

LEGAL & GENERAL INSURANCE LIMITED

REPORT AND ACCOUNTS

2000

423930



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Registered office

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

Registered in England & Wales No. 423930

LEGAL & GENERAL INSURANCE LIMITED

Directors

R.A.Phipps, (Chairman)

C.R.R.Avery

J.Castagno, A.C.I.I., M.S.F.A. (Managing Director)

J.D.A.Gordon, F.I.A.

L.K.Penney, C.A.(S.A)

J.B.Pollock

P.Richmond

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

Secretary

C.F.Carson, A.C.I.S.

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements of Legal & General Insurance Limited for the year ended 31 December 2000.

Principal activity

The Company is an insurance company authorised in the UK, the principal activity of which is the transaction of general insurance business. The Company has a number of operating subsidiaries, the principal activities of which are general insurance business and investment holding.

On 1 October 2000 the Company purchased Legal & General Healthcare Limited, a company whose principal activity is the design, marketing and administration of healthcare insurance products, for £2,224,000 from Legal & General Assurance Society Limited, the parent company.

Result for the year and dividend

The results of the Company are set out on pages 8 and 9. The directors recommend the payment of a dividend for 2000 of £30,000,000 (1999: £Nil). The total preference share dividend payable for 2000 was £196,000 (1999: £146,000).

Directorate

The names of the present directors are shown on page 2. J.Castagno, J.D.A.Gordon, and D.Rough remained in office throughout the year. P.E.Newnham and P.Richmond were appointed directors of the Company on 24 May 2000 and 22 September 2000 respectively. P.E.Glen and A.P.Whitehouse resigned as directors of the Company on 18 February 2000 and 24 May 2000 respectively. D.J.Prosser and G.J.Hoskin resigned as directors of the Company on 31 December 2000.

C.R.R.Avery, J.B.Pollock and R.A.Phipps were appointed directors of the Company on 1 January 2001 and L.K.Penney was appointed a director of the Company on 28 February 2001. P.E.Newnham resigned as a director of the Company on 28 February 2001. C.A.Dockrell resigned as Company Secretary of the Company on 1 January 2001 and C.F.Carson was appointed as Company Secretary of the Company on 1 January 2001.

Directors' share interests

No director had any interest in the shares of the Company during the year ended 31 December 2000.

D.Rough is a director of the ultimate holding company, Legal & General Group Plc, and his interests in the shares of that company are shown in the accounts of that company.

According to the Register of Directors' Share Interests kept by the Company, the remaining directors of the Company had interests, within the meaning of the Companies' Act 1985, in the ordinary shares of 2.5p each on 31 December 2000 in the Company's ultimate holding company, Legal & General Group Plc, as shown below:

	at 31 December 2000	at 1 January 2000*
J.Castagno	23,360	12,972
J.D.A.Gordon	205,068	158,876
P.E.Newnham	305,705	290,394
P.Richmond	37,115	37,115

(*or date of appointment if later)

Included, where applicable, in directors' share interests shown above are shares allotted under the employee profit sharing scheme, the Restricted Share Plan (RSP) and the Share Bonus Plan (SBP). Details of the RSP and SBP schemes are disclosed in the accounts of the ultimate holding company.

REPORT OF THE DIRECTORS

Directors' share interests (continued)

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 the following options. They were acquired under either the Legal & General Executive Share Option Scheme (closed October 1995) and/or the Legal & General 1999 Executive Share Option Scheme (ESOS); and/or the Legal & General Group Plc Savings-Related Share Option Scheme (1991) and/or the Legal & General 1999 Savings-Related Share Option Scheme (SAYE) and/or the Legal & General 1999 Company Share Option Plan (CSOP). Details of options granted and exercised, together with totals held, are set out in the table below:

		J.Castagno	J.D.A.Gordon	P.E.Newnham	P.Richmond
At 1 January 2000*		4,650	80,892	181,176	36,500
Granted during the year	CSOP	500	-	-	-
	SAYE	3,125	-	-	-
Exercised during the year	ESOS	-	(40,000)	(107,900)	-
	SAYE	-	(5,792)	-	-
At 31 December 2000		8,275	35,100	73,276	36,500

No options lapsed during the year. (*or date of appointment if later)

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 No.8 Related Party Disclosures. All transactions between the Legal & General group of companies, its directors and key managers are on commercial terms at rates which are no more favourable than those available to staff in general.

United Kingdom Employees

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 become 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.

Creditors

The Company's purchases are administered by another group undertaking, Legal & General Assurance Society Limited (the Society). The Society agrees terms and conditions for its business transactions with suppliers. Payment is made on these terms provided the supplier meets its obligations. The average number of days of payments outstanding at 31 December 2000 was 31 (1999: 33).

REPORT OF THE DIRECTORS

Auditors

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.

By Order of the Board



C.F. Carson
Secretary
26 March 2001

RESPONSIBILITIES OF THE DIRECTORS

for the preparation of the financial statements

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 that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 the financial statements comply with the above requirements.

The directors are 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.
- taking reasonable steps for the prevention and detection of 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 8 to 21 which have been prepared in accordance with the accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 6, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2000, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes 1(b) and 17.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
London
26 March 2001

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000

Technical account - General business	2000	1999
Profit from continuing operations	£'000	£'000
Note		
Earned premiums, net of reinsurance		
2. Gross premiums written	187,348	131,015
Outward reinsurance premiums	(6,228)	(6,015)
	181,120	125,000
Change in the gross provision for unearned premiums	(16,834)	12,088
Change in the provision for unearned premiums, reinsurers' share	737	1,268
	(16,097)	13,356
Earned premiums, net of reinsurance	<u>165,023</u>	<u>138,356</u>
Claims incurred, net of reinsurance		
Claims paid - gross amount	104,519	101,314
- reinsurers' share	(1,961)	(4,333)
	102,558	96,981
Change in the provision for claims - gross amount	6,893	(11,695)
- reinsurers' share	1,227	3,178
	8,120	(8,517)
Claims incurred, net of reinsurance	<u>110,678</u>	<u>88,464</u>
Changes in other technical provisions, net of reinsurance	(8,471)	(8,700)
3. Net operating expenses	52,938	42,996
17. Change in the equalisation provision	3,655	3,048
	<u>158,800</u>	<u>125,808</u>
Balance on the technical account for general business	<u>6,223</u>	<u>12,548</u>

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000

	2000	1999
	£'000	£'000
Non-technical account		
Profit from continuing operations		
Note		
Balance on the general business technical account	6,223	12,548
7. Investment income	38,253	31,415
7. Investment expenses and charges	(2,013)	(7,247)
7. Unrealised losses on investments	(335)	(6,470)
Profit on ordinary activities before tax	42,128	30,246
5. Tax on profit on ordinary activities	(12,033)	(2,760)
Profit for the financial year	30,095	27,486
Dividends	(30,196)	(146)
Retained (loss)/profit for the financial year	(101)	27,340

Statement of total recognised gains and losses	2000	1999
	£'000	£'000
Profit for the financial year	30,095	27,486
(Loss)/gain on revaluation of investments in subsidiary undertakings	(10,046)	15,248
Exchange gains	3	2
Total recognised gains and losses for the year	20,052	42,736

BALANCE SHEET

at 31 December 2000

Note	Assets	2000	1999
		£'000	£'000
	Investments		
8.	Investments in group undertakings and participating interests	167,821	170,057
9.	Other financial investments	353,390	378,445
		521,211	548,502
18.	Reinsurers' share of technical provisions		
	Provision for unearned premiums	2,111	1,374
	Claims outstanding	3,066	4,293
	Other technical provisions	3,700	6,100
		8,877	11,767
	Debtors		
	Debtors arising out of direct insurance operations - policyholders	24,469	20,358
	- intermediaries	15,455	9,239
		39,924	29,597
	Debtors arising out of reinsurance operations	345	1,208
	Amounts owed by group undertakings	6,002	6,946
	Other debtors	2,990	4,127
		49,261	41,878
	Other assets		
10.	Tangible assets	366	637
	Cash at bank and in hand	4,932	5,778
		5,298	6,415
	Prepayments and accrued income		
	Accrued interest and rent	7,192	6,977
18.	Deferred acquisition costs	24,122	16,212
		31,314	23,189
	Total assets	615,961	631,751

BALANCE SHEET

at 31 December 2000

Note	Liabilities	2000	1999
		£'000	£'000
	Capital and reserves		
11.	Called up share capital	7,000	7,000
	Share premium account	96,053	96,053
12.	Revaluation reserve	88,664	99,042
12.	Profit and loss account	116,844	116,610
13.	Shareholders' funds	308,561	318,705
	Total shareholders' funds attributable to		
	Non-equity shareholders	3,500	3,500
	Equity shareholders	305,061	315,205
		308,561	318,705
18.	Technical provisions		
	Provision for unearned premiums	107,729	90,895
	Claims outstanding	99,739	92,846
	Equalisation provision	15,157	11,502
	Other technical provisions	18,229	29,100
		240,854	224,343
	Creditors		
	Creditors arising out of direct insurance operations	1,153	609
	Creditors arising out of reinsurance operations	1,763	294
14.	Amounts owed to credit institutions	1,200	-
15.	Other creditors, including taxation and social security	62,170	85,795
		66,286	86,698
	Accruals and deferred income	260	2,005
	Total liabilities	<u>615,961</u>	<u>631,751</u>

The notes on pages 12 to 21 form an integral part of these financial statements.

The financial statements on pages 8 to 21 were approved by the directors on 26 March 2001.



J. Castagno, Director

1. Accounting policies

a) Basis of preparation

The financial statements conform with applicable accounting standards, have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985. They have been prepared in compliance with section 255 of, and Schedule 9A to, the Companies Act 1985 and conform with the Association of British Insurers' (ABI) Statement of Recommended Practice on Accounting for Insurance Business (SORP) published in December 1998.

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 or inwards reinsurance business being reinsured.

Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the 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 and related reinsurance amounts 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;

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.

Equalisation provisions have been established in accordance with the Insurance Companies (Reserves) Act 1995 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 net assets. In accordance with the SORP, 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.

1. Accounting policies (continued)

e) Investments

(i) General

Investment return, comprising investment income less related expenses, interest expense and investment gains and losses 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. Dividends receivable are accounted for on an ex-dividend basis and interest is included on an accruals basis.

(iii) Interest expense

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

(iv) Investment valuations

Listed investments are shown at market value and unlisted investments at directors' valuation. Derivative contracts purchased to manage the mix of investments, principally futures contracts, are included 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.

Unrealised gains and losses on investments are calculated as the difference between the carrying valuation of investments at the balance sheet date and original cost. Movements in unrealised gains and losses on investments arising in the year are included in the profit and loss account.

f) 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.

g) Pension costs

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

Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision, or prepayment, in the balance sheet. Deferred tax in respect of pension costs is accounted for in accordance with the policy described above.

h) Related party disclosures

The Company has taken advantage of the exemption in FRS8 from disclosing related party transactions with other entities included in the consolidated financial statements of Legal & General Group Plc.

NOTES TO FINANCIAL STATEMENTS

2. Class segmental analysis	2000	1999
	£'000	£'000
Gross premiums written		
Accident & Health	30,200	2,065
Motor (third party liability and other classes)	33,604	26,604
Fire & other damage to property	116,962	96,225
Other business	6,582	6,121
	<u>187,348</u>	<u>131,015</u>
All premiums result from contracts written in the United Kingdom.		
Gross premiums earned		
Accident & Health	18,660	1,734
Motor (third party liability and other classes)	31,629	26,079
Fire & other damage to property	104,464	97,866
Other business	15,761	17,424
	<u>170,514</u>	<u>143,103</u>
Gross claims incurred		
Accident & Health	11,762	471
Motor (third party liability and other classes)	25,156	21,020
Fire & other damage to property	72,233	61,595
Other business	2,261	6,533
	<u>111,412</u>	<u>89,619</u>
Gross operating expenses		
Accident & Health	7,806	463
Motor (third party liability and other classes)	8,471	7,531
Fire & other damage to property	35,793	33,685
Other business	2,170	1,809
	<u>54,240</u>	<u>43,488</u>
Reinsurance balance		
Accident & Health	14	-
Motor (third party liability and other classes)	500	155
Fire & other damage to property	3,271	4,062
Other business	2,070	583
	<u>5,855</u>	<u>4,800</u>
Balance on the technical account for general business		
Accident & Health	(2,151)	800
Motor (third party liability and other classes)	(1,998)	(2,627)
Fire & other damage to property	(10,188)	(4,208)
Other business	20,560	18,583
	<u>6,223</u>	<u>12,548</u>

In the year 2000, Accident & Health became a major class of business for the Company and prior year comparatives have been restated accordingly.

NOTES TO FINANCIAL STATEMENTS

3. Net operating expenses	2000 £'000	1999 £'000
Acquisition costs	44,128	29,484
Change in deferred acquisition costs	(7,910)	898
Administrative expenses	18,030	13,106
Reinsurance commissions and profit participation	(1,310)	(492)
	<u>52,938</u>	<u>42,996</u>
The above figures include commissions for direct business amounting to:	<u>30,322</u>	<u>23,462</u>

4. Auditor's remuneration

Fees paid to PricewaterhouseCoopers in relation to the audit of these financial statements and those of the Company's subsidiary undertakings amounted to £49,300 (1999: £65,000). Other fees paid to PricewaterhouseCoopers, including fees for the audit of regulatory returns in the UK, amounted to £14,000 (1999: £14,000).

5. Tax charge	2000 £'000	1999 £'000
UK corporation tax at 30% (1999: 30.25%)		
- current tax for the year	12,033	2,765
- adjustments in respect of prior periods	-	(5)
	<u>12,033</u>	<u>2,760</u>
Potential amount of deferred tax not provided for:	2000 £'000	1999 £'000
Unrealised net investment gains	18,288	21,279
Other timing differences	(2,398)	(1,594)
	<u>15,890</u>	<u>19,685</u>

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

NOTES TO FINANCIAL STATEMENTS

6. Employee information	2000	1999
<i>Average number of employees of the Company</i>		
- employed in the conduct of general insurance business	622	407
	2000	1999
	£'000	£'000
<i>Aggregate gross remuneration of employees of the Company</i>		
Wages and salaries	12,530	8,800
Social security costs	1,027	723
Other pension costs	938	683
	14,495	10,206
Included in the above figures are 74 (1999: 27) part-time employees with aggregate gross remuneration of £1,099,000 (1999: £345,000)		
7. Investment return	2000	1999
	£'000	£'000
(i) investment income		
Income in respect of other investments		
- received from group undertakings	4,395	5,385
- received from other sources	22,810	26,030
	27,205	31,415
Realised investment gains	11,048	-
	38,253	31,415
(ii) investment expenses and charges		
Bank loans and overdrafts	(11)	(8)
Other borrowings	(1,458)	(3,681)
Investment management expenses	(544)	(598)
Realised investment losses	-	(2,960)
	(2,013)	(7,247)
(iii) unrealised investment losses	(335)	(6,470)
Total investment return	35,905	17,698

NOTES TO FINANCIAL STATEMENTS

8. Investments in group undertakings and participating interests	2000	1999
	£'000	£'000
Shares in group undertakings	86,028	93,850
Loans to group undertakings	80,931	74,573
Participating interests	862	1,634
	<u>167,821</u>	<u>170,057</u>
Original cost of shares in group undertakings is:	<u>47,159</u>	<u>44,935</u>

The subsidiary companies of Legal & General Insurance Limited are listed below. The Company holds 100% of the ordinary share capital and voting rights, except for Gresham Insurance Company Limited, where the Company holds 90% of the ordinary share capital and voting rights. Each undertaking operates mainly in the United Kingdom.

Held directly by the Company	Nature of Business	Incorporated In
Gresham Insurance Company Limited	General insurance	Great Britain
Legal & General GI Computer Services Limited	Leasing company	Great Britain
Legal & General Healthcare Limited	Insurance product administration	Great Britain
Southgate Associates Limited	Holding company	Great Britain
Held indirectly through subsidiary undertakings		
Bridge End Computers Limited	Leasing company (dormant)	Great Britain
Glanfield Securities Limited	Investment company	Great Britain
Legal & General Investment Trust Limited	Investment company	Great Britain
Participating interests (10%)		
Woolwich Insurance Services Limited	Insurance administration	Great Britain

9. Other financial investments	2000	1999
	£'000	£'000
Shares and other variable-yield securities and units in unit trusts	99,833	103,966
Debt securities and other fixed income securities		
- British Government securities	69,303	145,400
- Other	184,217	128,723
	253,520	274,123
Unsecured loans	37	356
	<u>353,390</u>	<u>378,445</u>
The original cost of other financial investments:	<u>303,534</u>	<u>328,254</u>
Included in the current values above are listed investments amounting to:	<u>352,719</u>	<u>377,455</u>

NOTES TO FINANCIAL STATEMENTS

10. Tangible assets	2000	1999
Fixtures, fittings, tools and equipment.	£'000	£'000
Cost		
Balance at beginning of year	3,430	2,194
Additions	74	3,301
Disposals	(173)	(2,065)
Balance at end of year	3,331	3,430
Depreciation		
Balance at beginning of year	2,793	1,832
Provided during the year	266	3,080
Disposals	(94)	(2,119)
Balance at end of year	2,965	2,793
Net book value at 31 December	366	637

11. Share capital	2000	1999
	£'000	£'000
<i>Authorised and issued, fully paid:</i>		
Equity interests - 3,500,001 ordinary shares of £1 each	3,500	3,500
Non-equity interests - 3,499,999 floating rate cumulative preference shares of £1 each	3,500	3,500
	7,000	7,000

Rights of preference shareholders

Total dividends for 2000 of £196,000 (1999: £146,000), 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	Profit & loss	Revaluation	Profit & loss	Revaluation
	Account	Reserve	Account	Reserve
	2000	2000	1999	1999
	£'000	£'000	£'000	£'000
Balance at 1 January	116,610	99,042	82,800	90,262
Retained (loss)/profit	(101)		27,340	
Unrealised investment transfer	335	(335)	6,470	(6,470)
(Loss)/gain on revaluation of investments in subsidiaries		(10,046)		15,248
Exchange profit		3		2
Balance at 31 December	116,844	88,664	116,610	99,042

NOTES TO FINANCIAL STATEMENTS

13. Reconciliation of movements in shareholders' funds	2000 £'000	1999 £'000
Profit on ordinary activities after tax	30,095	27,486
Dividends paid and proposed	(30,196)	(146)
Other recognised gains and losses relating to the year	(10,043)	15,250
Net (reduction)/addition to shareholders' funds	(10,144)	42,590
Opening shareholders' funds	318,705	276,115
Closing shareholders' funds	<u>308,561</u>	<u>318,705</u>
14. Amounts owed to credit institutions	2000 £'000	1999 £'000
Unsecured bank loans and overdrafts repayable, otherwise than by instalments, within one year	<u>1,200</u>	<u>-</u>
15. Analysis of other creditors	2000 £'000	1999 £'000
Tax	22,441	17,504
Amounts owed to group undertakings	33,087	60,255
Other creditors	6,642	8,036
	<u>62,170</u>	<u>85,795</u>

16. Pension costs

The majority of the employees of the Company are members of either the Legal & General Group UK Pension Fund (the Fund) or the Legal & General Group UK Senior Pension Scheme (the Scheme), details of the actuarial valuation of which, as at 31 December 2000, are disclosed in the financial statements of the ultimate holding company. The assets of these schemes are held in separate trustee administered funds and have been subject to a valuation by a qualified actuary, who was an employee of Legal & General Assurance Society Limited, the parent undertaking. From 1 January 1995 the Fund was closed to new members and subsequently relevant new staff have been eligible to participate in a group personal pension plan, a defined contribution scheme. The total cost of pensions to the Company was £938,000 (1999: £683,000), none of which is attributable to amortisation of past service liabilities.

There were no contributions prepaid or outstanding at either 31 December 2000 or 31 December 1999. The Company has no liability for retirement benefits other than pensions.

17. Equalisation provisions

As explained in the accounting policy 1(b) on page 12, an equalisation provision is established in the financial statements. The effect of this provision is to reduce the shareholders' funds by £15,157,000 (1999: £11,502,000). 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 £3,655,000 (1999: £3,048,000).

NOTES TO FINANCIAL STATEMENTS

18. Technical provisions	At 31 December 1999 £'000	Technical Account Movement £'000	At 31 December 2000 £'000
Unearned premiums			
Gross	90,895	16,834	107,729
Reinsurance	(1,374)	(737)	(2,111)
Net	89,521	16,097	105,618
Unexpired risks			
Gross	29,100	(10,871)	18,229
Reinsurance	(6,100)	2,400	(3,700)
Net	23,000	(8,471)	14,529
Outstanding claims			
Gross	92,846	6,893	99,739
Reinsurance	(4,293)	1,227	(3,066)
Net	88,553	8,120	96,673
Equalisation provision	11,502	3,655	15,157
Deferred acquisition costs	(16,212)	(7,910)	(24,122)
Total	<u>196,364</u>	<u>11,491</u>	<u>207,855</u>
Segmental analysis			
Accident & Health	1,517	14,873	16,390
Motor (third party liability and other)	36,006	2,263	38,269
Fire & other damage to property	90,301	13,292	103,593
Credit and suretyship	63,889	(18,607)	45,282
Miscellaneous	4,651	(330)	4,321
	<u>196,364</u>	<u>11,491</u>	<u>207,855</u>

General insurance provisions, together with related reinsurance amounts, are fairly stated in aggregate on the basis of available information, but the establishment of provisions can never be definitive and reassessments take place regularly.

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.

19. Contingent liabilities

There is a contingent liability in relation to a possible cash call being made by the Policyholders Protection Board before 31 March 2001, estimated at a maximum of £1,449,000.

20. Parent companies

The parent company is Legal & General Assurance Society Limited, a company incorporated in Great Britain.

The Company is exempt from the obligation to prepare and deliver group accounts as it is a wholly owned subsidiary of the ultimate holding company, Legal & General Group Plc, a company incorporated in Great Britain and is the ultimate holding undertaking which consolidates the financial statements of the Company. These accounts therefore provide information about the Company as an individual undertaking. 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.

In accordance with FRS1(revised) the Company has not prepared a cashflow statement as the ultimate holding company has included a consolidated cashflow statement in its financial statements

21. Directors' information

Directors' remuneration

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

	2000 £'000	1999 £'000
Aggregate emoluments	283	182
The emoluments of the highest paid director, excluding pension contributions were:	89	78

No fees were paid to the directors, emoluments relate to salaries and performance bonuses. Retirement benefits are accruing to 4 (1999: 3) directors under the defined benefit pension scheme.

Details of the directors' share options granted and exercised during the year are included in the Report of the Directors on page 4.

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 2000.