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**LEGAL & GENERAL INSURANCE LIMITED**

**REPORT AND ACCOUNTS**

**2010**

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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 00423930

## LEGAL & GENERAL INSURANCE LIMITED

### DIRECTORS' REPORT

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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 2010

#### 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, specifically relating to risk covers for household and mortgage payment protection insurances

The Company continues to pursue a strategy focused on the housing marketplace, including leveraging the distribution relationships from the wider Legal & General proposition focused on the housing purchase event. Following on from the steps taken in 2009 significant focus continued in the year on improving underlying operational efficiency, in particular around claims management and improving the quality of underwriting. This coupled with investment in developing the product proposition sees the business well placed to meet the demands of the market and deliver growth as and when the economic cycle turns.

Market conditions remained challenging in 2010 with business volumes impacted by low housing market transactions and the general uncertainty in economic conditions. However we achieved 3% top line premium growth and believe there is still significant opportunity to grow premium income even in the current climate.

The exceptional weather experience late in the year significantly impacted our performance and we assessed the impact of the freeze related claims as being £30m over and above our normal weather expectation for the year. This impacted the combined operating ratio adversely and it deteriorated year on year by 10% to 109%. This masks an improvement in the underlying underwriting performance including improved unemployment claims experience.

#### Result for the year and dividend

The results of the Company show a pre-tax loss of £11.7 million (2009 profit £14.1 million). Details of which are set out on pages 8 and 9. The directors do not recommend the payment of a dividend (2009 £Nil).

#### Key performance indicators

In addition to the pre-tax performance noted above other key measures monitored by the Board are as follows

	<u>2010</u>	<u>2009</u>
Year end shareholder funds	£90m	£98m
Gross written premiums	£281m	£273m
Combined operating ratio	109%	99%

The combined operating ratio is

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

## LEGAL & GENERAL INSURANCE LIMITED

### DIRECTORS' REPORT

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#### 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 focused on household insurance means LGI has limited product diversification, and the payment protection 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.

#### Resources

The Legal & General 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.

## **LEGAL & GENERAL INSURANCE LIMITED**

### **DIRECTORS' REPORT**

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#### **Outsourcing and Key Supplier Risk**

There are some core LGI functions that are outsourced, and a reliance on 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.

#### **Future developments**

Going forward the business will continue to evolve its strategy around the housing marketplace, focusing on the development of sustainable profitable relationships and strong management of loss ratios through improved underwriting and claims management techniques.

#### **Directorate**

The directors of the Company who served during the year, together with their dates of appointment and resignation, where appropriate, are shown below.

J B Pollock (Chairman)  
M J Cooper  
P J Graham  
M J Hotson (resigned on 20 April 2010)  
G P Howard  
P A Kennedy (resigned on 14 September 2010)  
M A Lawler  
G L Pickering (appointed on 8 June 2010)  
G P Skelton (resigned on 30 June 2010)  
A M Webb

#### **Secretary**

E Latzelsberger

Since 31 December 2010, the following changes have been made to the directorate

D A Finch (appointed on 15 February 2011)  
S P Harry (appointed 21 February 2011)  
G P Howard (resigned on 22 February 2011)  
G L Pickering (resigned on 22 February 2011)

#### **Creditors**

The Legal & General Group Plc agrees terms and conditions for its business transactions with suppliers. Payment is made on these terms provided the supplier meets its obligations. The Company has no trade creditors. As at 31 December 2010, the average number of days of payments outstanding for the Legal & General Group of companies was 34 days (2009: 33 days).

#### **Directors' Indemnities and Insurance**

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent company, Legal & General Group Plc, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

## **LEGAL & GENERAL INSURANCE LIMITED**

### **DIRECTORS' REPORT**

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#### **Financial Risk Management**

Legal & General companies use financial instruments to manage certain financial risks. The Company's exposure to financial risk through its financial assets and liabilities is not considered material to the assessment of the Company's assets, liabilities, financial position and the profit and loss of the Company.

#### **Auditors**

The Company has appointed PricewaterhouseCoopers LLP as auditors.

There is no requirement under the Companies Act or the Company's articles of association to hold an Annual General Meeting or lay the Company's Report and Accounts before the shareholders. The company has also elected to dispense the need to appoint the auditors annually.

#### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors in office, at the date the directors' report is approved, confirms that

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

By Order of the Board

  
M.A. Lawler  
Director

15 March 2011

**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 of Legal & General Insurance Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, Balance Sheet, the accounting policies and the related notes. The financial reporting framework that has been applied to their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2010, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax are disclosed in note 18.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been constantly applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**LEGAL & GENERAL INSURANCE LIMITED**  
**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LEGAL & GENERAL INSURANCE LIMITED**

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**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters which the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Barnabas Wanstall (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
15 March 2011



**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010**

<b>Technical account - General business</b>	Note	2010 £'000	2009 £'000
<b>Earned premiums, net of reinsurance</b>			
Continuing operations		281,039	272,929
Discontinued operations		(1)	(2)
Gross premiums written	3	281,038	272,927
Outward reinsurance premiums		(16,360)	(18,305)
Net premiums written		264,678	254,622
Change in the gross provision for unearned premiums		(14,349)	11,534
Change in the provision for unearned premiums, reinsurers' share		(919)	(166)
		(15,268)	11,368
<b>Earned premiums, net of reinsurance</b>		<b>249,410</b>	<b>265,990</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid - gross amount		161,040	177,166
- reinsurers' share		(2,898)	(2,797)
		158,142	174,369
Change in the provision for claims - gross amount		17,238	(16,605)
- reinsurers' share		1,642	1,830
		18,880	(14,775)
<b>Claims incurred, net of reinsurance</b>		<b>177,022</b>	<b>159,594</b>
Net operating expenses	4	101,637	109,981
Change in the equalisation provision	18	7,337	6,672
<b>Total technical charges</b>		<b>285,996</b>	<b>276,247</b>
<b>Balance on the technical account for general business</b>	3	<b>(36,586)</b>	<b>(10,257)</b>

**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010**

<b>Non-technical account</b>	<b>Note</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Balance on the general business technical account		(36,586)	(10,257)
Investment income	5	14,823	14,094
Investment expenses and charges	5	(3,142)	(4,222)
Unrealised gains on investments	5	13,166	14,527
Continuing operations		(11,982)	10,261
Discontinued operations		<u>243</u>	<u>3,881</u>
<b>Total operating profit/(loss)</b>		<b>(11,739)</b>	<b>14,142</b>
<b>Profit/(Loss) on ordinary activities before tax</b>		<b>(11,739)</b>	<b>14,142</b>
Tax credit/(charge) on profit on ordinary activities	8	3,041	(630)
<b>Profit/(loss) for the financial year</b>		<b><u>(8,698)</u></b>	<b><u>13,512</u></b>

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

The effect of accounting for investments and current value is not required to be included in a note of historical cost profits and losses. There are no other differences between the result on ordinary activities before tax or the result for the financial year stated above and their historical cost profit equivalents

**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2010**

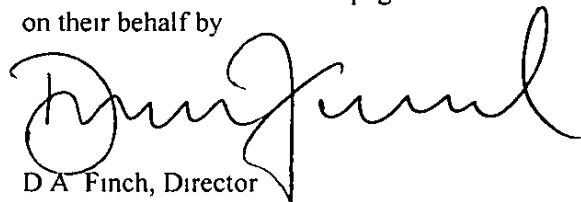
<b>Assets</b>	<b>Note</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Investments</b>			
Investments in group undertakings and participating interests	9(i)	2,608	2,608
Other financial investments	9(ii)	285,286	275,860
		287,894	278,468
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	19	7,453	8,372
Claims outstanding		754	2,396
		8,207	10,768
<b>Debtors</b>			
Debtors arising out of direct insurance operations - policyholders		58,154	64,244
- intermediaries		18,588	14,648
		76,742	78,892
Debtors arising out of reinsurance operations		-	1,554
Other debtors	11	4,519	1,394
		81,261	81,840
<b>Other assets</b>			
Tangible assets	10	114	182
Cash at bank and in hand		7,125	5,334
		7,239	5,516
<b>Prepayments and accrued income</b>			
Accrued interest and rent		6,753	4,878
Deferred acquisition costs	19	44,679	39,291
		51,432	44,169
<b>Total assets</b>		<b>436,033</b>	<b>420,761</b>

**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2010**

Liabilities	Note	2010	2009
		£'000	£'000
<b>Capital and reserves</b>			
Called up share capital	15	3,500	3,500
Share premium account		96,053	96,053
Revaluation reserve	16	(6,140)	(19,306)
Profit and loss account	16	(3,895)	17,969
<b>Equity shareholders' funds</b>		<b>89,518</b>	<b>98,216</b>
<b>Technical provisions</b>	19		
Provision for unearned premiums		134,457	120,108
Claims outstanding		126,050	108,812
Equalisation provision		21,766	14,429
		<b>282,273</b>	<b>243,349</b>
<b>Provision for other risks and charges</b>	13	<b>57</b>	<b>102</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		13,378	9,350
Creditors arising out of reinsurance operations		8,075	12,570
Other creditors, including taxation and social security	12	38,505	52,859
Preference Shares	15	3,500	3,500
		<b>63,458</b>	<b>78,279</b>
<b>Accruals and deferred income</b>		<b>727</b>	<b>815</b>
<b>Total liabilities</b>		<b>346,515</b>	<b>322,545</b>
<b>Total liabilities and shareholders' funds</b>		<b>436,033</b>	<b>420,761</b>
<b>Reconciliation of movements in shareholders' funds</b>			
Balance at 1 January		98,216	84,704
Total recognised gains and losses		(8,698)	13,512
<b>Balance at 31 December</b>		<b>89,518</b>	<b>98,216</b>

The notes on pages 12 to 23 form an integral part of these financial statements

The financial statements on pages 8 to 23 were approved by the directors on 15 March 2011 and were signed on their behalf by

  
D A Finch, Director

## LEGAL & GENERAL INSURANCE LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 1. Accounting policies

##### a) Basis of preparation

The financial statements have been prepared under the provision of The Large and Medium-sized Companies (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended December 2006. The financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 2006 and applicable accounting standards. 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 incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Provision is made at the year-end for the estimated cost of claims and related insurance recoveries incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these reserves. In calculating the estimated cost of IBNR and notified unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

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.

## LEGAL & GENERAL INSURANCE LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 1. Accounting policies (continued)

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 3 to SI 2008/410, to be included within technical provisions.

##### c) **Subsidiary undertakings**

Shares in subsidiary undertakings are stated at the Company's share of their net assets based on the directors' having prudent regard for their likely realisable value. Changes in value of investments in subsidiary undertakings are shown in the revaluation reserve.

The Company reviews the carrying value of its subsidiaries at each balance sheet date where there has been an indication that impairment has occurred. If the carrying value of a subsidiary undertaking or fixed asset is impaired, the carrying value is reduced through a charge to the profit and loss account.

##### d) **Other Financial Investments**

Other financial investments are initially recognised at fair value, being the consideration paid for the acquisition of the investments. Subsequent to initial recognition, these investments are measured at fair value. Fair values for debt securities and other fixed income securities are based on readily available market prices on the balance sheet date.

##### e) **Investment Return**

###### (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 recognised when paid for interim dividends, and when approved by the members 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 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 the revaluation reserve within the balance sheet.

# LEGAL & GENERAL INSURANCE LIMITED

## NOTES TO FINANCIAL STATEMENTS

### 1. Accounting policies (continued)

#### f) Deferred tax

The charge for taxation is based on the result for the year adjusted for disallowable items. Deferred taxation is provided in full on all timing differences at the rate at which it is expected that the tax liability or benefit will arise. 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 expense.

#### h) Dividend recognition

Final dividends are accrued when approved and interim dividends are recognised when paid.

<b>2. Profit/(loss) on ordinary activities before tax</b>	<b>2010</b>	<b>2009</b>
Profit/(loss) on ordinary activities before tax is stated after charging	£'000	£'000
Depreciation of tangible assets	87	187
Audit Fee – statutory audit	128	106
Audit Fee – other services	<u>61</u>	<u>59</u>
	<u>276</u>	<u>352</u>
 <b>3. Class segmental analysis</b>	 <b>2010</b>	 <b>2009</b>
<b>Gross premiums written</b>	<b>£'000</b>	<b>£'000</b>
Accident & Health	8,986	10,300
Fire & other damage to property	258,574	247,179
Other business	<u>13,479</u>	<u>15,450</u>
Total Continued	281,039	272,929
Health	<u>(1)</u>	<u>(2)</u>
Total Discontinued	(1)	(2)
All premiums result from contracts written in the United Kingdom	<u>281,038</u>	<u>272,927</u>
 <b>Gross premiums earned</b>		
Accident & Health	9,435	10,997
Fire & other damage to property	243,257	256,586
Other business	<u>13,998</u>	<u>16,880</u>
Total Continued	266,690	284,463
Health	<u>(1)</u>	<u>(2)</u>
Total Discontinued	(1)	(2)
	<u>266,689</u>	<u>284,461</u>

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

<b>3. Class segmental analysis (continued)</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>Gross claims incurred</b>		
Accident & Health	3,183	4,571
Fire & other damage to property	169,987	148,268
Other business	<u>4,306</u>	<u>10,804</u>
Total Continued	177,476	163,643
Motor (third party liability and other classes)	813	(3,096)
Health	<u>(11)</u>	<u>14</u>
Total Discontinued	<u>802</u>	<u>(3,082)</u>
	<u>178,278</u>	<u>160,561</u>
<b>Gross operating expenses</b>		
Accident & Health	4,068	4,453
Fire & other damage to property	93,770	100,688
Other business	<u>6,082</u>	<u>6,275</u>
Total Continued	103,920	111,416
Motor (third party liability and other classes)	22	175
Health	<u>-</u>	<u>13</u>
Total Discontinued	<u>22</u>	<u>188</u>
	<u>103,942</u>	<u>111,604</u>
<b>Reinsurance balance</b>		
Accident	390	1,083
Fire & other damage to property	13,158	13,443
Other business	<u>539</u>	<u>1,312</u>
Total Continued	14,087	15,838
Motor (third party liability and other classes)	<u>(369)</u>	<u>43</u>
Total Discontinued	<u>(369)</u>	<u>43</u>
	<u>13,718</u>	<u>15,881</u>
<b>Balance on the technical account for general business</b>		
Accident	1,794	890
Fire & other damage to property	(40,994)	(12,765)
Other business	<u>3,071</u>	<u>(1,231)</u>
Total Continued	(36,129)	(13,106)
Motor (third party liability and other classes)	(467)	2,878
Health	<u>10</u>	<u>(29)</u>
Total Discontinued	<u>(457)</u>	<u>2,849</u>
	<u>(36,586)</u>	<u>(10,257)</u>

**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



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<b>4. Net operating expenses</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	94,829	91,230
Change in deferred acquisition costs	(5,388)	6,078
Administrative expenses	14,501	14,296
Reinsurance commissions and profit participation	(2,305)	(1,623)
	<u>101,637</u>	<u>109,981</u>
The above figures include commissions amounting to	<u>61,182</u>	<u>60,632</u>
 <b>5. Investment Return</b>	 <b>2010</b>	 <b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>(i) Investment income</b>		
Income in respect of other investments	<u>14,823</u>	<u>14,094</u>
<b>(ii) Investment expenses and charges</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable from group undertakings	18	-
Interest payable to group undertakings	(23)	(257)
Investment management expenses	(416)	(383)
Realised investment losses	(2,700)	(3,503)
Preference share dividends	(21)	(79)
	<u>(3,142)</u>	<u>(4,222)</u>
<b>(iii) Unrealised gains on investments</b>	<u>13,166</u>	<u>14,527</u>
Total investment return	<u>24,847</u>	<u>24,399</u>

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**6. Directors' emoluments**

These figures represent that portion of the directors' emoluments that are estimated to relate to their services to the Company

	2010 £'000	2009 £'000
In respect of services as directors		
Aggregate emoluments	1,467	1,356
Aggregate money purchase contributions	<u>177</u>	<u>173</u>

No fees were paid by the Company to the directors

The emoluments received by the directors have been settled by a fellow group company, Legal & General Resources Limited, and included within the recharge made to the Company

	2010 £'000	2009 £'000
Highest paid director		
Emoluments	402	376
Money purchase contributions	<u>43</u>	<u>39</u>

**7. Pensions**

The Company has no direct employees and hence makes no direct contributions towards retirement benefits (2009 £Nil)

**8. Tax (credit)/charge**

	2010 £'000	2009 £'000
UK Corporation tax at 28% (2009 28%)		
- current tax for the year	(3,507)	3,726
- adjustments in respect of prior periods	130	(3,199)
Total current tax	<u>(3,377)</u>	<u>527</u>
Deferred tax		
- origination and reversal of timing differences	336	103
Tax on profit/(loss) on ordinary activities	<u>(3,041)</u>	<u>630</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
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**8. Tax (credit)/charge (continued)**

Factors affecting current tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (28%) (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
Profit/(Loss) on ordinary activities before tax	(11,739)	14,142
Corporation tax at 28%/28%	(3,287)	3,960
Effects of		
Disallowable expenditure	(61)	-
Adjustments in respect of prior periods	130	(3,199)
Capital allowances for period in excess of depreciation	(159)	(173)
Non-taxable income including UK dividends	-	(101)
Other disallowable	-	40
Current tax charge for period	(3,377)	527

**Factors affecting current and future tax charges**

During the year, as a result of the change in the UK main corporation tax from 28% to 27% that was substantially enacted on 20 July 2010 and that will be effective from 1 April 2011, the relevant deferred tax balances have been remeasured

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantially enacted at the balance sheet date and therefore are not recognized in these financial statements

**9. Investments**

	2010 £'000	2009 £'000
(i) <b>Investments in group undertakings and participating interests</b>		
Shares in group undertakings	2,608	2,608

**Subsidiary undertakings**

The subsidiaries of Legal & General Insurance Limited are listed below

Held directly by the Company	Nature of Business	Incorporated In
Southgate Associates Limited	Dormant company	England & Wales
Legal & General GI Computer Services Limited	Dormant company	England & Wales
Legal & General Healthcare Limited	Dormant company	England & Wales
<b>Held indirectly through subsidiary undertakings</b>		
Glanfield Securities Limited	Investment company	England & Wales
Legal & General Investment Trust Limited	Investment company	England & Wales
Bridge End Computers Limited	Dormant company	England & Wales

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

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**9. Investments (continued)**

<b>(ii) Other financial investments</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Debt securities and other fixed income securities	279,080	240,853
Deposits with credit institutions	6,206	35,007
	<u>285,286</u>	<u>275,860</u>
<b>Total investments</b>	<b>287,894</b>	<b>278,468</b>
Listed investments included in current values above	<u>279,080</u>	<u>240,853</u>
<b>Original cost of financial investments:</b>		
Investments in group undertakings and participating interests	12,040	10,906
Debt securities and other fixed income securities	285,226	260,164
Deposits with credit institutions	6,206	35,007
	<u>303,472</u>	<u>306,077</u>

<b>10. Tangible assets</b>	<b>2010</b>	<b>2009</b>
Fixtures, fittings, tools and equipment (principally computer equipment)	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>		
Balance at beginning of year	1,303	1,243
Additions	19	130
Disposals	-	(70)
Balance at end of year	1,322	1,303
<b>Depreciation</b>		
Balance at beginning of year	1,121	1,002
Provided during the year	87	189
Disposals	-	(70)
Balance at end of year	1,208	1,121
<b>Net book value at 31 December</b>	<b>114</b>	<b>182</b>

<b>11. Debtors</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Other debtors	46	34
Deferred tax asset	1,024	1,360
Corporation tax receivable	3,449	-
<b>Total Other Debtors</b>	<b>4,519</b>	<b>1,394</b>

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

**11. Debtors (continued)**

	2010	2009
	£'000	£'000
<b>Deferred tax</b>		
The balance for deferred tax consists of the following amounts		
The excess of depreciation over capital allowances	(679)	(850)
Other timing differences	(345)	(510)
<b>Total Deferred Tax Asset</b>	<b>(1,024)</b>	<b>(1,360)</b>

Deferred tax has been determined using the rate of corporation tax applicable from 1 April 2011 of 27% (2009 28%)

The Company is a UK member of the Legal & General Group, which is projected to make profits in future. Tax losses arising in this Company in future years as a result of the reversal of timing differences will therefore be utilised by other profitable companies within the UK Group. The Group policy is to pay for such surrendered tax losses at the prevailing corporation tax rate.

**12. Analysis of other creditors**

	2010	2009
	£'000	£'000
Corporation tax payable	-	3,258
Amounts owed to group undertakings	27,320	26,534
Other creditors	11,185	23,067
	<b>38,505</b>	<b>52,859</b>

**13. Provisions for other risks and charges**

	Provision for Discontinued Operation £'000
At 1 January 2010	102
Release of tax provision during the year	(45)
At 31 December 2010	<b>57</b>

This relates to the provision for losses expected on the discontinued motor business

**LEGAL & GENERAL INSURANCE LIMITED**  
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**14. 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.

**15. Share capital**

	2010 £'000	2009 £'000
<i>Authorised</i>		
Equity interests - 3,500,001 ordinary shares of £1 each	3,500	3,500
<i>Issued &amp; fully paid</i> 3,500,000 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	3,500	3,500

Preference shares are included within liabilities in accordance with the requirements of FRS25.

**Rights of preference shareholders**

Total dividends for 2010 of £21,000 (2009 £79,000), 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.

**16. Movements in reserves**

	Revaluation Reserve £'000	Profit and loss Account £'000
Balance at 1 January 2010	(19,306)	17,969
Retained profit	-	(8,698)
Unrealised investment transfer	13,166	(13,166)
<b>Balance at 31 December 2010</b>	<u>(6,140)</u>	<u>(3,895)</u>

**LEGAL & GENERAL INSURANCE LIMITED**  
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**17. Holding company**

The Company's immediate parent undertaking is Legal and General Assurance Society Limited. The ultimate parent company is Legal & General Group Plc, a company incorporated in England & Wales - the controlling party 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, on the group website, [www.legalandgeneralgroup.com](http://www.legalandgeneralgroup.com) or from the company secretary at the Registered Office, One Coleman Street, London, EC2R 5AA.

**18. Equalisation provisions**

As explained in the accounting policy 1(b) on page 13, an equalisation provision is established in the financial statements. The effect of this provision is to reduce the shareholders' funds by £21,766,000 (2009 decrease of £14,429,000). 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 £7,337,000 (2009 £6,672,000).

**19. Technical provisions**

	At 31 December 2009 £'000	Technical Account Movement £'000	At 31 December 2010 £'000
<b>Unearned premiums</b>			
Gross	120,108	14,349	134,457
Reinsurance	(8,372)	919	(7,453)
Net	111,736	15,268	127,004
<b>Outstanding claims</b>			
Gross	108,812	17,238	126,050
Reinsurance	(2,396)	1,642	(754)
Net	106,416	18,880	125,296
<b>Equalisation provision</b>	14,429	7,337	21,766
<b>Deferred acquisition costs</b>			
Gross	(39,291)	(5,388)	(44,679)
Reinsurance	815	(88)	727
Net	(38,476)	(5,476)	(43,952)
<b>Total</b>	<b>194,105</b>	<b>36,009</b>	<b>230,114</b>
<b>Segmental analysis</b>			
Health	15	(15)	0
Motor	6,195	(2,333)	3,862
Fire & other damage to property	170,487	44,010	214,497
Other business	17,408	(5,653)	11,755
	<b>194,105</b>	<b>36,009</b>	<b>230,114</b>

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

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

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**20. Movement in prior year's provision for claims outstanding**

Favourable/(adverse) run-off deviations were experienced during the year in respect of the Company's lines of business as follows

	2010 £'000	2009 £'000
Health	14	(11)
Motor (third party liability and other classes)	(467)	2,893
Fire & other damage to property	5,284	9,239
Other business	<u>1,676</u>	<u>794</u>
	<u>6,507</u>	<u>12,915</u>

**21. Related party transactions**

The Company has taken advantage of the exemptions for wholly owned subsidiaries 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.

**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.