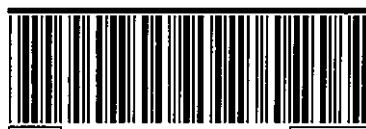


LEGAL & GENERAL INSURANCE LIMITED

REPORT AND ACCOUNTS

1994



A27 *A4HU9CV5* 483
COMPANIES HOUSE 07/07/95

LEGAL & GENERAL INSURANCE LIMITED

Directors

D.J.Prosser, F.I.A. (Chairman)

E.Christie, F.C.I.I.

A.J.Hobson, F.C.A.

P.R.Raynor, F.C.A.

D.Rough, F.C.I.I.

Secretary

T.A.F.Smith, A.C.I.S.

Registered office

Temple Court,
11 Queen Victoria Street
London EC4N 4TP

Registered in England and Wales No. 423930

REPORT OF THE DIRECTORS

The directors submit their forty-eighth annual report together with the financial statements of the Company for the year ended 31st December 1994.

Principal activity

The principal activity of the Company is the transaction of general insurance business (property, motor, liability, pecuniary loss and personal accident).

Results for the year and dividend

The Company's results for the year are set out in the profit and loss account on page 10. The directors declared the payment of an interim dividend for 1994 of £4,000,000, (1993, £2,300,000).

Directorate

The names of the present directors are shown on page 1. All the directors remained in office throughout the year.

Details of the director's interests in the share capital of the Company and details of the directors' share options are set out on pages 17 and 18.

Legal & General Group Plc has a directors' and officers' liability insurance policy which indemnifies the directors and officers of the Company against breach of fiduciary duty.

United Kingdom employees

The monthly average number of employees of the Company in 1994 was 1,144, (1993, 1,297) and the aggregate gross remuneration paid to them was £22,967,000, (1993, £24,317,000). Included in these figures are 95, (1993, 81) part-time employees with remuneration of about £631,000, (1993, £583,000).

It is the Company's policy to treat its employees without discrimination and to operate equal opportunity and employment practices designed to achieve this end.

Furthermore, it is the Company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue, whenever possible, the employment of staff who became disabled and to provide equal opportunities for the training and career development of disabled employees.

The Company seeks to achieve a common awareness among staff of corporate objectives and performance, financial and economic factors affecting the business and other matters of concern to them as employees. During the year, staff were provided with information through briefings by managers, training courses, staff newspapers and circulars.

REPORT OF THE DIRECTORS

Elective resolution

An elective resolution has been passed by the Company's shareholders whereby the Company is not required to hold an Annual General Meeting and does not need to appoint auditors each year. Accordingly, the Company's auditors remain in office until the Company or the auditors otherwise determine.

By Order of the Board



T.A.F. Smith
Secretary

13th April 1995

DIRECTORS' RESPONSIBILITIES

The directors have a legal responsibility to prepare annual financial statements which comply with the relevant provisions of the Companies Act 1985, in respect of the state of affairs of the Company as at the end of the accounting period and of the profit or loss for that period.

Responsibility for the integrity and objectivity of the annual financial statements rests with the directors of the Company, who have prepared the accompanying financial statements in compliance with Section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have been prepared on a going concern basis, conform with applicable UK accounting standards and are presented applying consistent accounting policies. In the main business areas of the Company, the exercise of judgement in the establishment of reserves for the preparation of the financial statements is both extensive and complex. This judgement is exercised diligently.

The directors are also responsible for maintaining adequate accounting records so as to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Company and for the procedures to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS

TO THE MEMBERS OF LEGAL & GENERAL INSURANCE LIMITED

We have audited the financial statements set out on pages 6 to 20 which have been prepared in accordance with the accounting policies set out on pages 6 to 8.

Respective responsibilities of directors and auditors

As described on page 4, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

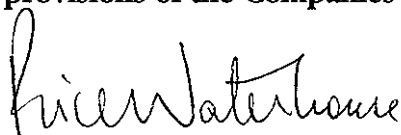
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985, applicable to insurance companies.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
London 13/4/95

ACCOUNTING POLICIES

The main accounting policies of the Company are as follows:

a) Disclosure

The financial statements are prepared in compliance with section 255 of, and Schedule 9A to, the Companies Act 1985 and conform with applicable UK accounting standards.

Under the provisions of the Companies Act 1985 insurance companies are not required to show separately their reserves and provisions or the amounts of movements therein.

Prior year comparatives have been restated to comply with the implementation of Accounting Standard FRS5.

b) General insurance

Underwriting results of general business are determined after taking account of unearned premiums, unexpired risks and outstanding claims.

Premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year-end and provision is made for subsequent lapses.

Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of year are carried forward as unearned premiums.

A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses.

Claims are accounted for in respect of all incidents up to the year-end. Provision is made on the basis of available information for the estimated ultimate cost of:

- (i) claims reported but not settled;
- (ii) claims incurred but not yet reported;

This provision reflects claims settlement expenses and anticipated reinsurance and other recoveries.

In addition to unearned premiums and after taking account of investment return, additional amounts are set aside where necessary for unexpired risks to meet future claims on business in force at the end of the year.

c) Subsidiary undertakings

Shares in subsidiary undertakings are stated at the Company's share of their net assets.

d) Investments

(i) Investment income

Investment income is shown after deducting directly related investment expenses. Dividends receivable are accounted for on an ex-dividend basis and include associated tax credits. Income receivable on investments is taken to the investment return and included in the general insurance business result or shareholders' other income (outgo) in the profit and loss account for the year.

(ii) Interest expense

Interest expense reflects the underlying cost of borrowing.

(iii) Investment valuations

Listed investments are shown at market value and unlisted investments at directors' valuation.

(iv) Investment gains and losses

Revaluations of investments in subsidiary undertakings less revaluations of any related borrowings are taken directly to reserves. Other realised and unrealised investment gains and losses are included in the investment return and reported in the general insurance result or shareholders' other income (outgo) in the profit and loss account for the year.

e) Capital expenditure

Expenditure on computers, motor cars and large items of equipment are depreciated over periods ranging up to four years. All other items of capital expenditure are written off as incurred.

f) Operating leases

Rentals payable under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

g) Foreign currencies

Assets, liabilities and revenue transactions in foreign currencies are translated into sterling at rates of exchange ruling at the end of the year other than certain minor revenue transactions which are translated into sterling at the appropriate rates prevailing during the year. The resulting exchange adjustments are dealt with through reserves except for those arising on cash settlements which are included in the profit and loss account.

h) Deferred tax

Deferred tax is calculated on the liability method and is provided only to the extent that it is considered with reasonable probability that the liability will become payable within the foreseeable future.

i) Pension costs

The Company is a member of the Group scheme. The Group charges the regular cost of its pension schemes against profits on a systematic basis over the service lives of the pensionable employees, variations from regular cost being allocated over the expected remaining service lives of current scheme members.

Deferred tax in respect of pension costs is accounted for in accordance with the policy in note (h).

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT
for the year ended 31st December 1994

Note	Continuing operations	
	1994 £'000	1993 £'000
1. Premiums earned	265,649	277,358
Claims incurred - gross	178,520	279,991
- reinsurance	(51,450)	(85,959)
- net	127,070	194,032
Commission	26,364	31,624
Expenses	76,253	71,702
	229,687	297,358
Underwriting profit/(loss)	35,962	(20,000)
2. Investment return	(7,446)	56,369
Insurance result	28,516	36,369

PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1994

Note	1994 £'000	1993 £'000
PROFIT FROM CONTINUING OPERATIONS		
3. General Insurance business	28,516	36,369
Shareholders' other income	3,969	5,275
Dividends receivable from subsidiaries	692	69
Profit on ordinary activities before tax	33,177	41,713
4. Tax	(20,914)	(6,161)
Profit attributable to shareholders	12,263	35,552
Dividends paid and proposed	(4,151)	(2,485)
Retained profit from operations	8,112	33,067

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1994 £'000	1993 £'000
Profit attributable to shareholders	12,263	35,552
(Decrease) increase in net assets of subsidiaries	(8,984)	8,101
Exchange gains/(losses)	(4)	(61)
Goodwill written off	-	(2,000)
Total recognised gains and losses for the year	3,275	41,592

HISTORICAL COST PROFIT AND LOSS

	1994 £'000	1993 £'000
Profit on ordinary activities before tax	33,177	41,713
Unrealised investment (appreciation)/depreciation	30,485	(24,357)
Historical cost profit before tax	63,662	17,356
Retained historical cost profit for the year after tax and dividends	38,597	8,710

BALANCE SHEET
on 31st December 1994

Note	1994 £'000	1993 £'000
Fixed assets	1,708	1,532
5. Investments	422,047	452,204
9. Investment in subsidiary undertakings	13,652	22,636
Other assets		
Amount due from group undertakings		
- parent company	109,466	128,478
- other group undertakings	117,551	106,626
Other debtors	103,139	116,677
Bank balance and cash	313	67
	330,469	351,848
Total assets	767,876	828,220
Liabilities		
Amount due to group undertakings	1,796	10
Other creditors and provisions	75,282	50,981
6. General insurance provisions	448,696	534,251
Long term liabilities		
15. Subordinated loan	100,000	100,000
Shareholders' net assets	142,102	142,978
Representing		
7. Share capital (including non equity interests)	7,000	7,000
Retained profits and reserves	135,102	135,978
8. Shareholders' funds	142,102	142,978
Other assets include amounts due after more than one year	100,000	100,000

The financial statements on pages 6 to 20 were approved by the directors on 13th April 1995.



E.Christie, Director

NOTES TO FINANCIAL STATEMENTS

1. United Kingdom premiums earned	1994	1993
	£'000	£'000
Property	336,692	338,503
Motor	43,753	51,107
Other	40,149	49,948
	<hr/>	<hr/>
Gross premiums earned	420,594	439,558
Less reinsurance	154,945	162,200
	<hr/>	<hr/>
Net premiums earned	265,649	277,358
	<hr/>	<hr/>
2. Investment return	1994	1993
	£'000	£'000
Investment income	37,485	35,138
Interest expense	(1,503)	(1,984)
Realised investment (losses) gains	(8,974)	4,224
Unrealised investment (depreciation) appreciation	(30,485)	24,357
	<hr/>	<hr/>
	(3,477)	61,735
Recorded within:		
Insurance result	(7,446)	56,369
Shareholders' other income	3,969	5,366
	<hr/>	<hr/>
	(3,477)	61,735
	<hr/>	<hr/>

Interest expense is incurred on borrowings repayable in less than five years from the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

3. Shareholders' other income (net)	1994 £'000	1993 £'000
Investment return before interest expense	4,587	6,302
Interest expense	(618)	(939)
Unrealised investment appreciation	-	3
Unallocated corporate expenses	-	(91)
	<u>3,969</u>	<u>5,275</u>

4. Tax charge	1994 £'000	1993 £'000
Corporation tax at 33%	20,110	5,110
Prior year adjustment	6	14
Tax on franked investment income	728	1,037
Tax attributable to franked investment income on subsidiary dividends	61	-
Foreign tax	9	-
	<u>20,914</u>	<u>6,161</u>

The tax charge includes £2,807,000 credit, (1993, £2,072,000 charge) in respect of realised investment losses, but does not include any charge in respect of unrealised investment appreciation.

Potential amount of deferred tax not provided for:

	1994 £'000	1993 £'000
Unrealised net appreciation of investments	9,042	8,037
Other timing differences	1,533	1,307
	<u>10,575</u>	<u>9,344</u>

Potential deferred tax is computed at the relevant corporate tax rate according to existing law.

NOTES TO FINANCIAL STATEMENTS

5. Investments			1994 £'000	1993 £'000
Ordinary shares			100,672	107,448
Fixed interest securities			237,365	254,701
Floating rate notes			72,256	74,972
Mortgages and loans			13	20
Deposits			11,741	15,063
			<u>422,047</u>	<u>452,204</u>
6. General Insurance provisions				
	At 31st December 1993 £'000	Exchange revaluation £'000	Movement in year £'000	At 31st December 1994 £'000
Unearned premiums				
Gross	280,762	(6)	(22,748)	258,008
Reinsurance	(84,455)	3	13,271	(71,181)
Net	196,307	(3)	(9,477)	186,827
Unexpired risks				
Gross	103,400	-	(36,600)	66,800
Reinsurance	(22,700)	-	16,400	(6,300)
Net	80,700	-	(20,200)	60,500
Outstanding Claims				
Gross	388,768	(20)	(76,942)	311,806
Reinsurance	(77,461)	8	12,532	(64,921)
Net	311,307	(12)	(64,410)	246,885
Deferred acquisition expenses	(54,063)	-	8,547	(45,516)
	<u>534,251</u>	<u>(15)</u>	<u>(85,540)</u>	<u>448,696</u>

The gross provisions and the related reinsurance recoveries are fairly stated in aggregate, on the basis of information available, but the establishment of provisions can never be definitive and reassessments take place regularly.

NOTES TO FINANCIAL STATEMENTS

7. Share capital	1994 £'000	1993 £'000
Authorised:		
3,500,001 ordinary shares of £1 each	3,500	3,500
3,499,999 floating rate cumulative preference shares of £1 each	3,500	3,500
Issued:		
3,500,000 ordinary shares of £1 each, fully paid	3,500	3,500
3,499,999 floating rate cumulative preference shares of £1 each, fully paid	3,500	3,500
	<u>7,000</u>	<u>7,000</u>

Rights of preference shareholders

Total dividends, for 1994 of £151,000, (1993, £185,000), are payable half yearly on 1st June and 1st December and rank in priority to any other class of shares.

On winding-up or redemption the preference shareholders are entitled, in priority to any other class of shares, to the capital repayment plus the proportion of dividends due.

There are no voting rights attaching to the preference shares other than for a resolution for winding-up the Company or reducing its capital.

8. Reconciliation of movements in shareholders' funds

	1994 £'000	1993 £'000
Profit for the financial year	12,263	35,552
Dividends paid and proposed	(4,151)	(2,485)
	<u>8,112</u>	<u>33,067</u>
Other recognised gains and losses relating to the year	(8,988)	8,040
Share capital issued during year	-	2,000
Goodwill written off	-	(2,000)
	<u>(876)</u>	<u>41,107</u>
Net addition to shareholders' funds	142,978	101,871
Opening shareholders' funds		
	<u>142,102</u>	<u>142,978</u>
Closing shareholders' funds		

9. Investments in subsidiary undertakings

	1994 £'000	1993 £'000
Balance at beginning of year	22,636	-
Acquisition costs	-	14,535
(Decrease) increase in net assets of subsidiaries	(8,984)	8,101
	<u>13,652</u>	<u>22,636</u>

The historic cost of the investments is £14,535,000, (1993, £14,535,000).

The wholly owned subsidiaries of Legal & General Insurance Limited are listed below. Each undertaking operates mainly in the United Kingdom and has only one class of issued ordinary shares, all of which confer voting rights.

Held directly by the Company	Nature of Business	Registered In
Gresham Fire & Accident Insurance Society Limited	General insurance	England & Wales
Legal & General Direct Limited	Insurance administration	England & Wales
Legal & General GI Computer Services Limited	Computer leasing	England & Wales
Southgate Associates Limited	Holding company	England & Wales
Held indirectly through subsidiary undertakings		
Bridge End Computers Limited	Leasing company	England & Wales
Glanfield Securities Limited	Investment management	England & Wales
Legal & General Investment Trust Limited	Investment trust	England & Wales

10. Auditor's remuneration

Fees paid to Price Waterhouse in relation to the audit of these financial statements and those of the Company's subsidiary undertakings amounted to £123,000 (1993, £141,000). Other fees paid to Price Waterhouse, including fees for the audits of regulatory returns in the UK, amounted to £47,000 (1993, £19,000).

11. Directors' information

Directors' emoluments

Emoluments of the directors in respect of their services to the Company are as follows:

	1994 £'000	1993 £'000
Directors emoluments, including pension contributions:		
in respect of services as directors	240	267
pension contributions	37	35
	<u>277</u>	<u>302</u>
The emoluments of the highest paid director, excluding pension contributions were	<u>137</u>	<u>164</u>

No emoluments were paid to the Chairman.

The table below sets out, within the bands stated, the number of directors of the Company at any time during the year, whose emoluments, excluding pension contributions were:

	Number of directors	
£	1994	1993
0 - 5,000	3	3
100,001 - 105,000	1	1
135,000 - 140,000	1	-
160,000 - 165,000	-	1

Included in the above figures are performance related payments amounting to £57,000 (1993, £97,500).

Director's transactions and arrangements

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company during 1994.

Directors' share interests

No director had any interest in the shares of the Company on 1st January 1994 or 31st December 1994.

A.J.Hobson, D.J.Prosser and D.Rough are also directors of the ultimate holding company, Legal & General Group Plc, and their interests in the shares of that company are shown in the accounts of that company.

E.Christie is also a director of the parent company, Legal & General Assurance Society Limited, and his interest in the shares of the ultimate holding company, Legal & General Group Plc, are shown in the accounts of the parent company.

Directors' information (continued)

Directors' share interests (continued)

According to the Registrar of Directors' Share Interests kept by the Company, the other director of the Company as at 31st December 1994, had, at the respective dates shown, interests within the meaning of the Companies Act 1985 in ordinary shares of 25p each in the Company's ultimate holding company, Legal & General Group Plc, shown opposite her name in the following table:-

	at 1st January 1994	at 31st December 1994
P.R.Raynor	Nil	3,598

Included in directors' share interests shown above are, where applicable, shares allotted under the employee profit sharing scheme and under the restricted share plan. Details of the restricted share plan are disclosed in the accounts of the ultimate holding company.

Directors' share options

In addition to the interests listed above, the director held the following options. They were acquired under either the executive option scheme (1985) or the Legal & General Group Plc's save as you earn scheme.

	Price	P.R.Raynor	Earliest date from which exercisable	Final expiry date
Held at 1st January 1994		25,000		
Granted (exercised) during year				
	508	12,500	11.4.1997	10.4.2004
	454	6,000	10.10.1997	9.10.2004
Pre 1994 options with exercise price				
- lower than market	365*	15,000	3.4.1995	2.4.2002
- higher than market	474*	10,000	14.4.1996	13.4.2003
Held at 31st December 1994		43,500		

* Weighted average exercise price for options allocated on various dates.

No options lapsed during the year. The market price of the shares at 31st December 1994 was 432p and the range during 1994 was 408p to 543p.

12. Pension scheme

The Company is a member of the Legal & General Group's UK pension schemes, details of the actuarial valuation of which are disclosed in the financial statements of the ultimate holding company. These schemes, for which the total cost to the Company was £2,339,000, (1993, £2,306,000) none of which is attributable to amortisation of part service liabilities, are of the defined benefit (final salary) type. The schemes were subject to a valuation at 31st December 1993 by a qualified actuary, who was an employee of Legal & General Assurance Society, the parent undertaking, using the projected unit method. The assets of the schemes are held through separate trustee administered funds.

The employers' contribution rates over the average remaining service lives of the members of the schemes take account of surpluses disclosed by the valuation.

The Company has no material liability for post retirement benefits other than for pensions.

13. Operating leases

Operating lease rentals

The Company's administration expenses include operating lease rentals in respect of hire of computer software for 1994 of £145,000, (1993, £Nil).

<i>Operating lease commitment</i>	1994 £'000	1993 £'000
Expiring within 1 year	-	-
Expiring between 2 and 5 years	145	-
Expiring after 5 years	-	-

14. Contingent liabilities

There are contingent liabilities of £76,000, (1993, £5,410,000) for uncalled capital on Stock Exchange investments.

15. Long term liabilities

The Company has a subordinated loan agreement with Legal & General Assurance Society Limited. Under the terms of this agreement, in the event of the Company becoming insolvent or entering into an insolvent liquidation no amount will be repaid in respect of the subordinated debt until all other creditors have been paid in full.

16. Parent companies

The parent company is Legal & General Assurance Society Limited, a company registered in England and Wales. Legal & General Group Plc is the ultimate parent company which is registered in England and Wales and is the parent undertaking of the largest and smallest group to consolidate the financial statements of the Company. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available at the Registered Office, Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

Under section 228 of the Companies Act 1985, the Company is exempt from the obligation to prepare consolidated accounts as it is a wholly owned subsidiary of Legal & General Assurance Society Limited.