportion of centralised costs.
d. The Company paid commission for business introduced by Legal & General Partnership Services Limited.
e/f. Reinsurance premium, commission and claims accepted/paid by LGAS and Legal & General Reinsurance as part of a wider reinsurance treaty. The increase in balance and charge in the year is due to the introduction of quota share arrangements with both LGAS and LGRe (see note 33). The balance shown is the net position owed on the arrangements.
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.
k. The company sells Pet insurance through its subsidiary, Buddies, which acts as intermediary. Buddies receives commission in respect of the premiums sold, and the balance of premium owed on the policies (net of commission) is treated as a receivable due from Buddies.
l. The Company provided a loan to its wholly owned subsidiary, Buddies. No interest is charged on the loan. In the prior year a loan of £250k was owed by Buddies, before the Buddies was purchased by the Company.

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 all 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 2018 was 3% (2017: 5%) 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 2018.

Household
The household margin is 3% of the booked reserves (2017: 5%). 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 7% (2017: 6%) 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 15% (2017: 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 23% (2017: 22%) 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 and proportional reinsurance. Under the excess of loss catastrophe treaty, the cost of claims from a weather event, in excess of an agreed retention level, is recoverable from reinsurers. During the year, proportional reinsurance has been placed in the form of a quota share arrangement. Under this treaty the reinsurer receives a share of premium and in return pays the same share of claims. This reinsurance acts after the excess of loss catastrophe treaty.

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 £50m and £600m (2017: £30m and £520m) for a single event. A single household policy can result in a large liability claim. To mitigate the risk, excess of loss reinsurance is in place for claims in excess of £0.75m (2017: £0.75m). From 1st April 2018 an intra-group quota share reinsurance treaty was put into place passing on 10% of gross earned premium adjusted for gross earned commission and inuring treaty reinsurance earned premium and claims on all household polices to the reinsurer, LGRe. An overriding commission in respect of administrative expenses of 19% of the gross earned premium can be deducted by the company subject to a sliding scale adjustment to the commission rate of -7.7% to 4.3% dependent on the attritional loss ratio over the contract period. An additional 30% intra-group quota share on the same terms was put into place with LGAS from 1st July 2018 and extended to 40% with effect from 1st October 2018. Both quota share treaties act on an earned basis rather than a written basis. This means the reinsurers take a proportion of all claims incurred over the period the reinsurance is in force regardless of when the policy was written. All other reinsurance arrangements inure to the benefit of the quota share reinsurers.

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 £2m (2017: £1m). To mitigate the risk, accident excess of loss reinsurance is in place for claims in excess of £0.5m (2017: £0.5m).

Key risk factors

Weather events
Significant weather events such as windstorms, freeze 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.

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

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

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

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

The credit profile of the Company's assets exposed to credit risk is shown in the table below. The credit rating bands are provided by independent rating agencies. For unrated assets, internal ratings are maintained which are used to manage exposure to these counterparties. No provision for impairment has been made at year end (2017: £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 2018							
Government debt securities	40,728	26,698	6,704	26,244	8,253	-	108,627
Accrued interest	160	73	-	473	108	-	814
Derivative assets	-	-	2,009	-	-	-	2,009
Cash and cash equivalents	-	-	14,764	-	-	-	14,764
Financial assets excluding Investment funds	40,888	26,771	23,477	26,717	8,361	-	126,214
Reinsurers' share of contract liabilities	-	55,245	17,084	-	-	46	72,375
Receivables (note 20)	-	3,718	9,593	-	420	143,018	156,749
	40,888	85,734	50,154	26,717	8,781	143,064	355,338

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 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

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

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

The Company has entered into a ten-year arrangement with Legal & General Finance PLC to manage the cash flows of the general insurance business. The arrangements is 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). The Company also has access £200m revolving credit facility provided by Legal & General Group Plc. The working capital facility has proved ample for day to day cash management while the revolving credit facility 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 2018 and 31 December 2017 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 (including in 2018 the quota-share arrangements but assuming no impact on the sliding scale commission adjustment):

	Impact on pre-tax profit net of reinsurance 2018 £'000	Impact on equity net of reinsurance 2018 £'000	Impact on pre-tax profit net of reinsurance 2017 £'000	Impact on equity net of reinsurance 2017 £'000
Sensitivity test				
Single storm event with 1 in 200 year probability	(45,782)	(37,083)	(57,845)	(46,854)
Subsidence event - worst claim ratio in last 30 years	(27,945)	(22,635)	(63,901)	(51,759)
5% decrease in overall claims ratio	14,975	12,130	15,829	12,821
5% surplus over claims liabilities	6,579	5,329	4,446	3,601

For any single event with claims in excess of £50m (2017: £30m) but less than £600m (2017: £520m) the ultimate cost to the Company, before quota share reinsurance, would be £50m plus the cost of the reinsurance reinstatement premium. This reduces to £25m plus the cost of reinsurance reinstatement premium once quota share reinsurance is allowed for assuming no impact on the sliding scale commission adjustment. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the catastrophe cover by approximately £330m (2017: £295m), with an estimated total cost to the Company of £122m before allowing for quota share (2017: £350m). This reduces to £61m once quota share reinsurance is allowed for, again assuming no impact on the sliding scale commission. The above sensitivites allow for the impact of a condition allowing a single event within the reinsurance hours clause being defined as two or more events when making a reinsurance claim.

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 2018 £'000	Impact on equity 2018 £'000	Impact on pre-tax profit 2017 £'000	Impact on equity 2017 £'000
Sensitivity test				
100bps increase in interest rates	(8,152)	(6,603)	(7,590)	(6,148)
100bps increase in credit spreads	(7,723)	(6,255)	(7,681)	(6,221)
20% decrease in equity values	(23,882)	(19,344)	(22,591)	(18,298)
15% decrease in property values	(2,967)	(2,403)	(2,824)	(2,287)

33. Risk management and control (continued)

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. At 31 December 2017 the SCR was £145,481,197, and the company had a solvency ratio of 151%. In line with our risk management approach, we maintained an appropriate capital buffer throughout the year.

Modern Slavery Statement

Legal & General Group Plc and its global subsidiaries ("Legal & General") recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free.

34. Post balance sheet events

On 22 February 2019 the company made a capital contribution to its wholly owned subsidiary, Buddies Enterprises Limited, of £300,000, in the form of the purchase of new shares.