

**LEGAL & GENERAL INSURANCE LIMITED**

**REPORT AND ACCOUNTS**

**2005**

427930



A10  
COMPANIES HOUSE

\*ARF3GE3G\*

484  
28/03/2006

**LEGAL & GENERAL INSURANCE LIMITED**  
**CONTENTS**

---

Page

2	Board of Directors
3	Directors' Report
7	Statement of Directors' Responsibilities
8	Report of the Independent Auditors
10	Profit and Loss Account - Technical Account
11	Profit and Loss Account - Non-technical Account
11	Statement of Total Recognised Gains and Losses
12	Balance Sheet
14	Notes to Financial Statements

**Registered office**

Temple Court,  
11, Queen Victoria Street,  
London EC4N 4TP

Registered in England & Wales No. 423930



**LEGAL & GENERAL INSURANCE LIMITED**  
**BOARD OF DIRECTORS**

---

**Directors**

R.A. Phipps, (Chairman)

C.R.R. Avery, M.S.I.

J.E. Dale, A.C.A.

A.J. Dawson

P.M. Edmonds, F.I.A.

M.A. Lawler, A.C.A.

P.J. Richmond

R.P. Sewell, F.C.A.

**Secretary**

C.A. Davies.



## **LEGAL & GENERAL INSURANCE LIMITED**

### **DIRECTORS' REPORT**

---

The directors submit their annual report together with the audited financial statements of Legal & General Insurance Limited for the year ended 31 December 2005.

#### **Principal activities**

The Company is an insurance company authorised in the UK, the principal activity of which is the transaction of general insurance business. The Company remains focused on growing the business in product lines that provide sustainable long-term target returns across a range of distribution channels.

On 31 March 2005 the Company sold its 90% shareholding in its subsidiary, Gresham Insurance Company Limited, to Barclays Bank Plc for a cash consideration of £84.6m. The sale resulted in a profit to the company of £27.9m after tax.

#### **Result for the year and dividend**

The results of the Company are set out on pages 10 and 11. Having paid an interim dividend of £105m during the year the directors do not recommend the payment of a final dividend on ordinary shares for 2005, (2004: £Nil). In 2005 the Company adopted the presentational requirements of FRS 25 whereby preference share dividends have been treated as payment of interest.

#### **Directorate**

The names of the present directors are shown on page 2.

L. K. Penney and I. D. Viney resigned as directors of the Company on 27 October 2005 and 18 August 2005, respectively. J. E. Dale, P. M. Edmonds and M. A. Lawler were appointed as directors of the Company on 18 August 2005, 3 October 2005 and 27 October 2005, respectively.

M. Mistry resigned and C. A. Davies was appointed as Secretary of the Company on 1 September 2005.

#### **Directors' share interests**

No director had any interest in the shares of the Company during the year ended 31 December 2005.

C.R.R. Avery and R.A. Phipps are directors of the ultimate holding company, Legal & General Group Plc, and their interests in the shares of Legal & General Group Plc are shown in the accounts of that company.

According to the Register of Directors' Share Interests kept by the Company, the remaining directors had interests, within the meaning of the Companies Act 1985, in the ordinary shares of 2.5p each on 31 December 2005 in the Company's ultimate holding company, as shown below:

	At 1 January 2005*	At 31 December 2005
J.E. Dale	88,821	89,486
A.J. Dawson	26,191	34,859
P.M. Edmonds	168,258	168,518
M.A. Lawler	273	398
P. Richmond	68,191	80,105
R.P. Sewell	64,926	81,808

(\* or date of appointment, if later)

Included in directors' share interests shown above are, where applicable, shares purchased and/or awarded under the Employee Share Plan, the Restricted Share Plan and the Share Bonus Plan.

Details of these share schemes are disclosed in the accounts of the ultimate holding company.



## LEGAL & GENERAL INSURANCE LIMITED

### DIRECTORS' REPORT

In addition to the interests listed above, the directors (not including those whose options are disclosed in the accounts of the ultimate holding company) held options over shares in the ultimate parent company. Options have been granted under the following schemes: the Legal & General 1999 Company Share Option Plan (CSOP), the Legal & General Executive Share Option Scheme (closed October 1995) and the Legal & General 1999 Executive Share Option Scheme (ESOS), the Legal & General Group Plc Savings-Related Share Option Scheme (1991) and the Legal & General 1999 Savings-Related Share Option Scheme (SAYE). Details of options granted, exercised and lapsed, together with totals of options held, are set out in the table below:

	At 01.01.05	Granted during year			Exercised during year			Lapsed Options	At 31.12.05
		CSOP	ESOS	SAYE	CSOP	ESOS	SAYE		
J.E. Dale	95,867	-	-	-	-	-	-	-	95,867
A.J. Dawson	12,467	-	-	-	-	-	-	-	12,467
P.M. Edmonds	106,797	-	-	-	-	-	-	-	106,797
M.A. Lawler	-	-	-	-	-	-	-	-	-
P.J. Richmond	147,187	-	-	-	-	-	-	-	147,187
R.P. Sewell	239,495	-	-	-	-	-	-	-	239,495

#### Management of Risk

The Company, in the course of its business activities, is exposed to Insurance, Market, Credit and Liquidity risks. Overall responsibility for the management of these risks is vested in the parent company's Group Board. To support it in this role, a risk framework is in place comprising formal committees, risk assessment processes and review functions. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed.

In addition there is a Risk & Compliance Committee (RCC) in place for the Company, which is predominantly responsible for the management of operational risks and regulation which formally reports to both its operating board and to the Group Risk and Compliance Committee on a monthly basis.

#### Risk Assessment Processes

A continuous process is in place formally identifying, evaluating and managing the significant risks to the achievement of the Company's objectives. The impact and likelihood of every risk is scored on a scale from 1 to 6, in the context of the business area's accountabilities. Assessment is performed on the assumption that controls to mitigate the risks are not in place. The effectiveness of controls is then assessed on a similar 1-6 scale. Senior management and the Risk Review Functions (see below) review the output of the assessments.

#### Risk Review Functions

The Company's Risk Review Function provides an oversight of the risk management processes within the Company. Its responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of these changes on risks to business and the monitoring of the mitigating actions. The Risk Review Function also ensures that risk committees are provided with meaningful risk reports and that there is appropriate information to assess risk issues.

Details of the categories of risk to the Company and high-level management processes are set out below. The Company has defined policies for the management of its key risks, the operation of which are supported by Risk Review Functions and are independently confirmed by Group Internal Audit.

#### Insurance Risk

Insurance risk is the risk arising from higher claims being experienced than was anticipated.

Insurance risk is implicit in the Company's insurance business and arises as a consequence of the type and volume of new business written, the concentration of risk in particular policies or groups of policies subject to the same risks.





## **LEGAL & GENERAL INSURANCE LIMITED**

### **DIRECTORS' REPORT**

---

The Company controls its insurance exposures through underwriting and pricing authorities which set out the risks which may be accepted and monitored through the Pricing Committee (PC). Pricing is based on assumptions, such as future claims and persistency, which have regard to past experience and to trends. Insurance exposures are further limited through reinsurance.

#### **Market Risk**

Market risk is the risk arising from fluctuations in interest and exchange rates and market valuations which may affect assets, liabilities and the mismatch between the two.

The Group Asset and Liability Committee, establishes investment policies for shareholders' and policyholders' funds on the basis of sound asset/liability management principles.

The investment policies for the Company are overseen by its own Asset and Liability Committee (ALCO) and have due regard to the nature of liabilities to policyholders. The interest rate risk of such liabilities is normally managed by investing in assets of similar duration, where possible. It is further managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios and by the use of derivatives.

#### **Credit Risk**

Credit risk is the risk that the Company is exposed to loss if another party fails to perform its financial obligations to the Company.

Credit risk is not sought in its own right. However, the investment of shareholders' and policyholders' monies requires credit risks to be taken. Exposure to credit risk also arises in the reinsurance of insurance contracts. Credit risk is managed through the setting and regular review of detailed counterparty credit and concentration limits. The PC, RCC and ALCO monitor adherence to these limits.

#### **Liquidity Risk**

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

A degree of liquidity risk is implicit in the Company. Liquidity risk arises as a consequence of the uncertainty surrounding the value and timing of cash flows. The Legal & General's Group Treasury function manages liquidity to ensure that it maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows over a period of two years. The Company ALCO oversees the management of liquidity risk.

#### **Creditors**

The Legal & General Group agrees terms and conditions for its business transactions with suppliers. Payment is made on these terms provided the supplier meets its obligations. Creditor payment days are carefully monitored in the Group, using the systems which record the actual purchases and payments. Legal & General Group estimates that average creditor payment days in 2005 were 33 days. (2004: 34 days)



**LEGAL & GENERAL INSURANCE LIMITED**  
**DIRECTORS' REPORT**

---

**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, lay the Company's Report and Accounts before the Shareholders and does not need to reappoint auditors each year.

By Order of the Board

*Jane E Dale*

J.E.Dale

Director

22 March 2006



## **LEGAL & GENERAL INSURANCE LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

---

Company law requires the directors to prepare financial statements for each financial year which 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 and which comply with the relevant provisions of the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates which are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 confirm that they comply with the above requirements.

The directors are also responsible for:

- ensuring that the Company has suitable internal controls for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company,
- safeguarding the assets of the Company, and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **LEGAL & GENERAL INSURANCE LIMITED**

### **Independent Auditor's Report to the shareholders of Legal & General Insurance Limited**

---

We have audited the financial statements of Legal & General Insurance Limited for the year ended 31 December 2005, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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.

#### **Equalisation provisions**

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions in respect of general insurance business. The nature of equalisation provisions, the amounts set aside at 31 December 2005, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in notes 1 (b) and 19.





**LEGAL & GENERAL INSURANCE LIMITED**

**Independent Auditor's Report to the shareholders of Legal & General Insurance Limited**

---

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

22 March 2006



**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005**

<b>Technical account - General business</b>		2005	2004
<b>Profit on continuing operations</b>	Note	£'000	£'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4.	335,967	324,620
Outward reinsurance premiums		(24,720)	(30,418)
		311,247	294,202
Change in the gross provision for unearned premiums		(4,875)	(10,152)
Change in the provision for unearned premiums, reinsurers' share		(1,127)	1,971
		(6,002)	(8,181)
Earned premiums, net of reinsurance		<u>305,245</u>	<u>286,021</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid - gross amount		197,185	158,490
- reinsurers' share		(5,547)	(4,165)
		191,638	154,325
Change in the provision for claims - gross amount		11,413	24,180
- reinsurers' share		720	(1,992)
		12,133	22,188
Claims incurred, net of reinsurance		<u>203,771</u>	<u>176,513</u>
Changes in other technical provisions, net of reinsurance		144	(2,357)
Net operating expenses	5.	105,654	96,947
Change in the equalisation provision	19.	4,443	4,713
		<u>314,012</u>	<u>275,816</u>
<b>Balance on the technical account for general business</b>		<u>(8,767)</u>	<u>10,205</u>



**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005**

<b>Non-technical account</b>		<b>2005</b>	<b>2004</b>
<b>Profit on continuing operations</b>	<b>Note</b>	<b>£'000</b>	<b>restated £'000</b>
Balance on the general business technical account		(8,767)	10,205
Investment income	7.	21,969	23,477
Recognised loss on revaluation of subsidiary undertakings	7.	-	(8,469)
Unrealised gains on investments	7.	715	681
Investment expenses and charges	7.	(1,394)	(1,917)
Profit on sale of subsidiary	10.	27,968	-
<b>Profit on ordinary activities before tax</b>		<b>40,491</b>	<b>23,977</b>
Tax charge on profit on ordinary activities	8.	(3,986)	(7,633)
<b>Profit for the financial year</b>		<b>36,505</b>	<b>16,344</b>
Dividend distribution for the year	9.	(105,000)	-
<b>Retained (loss) / profit for the financial year</b>		<b>(68,495)</b>	<b>16,344</b>

All activities are continuing.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>restated £'000</b>
Profit for the financial year	36,505	16,344
(Loss)/profit on revaluation of investments in subsidiary undertakings	(160)	332
Loss on revaluation of investments	(2,236)	-
Goodwill write-off	(33)	-
Exchange losses	-	(1)
<b>Total recognised gains and losses</b>	<b>34,076</b>	<b>16,675</b>
Prior year adjustment	3. (8,469)	
<b>Total recognised gains and losses since last annual report</b>	<b>25,607</b>	



**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2005**

<b>Assets</b>	<b>Note</b>	<b>2005 £'000</b>	<b>2004 £'000</b>
<b>Investments</b>			
Investments in group undertakings and participating interests	10(i).	4,500	118,006
Other financial investments	10(ii).	350,143	299,494
		354,643	417,500
<b>Reinsurers' share of technical provisions</b>	20.		
Provision for unearned premiums		9,104	10,231
Claims outstanding		4,794	5,514
		13,898	15,745
<b>Debtors</b>			
Debtors arising out of direct insurance operations - policyholders		58,306	54,942
- intermediaries		27,123	19,039
		85,429	73,981
Debtors arising out of reinsurance operations		1,107	121
Amounts owed by group undertakings		-	3,991
Other debtors		59	48
		86,595	78,141
<b>Other assets</b>			
Tangible assets	11.	764	480
Cash at bank and in hand		1,258	1,720
		2,022	2,200
<b>Prepayments and accrued income</b>			
Accrued interest and rent		6,921	6,063
Deferred acquisition costs	20.	41,590	38,924
		48,511	44,987
<b>Total assets</b>		<b>505,669</b>	<b>558,573</b>



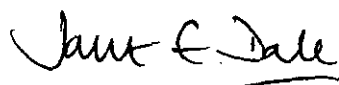


**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2005**

Liabilities	Note	2005 £'000	2004 restated £'000
<b>Capital and reserves</b>			
Called up share capital	12.	3,500	3,500
Share premium account		96,053	96,053
Revaluation reserve	13.	(2,318)	(4,343)
Profit and loss account	13.	32,798	105,747
<b>Shareholders' funds</b>		<b>130,033</b>	<b>200,957</b>
Total shareholders' funds attributable to equity shareholders		130,033	200,957
<b>Technical provisions</b>	20.		
Provision for unearned premiums		149,507	144,632
Claims outstanding		138,111	126,698
Equalisation provision		38,595	34,152
Provision for unexpired risks		637	493
		<b>326,850</b>	<b>305,975</b>
<b>Provision for other risks and charges</b>	14.	3,118	4,408
<b>Creditors; amounts falling due within one year</b>			
Creditors arising out of direct insurance operations		3,043	2,226
Creditors arising out of reinsurance operations		7,011	8,336
Other creditors, including taxation and social security	16.	30,175	28,135
		<b>40,229</b>	<b>38,697</b>
<b>Accruals and deferred income</b>		1,939	5,036
<b>Total current liabilities</b>		<b>502,169</b>	<b>555,073</b>
<b>Creditors; amounts falling due after more than one year</b>			
Preference shares	12.	3,500	3,500
<b>Total liabilities</b>		<b>505,669</b>	<b>558,573</b>
<b>Reconciliation of movements in shareholders' funds</b>			
Balance at 1 January		200,957	179,373
FRS 25 preference share reclassification	2.	-	(3,500)
Total recognised gains and losses		34,076	16,675
Dividends		(105,000)	-
Impact of prior year adjustment on revaluation reserve		-	8,469
<b>Balance at 31 December</b>		<b>130,033</b>	<b>200,957</b>

The notes on pages 14 to 23 form an integral part of these financial statements.

The financial statements on pages 10 to 23 were approved by the directors on 22 March 2006 and were signed on their behalf by



J.E. Dale, Director

## **LEGAL & GENERAL INSURANCE LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

---

#### **1. Accounting policies**

##### **a) Basis of preparation**

The financial statements conform to applicable accounting standards and have been prepared on a going concern basis under the historical cost convention, modified by the revaluation of certain fixed assets, and in accordance with the Companies Act 1985 and applicable accounting standards. They conform to the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business (the "ABI SORP") issued in December 2005.

The principal accounting policies are set out below.

##### **b) 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.

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 of renewals not yet confirmed. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time-apportioned basis. A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses or, with regard to reinsurance outwards, as deferred income.

Claims and related reinsurance recoveries 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, including claims settlement expenses, of:

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

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

General insurance provisions, together with related reinsurance recoveries, are established on the basis of current information. Such provisions can never be definitive as to their timing nor the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

Equalisation provisions have been established in accordance with the FSA's Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985, to be included within technical provisions.

##### **c) Investment in subsidiary undertakings**

Shares in subsidiary undertakings are stated at the Company's share of their current value. Gains and losses on interests in subsidiary undertakings are taken to the revaluation reserve.

##### **d) Capital expenditure**

Expenditure on computers, motor cars and large items of equipment is depreciated over periods ranging up to four years, having regard to expected residual values. All other items of capital expenditure are charged to the profit and loss account as incurred.

## LEGAL & GENERAL INSURANCE LIMITED

### NOTES TO FINANCIAL STATEMENTS

---

#### 1. Accounting policies (continued)

##### e) Investments

###### (i) General

Investment return, comprising investment income, investment gains and losses less related expenses and investment expense, is included in the non-technical account.

###### (ii) Investment income

Investment income includes dividends and interest. Directly related investment expenses are reported separately within investment expenses and charges. Interest is included on an accruals basis. Dividends are accrued for on an ex-dividend basis net of associated tax credits.

###### (iii) Interest expense

Interest expense reflects the underlying cost of borrowing and is reported in investment expenses and charges.

###### (iv) Investment valuations

Listed investments are shown at market value. There are no holdings of unlisted investments.

###### (v) Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost.

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

##### f) Deferred tax

Deferred tax is recognised in respect of timing differences which have not reversed at the balance sheet date and which result in an obligation to pay more tax, or a right to pay less tax, at a future date. Deferred tax is measured at rates expected to apply when the timing differences reverse, based on current tax rates and law. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### g) Related party disclosures

The Company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' from disclosing related party transactions with other entities included in the consolidated financial statements of Legal & General Group Plc.

#### 2. Change in accounting policy

The presentational requirements of FRS 25, Financial Instruments: disclosure and presentation, have been adopted whereby preference shares have been disclosed in creditors rather than in equity and the associated dividends have been re-classified as interest. Comparative figures have been restated accordingly. The effect of this change in accounting policy has been to reduce profit before tax by £153,000 (2004 £139,000) and shareholders funds by £3,500,000 (2004: £3,500,000).

#### 3. Prior year restatement

The results for the prior year have been restated to reflect a permanent diminution in the value of the company's investments in subsidiaries that arose in the prior year. This has reduced the profit after tax for the year ended 31 December 2004 by £8,469,000 and reduced the balance on the revaluation reserve at 31 December 2004 from £12,812,000 debit to £4,343,000.

**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

<b>4. Class segmental analysis</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Gross premiums written</b>		
Accident & Health	56,452	51,487
Motor (third party liability and other classes)	31,667	37,763
Fire & other damage to property	233,684	221,487
Other business	14,164	13,883
All premiums result from contracts written in the United Kingdom.	<u>335,967</u>	<u>324,620</u>
<b>Gross premiums earned</b>		
Accident & Health	54,469	48,124
Motor (third party liability and other classes)	36,027	35,456
Fire & other damage to property	223,935	214,172
Other business	16,661	16,716
	<u>331,092</u>	<u>314,468</u>
<b>Gross claims incurred</b>		
Accident & Health	37,177	30,153
Motor (third party liability and other classes)	30,798	31,432
Fire & other damage to property	137,872	119,091
Other business	2,751	1,994
	<u>208,598</u>	<u>182,670</u>
<b>Gross operating expenses</b>		
Accident & Health	14,131	15,297
Motor (third party liability and other classes)	10,320	8,675
Fire & other damage to property	81,669	75,437
Other business	3,641	4,925
	<u>109,761</u>	<u>104,334</u>
<b>Reinsurance balance</b>		
Accident & Health	2,275	1,647
Motor (third party liability and other classes)	1,397	129
Fire & other damage to property	10,020	9,685
Other business	3,221	3,442
	<u>16,913</u>	<u>14,903</u>
<b>Balance on the technical account for general business</b>		
Accident & Health	886	1,027
Motor (third party liability and other classes)	(6,988)	(4,780)
Fire & other damage to property	(10,074)	5,268
Other business	7,409	8,690
	<u>(8,767)</u>	<u>10,205</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

<b>5 Net operating expenses</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	95,063	86,092
Change in deferred acquisition costs	(2,666)	(2,944)
Administrative expenses	17,363	21,186
Reinsurance commissions and profit participation	(4,106)	(7,387)
	<u>105,654</u>	<u>96,947</u>

The above figures include commissions for direct business amounting to: 61,207 56,388

**6. Auditor's remuneration**

Fees paid to PricewaterhouseCoopers LLP in relation to the audit of these financial statements amounted to £142,310 (2004: £82,600). Other fees, which comprise fees for the audit of regulatory returns in the UK, amounted to £16,070 (2004: £19,100).

The Legal & General Group has an Audit Committee that is responsible to the Board for overseeing the Group's relations with the external auditors. It is also responsible to the Board for ensuring the independence and objectivity of the external auditor, taking into consideration relevant professional and regulatory requirements, and is required to report to shareholders on the policy and its determination as to the adequacy of the measures in place to ensure the protection of auditor independence.

<b>7. Investment return</b>	<b>2005</b>	<b>2004</b>
		<b>restated</b>
<b>(i) Investment income</b>	<b>£'000</b>	<b>£'000</b>
Income in respect of other investments		
- received from group undertakings	839	5,765
- received from other sources	21,130	17,712
	<u>21,969</u>	<u>23,477</u>
<b>(ii) Unrealised investment gains</b>	<u>715</u>	<u>681</u>
<b>(iii) Investment expenses and charges</b>		
Bank loans and overdrafts	(1)	(1)
Other borrowings	(235)	(208)
Investment management expenses	(519)	(427)
Realised investment losses	(486)	(1,142)
Preference share dividends	(153)	(139)
	<u>(1,394)</u>	<u>(1,917)</u>
<b>(iv) Recognised loss on revaluation of subsidiary undertakings</b>	<u>-</u>	<u>(8,469)</u>
<b>Total investment return</b>	<u>21,290</u>	<u>13,772</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

8. Tax charge	2005 £'000	2004 £'000
UK Corporation tax at 30% (2004: 30%)		
- current tax for the year	5,865	11,124
- adjustments in respect of prior periods	(589)	(828)
Total current tax	<u>5,276</u>	<u>10,296</u>
Deferred tax		
- origination and reversal of timing differences	(1,290)	(2,663)
Tax on profit on ordinary activities	<u>3,986</u>	<u>7,633</u>

Factors affecting current tax charge for the period:

The tax assessed for the period is lower (2004: higher) than the standard rate of corporation tax in the UK (30%) (2004: 30%). The differences are explained below:

	2005 £'000	2004 restated £'000
Profit on ordinary activities before tax	<u>40,491</u>	<u>23,977</u>
Corporation tax at 30%	12,147	7,193
Effects of:		
Disallowable expenditure	163	954
Adjustments in respect of prior periods	(588)	(828)
Capital allowances for period in excess of depreciation	(300)	(307)
Non taxable UK dividends	-	(1,468)
Non-taxable profit on sale of subsidiary	(8,390)	-
Difference between taxable and accounting investment gains/losses	2,244	4,792
Taxable reserve adjustment	-	(40)
Current tax charge for period	<u>5,276</u>	<u>10,296</u>

Factors which may affect future tax charges:

The Company has unrelieved capital losses carried forward of £11,192,000 (2004: £11,192,000). No deferred tax asset has been recognised in respect of these losses as at 31 December 2005 (or 31 December 2004) as it is considered more likely than not that there will be no suitable taxable profits emerging in future periods against which to relieve them. Relief for these losses will only be obtained if there are suitable capital gains arising in future periods in the Legal & General Group. The potential deferred tax asset unrecognised as at 31 December 2005 is £3,358,000 (2004: £3,358,000).

9. Dividends	2005 £'000	2004 £'000
Equity shares		
2005 dividend of £30.00 per share (2004: £Nil)	<u>105,000</u>	<u>-</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

<b>10. Investments</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>(i) Investments in group undertakings and participating interests</b>		
Shares in group undertakings	2,608	57,869
Loans to group undertakings	1,892	59,696
Participating interests	-	441
	<u>4,500</u>	<u>118,006</u>

On 31 March 2005 the Company sold its 90% holding of shares in Gresham Insurance Company Ltd. to Barclays Bank Plc for £80,693,703. At that date the Company's share of the net assets of Gresham was valued at £52,630,925. After deducting legal expenses of £94,832 this resulted in a profit on sale of £27,967,946.

On 31 March 2005 the Company also sold its 10% holding in Woolwich Insurance Services Ltd. to Barclays Bank Plc for £640,700 being the value of the Company's share of the net assets of Woolwich Insurance Services Ltd. at 31 March 2005.

<b>(ii) Other financial investments</b>		
Debt securities and other fixed income securities	313,967	265,366
Deposits with credit institutions	<u>36,176</u>	<u>34,128</u>
	<u>350,143</u>	<u>299,494</u>

<b>Total investments</b>	<u>354,643</u>	<u>417,500</u>
--------------------------	----------------	----------------

Listed investments included in current values above:	<u>313,967</u>	<u>265,366</u>
--	----------------	----------------

**Original cost of investments:**

Investments in group undertakings and participating interests	12,969	126,314
Debt securities and other fixed income securities	311,029	264,183
Deposits with credit institutions	<u>36,176</u>	<u>34,128</u>
	<u>360,174</u>	<u>424,625</u>

<b>11. Tangible assets</b>	<b>2005</b>	<b>2004</b>
Fixtures, fittings, tools and equipment (principally computer equipment).	<b>£'000</b>	<b>£'000</b>

**Cost**

Balance at beginning of year	2,198	3,865
Additions	698	375
Disposals	(207)	(2,042)
Balance at end of year	<u>2,689</u>	<u>2,198</u>

**Depreciation**

Balance at beginning of year	1,718	3,100
Provided during the year	418	538
Disposals	(211)	(1,920)
Balance at end of year	<u>1,925</u>	<u>1,718</u>

<b>Net book value at 31 December</b>	<u>764</u>	<u>480</u>
--------------------------------------	------------	------------



**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

<b>12. Share capital</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<i>Authorised and issued, fully paid:</i>		
Equity interests - 3,500,001 ordinary shares of £1 each	<u>3,500</u>	<u>3,500</u>
<i>Authorised and issued, fully paid:</i>		
Preference Shares - 3,499,999 floating rate cumulative preference shares of £1 each	<u>3,500</u>	<u>3,500</u>
Preference shares are included within liabilities in accordance with the requirements of FRS25.		
<i>Rights of preference shareholders</i>		
Total dividends for 2005 of £153,000 (2004: £139,000), are payable half yearly on 1 June and 1 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.		
<b>13. Movements in reserves</b>	<b>Revaluation Reserve</b>	<b>Profit and loss Account</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 January 2005 – as previously reported	(12,812)	114,216
Prior year restatement (note 3.)	8,469	(8,469)
Restated balance at 1 January 2005	<u>(4,343)</u>	<u>105,747</u>
Retained loss	-	(68,495)
Unrealised investment transfer	2,218	(4,454)
Loss on revaluation of investments in subsidiaries	(160)	-
Goodwill	(33)	-
<b>Balance at 31 December 2005</b>	<u>(2,318)</u>	<u>32,798</u>
The revaluation reserve represents recognised unrealised losses on investments, net of deferred tax.		
<b>14. Provisions for other risks and charges</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred tax</b>		
At 1 January	4,408	7,071
Amount debited in the profit and loss account for the period	<u>(1,290)</u>	<u>(2,663)</u>
At 31 December	<u>3,118</u>	<u>4,408</u>
The balance for deferred tax consists of the following amounts:		
The excess of depreciation over capital allowances	(1,047)	(1,260)
Other timing differences	4,165	5,668
	<u>3,118</u>	<u>4,408</u>

# LEGAL & GENERAL INSURANCE LIMITED

## NOTES TO FINANCIAL STATEMENTS

### 15. Retirement benefits

The Company has no direct employees and hence makes no direct contributions towards retirement benefits.

### 16. Analysis of other creditors

	2005 £'000	2004 £'000
Corporation tax payable	8,396	10,474
Amounts owed to group undertakings	13,317	11,536
Other creditors	8,462	6,125
	<u>30,175</u>	<u>28,135</u>

### 17. Holding company

The holding company is Legal & General Assurance Society Limited, a company incorporated in Great Britain. Legal & General Assurance Society Limited is exempt from the obligation to prepare and deliver group accounts as it is a subsidiary of Legal & General Group Plc, a company incorporated in Great Britain and the ultimate holding undertaking which consolidates 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.

### 18. Principal subsidiaries

The principal operating subsidiaries of Legal & General Insurance Limited are listed below. Each undertaking operates mainly in its country of incorporation and has only one class of issued ordinary shares, all of which are held by the Company. None of the subsidiary undertakings omitted from the list materially affects the profits or assets of the Company.

Held directly by the Company	Nature of Business	Incorporated In
Southgate Associates Limited	Holding company	Great Britain
<b>Held indirectly through subsidiary undertakings</b>		
Glanfield Securities Limited	Investment company	Great Britain
Legal & General Investment Trust Limited	Investment company	Great Britain

On 31<sup>st</sup> March 2005 the Company disposed of its largest directly held subsidiary, Gresham Insurance Company Ltd, a general insurance company (Note 10).

### 19. Equalisation provisions

As explained in the accounting policy 1(b) on page 14, an equalisation provision is established in the financial statements. The effect of this provision is to reduce the shareholders' funds by £38,595,000 (2004: £34,152,000). The increase in the provision during the year has had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before tax by £4,443,000 (2004: £4,713,000).

**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

<b>20. Technical provisions</b>	<b>At 31 December 2004 £'000</b>	<b>Technical Account Movement £'000</b>	<b>At 31 December 2005 £'000</b>
<b>Unearned premiums</b>			
Gross	144,632	4,875	149,507
Reinsurance	(10,231)	1,127	(9,104)
Net	134,401	6,002	140,403
<b>Unexpired risks</b>			
Gross	493	144	637
Reinsurance	-	-	-
Net	493	144	637
<b>Outstanding claims</b>			
Gross	126,698	11,413	138,111
Reinsurance	(5,514)	720	(4,794)
Net	121,184	12,133	133,317
<b>Equalisation provision</b>	34,152	4,443	38,595
<b>Deferred acquisition costs</b>			
Gross	(38,924)	(2,666)	(41,590)
Reinsurance	2,696	(855)	1,841
Net	(36,228)	(3,521)	(39,749)
<b>Total</b>	<u>254,002</u>	<u>19,201</u>	<u>273,203</u>
<b>Segmental analysis</b>			
Accident & Health	33,668	6,750	40,418
Motor (third party liability and other)	43,795	(557)	43,238
Fire & other damage to property	163,237	15,443	178,680
Other business	13,302	(2,435)	10,867
	<u>254,002</u>	<u>19,201</u>	<u>273,203</u>

Equalisation provisions are calculated in accordance with statutory formulae. The increase for household business is 3% of net premiums written and for credit business is 12% of net premiums written. These provisions are in addition to those for the anticipated cost of settlement of policyholders' liabilities.

**21. Related party transactions**

There were no material transactions between directors or key managers and the Legal & General group of companies which are required to be disclosed under Financial Reporting Standard (FRS) 8 'Related Party Disclosures'. All transactions between the Legal & General group of companies (or Legal & General Group Plc), their directors and key managers are at rates which are no more favourable than those available to staff in general.

# LEGAL & GENERAL INSURANCE LIMITED

## NOTES TO FINANCIAL STATEMENTS

### 22. Cash flow statement

In accordance with FRS 1 'Cash Flow Statements' (Revised 1996) the Company has not prepared a cash flow statement as the ultimate holding company, Legal & General Group Plc, has included a group cash flow statement within its financial statements.

### 23. 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 FSA, 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.

### 24. Directors' emoluments

#### *Directors' remuneration*

Emoluments of the directors are as follows:

	2005 £'000	2004 £'000
In respect of services as directors:		
Aggregate emoluments	<u>582</u>	<u>449</u>
The emoluments of the highest paid director, excluding pension contributions were:	<u>122</u>	<u>156</u>

Defined benefits accrued to 3 (2004: 2) directors under a defined benefit pension scheme.

#### *Directors' loans*

At 31 December 2005 there were no loans to directors (2004: None).

#### *Directors' 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 2005.