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LEGAL & GENERAL INSURANCE LIMITED

REPORT AND ACCOUNTS

1997



LEGAL & GENERAL INSURANCE LIMITED

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Registered office

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

Registered in England and Wales No. 423930

LEGAL & GENERAL INSURANCE LIMITED

Directors

D.J.Prosser, FIA (Chairman)

E.Christie, FCII

A.J.Hobson, FCA

D.Rough, FCII

Secretary

C.A.Dockrell, ACIS

REPORT OF THE DIRECTORS

The directors submit their fifty first annual report together with the audited financial statements of the Company for the year ended 31 December 1997.

Principal activity

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

Result for the year and dividend

The Company's result for the year is set out in the profit and loss account on page 7. The directors declared the payment of an interim dividend for 1997 of £25,000,000 (1996, £70,000,000). The total preference share dividend payable for 1997 was £187,000 (1996, £178,000).

Directors

The names of the present directors are shown on page 2. All the directors remained in office throughout the year.

Directors' share interests

No director had any interest in the shares of the Company at 31 December 1997.

A.J.Hobson, D.J.Prosser and D.Rough are also directors of the ultimate holding company, Legal & General Group Plc, and their interests in the shares of that company are shown in the accounts of that company. E.Christie is also a director of the parent company, Legal & General Assurance Society Limited, and shown in the accounts of that company are his interests in the shares of the ultimate holding company, Legal & General Group Plc.

Employee policy

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.

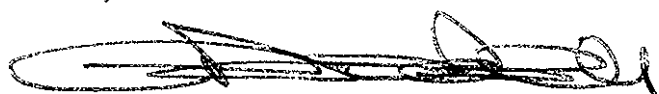
Payment of suppliers

The purchases of the Company are administered by 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 1997 was 13.

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. Accordingly, the Company's auditors remain in office until the Company or the auditors otherwise determine.

By Order of the Board



C.A.Dockrell
Secretary
20 May 1998

RESPONSIBILITY 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 the period. 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also have a general responsibility for taking reasonable steps to safeguard the assets of the Company and to prevent and detect 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 6 to 19 which have been prepared in accordance with the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 4, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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 1997, 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 18.

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
London
20 May 1998

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

Technical Account - General Business		1997	1996
		£'000	£'000
Note			
	Earned premiums, net of reinsurance		
2.	Gross premiums written - continuing operations	114,131	122,691
	- discontinued operations	-	47,901
	Outward reinsurance premiums	(5,694)	(18,551)
		<u>108,437</u>	<u>152,041</u>
	Change in gross provision for unearned premiums	2,264	21,265
	Change in the provision for unearned premiums, reinsurers' share	(585)	(13,627)
		<u>1,679</u>	<u>7,638</u>
	Earned premiums, net of reinsurance	<u>110,116</u>	<u>159,679</u>
	Allocated investment return transferred from the non-technical account	32,507	29,966
		<u>142,623</u>	<u>189,645</u>
	Claims incurred, net of reinsurance		
	Claims paid - gross amount	111,227	158,611
	- reinsurers' share	(7,608)	(23,302)
		<u>103,619</u>	<u>135,309</u>
	Change in the provision for claims - gross amount	(27,304)	(28,086)
	- reinsurers' share	8,584	16,199
		<u>(18,720)</u>	<u>(11,887)</u>
	Claims incurred, net of reinsurance	<u>84,899</u>	<u>123,422</u>
	Changes in other technical provisions, net of reinsurance	(12,500)	(15,900)
3.	Net operating expenses	37,486	57,471
	Change in the equalisation provision	3,261	2,536
		<u>113,146</u>	<u>167,529</u>
	Balance on the technical account for general business	<u>29,477</u>	<u>22,116</u>
	comprising:		
	- continuing operations	29,477	22,113
	- discontinued operations	-	3
		<u>29,477</u>	<u>22,116</u>

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

Non-technical Account	1997	1996
	£'000	£'000
Note		
Balance on the general business technical account	29,477	22,116
Profit on sale of discontinued business	-	70,041
8. Investment income	39,751	42,886
Unrealised gains on investments	13,918	20,217
8. Investment expenses and charges	(2,329)	(17,790)
8. Allocated investment return transferred to the general business technical account	(32,507)	(29,966)
Profit on ordinary activities before tax	48,310	107,504
6. Tax on profit on ordinary activities	(6,455)	(17,586)
Profit for the financial year	41,855	89,918
Dividends	(25,187)	(70,178)
Retained profit for the financial year	16,668	19,740

Statement of total recognised gains and losses

	1997	1996
	£'000	£'000
Profit for the financial year	41,855	89,918
Gain on revaluation of investments in subsidiary undertakings	13,859	2,490
Exchange gains (losses)	3	(11)
Total recognised gains and losses for the year	55,717	92,397

BALANCE SHEET

as at 31 December 1997

Note	Assets	1997	1996
		£'000	£'000
	Investments		
9.	Investments in group undertakings and participating interests	248,003	233,870
10.	Other financial investments	337,303	353,326
		585,306	587,196
19.	Reinsurers' share of technical provisions		
	Provision for unearned premiums	431	1,016
	Claims outstanding	9,787	18,371
	Other technical provisions	8,600	11,150
		18,818	30,537
	Debtors		
	Debtors arising out of direct insurance operations - policyholders	15,218	20,742
	- intermediaries	12,515	5,460
		27,733	26,202
	Debtors arising out of reinsurance operations	2,494	9,582
	Amounts owed by group undertakings	13,282	40,360
	Other debtors	9,968	15,433
		53,477	91,577
	Other assets		
11.	Tangible assets	654	1,348
	Cash at bank and in hand	6,911	1,132
		7,565	2,480
	Prepayments and accrued income		
	Accrued interest and rent	5,910	6,902
19.	Deferred acquisition costs	19,414	19,441
		25,324	26,343
	Total assets	690,490	738,133

BALANCE SHEET

as at 31 December 1997

Note	Liabilities	1997 £'000	1996 £'000
	Capital and reserves		
12.	Called up share capital	7,000	7,000
	Share premium account	96,053	96,053
13.	Revaluation reserve	70,881	43,101
13.	Profit and loss account	68,201	65,451
14	Shareholders' funds	242,135	211,605
	Total shareholders' funds attributable to		
	Non equity shareholders	3,519	3,515
	Equity shareholders	238,616	208,090
		242,135	211,605
15.	Subordinated liabilities	100,000	100,000
19.	Technical provisions		
	Provision for unearned premiums	116,594	118,858
	Claims outstanding	119,581	146,885
	Equalisation provision	5,797	2,536
	Other technical provisions	45,600	60,650
		287,572	328,929
	Creditors		
	Creditors arising out of direct insurance operations	8,271	1,491
	Creditors arising out of reinsurance operations	947	137
16.	Other creditors, including taxation and social security	44,159	83,323
		53,377	84,951
	Accruals and deferred income	7,406	12,648
	Total liabilities	690,490	738,133

The notes on pages 10 to 19 form an integral part of these financial statements.

The financial statements on pages 6 to 19 were approved by the directors on 20 May 1998.



E.Christie, Director

NOTES TO FINANCIAL STATEMENTS

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 and 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' Guidance on Accounting for Insurance Business issued in December 1995.

b) General insurance

Underwriting results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting. In addition, an equalisation provision is made 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.

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. 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.

c) Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated at the Company's share of their net assets. Gains and losses arising on investment 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.

e) Operating leases

Rentals payable under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

1. Accounting policies (continued)

f) Investments

(i) General

Investment return, which comprises investment income less related expenses, interest expense and investment gains and losses is included in the non-technical account and an allocation is made to the general business 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 include associated tax credits. 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.

(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 shown in the profit and loss account.

g) 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 for Legal & General Group Plc.

h) 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.

i) 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. Variations 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 in note (h).

NOTES TO THE FINANCIAL STATEMENTS

2. Class segmental analysis	1997 £'000	1996 £'000
Gross premiums written		
Motor (third party liability and other classes)	25,571	25,853
Fire & other damage to property	76,417	81,981
Credit and suretyship	9,354	12,825
Miscellaneous	2,789	2,032
Discontinued operations	-	47,901
	<u>114,131</u>	<u>170,592</u>
All of which resulted from contracts written in the United Kingdom.		
Gross premiums earned		
Motor (third party liability and other classes)	24,698	25,982
Fire & other damage to property	76,447	114,041
Credit and suretyship	13,687	9,104
Miscellaneous	1,563	729
Discontinued operations	-	42,001
	<u>116,395</u>	<u>191,857</u>
Gross claims incurred		
Motor (third party liability and other classes)	22,350	19,681
Fire & other damage to property	44,436	71,372
Credit and suretyship	16,550	25,486
Miscellaneous	587	69
Discontinued operations	-	13,917
	<u>83,923</u>	<u>130,525</u>
Gross operating expenses		
Motor (third party liability and other classes)	8,239	9,946
Fire & other damage to property	25,297	30,096
Credit and suretyship	2,726	2,815
Miscellaneous	534	236
Discontinued operations	-	19,453
	<u>36,796</u>	<u>62,546</u>
Reinsurance balance		
Motor (third party liability and other classes)	464	1,080
Fire & other damage to property	5,644	8,380
Credit and suretyship	4,384	108
Miscellaneous	3	49
Discontinued operations	-	12,687
	<u>10,495</u>	<u>22,304</u>
Balance on the technical account for general business		
Motor (third party liability and other classes)	(1,484)	(1,526)
Fire & other damage to property	12,749	14,371
Credit and suretyship	17,605	8,826
Miscellaneous	607	442
Discontinued operations	-	3
	<u>29,477</u>	<u>22,116</u>

NOTES TO FINANCIAL STATEMENTS

3. Net operating expenses	1997	1996
	£'000	£'000
Acquisition costs	26,062	24,888
Change in deferred acquisition costs	27	5,875
Administrative expenses	10,532	18,605
Reinsurance commissions and profit participation	865	(8,600)
	<u>37,486</u>	<u>40,768</u>
The above figures include commissions for direct business amounting to:	<u>18,854</u>	<u>12,787</u>

4. Auditor's remuneration

Fees paid to Price Waterhouse in relation to the audit of these financial statements and those of the Company's subsidiary undertakings amounted to £75,000 (1996, £107,000). Other fees paid to Price Waterhouse, including fees for the audit of regulatory returns in the UK, amounted to £19,000 (1996, £12,000).

5. Operating leases

Operating lease rentals

The Company's administration expenses include operating lease rentals in respect of hire of computer software and telecommunications equipment for 1997 of £1,772,000 (1996, £1,918,000).

<i>Operating lease commitments</i>	1997	1996
	£'000	£'000
Expiring within 1 year	30	1,595
Expiring between 1 and 5 years	-	207
Expiring after 5 years	-	-

6. Tax charge

	1997	1996
	£'000	£'000
Corporation tax at 31.5% (1996, 33%)	4,361	2,655
Tax on exceptional item	-	13,589
Tax on franked investment income	2,094	1,340
Foreign tax	-	2
	<u>6,455</u>	<u>17,586</u>

The tax charge includes £2,036,000 (1996, £5,977,000 credit) in respect of investment gains.

Potential amount of deferred tax not provided for:	1997	1996
	£'000	£'000
Unrealised net investment gains	18,064	17,372
Other timing differences	(1,141)	141
	<u>16,923</u>	<u>17,513</u>

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

NOTES TO FINANCIAL STATEMENTS

7. Particulars of staff	1997	1996
Average number of staff employed in the conduct of general insurance business	<u>342</u>	<u>684</u>
Average number of part time staff included in the above	<u>29</u>	<u>52</u>
	1997 £'000	1996 £'000
Staff costs included in operating expenses		
Wages and salaries	6,936	12,742
Social security costs	602	1,165
Other pension costs	568	1,250
	<u>8,106</u>	<u>15,157</u>
Staff costs of part time staff included in the above	<u>251</u>	<u>255</u>
8. Investment return	1997 £'000	1996 £'000
(i) investment income		
Income in respect of other investments		
- received from group undertakings	9,765	10,275
- received from other sources	24,221	32,611
	33,986	42,886
Realised investment gains	5,765	-
	<u>39,751</u>	<u>42,886</u>
(ii) unrealised investment gains	<u>13,918</u>	<u>20,217</u>
(iii) investment expenses and charges		
Bank loans and overdrafts	(71)	(7)
Other borrowings	(1,740)	(1,988)
Investment management expenses	(518)	(614)
Realised investment losses	-	(15,181)
	<u>(2,329)</u>	<u>(17,790)</u>
Total investment return	<u>51,340</u>	<u>45,313</u>
Included in:		
Technical account - general business	32,507	29,966
Non-technical account	18,833	15,347
Investment return has been allocated to the technical account - general business on the basis of the investible assets covering the technical provisions.		

NOTES TO FINANCIAL STATEMENTS

9.	Investments in group undertakings and participating interests	1997 £'000	1996 £'000
	Shares in group undertakings	71,127	57,268
	Loans to group undertakings	174,658	174,573
	Participating interests	2,218	2,029
		<u>248,003</u>	<u>233,870</u>

Original cost of shares in group undertakings is £44,935,190 (1996, £44,935,190).

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
Southgate Associates Limited	Holding company	Great Britain

Held indirectly through subsidiary undertakings

Bridge End Computers Limited	Leasing company	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
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10.	Other financial investments	1997 £'000	1996 £'000
	Shares and other variable-yield securities and units in unit trusts	92,877	125,687
	Debt securities and other fixed income securities		
	- British Government securities	133,146	131,746
	- Other	86,278	83,358
		<u>219,424</u>	<u>215,104</u>
	Deposits with credit institutions	25,002	12,535
		<u>337,303</u>	<u>353,326</u>

The value of listed investments included above is: 311,697 340,157

The original cost of financial investments was £292,517,000 (1996, £322,459,000).

NOTES TO FINANCIAL STATEMENTS

11. Tangible assets	1997	1996
Fixtures, fittings, tools and equipment.	£'000	£'000
Cost		
Balance at beginning of year	4,898	4,593
Additions	1,592	2,079
Disposals	(2,787)	(1,774)
Balance at end of year	<u>3,703</u>	<u>4,898</u>
Depreciation		
Balance at beginning of year	3,550	2,939
Provided during the year	1,281	1,511
Disposals	(1,782)	(900)
Balance at end of year	<u>3,049</u>	<u>3,550</u>
Net book value at 31 December	<u>654</u>	<u>1,348</u>

12. Share capital	1997	1996
	£'000	£'000
<i>Authorised and issued, fully paid:</i>		
Equity interests - 3,500,000 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 1997 of £187,000 (1996, £178,000), 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.

13. Movements in retained profits and reserves	Profit & loss Account 1997 £'000	Revaluation Reserve 1997 £'000	Profit & loss Account 1996 £'000	Revaluation Reserve 1996 £'000
Balance at 1 January	65,451	43,101	65,928	20,405
Retained profit	16,668		19,740	
Unrealised investment transfer	(13,918)	13,918	(20,217)	20,217
Gain on revaluation of investments in subsidiaries		13,859		2,490
Exchange profit (loss)		3		(11)
Balance at 31 December	<u>68,201</u>	<u>70,881</u>	<u>65,451</u>	<u>43,101</u>

NOTES TO FINANCIAL STATEMENTS

14. Reconciliation of movements in shareholders' funds	1997 £'000	1996 £'000
Profit on ordinary activities after tax	41,855	89,918
Dividends paid	(25,187)	(70,178)
Other recognised gains and losses relating to the year	13,862	2,479
Net addition to shareholders' funds	30,530	22,219
Opening shareholders' funds	211,605	189,386
Closing shareholders' funds	242,135	211,605

15. Long term liabilities

The Company has a subordinated loan agreement with Legal & General Assurance Society Limited. Under the terms of this agreement, in the event of the Company becoming insolvent or entering into an insolvent liquidation, no amount will be repaid in respect of the subordinated debt until all other creditors have been paid in full.

16. Analysis of other creditors	1997 £'000	1996 £'000
Tax	20,609	26,112
Amounts owed to group undertakings	12,806	37,497
Other creditors	10,744	19,714
	44,159	83,323

17. Pension scheme

The majority of employees of the Company are members of the Legal & General Group's UK defined benefit (final salary) pension schemes, details of the actuarial valuation of which are disclosed in the financial statements of the ultimate holding company. The total cost to the Company for all schemes was £568,000 (1996, £1,250,000) none of which is attributable to amortisation of past service liabilities. The schemes were subject to a formal review at 31 December 1995 by a qualified actuary, who was an employee of Legal & General Assurance Society Limited, the parent undertaking, using the projected unit method. The assets of the schemes are held through separate trustee administered funds.

The employers' contribution rates over the average remaining service lives of the members of the schemes take account of surpluses disclosed by the valuation.

18. Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions, which are in addition to the provisions required to meet the anticipated cost of settlement of outstanding claims at 31 December 1997, are required by schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at 31 December 1997. This has had the effect of reducing the shareholders' funds by £5,797,000 (1996, £2,536,000) and the balance on the technical account for general business and the profit before tax by £3,261,000 (1996, £2,536,000).

NOTES TO FINANCIAL STATEMENTS

19. Technical provisions	At 31 December 1996 £'000	Technical Account Movement £'000	At 31 December 1997 £'000
Unearned premiums			
Gross	118,858	(2,264)	116,594
Reinsurance	(1,016)	585	(431)
Net	117,842	(1,679)	116,163
Unexpired risks			
Gross	60,650	(15,050)	45,600
Reinsurance	(11,150)	2,550	(8,600)
Net	49,500	(12,500)	37,000
Outstanding claims			
Gross	146,885	(27,304)	119,581
Reinsurance	(18,371)	8,584	(9,787)
Net	128,514	(18,720)	109,794
Equalisation provision	2,536	3,261	5,797
Deferred acquisition costs	(19,441)	27	(19,414)
Total	278,951	(29,611)	249,340
Segmental analysis of technical provisions			
Motor (third party liability and other classes)	39,700	(1,278)	38,422
Fire & other damage to property	116,697	(12,770)	103,927
Credit and suretyship	117,094	(17,047)	100,047
Miscellaneous	5,460	1,484	6,944
	278,951	(29,611)	249,340

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 a statutory formula. They are in addition to the provisions required to meet the anticipated cost of settlement of outstanding claims, but are required by statute to be included within technical provisions.

NOTES TO FINANCIAL STATEMENTS

20. Sale of commercial lines business

On 8 July 1996, the Company sold its commercial lines business to Guardian Insurance Limited. The sale transferred all related staff and certain fixed assets, resulting in an exceptional pre-tax profit of £70,041,000 (£56,453,000 after tax). The 1996 technical account included the following amounts in respect of this operation.

	1996 £'000
Earned premiums, net of reinsurance	25,688
Allocated investment return transferred from the non-technical account	4,056
Claims incurred, net of reinsurance	(13,038)
Net operating expenses	(16,703)
	<hr/>
Balance on the technical account	3

21. Parent companies

The parent company is Legal & General Assurance Society Limited, a company incorporated in Great Britain. Legal & General Group Plc is the ultimate holding company which is incorporated in Great Britain and is the parent undertaking of the largest and smallest group to consolidate 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.

The Company is exempt from the obligation to prepare and deliver group accounts as it is a wholly owned subsidiary of Legal & General Assurance Society Limited. These accounts therefore provide information about the Company as an individual undertaking.

In accordance with FRS1 the Company has not prepared a cashflow statement as the ultimate holding company has included a group cashflow statement in its financial statements.

22. Directors' information

Directors' remuneration

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

	1997 £'000	1996 £'000
Aggregate emoluments	<hr/> 167	<hr/> 272

No fees were paid to the directors, emoluments relate to salaries and performance bonuses. Retirement benefits are accruing to 1 (1996, 2) director under the defined benefit pension scheme.

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 1997.