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LEGAL & GENERAL INSURANCE LIMITED

REPORT AND ACCOUNTS

2007

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LEGAL & GENERAL INSURANCE LIMITED

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Registered office

One Coleman Street
London EC2R 5AA

Registered in England & Wales No 423930

LEGAL & GENERAL INSURANCE LIMITED
BOARD OF DIRECTORS

Directors

J B Pollock, (Chairman)

A J Dawson

P M Edmonds, F I A

M J Hotson

P A Kennedy

M A Lawler, A C A

G P Skelton

Secretary

H Forster

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 2007

Business review and principal activity

The Company is an insurance company authorised in the UK, the principal activity of which is the transaction of general insurance business in the personal sector marketplace

Following a strategic review of activities the business is pursuing a five year strategy focused on the housing marketplace, including leveraging the relationships the wider Legal & General proposition around the housing purchase event brings to the Group. There is a significant change programme underway and 2007 represented the second year of implementation of key changes to ensure that the business has the capability to deliver sustainable long term target returns across the range of distribution channels operating in this marketplace

The underlying performance of the business during the year has been encouraging with premium growth in our key housing marketplace and cost efficiency improvements achieved as the business completed a significant phase of reorganisation involving people and locations. However in line with the wider industry the operating result for the year is dominated by the impact of exceptional weather claims following the flooding which affected parts of the UK in June and July 2007

As part of this strategy, on 13 February 2007 we announced our decision to cease writing our Healthcare product line during 2007. We ceased to renew policies from 2 July 2007 and entered into an agreement with AXA PPP Healthcare Limited to introduce our customers to them on renewal over a twelve month period

Result for the year and dividend

The results of the Company show a pre-tax loss of £35.5 million (2006 loss £3.2 million). Details of which are set out on pages 11 and 12. The directors do not recommend the payment of a dividend (2006 £Nil)

Key performance indicators ("KPIs")

In addition to the pre-tax performance noted above, a number of other KPIs are monitored by the Board

	<u>2007</u>	<u>2006</u>
Year end shareholder funds	£102m	£128m
Gross written premiums	£307m	£324m
Combined operating ratio	134%	105%

The combined operating ratio is

$$\left[\frac{\text{Net incurred claims}}{\text{Net earned premiums}} + \frac{\text{Expenses} + \text{Net commission}}{\text{Net written premiums}} \right] \times 100$$

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

Future Outlook

Going forward the business will continue to evolve its strategy around the housing marketplace and we expect to see the growth in gross written premiums continue into 2008. Further actions will be taken to enhance our operational and underwriting capability in this area as we develop appropriate propositions for the range of distribution channels that we operate in.

Directorate

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

During the year the following changes occurred:

P J Richmond resigned on 2 February 2007

R P Sewell resigned on 27 March 2007

J E Dale resigned on 21 December 2007

G P Skelton appointed on 21 November 2007

C A Davies resigned as company secretary on 5 July 2007

H Forster was appointed as company secretary on 5 July 2007

Since 31 December 2007, the following changes to the directorate were made:

P A Kennedy appointed on 26 February 2008

Principal risks and uncertainties

The company's business involves the acceptance and management of risk. The process of risk acceptance and risk management is managed through a risk framework, comprising formal committees, risk assessment processes and review functions with formal updates to the Board. The framework provides assurance that risks are being appropriately identified and managed and that an independent assessment of risks is being performed. The principal risks and uncertainties facing the company are noted in the table below.

Market and Economic Conditions

Competitor activity and changes in customer buying patterns would impact the achievement of sales targets. A number of Legal & General Insurance Limited (LGI)'s business channels have close links to the housing market. Uncertainty in this market would restrict sales opportunities and adversely impact profitability. The LGI strategy focussed on household insurance means LGI has limited product diversification, and the ASU product would be impacted by any downturn in economic conditions.

Weather Catastrophe Events

Buildings insurance cover is likely to be significantly affected by climate change in the longer term. The risk of adverse claims experience is fully assessed and reserved for, and reinsurance is in place to protect against a 1 in 200 year event, but a severe storm or a series of serious 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 may significantly impact the capital available to LGI and the Group.

Confidence in the Financial Services Sector and specifically LGI

Events in the financial services sector outside the control of LGI and 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
- Adverse media coverage

In addition internal processes and customer service standards while carefully controlled and managed may fail or be impacted by fraud or terrorist action giving rise to adverse customer reaction and a resultant loss of sales.

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

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 & 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 LGI business:

- Government fiscal policy
- Regulation of product design, marketing, sales and administration
- Prudential capital requirements
- Retail Distribution Review underway at the FSA

LGI'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 LGI's strategy and profitability. Additionally, there is an increasing international dimension and volume of regulatory and legislative change impacting the financial services sector.

Outsourcing and Key Supplier Risk

There are some core LGI functions which are outsourced, including the use of suppliers to satisfy buildings and contents claims, which involves LGI 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, the financial failure of a third party or provision of inadequate service would impact the reputation and regulatory compliance of LGI.

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

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 systems that record the actual purchases and payments. The Company has no trade creditors and therefore the average number of creditor payment days is nil. The creditor payment days presented are for the Group as a whole. Legal & General Group estimates that average creditor payment days in 2007 were 32 days (2006: 31 days).

LEGAL & GENERAL INSURANCE LIMITED

DIRECTORS' REPORT

Disclosure of information to Auditors

Each of the directors, at the date of approval of this report, confirms that

- so far as the director is aware, there is no relevant information of which the Company's auditors are unaware and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

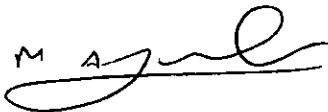
This confirmation is given and should be interpreted in accordance with the provision of Section 234ZA of the Companies Act 1985

Auditors

An elective resolution has been passed by the Company's shareholders under the Companies Act 1985. The elective regime was abolished by the Companies Act 2006 and the transitional provisions relating to the reappointment of auditors permit the auditors to remain in office unless the directors resolve otherwise.

In accordance with the Companies Act 2006, the Company is no longer required to hold an Annual General Meeting or lay the Company's Report and Accounts before the shareholders.

By Order of the Board



M A Lawler
Director
13 March 2008

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

Report of the Independent Auditors 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 2007, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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. The nature of equalisation provisions, the amounts set aside at 31 December 2007, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and loss before tax, are disclosed in notes 1(b) and 18.

LEGAL & GENERAL INSURANCE LIMITED

Report of the Independent Auditors 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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
13 March 2008

LEGAL & GENERAL INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

Technical account - General business	Note	2007 £'000	2006 £'000
Earned premiums, net of reinsurance			
Continuing operations		284,771	312,198
Discontinued operations		<u>22,684</u>	<u>12,062</u>
Gross premiums written	2	307,455	324,260
Outward reinsurance premiums		<u>(19,553)</u>	<u>(26,844)</u>
		287,902	297,416
Change in the gross provision for unearned premiums		<u>10,990</u>	<u>5,551</u>
Change in the provision for unearned premiums, reinsurers' share		<u>(4,163)</u>	<u>1,666</u>
		6,827	7,217
Earned premiums, net of reinsurance		<u>294,729</u>	<u>304,633</u>
Other technical income	3	<u>7,000</u>	<u>-</u>
Total Technical Income		<u>301,729</u>	<u>304,633</u>
Claims incurred, net of reinsurance			
Claims paid - gross amount		255,646	206,052
- reinsurers' share		<u>(3,354)</u>	<u>(3,543)</u>
		252,292	202,509
Change in the provision for claims - gross amount		<u>36,272</u>	<u>(4,822)</u>
- reinsurers' share		<u>(7,675)</u>	<u>419</u>
		28,597	(4,403)
Claims incurred, net of reinsurance		<u>280,889</u>	<u>198,106</u>
Changes in other technical provisions, net of reinsurance		(630)	65
Net operating expenses	4.	107,751	114,756
Change in the equalisation provision	18	(41,487)	3,809
		<u>346,523</u>	<u>316,736</u>
Balance on the technical account for general business		<u>(44,794)</u>	<u>(12,103)</u>

LEGAL & GENERAL INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

Non-technical account	Note	2007 £'000	2006 £'000
Balance on the general business technical account		(44,794)	(12,103)
Investment income	6	22,314	22,675
Investment expenses and charges	6	(13,004)	(13,756)
Continuing operations		(45,802)	544
Discontinued operations		<u>11,318</u>	<u>(1,268)</u>
Total operating loss		(34,484)	(724)
Provision for loss on discontinued operations		(1,000)	(2,460)
Loss on ordinary activities before tax		(35,484)	(3,184)
Tax credit on loss on ordinary activities	7	9,477	1,521
Retained loss for the financial year		<u>(26,007)</u>	<u>(1,663)</u>

No Statement of Recognised Gains and Losses has been produced as the company has no recognised gains and losses other than the loss for the period

LEGAL & GENERAL INSURANCE LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2007

Assets	Note	2007 £'000	2006 £'000
Investments			
Investments in group undertakings and participating interests	8(i)	2,608	2,608
Other financial investments	8(ii)	297,992	359,064
		300,600	361,672
Reinsurers' share of technical provisions			
Provision for unearned premiums	19	6,607	10,770
Claims outstanding		12,050	4,375
		18,657	15,145
Debtors			
Debtors arising out of direct insurance operations - policyholders		68,592	61,630
- intermediaries		19,751	33,393
		88,343	95,023
Debtors arising out of reinsurance operations		2,017	1,154
Other debtors	10	4,590	35
		94,950	96,212
Other assets			
Tangible assets	9	455	605
Cash at bank and in hand		8	179
		463	784
Prepayments and accrued income			
Accrued interest and rent		6,558	7,002
Deferred acquisition costs	19	44,199	43,352
		50,757	50,354
Total assets		<u>465,427</u>	<u>524,167</u>

LEGAL & GENERAL INSURANCE LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2007

Liabilities	Note	2007 £'000	2006 £'000
Capital and reserves			
Called up share capital	11	3,500	3,500
Share premium account		96,053	96,053
Revaluation reserve	12	(11,663)	(6,904)
Profit and loss account	12	14,473	35,721
Equity shareholders' funds		102,363	128,370
Technical provisions	19		
Provision for unearned premiums		132,966	143,956
Claims outstanding		169,561	133,289
Equalisation provision		917	42,404
Other technical provisions		72	702
		303,516	320,351
Provision for other risks and charges	13	981	3,060
Creditors; amounts falling due within one year			
Creditors arising out of direct insurance operations		4,432	3,490
Creditors arising out of reinsurance operations		5,875	7,451
Other creditors, including taxation and social security	15	43,660	55,638
		53,967	66,579
Accruals and deferred income		1,100	2,307
Total current liabilities		359,564	392,297
Creditors; amounts falling due after more than one year			
Preference shares	11	3,500	3,500
Total liabilities and shareholders' funds		465,427	524,167
Reconciliation of movements in shareholders' funds			
Balance at 1 January		128,370	130,033
Total recognised gains and losses		(26,007)	(1,663)
Balance at 31 December		102,363	128,370

The notes on pages 15 to 25 form an integral part of these financial statements

The financial statements on pages 11 to 25 were approved by the directors on 13 March 2008 and were signed on their behalf by



M A Lawler, 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 provisions of Sections 255A of, and schedule 9A to 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. 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 are carried forward as deferred acquisition expenses or, with regard to reinsurance outwards, as deferred income. Deferred acquisition expenses are deferred over the period in which the related premiums are earned.

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. Permanent diminutions in value of subsidiary undertakings are taken through the income statement.

LEGAL AND GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies (continued)

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.

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. Dividends receivable from group companies are recognized when paid for interim dividends, and when approved by the subsidiary Board for final dividends. All other investment income is recognized on an accruals basis, except for dividends which are taken into account when declared.

(iii) Interest expense

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

(iv) Investment valuations

Listed investments are shown at market value. There are no holdings of unlisted investments. All fixed interest securities are shown at market value.

(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. Unrealised gains and losses are separately presented in revaluation reserve within the balance sheet, since they are not distributable.

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) Preference shares

Preference shares meeting the definition of a financial liability under the provision of FRS 25, Financial Instruments: disclosure and presentation, are classified within Creditors and the associated dividends are classified as interest.

h) Dividend recognition

Dividend distribution to the Company's shareholders is recognised in the period in which dividends are declared and approved.

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

2. Class segmental analysis	2007	2006
Gross premiums written	£'000	£'000
Accident & Health	13,042	57,235
Fire & other damage to property	255,720	239,914
Other business	<u>16,009</u>	<u>15,049</u>
Total Continued	284,771	312,198
Motor (third party liability and other classes)	(62)	12,062
Health - Discontinued	<u>22,746</u>	-
Total Discontinued	<u>22,684</u>	<u>12,062</u>
All premiums result from contracts written in the United Kingdom	<u>307,455</u>	<u>324,260</u>
Gross premiums earned		
Accident & Health	9,470	58,077
Fire & other damage to property	245,748	235,298
Other business	<u>18,774</u>	<u>14,290</u>
Total Continued	273,992	307,665
Motor (third party liability and other classes)	3,815	22,146
Health	<u>40,639</u>	-
Total Discontinued	<u>44,454</u>	<u>22,146</u>
	<u>318,446</u>	<u>329,811</u>
Gross claims incurred		
Accident & Health	3,534	23,928
Fire & other damage to property	257,329	158,139
Other business	<u>3,107</u>	<u>1,206</u>
Total Continued	263,970	183,273
Motor (third party liability and other classes)	(1,305)	17,957
Health	<u>29,253</u>	-
Total Discontinued	<u>27,948</u>	<u>17,957</u>
	<u>291,918</u>	<u>201,230</u>
Gross operating expenses		
Accident & Health	3,246	16,480
Fire & other damage to property	88,118	87,502
Other business	<u>6,029</u>	<u>4,468</u>
Total Continued	97,393	108,450
Motor (third party liability and other classes)	2,908	10,500
Health	<u>5,160</u>	-
Total Discontinued	<u>8,068</u>	<u>10,500</u>
	<u>105,461</u>	<u>118,950</u>
Reinsurance balance		
Accident	1,623	2,993
Fire & other damage to property	1,439	10,713
Other business	<u>2,804</u>	<u>4,655</u>
Total Continued	5,866	18,361
Motor (third party liability and other classes)	2,289	(501)
Health	<u>(178)</u>	-
Total Discontinued	<u>2,111</u>	<u>(501)</u>
	<u>7,977</u>	<u>17,860</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

2. Class segmental analysis (continued)	2007	2006
Balance on the technical account for general business	£'000	£'000
Accident	1,066	14,676
Fire & other damage to property	(61,457)	(24,879)
Other business	8,656	4,023
Total Continued	(51,735)	(6,180)
Motor (third party liability and other classes)	537	(5,923)
Health	6,404	-
Total Discontinued	6,941	(5,923)
	<u>(44,794)</u>	<u>(12,103)</u>

3 Other technical income

Other income relates to the payment of £7m received from AXA PPP Healthcare Limited for the introduction of healthcare customers on renewal following our exit from this line of business

4. Net operating expenses	2007	2006
	£'000	£'000
Acquisition costs	100,809	103,845
Change in deferred acquisition costs	(847)	(1,762)
Administrative expenses	12,499	16,867
Reinsurance commissions and profit participation	(4,710)	(4,194)
	<u>107,751</u>	<u>114,756</u>

The above figures include commissions for direct business amounting to 62,568 72,299

5 Auditor's remuneration

Fees payable to PricewaterhouseCoopers LLP for the audit of these financial statements were £90,165 (2006 £103,690)

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because these have been disclosed in the consolidated accounts of Legal & General Group Plc

6. Investment return	2007	2006
	£'000	£'000
(i) Investment income		
Income in respect of other investments		
- received from group undertakings	-	7
- received from other sources	22,314	22,668
	<u>22,314</u>	<u>22,675</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

(ii) Investment expenses and charges	2007 £'000	2006 £'000
Bank loans and overdrafts	(17)	-
Other borrowings	(2,700)	(986)
Investment management expenses	(524)	(527)
Realised investment losses	(4,827)	(3,291)
Unrealised losses on investments	(4,759)	(8,803)
Preference share dividends	(177)	(149)
Sub total	<u>(13,004)</u>	<u>(13,756)</u>
Total investment return	<u>9,310</u>	<u>8,919</u>

7. Tax (credit)/charge	2007 £'000	2006 £'000
UK Corporation tax at 30% (2006 30%)		
- current tax for the year	(7,460)	1,448
- adjustments in respect of prior periods	633	(451)
Total current tax	<u>(6,827)</u>	<u>997</u>
Deferred tax		
- origination and reversal of timing differences	(2,650)	(2,518)
Tax on loss on ordinary activities	<u>(9,477)</u>	<u>(1,521)</u>

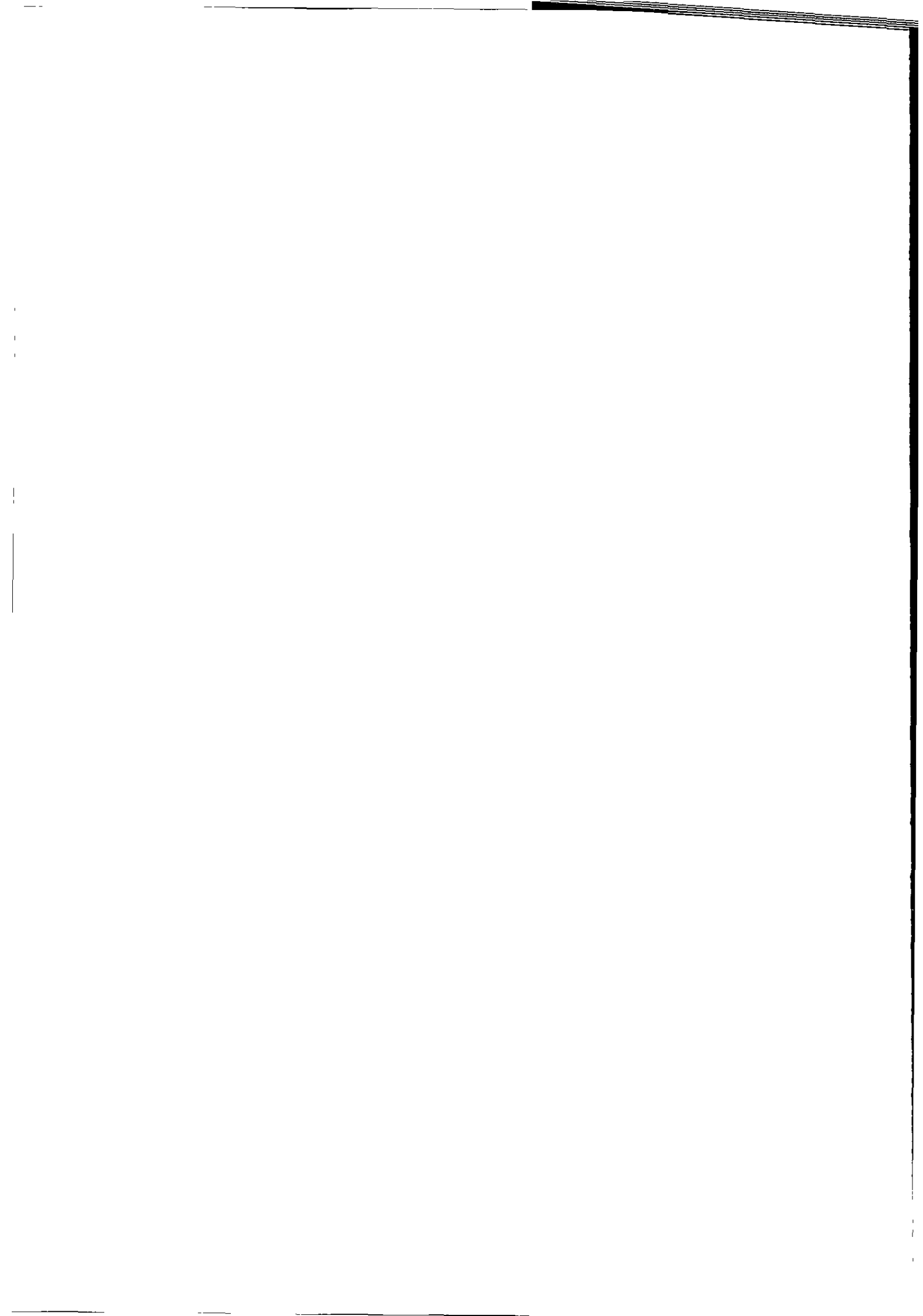
Factors affecting current tax charge for the period

The tax assessed for the period is higher (2006 higher) than the standard rate of corporation tax in the UK (30%) (2006 30%) The differences are explained below

	2007 £'000	2006 £'000
Loss on ordinary activities before tax	<u>(35,484)</u>	<u>(3,184)</u>
Corporation tax at 30%	(10,645)	(955)
Effects of		
Disallowable expenditure	1,371	407
Adjustments in respect of prior periods	633	(451)
Capital allowances for period in excess of depreciation	(338)	(280)
Loss on sale of fixed assets	3	18
Difference between taxable and accounting investment gains/losses	2,149	2,149
Taxable reserve adjustment	-	109
Current tax charge for period	<u>(6,827)</u>	<u>997</u>

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NOTES TO FINANCIAL STATEMENTS

8. Investments	2007	2006
	£'000	£'000
(i) Investments in group undertakings and participating interests		
Shares in group undertakings	<u>2,608</u>	<u>2,608</u>
(ii) Other financial investments		
Debt securities and other fixed income securities	290,041	353,237
Deposits with credit institutions	<u>7,951</u>	<u>5,827</u>
	<u>297,992</u>	<u>359,064</u>
Total investments	<u>300,600</u>	<u>361,672</u>
Listed investments included in current values above	<u>290,041</u>	<u>353,237</u>
Original cost of investments:		
Investments in group undertakings and participating interests	11,077	11,077
Debt securities and other fixed income securities	301,705	360,141
Deposits with credit institutions	<u>7,951</u>	<u>5,827</u>
	<u>320,733</u>	<u>377,045</u>
9. Tangible assets	2007	2006
Fixtures, fittings, tools and equipment (principally computer equipment)	£'000	£'000
Cost		
Balance at beginning of year	2,441	2,689
Additions	147	276
Disposals	(1,209)	(524)
Balance at end of year	<u>1,379</u>	<u>2,441</u>
Depreciation		
Balance at beginning of year	1,836	1,925
Provided during the year	278	268
Disposals	(1,190)	(357)
Balance at end of year	<u>924</u>	<u>1,836</u>
Net book value at 31 December	<u>455</u>	<u>605</u>



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NOTES TO FINANCIAL STATEMENTS

10. Other debtors	2007 £'000	2006 £'000
Other debtors	179	35
Deferred tax asset	2,051	-
Corporation tax receivable	2,360	-
	<u>4,590</u>	<u>35</u>

11. Share capital	2007 £'000	2006 £'000
<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

Rights of preference shareholders

Total dividends for 2007 of £177,000 (2006 £149,000), 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.

12. Movements in reserves	Revaluation Reserve £'000	Profit and loss Account £'000
Balance at 1 January 2007	(6,904)	35,721
Retained loss	-	(26,007)
Unrealised investment transfer	(4,759)	4,759
Balance at 31 December 2007	<u>(11,663)</u>	<u>14,473</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

13. Provisions for other risks and charges

	Deferred Tax	Provision for Discontinued Operation	Total
	£'000	£'000	£'000
At 1 January 2007	600	2,460	3,060
Profit and loss account charge	(2,651)	1,000	(1,651)
Utilised in year	-	(2,479)	(2,479)
Transfer to deferred tax asset	2,051	-	2,051
At 31 December 2007	-	981	981

	2007 £'000	2006 £'000
Deferred tax		
The balance for deferred tax consists of the following amounts		
The excess of depreciation over capital allowances	(1,048)	(900)
Other timing differences	(1,003)	1,500
	<u>(2,051)</u>	<u>600</u>

Deferred tax has been determined using the rate of corporation tax applicable from 1 April 2008 of 28% (2006 30%)

Provision for Discontinued Operation

The provision for Discontinued Operation represents provision for the costs of termination of the book of motor business which the Company ceased writing on the 1st September 2006 and the book of healthcare business which the Company ceased writing on 1st July 2007. The provision has been set based on the directors' estimate of the likely costs involved. It is estimated that all the costs associated with running off the businesses will be incurred by the end of 2008.

14. Retirement benefits

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

15. Analysis of other creditors

	2007 £'000	2006 £'000
Corporation tax payable	-	3,986
Amounts owed to group undertakings	37,908	45,040
Other creditors	5,752	6,612
	<u>43,660</u>	<u>55,638</u>

LEGAL & GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

16. 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, One Coleman Street, London EC2R 5AA.

17. 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
Held indirectly through subsidiary undertakings		
Glanfield Securities Limited	Investment company	Great Britain
Legal & General Investment Trust Limited	Investment company	Great Britain

All subsidiaries are 100% owned and have a 31 December year end.

18. Equalisation provisions

As explained in the accounting policy 1(b) on page 15, an equalisation provision is established in the financial statements. The effect of this provision is to increase the shareholders' funds by £917,000 (2006 decrease of £42,404,000). The decrease in the provision during the year has had the effect of increasing the balance on the technical account for general business and the profit on ordinary activities before tax by £41,487,000 (2006 decrease of £3,809,000).

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

19. Technical provisions	At 31 December 2006 £'000	Technical Account Movement £'000	At 31 December 2007 £'000
Unearned premiums			
Gross	143,956	(10,990)	132,966
Reinsurance	(10,770)	4,163	(6,607)
Net	133,186	(6,827)	126,359
Unexpired risks			
Gross	702	(630)	72
Reinsurance	-	-	-
Net	702	(630)	72
Outstanding claims			
Gross	133,289	36,272	169,561
Reinsurance	(4,375)	(7,675)	(12,050)
Net	128,914	28,597	157,511
Equalisation provision	42,404	(41,487)	917
Deferred acquisition costs			
Gross	(43,352)	(847)	(44,199)
Reinsurance	2,307	(1,207)	1,100
Net	(41,045)	(2,054)	(43,099)
Total	264,161	(22,401)	241,760
Segmental analysis			
Accident	28,404	(14,647)	13,757
Motor & Health	30,843	(14,483)	16,360
Fire & other damage to property	195,769	7,387	203,156
Other business	9,145	(658)	8,487
	264,161	(22,401)	241,760

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.

A reduction in the equalisation provision of £41m was made during 2007. This is due to adverse household claims experience during the year.

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NOTES TO FINANCIAL STATEMENTS

20. Related party transactions

The Company has taken advantage of the exemptions under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of Legal & General Group Plc or investees of Legal & General Group Plc. The directors and key management of the Company had no material transactions with the Company or any other group undertakings.

21. Segmental disclosure

The turnover and pre-tax profit is all attributable to the company's activities as the transaction of general insurance business in the personal sector marketplace and arises wholly in the UK.

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

These figures represent that portion of the directors' emoluments allocated in respect of their services to Legal & General Insurance Limited.

	2007 £'000	2006 £'000
In respect of services as directors		
Aggregate emoluments	579	607
Aggregate money purchase contributions	<u>30</u>	<u>24</u>

No fees were paid by Legal & General Insurance Limited to the directors. Emoluments relate to salaries and performance bonuses. Retirement benefits are accruing to one director (2006 2) under the defined benefit pension scheme.

	2007 £'000	2006 £'000
Highest paid director		
Emoluments	142	169
Defined benefit pension scheme accrued at end of year	<u>32</u>	<u>29</u>

