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LEGAL & GENERAL INSURANCE LIMITED

REPORT AND ACCOUNTS

2002



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Registered office

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

Registered in England & Wales No. 423930

LEGAL & GENERAL INSURANCE LIMITED

Directors

R.A.Phipps, (Chairman)

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

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

J.B.Pollock

P.Richmond

R.P.Sewell

I.D.Viney, (Managing Director)

Secretary

M.Shah

LEGAL & GENERAL INSURANCE LIMITED

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements of Legal & General Insurance Limited for the year ended 31 December 2002.

Principal activity

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

Result for the year and dividend

The results of the Company are set out on pages 8 and 9. The directors recommend the payment of a final dividend for 2002 of £60,000,000 (2001: £30,000,000). With the paid interim dividend of £15,000,000 (2001: £Nil), this brings the total for the year to £75,000,000 (2001: £30,000,000). The total preference share dividend payable for 2002 was £129,000 (2001: £172,000).

Directorate

The names of the present directors are shown on page 2. C.R.R.Avery, L.K.Penney, R.A.Phipps, J.B.Pollock, P.Richmond and R.P.Sewell remained in office throughout the year.

D.Rough resigned as a director of the Company on 31 March 2002. J.Castagno resigned as a director of the Company on 3 February 2003 and I.D.Viney was appointed as a director of the Company on 3 February 2003.

C.F.Carson resigned as Secretary of the Company on 1 October 2002. M.Shah was appointed as Secretary of the Company on 1 October 2002.

Directors' share interests

No director had any interest in the shares of the Company during the year ended 31 December 2002.

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 that company are shown in the accounts of that company.

According to the Register of Directors' Share Interests kept by the Company, the remaining directors of the Company had interests, within the meaning of the Companies Act 1985, in the ordinary shares of 2.5p each on 31 December 2002 in the Company's ultimate holding company, Legal & General Group Plc, as shown below:

	At 1 January 2002	At 31 December 2002
J.Castagno	32,994	47,039
L.K.Penney	47,893	73,556
J.B.Pollock	98,370	150,285
P.Richmond	44,677	37,220
R.P.Sewell	25,070	40,409

Included in directors' share interests shown above are, where applicable, shares purchased and/or awarded under the Employee Share Plan (ESP), allotted under the employee profit sharing scheme (the last awards under which were made in April 2000), 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.

On 26 September 2002 Legal & General Group Plc, the Company's ultimate holding company, increased its authorised share capital to £230m by the creation of 3,200m shares and on the 23 October 2002 increased its issued share capital by 1,341.6m shares by means of a rights issue (on the basis of 13 new shares at 60p for every 50 held).

LEGAL & GENERAL INSURANCE LIMITED

REPORT OF THE DIRECTORS

Directors' share interests (continued)

Where appropriate, the adjustments to the shareholdings of the directors who have taken up their rights have been shown as at 31 December 2002. In accordance with the Share Scheme Rules, the options granted under the various Schemes have been adjusted to reflect the rights issue as at 31 December 2002.

In addition to the interests listed above, the directors (not including those whose options are disclosed in the accounts of the ultimate holding/holding parent company) held options over shares in the ultimate holding company. Options have been granted under the following schemes; 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), the Legal & General 1999 Company Share Option Plan (CSOP). Details of options granted and exercised, together with totals of options held, are set out in the table below:

	At 01.01.2002	Granted during year			Exercised during year			Lapsed Options	At 31.12.2002
		CSOP	ESOS	SAYE	CSOP	ESOS	SAYE		
J.Castagno	8,275	-	-	10,555	-	-	-	10,055	9,027
L.K.Penney	83,946	-	20,000	25,838	-	-	11,648	13,248	114,431
J.B.Pollock	13,571	-	-	-	-	-	-	-	14,804
P.Richmond	59,353	-	26,000	15,136	-	-	-	7,434	101,521
R.P.Sewell	66,971	-	-	18,625	-	-	-	8,392	84,228

Creditors

The Company's purchases are administered by another group undertaking, Legal & General Assurance Society Limited ("Society"). Society agrees terms and conditions for its business transactions with suppliers on an individual basis. Payments are made on these terms provided the supplier meets its obligations. The average number of days of payments outstanding at 31 December 2002 was 32 (2001: 33).

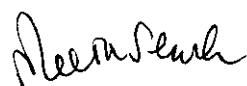
Related party transactions

There were no material transactions between directors or key managers and the Legal & General group of companies which are required to be disclosed under 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.

Auditors

Following the conversion of the auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 22 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By Order of the Board



M.Shah
Secretary
20 March 2003

LEGAL & GENERAL INSURANCE LIMITED

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 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 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

The directors confirm that they have complied with the above requirements.

LEGAL & GENERAL INSURANCE LIMITED
REPORT OF THE INDEPENDENT AUDITORS

Independent auditors' report to the members of Legal & General Insurance Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet 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 misstatements 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2002, 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

Independent auditors' report to the members of Legal & General Insurance Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 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
20 March 2003

LEGAL & GENERAL INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

Technical account - General business	2002	2001
Profit from continuing operations	£'000	£'000
Note		
Earned premiums, net of reinsurance		
2. Gross premiums written	243,975	205,160
Outward reinsurance premiums	(18,454)	(11,743)
	225,521	193,417
Change in the gross provision for unearned premiums	(12,546)	(3,020)
Change in the provision for unearned premiums, reinsurers' share	2,766	2,678
	(9,780)	(342)
Earned premiums, net of reinsurance	215,741	193,075
Claims incurred, net of reinsurance		
Claims paid - gross amount	132,664	123,430
- reinsurers' share	(2,059)	(989)
	130,605	122,441
Change in the provision for claims - gross amount	(1,624)	(4,667)
- reinsurers' share	(808)	(262)
	(2,432)	(4,929)
Claims incurred, net of reinsurance	128,173	117,512
Changes in other technical provisions, net of reinsurance	(4,100)	(5,729)
3. Net operating expenses	67,013	64,333
17. Change in the equalisation provision	4,862	4,132
	195,948	180,248
Balance on the technical account for general business	19,793	12,827

LEGAL & GENERAL INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

Non-technical account	2002	2001
Profit from continuing operations	£'000	£'000
		Restated
Note		
Balance on the general business technical account	19,793	12,827
5. Investment income	22,287	24,918
5. Investment expenses and charges	(6,181)	(12,778)
5. Unrealised losses on investments	(18,082)	(19,315)
Profit on ordinary activities before tax	17,817	5,652
6. Tax charge/(credit) on profit on ordinary activities	(3,069)	3,208
Profit for the financial year	14,748	8,860
Dividends paid and proposed	(75,129)	(30,172)
Retained loss for the financial year	(60,381)	(21,312)

Statement of total recognised gains and losses	2002	2001
	£'000	£'000
		Restated
Profit for the financial year	14,748	8,860
Loss on revaluation of investments in subsidiary undertakings	(22,080)	(20,455)
Exchange gains	24	16
Total recognised gains and losses for the year	(7,308)	(11,579)
Prior year adjustment (note 15)	(11,601)	
Total recognised gains and losses since previous Annual Report	(18,909)	

Total recognised gains and losses relating to 2001 have been restated for the implementation of FRS 19 'Deferred Tax' (see note 1f).

LEGAL & GENERAL INSURANCE LIMITED
BALANCE SHEET AT 31 DECEMBER 2002

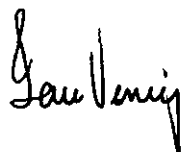
Assets		2002	2001
Note		£'000	£'000
Investments			
9.	Investments in group undertakings and participating interests	128,345	141,101
7.	Other financial investments	262,053	310,774
		390,398	451,875
18. Reinsurers' share of technical provisions			
	Provision for unearned premiums	7,555	4,789
	Claims outstanding	4,136	3,328
	Other technical provisions	1,300	2,400
		12,991	10,517
Debtors			
	Debtors arising out of direct insurance operations - policyholders	36,817	30,296
	- intermediaries	22,318	19,412
		59,135	49,708
	Debtors arising out of reinsurance operations	4,037	3,604
	Amounts owed by group undertakings	5,734	6,781
	Other debtors	1,797	1,968
		70,703	62,061
Other assets			
8.	Tangible assets	987	1,327
	Cash at bank and in hand	4,981	6,394
		5,968	7,721
Prepayments and accrued income			
	Accrued interest and rent	4,373	5,825
18.	Deferred acquisition costs	33,765	28,614
		38,138	34,439
Total assets		518,198	566,613

LEGAL & GENERAL INSURANCE LIMITED
BALANCE SHEET AT 31 DECEMBER 2002

Liabilities		2002	2001
		£'000	£'000
Note			Restated
	Capital and reserves		
10.	Called up share capital	7,000	7,000
	Share premium account	96,053	96,053
11.	Revaluation reserve	(1,825)	35,885
11.	Profit and loss account	67,163	111,890
12.	Shareholders' funds	168,391	250,828
	Total shareholders' funds attributable to		
	Non-equity shareholders	3,500	3,500
	Equity shareholders	164,891	247,328
		168,391	250,828
18.	Technical provisions		
	Provision for unearned premiums	123,295	110,749
	Claims outstanding	93,448	95,072
	Equalisation provision	24,151	19,289
	Other technical provisions	6,000	11,200
		246,894	236,310
15.	Provision for other risks and charges	8,836	11,683
	Creditors		
	Creditors arising out of direct insurance operations	1,486	1,381
	Creditors arising out of reinsurance operations	5,358	4,617
13.	Amounts owed to credit institutions	-	419
16.	Other creditors, including taxation and social security	83,110	56,289
		89,954	62,706
	Accruals and deferred income	4,123	5,086
	Total liabilities	<u>518,198</u>	<u>566,613</u>

The notes on pages 12 to 22 form an integral part of these financial statements.

The financial statements on pages 8 to 22 were approved by the directors on 20 March 2003.



I.D. Viney, Director

LEGAL & GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies

a) Basis of preparation

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

b) General insurance

Results of general insurance business are determined after taking account of unearned premiums, outstanding claims and unexpired risks using the annual basis of accounting.

Premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for subsequent lapses of renewals not yet confirmed. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums. A proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses.

Claims and related reinsurance amounts are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, of:

- (i) claims reported but not settled;
- (ii) claims incurred but not yet reported;

In addition to unearned premiums and after taking account of investment return, additional amounts are set aside where necessary for unexpired risks to meet future claims on business in force at the end of the year.

Equalisation provisions have been established in accordance with the FSA's Interim 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.

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.

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

1. Accounting policies (continued)

e) Investments

(i) General

Investment return, comprising investment income less related expenses, interest expense and investment gains and losses is included in the non-technical account.

(ii) Investment income

Investment income includes dividends and interest; directly related investment expenses are reported separately within investment expenses and charges. Dividends receivable are accounted for on an ex-dividend basis and interest is included on an accruals basis.

(iii) Interest expense

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

(iv) Investment valuations

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

(v) Investment gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost.

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

f) Deferred tax

The Company has adopted FRS 19 'Deferred Tax' this year and prior year comparatives have been restated where necessary. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise 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

2. Class segmental analysis	2002	2001
	£'000	£'000
Gross premiums written		
Accident & Health	37,443	30,821
Motor (third party liability and other classes)	33,303	28,511
Fire & other damage to property	163,195	138,777
Other business	10,034	7,051
	<u>243,975</u>	<u>205,160</u>
Gross premiums earned		
Accident & Health	34,954	28,046
Motor (third party liability and other classes)	29,679	30,225
Fire & other damage to property	150,795	128,663
Other business	16,001	15,206
	<u>231,429</u>	<u>202,140</u>
Gross claims incurred		
Accident & Health	16,625	17,978
Motor (third party liability and other classes)	18,029	20,600
Fire & other damage to property	93,416	77,579
Other business	2,970	2,606
	<u>131,040</u>	<u>118,763</u>
Gross operating expenses		
Accident & Health	14,030	12,195
Motor (third party liability and other classes)	6,620	7,350
Fire & other damage to property	49,015	44,084
Other business	5,912	3,063
	<u>75,577</u>	<u>66,692</u>
Reinsurance balance		
Accident & Health	(708)	(75)
Motor (third party liability and other classes)	1,291	32
Fire & other damage to property	5,935	5,911
Other business	(1,161)	887
	<u>5,357</u>	<u>6,755</u>
Balance on the technical account for general business		
Accident & Health	5,007	(823)
Motor (third party liability and other classes)	3,739	2,243
Fire & other damage to property	(2,203)	(2,864)
Other business	13,250	14,271
	<u>19,793</u>	<u>12,827</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

3. Net operating expenses	2002	2001
	£'000	£'000
Acquisition costs	63,218	52,634
Change in deferred acquisition costs	(5,151)	(4,445)
Administrative expenses	17,510	18,503
Reinsurance commissions and profit participation	(8,564)	(2,359)
	<u>67,013</u>	<u>64,333</u>
The above figures include commissions for direct business amounting to:	<u>44,918</u>	<u>35,673</u>
 4. Auditor's remuneration		
Fees paid to PricewaterhouseCoopers in relation to the audit of these financial statements amounted to £59,900 (2001: £53,500). Other fees paid to PricewaterhouseCoopers, including fees for the audit of regulatory returns in the UK, amounted to £14,700 (2001: £14,000).		
 5. Investment return	2002	2001
	£'000	£'000
(i) investment income		
Income in respect of other investments		
- received from group undertakings	5,645	5,099
- received from other sources	16,642	19,819
	<u>22,287</u>	<u>24,918</u>
Realised investment gains	-	-
	<u>22,287</u>	<u>24,918</u>
 (ii) investment expenses and charges		
Bank loans and overdrafts	(9)	(6)
Other borrowings	(187)	(345)
Investment management expenses	(444)	(485)
Realised investment losses	(5,541)	(11,942)
	<u>(6,181)</u>	<u>(12,778)</u>
 (iii) unrealised investment losses	<u>(18,082)</u>	<u>(19,315)</u>
 Total investment return	<u>(1,976)</u>	<u>(7,175)</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

6. Tax charge/(credit)	2002 £'000	2001 £'000 Restated
UK Corporation tax at 30% (2001: 30%)		
- current tax for the year	5,916	5,156
- adjustments in respect of prior periods	-	(4,076)
- foreign tax	-	11
Total current tax	<u>5,916</u>	<u>1,091</u>
Deferred tax		
- origination and reversal of timing differences	(2,847)	(4,299)
Tax on profit on ordinary activities	<u>3,069</u>	<u>(3,208)</u>

Adoption of FRS 19 has required a change in the method of accounting for deferred tax. As a result the comparative figure for the tax on profit on ordinary activities for 2001 has been restated from the previously reported amount of £1,173,000 charge to £3,208,000 credit. The impact of adopting FRS 19 on the 2002 results is a decrease to the tax charge of £2,847,000.

Factors affecting current tax charge for the period:

The tax assessed for the period is higher/lower than the standard rate of corporation tax in the UK (30%) (2001: 30%). The differences are explained below:

	2002 £'000	2001 £'000 Restated
Profit on ordinary activities before tax	<u>17,817</u>	<u>5,652</u>
Corporation tax at 30%	5,345	1,696
Effects of:		
Disallowable expenditure	1,024	981
Profit on sale of fixed assets	1	-
Capital allowances for period in excess of depreciation	(516)	(460)
Non taxable UK dividends	(2,305)	(2,267)
Adjustments in respect of prior periods	-	(4,076)
Difference between taxable and accounting unrealised gains	2,017	5,344
Difference between taxable and accounting realised gains	103	(221)
Taxable reserve adjustment	247	86
Foreign tax expensed	-	8
Current tax charge for period	<u>5,916</u>	<u>1,091</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

6. Tax charge/(credit) (cont'd)

Factors which may affect future tax charges:

No provision has been made for deferred tax on gains recognised on revaluation of subsidiaries to market value. Such tax would become payable only if the subsidiaries were sold without it being possible to claim substantial shareholding relief. At present, it is not envisaged that any tax will become payable in the foreseeable future.

The Company has unrelieved capital losses carried forward of £11,192,000 (2001: £11,192,000). No deferred tax asset has been provided in respect of these losses as at 31 December 2002 or 31 December 2001, as it is considered more likely than not that there will be no suitable capital taxable profits emerging in future periods against which to relieve them. Relief for these losses will only be obtained if there are suitable 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 2002 is £3,358,000 (2001: £3,358,000).

7. Other financial investments	2002	2001
	£'000	£'000
Shares and other variable-yield securities and units in unit trusts	67,584	86,946
Debt securities and other fixed income securities	163,343	214,188
Deposits with credit institutions	31,126	9,477
Unsecured loans	-	163
	<u>262,053</u>	<u>310,774</u>
The original cost of other financial investments:	<u>249,594</u>	<u>280,233</u>
Included in the current values above are listed investments amounting to:	<u>230,293</u>	<u>300,500</u>
8. Tangible assets	2002	2001
Fixtures, fittings, tools and equipment.	£'000	£'000
Cost		
Balance at beginning of year	4,335	3,331
Additions	553	1,301
Disposals	(1,292)	(297)
Balance at end of year	3,596	4,335
Depreciation		
Balance at beginning of year	3,008	2,965
Provided during the year	625	401
Disposals	(1,024)	(358)
Balance at end of year	2,609	3,008
Net book value at 31 December	<u>987</u>	<u>1,327</u>

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

9. Investments in group undertakings and participating interests	2002 £'000	2001 £'000
Shares in group undertakings	42,917	65,573
Loans to group undertakings	84,652	74,559
Participating interests	776	969
	<u>128,345</u>	<u>141,101</u>
Original cost of shares in group undertakings is:	<u>47,159</u>	<u>47,159</u>

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

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

10. Share capital	2002 £'000	2001 £'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 2002 of £129,000 (2001: £172,000), 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.

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

11. Movements in reserves	Profit & loss Account 2002 £'000	Revaluation Reserve 2002 £'000	Profit & loss Account 2001 £'000 Restated	Revaluation Reserve 2001 £'000 Restated
Balance at 1 January	111,890	35,885	116,844	72,682
Retained loss	(60,381)		(21,312)	
Unrealised investment transfer	15,654	(15,654)	16,358	(16,358)
Loss on revaluation of investments in subsidiaries		(22,080)		(20,455)
Exchange profit		24		16
Balance at 31 December	67,163	(1,825)	111,890	35,885

12. Reconciliation of movements in shareholders' funds	2002 £'000	2001 £'000 Restated
Profit on ordinary activities after tax	14,748	8,860
Dividends paid and proposed	(75,129)	(30,172)
Other recognised gains and losses relating to the year	(22,056)	(20,439)
Net reduction to shareholders' funds	(82,437)	(41,751)
Opening shareholders' funds	250,828	308,561
Prior year adjustment*	-	(15,982)
Closing shareholders' funds	168,391	250,828

*Reconciliation of movements in shareholders' funds relating to 2001 have been restated for the implementation of FRS 19 'Deferred Tax' (see note 1f).

13. Amounts owed to credit institutions	2002 £'000	2001 £'000
Unsecured bank loans and overdrafts repayable, otherwise than by instalments, within one year	-	419

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

LEGAL & GENERAL INSURANCE LIMITED
NOTES TO FINANCIAL STATEMENTS

15. Provisions for other risks and charges	Deferred Tax £'000	
At 1 January 2002	11,683	
Amount credited in the profit & loss account for the period	(2,847)	
At 31 December 2002	<u>8,836</u>	
The balance for deferred tax consists of the following amounts:		
	2002 £'000	2001 £'000 Restated
Capital allowances short of depreciation	(1,762)	(1,343)
Other timing differences	10,598	13,026
	<u>8,836</u>	<u>11,683</u>
The adoption of FRS 19 'Deferred Tax' has required changes in the method of accounting for deferred tax assets and liabilities. The comparatives have been restated as follows:		
	Deferred Tax £'000	
2001 as previously reported	82	
Adoption of FRS 19 at 31 December 2001	11,601	
2001 restated	<u>11,683</u>	
16. Analysis of other creditors	2002 £'000	2001 £'000 Restated
Tax	6,297	13,340
Amounts owed to group undertakings	70,165	35,292
Other creditors	6,648	7,657
	<u>83,110</u>	<u>56,289</u>

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 £24,151,000 (2001: £19,289,000). 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 £4,862,000 (2001: £4,132,000).

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NOTES TO FINANCIAL STATEMENTS

18. Technical provisions	At 31 December 2001 £'000	Technical Account Movement £'000	At 31 December 2002 £'000
Unearned premiums			
Gross	110,749	12,546	123,295
Reinsurance	(4,789)	(2,766)	(7,555)
Net	105,960	9,780	115,740
Unexpired risks			
Gross	11,200	(5,200)	6,000
Reinsurance	(2,400)	1,100	(1,300)
Net	8,800	(4,100)	4,700
Outstanding claims			
Gross	95,072	(1,624)	93,448
Reinsurance	(3,328)	(808)	(4,136)
Net	91,744	(2,432)	89,312
Equalisation provision	19,289	4,862	24,151
Deferred acquisition costs			
Gross	(28,614)	(5,151)	(33,765)
Reinsurance	3,046	1,027	4,073
Net	(25,568)	(4,124)	(29,692)
Total	<u>200,225</u>	<u>3,986</u>	<u>204,211</u>
Segmental analysis			
Accident & Health	22,995	1,039	24,034
Motor (third party liability and other)	33,890	1,547	35,437
Fire & other damage to property	106,867	12,043	118,910
Credit and suretyship	33,095	(9,532)	23,563
Miscellaneous	3,378	(1,111)	2,267
	<u>200,225</u>	<u>3,986</u>	<u>204,211</u>

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

Equalisation provisions are calculated in accordance with statutory formulae. The increase for household business is 3% of net premiums written and for credit business is 12% of net premiums written. These provisions are in addition to those for the anticipated cost of settlement of policyholders' liabilities.

LEGAL & GENERAL INSURANCE LIMITED

NOTES TO FINANCIAL STATEMENTS

19. 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. In addition, the extent of liabilities in respect of contracts with policyholders may be affected by Court judgements, Ombudsman rulings, regulatory action and industry compensation schemes. Whilst it is not possible to predict with certainty the resultant financial impact or timing of all these factors, the Company considers that provisions have been made on a prudent basis and that it has adequate capital and reserves to meet all reasonable foreseeable eventualities.

20. Parent companies

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

The Company is exempt from the obligation to prepare and deliver group accounts as it is a wholly owned subsidiary of the ultimate holding company, Legal & General Group Plc, a company incorporated in Great Britain and is the ultimate holding undertaking which consolidates the financial statements of the Company. These accounts therefore provide information about the Company as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available at the Registered Office, Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

In accordance with FRS 1(revised) the Company has not prepared a cashflow statement as the ultimate holding company has included a consolidated cashflow statement in its financial statements

21. Directors' information

Directors' remuneration

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

	2002 £'000	2001 £'000
Aggregate emoluments	292	307
The emoluments of the highest paid director, excluding pension contributions were:	115	131

No fees were paid to the directors, emoluments relate to salaries and performance bonuses. Retirement benefits are accruing to 3 (2001: 3) directors under the defined benefit pension scheme.

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

Directors' transactions and arrangements

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company during 2002.