

423930

**LEGAL & GENERAL INSURANCE LIMITED**

**REPORT AND ACCOUNTS**

**2004**



# **LEGAL & GENERAL INSURANCE LIMITED**

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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**  
**BOARD OF DIRECTORS**

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**Directors**

R.A. Phipps, (Chairman)

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

A.J. Dawson

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

P. Richmond

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

I.D. Viney

**Secretary**

M. Shah, A.C.I.S.

## LEGAL & GENERAL INSURANCE LIMITED

### REPORT OF THE DIRECTORS

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The directors submit their annual report together with the audited financial statements of Legal & General Insurance Limited for the year ended 31 December 2004.

#### 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 has a number of operating subsidiaries, the principal activities of which are general insurance business and investment holding.

On 3 February 2005 the Company announced that it had agreed in principle to sell its 90% shareholding in its subsidiary, Gresham Insurance Company Limited, to Barclays Bank Plc for a cash consideration of £84.6m. The sale, subject to FSA approval, is expected to complete by 31 March 2005 and to give rise to a profit of approximately £26m after tax.

#### Result for the year and dividend

The results of the Company are set out on pages 8 and 9. The directors do not recommend the payment of a dividend on ordinary shares for 2004 (2003: £Nil). The total preference share dividend payable for 2004 was £139,000 (2003: £121,000).

#### Directorate

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

A. J. Dawson was appointed as a director of the Company on 21 July 2004.

#### Directors' share interests

No director had any interest in the shares of the Company during the year ended 31 December 2004.

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 2004 in the Company's ultimate holding company, as shown below:

	At 1 January 2004*	At 31 December 2004
A.J. Dawson	26,041	26,191
L.K. Penney	75,200	88,505
P. Richmond	53,553	68,191
R.P. Sewell	68,689	64,926
I.D. Viney	Nil	18,750

(\* 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 (ESP), the Restricted Share Plan (RSP) and the Share Bonus Plan (SBP). Details of these share schemes are disclosed in the accounts of the ultimate holding company.

## LEGAL & GENERAL INSURANCE LIMITED

### 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 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 01.01.04	Granted during year			Exercised during year			Lapsed Options	At 31.12.04
		CSOP	ESOS	SAYE	CSOP	ESOS	SAYE		
A.J. Dawson	-	-	-	12,467	-	-	-	-	12,467
L.K. Penney	164,233	-	-	-	-	-	-	-	164,233
P. Richmond	147,187	-	-	-	-	-	-	-	147,187
R.P. Sewell	239,495	-	-	-	-	-	-	-	239,495
I.D. Viney	-	-	-	-	-	-	-	-	-

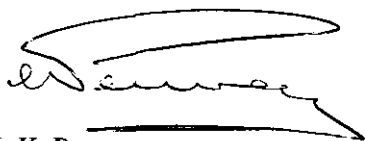
#### Creditors

The 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 estimates that average creditor payment days in 2004 were 34 days. (2003: 33 days)

#### Elective resolution

An elective resolution has been passed by the Company's shareholders whereby the Company is not required to hold an Annual General Meeting and does not need to appoint auditors each year.

By Order of the Board



L.K. Penney  
Director  
24 March 2005

## **LEGAL & GENERAL INSURANCE LIMITED**

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

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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 members of Legal & General Insurance Limited**

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We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of recognised gains and losses and the related notes which have been prepared in accordance with the accounting policies set out in Note 1.

#### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 in to 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 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 mis-statements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

#### **Basis of audit 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 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 mis-statement, 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 2004, and the effect of the movement in those provisions during the year on the general business technical result and profit before tax, are disclosed in notes 1(b) and 17.

## **LEGAL & GENERAL INSURANCE LIMITED**

### **Report of the Independent auditors to the members of Legal & General Insurance Limited**

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#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 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  
24 March 2005

**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004**

<b>Technical account - General business</b>		<b>2004</b>	<b>2003</b>
<b>Profit on continuing operations</b>	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2.	324,620	278,339
Outward reinsurance premiums		(30,418)	(25,146)
		294,202	253,193
Change in the gross provision for unearned premiums		(10,152)	(11,185)
Change in the provision for unearned premiums, reinsurers' share		1,971	705
		(8,181)	(10,480)
<b>Earned premiums, net of reinsurance</b>		<b>286,021</b>	<b>242,713</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid - gross amount		158,490	144,680
- reinsurers' share		(4,165)	(8,619)
		154,325	136,061
Change in the provision for claims - gross amount		24,180	9,070
- reinsurers' share		(1,992)	614
		22,188	9,684
<b>Claims incurred, net of reinsurance</b>		<b>176,513</b>	<b>145,745</b>
Changes in other technical provisions, net of reinsurance		(2,357)	(1,850)
Net operating expenses	3.	96,947	76,429
Change in the equalisation provision	17.	4,713	5,288
		275,816	225,612
<b>Balance on the technical account for general business</b>		<b>10,205</b>	<b>17,101</b>

**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004**

Non-technical account		2004	2003
Profit on continuing operations	Note	£'000	£'000
Balance on the general business technical account		10,205	17,101
Investment income	5.	23,477	18,502
Unrealised gains on investments	5.	681	-
Investment expenses and charges	5.	(1,778)	(552)
Unrealised losses on investments	5.	-	(11,957)
<b>Profit on ordinary activities before tax</b>		<u>32,585</u>	<u>23,094</u>
Tax charge on profit on ordinary activities	6.	(7,633)	(7,077)
<b>Profit for the financial year</b>		<u>24,952</u>	<u>16,017</u>
Preference share dividends		(139)	(121)
<b>Retained profit for the financial year</b>		<u>24,813</u>	<u>15,896</u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	2004	2003
	£'000	£'000
Profit for the financial year	24,952	16,017
Profit/(loss) on revaluation of investments in subsidiary undertakings	272	(4,914)
Exchange losses	(1)	-
<b>Total recognised gains and losses</b>	<u>25,223</u>	<u>11,103</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2004**

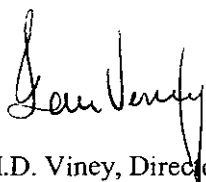
<b>Assets</b>	Note	2004 £'000	2003 £'000
<b>Investments</b>			
Investments in group undertakings and participating interests	7(i).	118,006	95,749
Other financial investments	7(ii).	299,494	268,633
		417,500	364,382
<b>Reinsurers' share of technical provisions</b>	18.		
Provision for unearned premiums		10,231	8,260
Claims outstanding		5,514	3,522
		15,745	11,782
<b>Debtors</b>			
Debtors arising out of direct insurance operations - policyholders		54,942	42,108
- intermediaries		19,039	25,808
		73,981	67,916
Debtors arising out of reinsurance operations		121	4,178
Amounts owed by group undertakings		3,991	3,020
Other debtors		48	111
		78,141	75,225
<b>Other assets</b>			
Tangible assets	8.	480	765
Cash at bank and in hand		1,720	1,581
		2,200	2,346
<b>Prepayments and accrued income</b>			
Accrued interest and rent		6,063	5,819
Deferred acquisition costs	18.	38,924	35,980
		44,987	41,799
<b>Total assets</b>		<u>558,573</u>	<u>495,534</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2004**

<b>Liabilities</b>	Note	2004 £'000	2003 £'000
<b>Capital and reserves</b>			
Called up share capital	9.	7,000	7,000
Share premium account		96,053	96,053
Revaluation reserve	10.	(12,812)	(16,553)
Profit and loss account	10.	114,216	92,873
<b>Shareholders' funds</b>		204,457	179,373
Total shareholders' funds attributable to			
Non-equity shareholders		3,500	3,500
Equity shareholders		200,957	175,873
		204,457	179,373
<b>Technical provisions</b>	18.		
Provision for unearned premiums		144,632	134,480
Claims outstanding		126,698	102,518
Equalisation provision		34,152	29,439
Other technical provisions		493	2,850
		305,975	269,287
<b>Provision for other risks and charges</b>	12.	4,408	7,071
<b>Creditors</b>			
Creditors arising out of direct insurance operations		2,226	1,771
Creditors arising out of reinsurance operations		8,336	7,173
Amounts owed to credit institutions	11.	-	67
Other creditors, including taxation and social security	14.	28,135	26,489
		38,697	35,500
<b>Accruals and deferred income</b>		5,036	4,303
<b>Total liabilities</b>		<u>558,573</u>	<u>495,534</u>
<b>Reconciliation of movements in shareholders' funds</b>			
Balance at 1 January		179,373	168,391
Total recognised gains and losses		25,223	11,103
Dividends		(139)	(121)
<b>Balance at 31 December</b>		<u>204,457</u>	<u>179,373</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 24 March 2005 and were signed on their behalf by



I.D. Viney, Director

## **LEGAL & GENERAL INSURANCE LIMITED**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

The financial statements conform to applicable accounting standards and 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' Statement of Recommended Practice on Accounting for Insurance Business (SORP) issued in November 2003.

##### **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.

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 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 net assets. In accordance with the SORP, gains and losses on interests in subsidiary undertakings are taken to the revaluation reserve.

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

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**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. 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 and unlisted investments at directors' valuation.

**(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 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.

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

<b>2. Class segmental analysis</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
<b>Gross premiums written</b>		
Accident & Health	51,487	43,841
Motor (third party liability and other classes)	37,763	33,175
Fire & other damage to property	221,487	189,541
Other business	13,883	11,782
	<u>324,620</u>	<u>278,339</u>
<b>All premiums result from contracts written in the United Kingdom.</b>		
<b>Gross premiums earned</b>		
Accident & Health	48,124	41,493
Motor (third party liability and other classes)	35,456	33,221
Fire & other damage to property	214,172	174,505
Other business	16,716	17,935
	<u>314,468</u>	<u>267,154</u>
<b>Gross claims incurred</b>		
Accident & Health	30,153	23,377
Motor (third party liability and other classes)	31,432	23,843
Fire & other damage to property	119,091	102,928
Other business	1,994	3,602
	<u>182,670</u>	<u>153,750</u>
<b>Gross operating expenses</b>		
Accident & Health	15,297	15,071
Motor (third party liability and other classes)	8,675	7,809
Fire & other damage to property	75,437	56,565
Other business	4,925	5,833
	<u>104,334</u>	<u>85,278</u>
<b>Reinsurance balance</b>		
Accident & Health	1,647	678
Motor (third party liability and other classes)	129	726
Fire & other damage to property	9,685	9,471
Other business	3,442	(1,988)
	<u>14,903</u>	<u>8,887</u>
<b>Balance on the technical account for general business</b>		
Accident & Health	1,027	2,367
Motor (third party liability and other classes)	(4,780)	843
Fire & other damage to property	5,268	326
Other business	8,690	13,565
	<u>10,205</u>	<u>17,101</u>

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

<b>3</b>	<b>Net operating expenses</b>	<b>2004</b>	<b>2003</b>
		<b>£'000</b>	<b>£'000</b>
	Acquisition costs	86,092	69,682
	Change in deferred acquisition costs	(2,944)	(2,215)
	Administrative expenses	21,186	17,811
	Reinsurance commissions and profit participation	(7,387)	(8,849)
		<u>96,947</u>	<u>76,429</u>

The above figures include commissions for direct business amounting to: 56,388 47,871

**4. Auditor's remuneration**

Fees paid to PricewaterhouseCoopers LLP in relation to the audit of these financial statements amounted to £82,600 (2003: £59,500). Other fees, which comprise mainly fees for the audit of regulatory returns in the UK, amounted to £19,100 (2003: £15,700).

<b>5.</b>	<b>Investment return</b>	<b>2004</b>	<b>2003</b>
		<b>£'000</b>	<b>£'000</b>
	<b>(i) investment income</b>		
	Income in respect of other investments		
	- received from group undertakings	5,765	1,870
	- received from other sources	17,712	16,485
		<u>23,477</u>	<u>18,355</u>
	Realised investment gains	-	147
		<u>23,477</u>	<u>18,502</u>
	<b>(ii) unrealised investment gains</b>	<u>681</u>	<u>-</u>
	<b>(iii) investment expenses and charges</b>		
	Bank loans and overdrafts	(1)	(23)
	Other borrowings	(208)	(121)
	Investment management expenses	(427)	(408)
	Realised investment losses	(1,142)	-
		<u>(1,778)</u>	<u>(552)</u>
	<b>(iv) unrealised investment losses</b>	<u>-</u>	<u>(11,957)</u>
	<b>Total investment return</b>	<u>22,380</u>	<u>5,993</u>

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

6. Tax charge	2004 £'000	2003 £'000
UK Corporation tax at 30% (2003: 30%)		
- current tax for the year	11,124	8,842
- adjustments in respect of prior periods	(828)	-
Total current tax	<u>10,296</u>	<u>8,842</u>
Deferred tax		
- origination and reversal of timing differences	(2,663)	(1,765)
Tax on profit on ordinary activities	<u>7,633</u>	<u>7,077</u>

Factors affecting current tax charge for the period:

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%) (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	<u>32,585</u>	<u>23,094</u>
Corporation tax at 30%	9,775	6,928
Effects of:		
Disallowable expenditure	913	748
Adjustments in respect of prior periods	(828)	-
Capital allowances for period in excess of depreciation	(307)	(350)
Non taxable UK dividends	(1,468)	(643)
Difference between taxable and accounting unrealised gains	2,148	2,376
Difference between taxable and accounting realised gains	103	(197)
Taxable reserve adjustment	(40)	(20)
Current tax charge for period	<u>10,296</u>	<u>8,842</u>

Factors which may affect future tax charges:

The Company has unrelieved capital losses carried forward of £11,192,000 (2003: £11,192,000). No deferred tax asset has been recognised in respect of these losses as at 31 December 2004 (or 31 December 2003) 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 Company or elsewhere in the Legal & General Group. The potential deferred tax asset unprovided as at 31 December 2004 is £3,358,000 (2003: £3,358,000).

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

<b>7. Investments</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
<b>(i) Investments in group undertakings and participating interests</b>		
Shares in group undertakings	57,869	57,594
Loans to group undertakings	59,696	37,711
Participating interests	441	444
	<u>118,006</u>	<u>95,749</u>
<b>(ii) Other financial investments</b>		
Debt securities and other fixed income securities	265,366	225,092
Deposits with credit institutions	34,128	43,541
	<u>299,494</u>	<u>268,633</u>
<b>Total investments</b>	<u>417,500</u>	<u>364,382</u>
Listed investments included in current values above:	<u>265,366</u>	<u>225,092</u>
<b>Original cost of investments:</b>		
Investments in group undertakings and participating interests	126,314	104,329
Debt securities and other fixed income securities	264,183	224,589
Deposits with credit institutions	34,128	43,541
	<u>424,625</u>	<u>372,459</u>
<b>8. Tangible assets</b>	<b>2004</b>	<b>2003</b>
Fixtures, fittings, tools and equipment (principally computer equipment).	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>		
Balance at beginning of year	3,865	3,596
Additions	375	408
Disposals	(2,042)	(139)
Balance at end of year	2,198	3,865
<b>Depreciation</b>		
Balance at beginning of year	3,100	2,609
Provided during the year	538	628
Disposals	(1,920)	(137)
Balance at end of year	<u>1,718</u>	<u>3,100</u>
<b>Net book value at 31 December</b>	<u>480</u>	<u>765</u>

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

9. Share capital	2004 £'000	2003 £'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
	<u>7,000</u>	<u>7,000</u>

*Rights of preference shareholders*

Total dividends for 2004 of £139,000 (2003: £121,000), 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.

10. Movements in reserves	Revaluation Reserve £'000	Profit & loss Account £'000
Balance at 1 January 2004	(16,553)	92,873
Retained profit		24,813
Unrealised investment transfer	3,470	(3,470)
Profit on revaluation of investments in subsidiaries	272	
Exchange losses	(1)	
<b>Balance at 31 December 2004</b>	<u>(12,812)</u>	<u>114,216</u>

The revaluation reserve represents recognised unrealised gains on investments, net of deferred tax.

11. Amounts owed to credit institutions	2004 £'000	2003 £'000
Unsecured bank loans and overdrafts repayable, otherwise than by instalments, within one year	<u>-</u>	<u>67</u>

12. Provisions for other risks and charges	2004 £'000	2003 £'000
<b>Deferred tax</b>		
At 1 January	7,071	8,836
Amount debited in the profit & loss account for the period	(2,663)	(1,765)
At 31 December	<u>4,408</u>	<u>7,071</u>
 The balance for deferred tax consists of the following amounts:		
The excess of depreciation over capital allowances	(1,260)	(1,385)
Other timing differences	5,668	8,456
	<u>4,408</u>	<u>7,071</u>

# LEGAL & GENERAL INSURANCE LIMITED

## NOTES TO FINANCIAL STATEMENTS

### 13. Retirement benefits

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

### 14. Analysis of other creditors

	2004 £'000	2003 £'000
Tax	10,474	9,411
Amounts owed to group undertakings	11,536	11,858
Other creditors	6,125	5,220
	<u>28,135</u>	<u>26,489</u>

### 15. 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.

### 16. 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 except for Gresham Insurance Company Limited, where the Company holds 90% of the ordinary share capital and voting rights. 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
Gresham Insurance Company Limited	General insurance	Great Britain
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

#### Participating interests (10%)

Woolwich Insurance Services Limited	Insurance administration	Great Britain
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On 3 February 2005 the Company announced that it had agreed in principle to sell its 90% shareholding in its subsidiary, Gresham Insurance Company Limited and its 10% shareholding in Woolwich Insurance Services Limited to Barclays Bank Plc.

### 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 £34,152,000 (2003: £29,439,000). 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 £4,713,000 (2003: £5,288,000).

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

**18. Technical provisions**

	At 31 December 2003 £'000	Technical Account Movement £'000	At 31 December 2004 £'000
<b>Unearned premiums</b>			
Gross	134,480	10,152	144,632
Reinsurance	(8,260)	(1,971)	(10,231)
Net	126,220	8,181	134,401
<b>Unexpired risks</b>			
Gross	2,850	(2,357)	493
Reinsurance	-	-	-
Net	2,850	(2,357)	493
<b>Outstanding claims</b>			
Gross	102,518	24,180	126,698
Reinsurance	(3,522)	(1,992)	(5,514)
Net	98,996	22,188	121,184
<b>Equalisation provision</b>	29,439	4,713	34,152
<b>Deferred acquisition costs</b>			
Gross	(35,980)	(2,944)	(38,924)
Reinsurance	3,097	(401)	2,696
Net	(32,883)	(3,345)	(36,228)
<b>Total</b>	<u>224,622</u>	<u>29,380</u>	<u>254,002</u>
<b>Segmental analysis</b>			
Accident & Health	27,332	6,336	33,668
Motor (third party liability and other)	36,396	7,399	43,795
Fire & other damage to property	142,596	20,641	163,237
Credit and suretyship	16,178	(5,667)	10,511
Miscellaneous	2,120	671	2,791
	<u>224,622</u>	<u>29,380</u>	<u>254,002</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.

**19. 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

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#### 20. 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.

#### 21. 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.

#### 22. Directors' emoluments

##### *Directors' remuneration*

Emoluments of the directors are as follows:

	2004 £'000	2003 £'000
In respect of services as directors:		
Aggregate emoluments	<u>449</u>	<u>361</u>
The emoluments of the highest paid director, excluding pension contributions were:	<u>156</u>	<u>125</u>
Defined benefits accrued to 2 (2003: 1) directors under a defined benefit pension scheme.		

##### *Directors' loans*

At 31 December 2004 there were no loans to directors (2003: 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 2004.