

**LEGAL & GENERAL INSURANCE LIMITED**

**REPORT AND ACCOUNTS**

**2008**

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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. 423930

## 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 2008.

#### 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 is in a period of significant restructuring as it pursues a strategy focused on the housing marketplace, including leveraging the distribution relationships from the wider Legal & General proposition focused on the housing purchase event. The year has seen major changes within the management team, designed to realign accountabilities and develop business capabilities and provide the necessary focus to deliver this strategy. The Company completed the exit from the Healthcare market place during the year following the sale of renewal rights to AXA PPP Healthcare in 2007.

The Company has operated in challenging market conditions throughout 2008 with business volumes impacted by reducing housing market transactions, the general uncertainty in the financial markets and deteriorating economic conditions.

Despite these conditions written premium levels have remained stable and continuing business lines delivered a four percent written premium increase year on year. The underwriting performance for the year improved significantly by £15m, generating a loss of £30m at the technical account level reflecting more benign weather conditions following the 2007 flooding events but emphasising the need to drive stronger rating action and deliver improvements in the claims handling process to meet target returns.

The impact of the worldwide financial crisis has severely impacted confidence in investment values. In the view of the Board the company operates a low risk investment strategy and has suffered no default losses during the year. However the current levels of uncertainty are impacting all forms of credit risk and the result for 2008 has been impacted by recognising £22m of unrealised investment losses driven by market value movements. The Company received a £15m capital injection from its parent in November to ensure regulatory capital requirements continued to be met given this exposure to 'mark to market' valuation movements on the investment portfolio.

#### Result for the year and dividend

The results of the Company show a pre-tax loss of £43.4 million (2007: loss £35.5 million). Details of which are set out on pages 9 and 10. The directors do not recommend the payment of a dividend (2007: £Nil).

#### Key performance indicators

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

	<u>2008</u>	<u>2007</u>
Year end shareholder funds	£85m	£102m
Gross written premiums	£296m	£307m
Combined operating ratio	109%	134%

The combined operating ratio is:

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

## 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

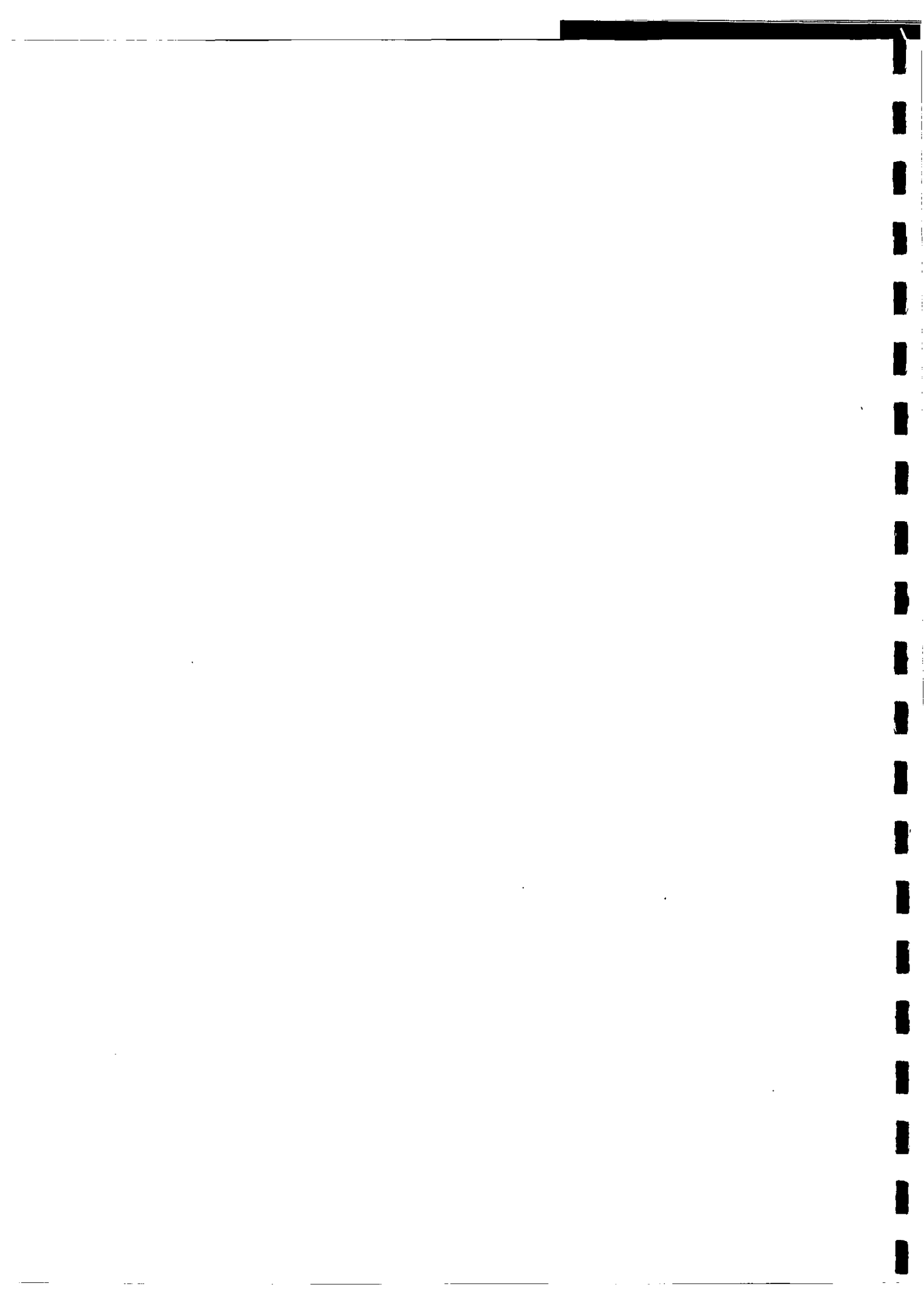
The Legal & General Group has market-leading expertise in a number of the markets in which it operates. The Company, as part of a larger Group, actively focuses on retaining the best personnel and ensuring that key dependencies do not arise through employee training & development programmes, remuneration 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.

#### **Going concern**

The economic outlook for 2009 remains uncertain and the Board continues to actively assess the position of the business in respect of its ability to manage business risks, fulfill any potential liabilities and meet regulatory requirements.

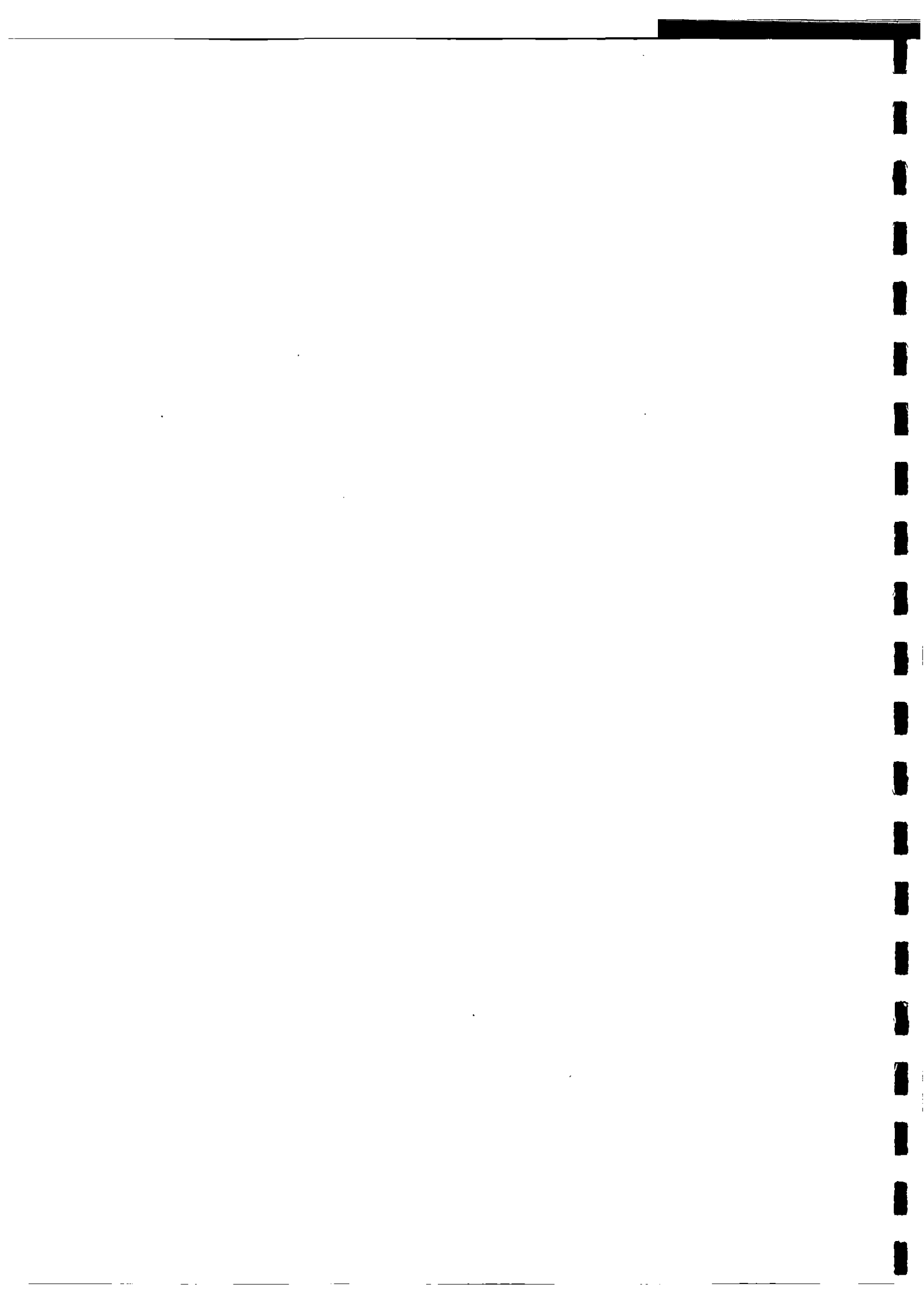
Based on current plans the Board believe the Company has access to adequate resources to support operational activity for the foreseeable future. In reaching this conclusion key factors considered were as follows:

- 1) The Company uses financial instruments to manage certain financial risks. The Company's exposure to financial risk due to the performance of such financial instruments is managed through its Asset & Liability and Pricing committees, actions and recommendations to manage within the Company's financial risk appetite are reported formally to the Board.
- 2) The Board assesses performance against business plans and forecasts on a monthly basis, revising forecasts for the year and taking appropriate action based on the results and trends to ensure capital resources are available to support business plans.
- 3) Beyond its own financial resources the Company maintains access to a rolling source of working capital funding with Legal & General Group. Regular contact is maintained with the Group to ensure that this facility remains in place to support future growth.

#### **Post balance sheet events**

The Company has seen further volatility within investment portfolio valuations since the year end, principally driven by market concerns around corporate bond values for financial service institutions. No actual default losses have occurred. However the impact of unrealised losses arising from the periodic mark to market valuations of the investment portfolio can produce fluctuations that reduce the capital position of the Company at the point that such spot valuations are taken.

This continuing uncertainty in the investment markets mean there is a risk that unrealised loss movements may move the capital position of the Company into deficit against regulatory Individual Capital Guidance at the point spot valuations are taken. As a result the Board considered it appropriate to seek formal confirmation from its parent that a capital injection would be provided if required. This confirmation was provided 25<sup>th</sup> February.



## **LEGAL & GENERAL INSURANCE LIMITED**

### **DIRECTORS' REPORT**

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#### **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 (appointed on 8 December 2008)  
A.J. Dawson (resigned on 31 July 2008)  
P.M. Edmonds (resigned on 31 July 2008)  
P.J. Graham (appointed on 23 April 2008)  
M.J. Hotson  
P.A. Kennedy (appointed on 26 February 2008)  
M.A. Lawler  
G.P. Skelton  
A.M. Webb (appointed on 29 July 2008)

Since 31 December 2008, the following changes to the directorate were made:  
G. Howard appointed on 6 March 2009

#### **Secretary**

H. Forster resigned as company secretary on 20 March 2008  
C.A. Davies was appointed as company secretary on 20 March 2008 and resigned on 27 August 2008  
C.R. Morris was appointed as company secretary on 27 August 2008

#### **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 2008, the average number of days of payments outstanding for the Legal & General Group of companies was 34 days (2007: 32 days).

#### **Directors insurance**

Legal and 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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#### **Auditors**

An elective resolution was passed by the Company's shareholders under the Companies Act 1985. The elective regime was abolished by the Companies Act 2006 and the transitional provisions relating to the reappointment of auditors permit the auditors to remain in office unless the Company resolves otherwise.

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.

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

The directors are responsible for preparing the Annual 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). The financial statements are required by law to 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 confirm that they comply with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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, at the date of approval of this report, confirms that:

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

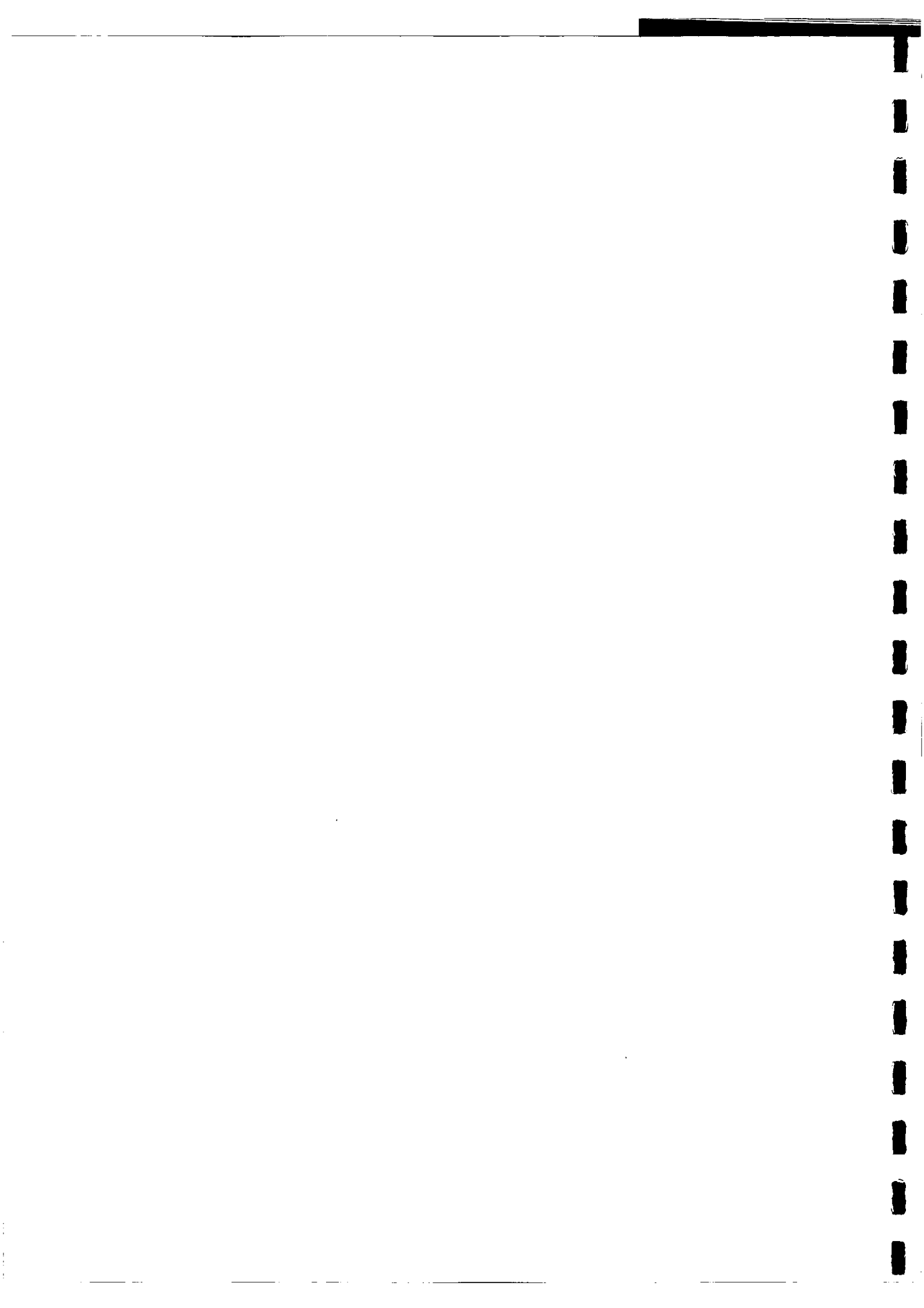
By Order of the Board



P.J. Graham

Director

23 March 2009



**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 Ltd for the year ended 31 December 2008 which comprise Profit and Loss Account, Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 into 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

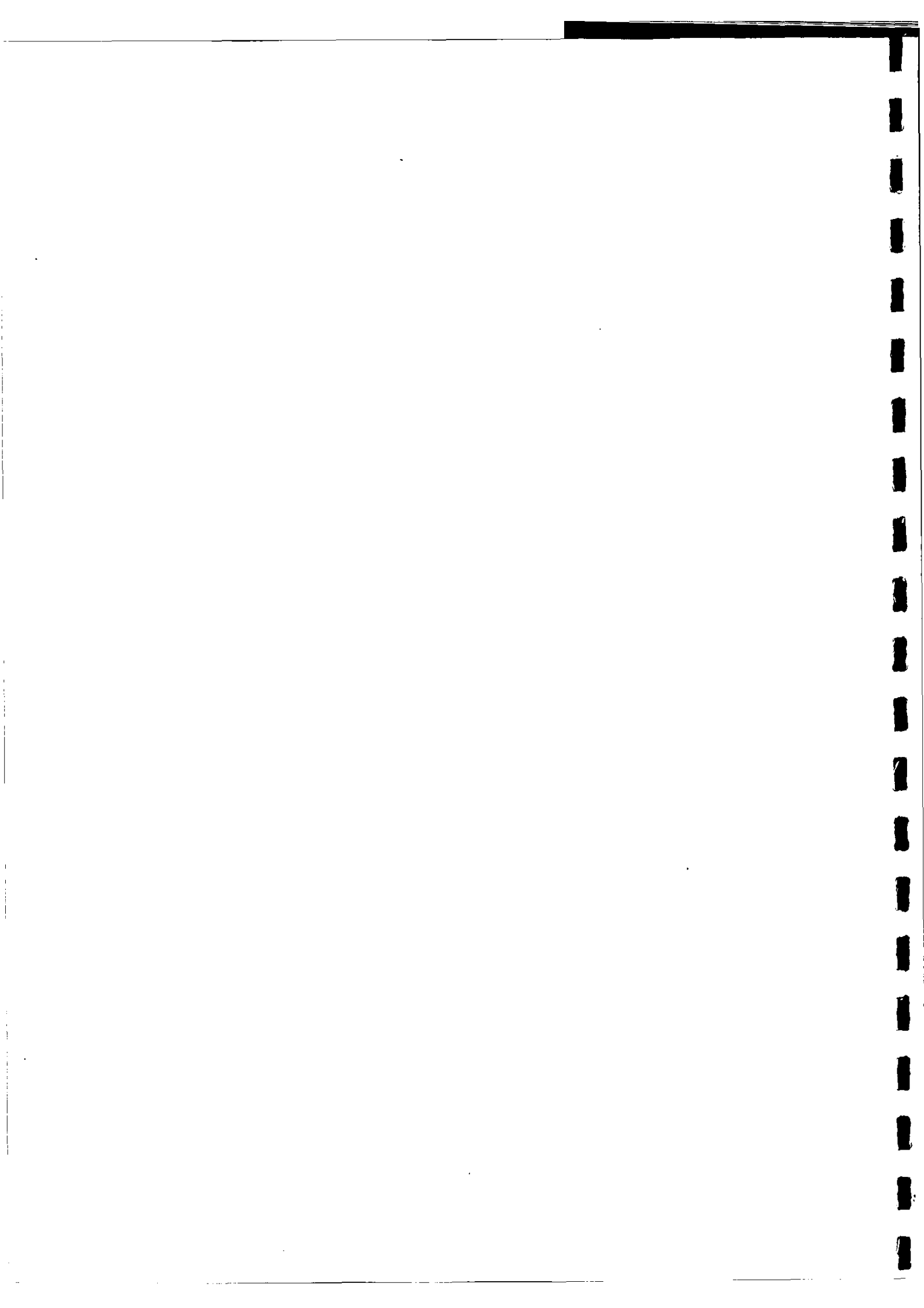
We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2008, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and loss before tax, are disclosed in note 20.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.



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

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**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
23 March 2009

**Notes:**

- The maintenance and integrity of the entity's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

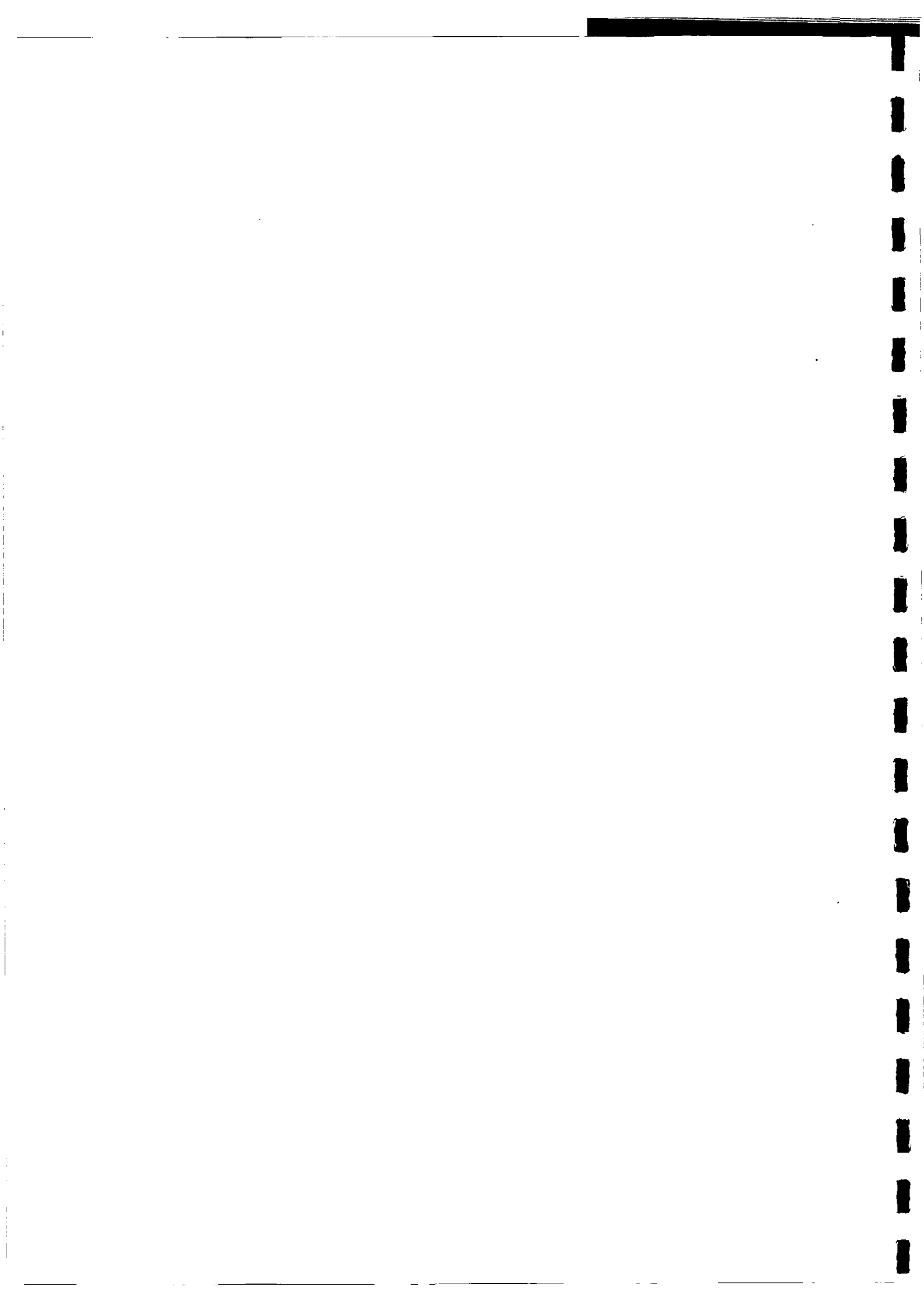


**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008**

**Technical account - General business**

	Note	2008 £'000	2007 £'000
<b>Earned premiums, net of reinsurance</b>			
Continuing operations		295,857	284,771
Discontinued operations		(55)	22,684
Gross premiums written	3.	295,802	307,455
Outward reinsurance premiums		(21,336)	(19,553)
Net premiums written		274,466	287,902
Change in the gross provision for unearned premiums		1,323	10,990
Change in the provision for unearned premiums, reinsurers' share		1,931	(4,163)
		3,254	6,827
Earned premiums, net of reinsurance		277,720	294,729
Other technical income	4.	-	7,000
Total Technical Income		277,720	301,729
<b>Claims incurred, net of reinsurance</b>			
Claims paid - gross amount		234,348	255,646
- reinsurers' share		(6,673)	(3,354)
		227,675	252,292
Change in the provision for claims - gross amount		(44,144)	36,272
- reinsurers' share		7,824	(7,675)
		(36,320)	28,597
Claims incurred, net of reinsurance		191,355	280,889
Changes in other technical provisions, net of reinsurance		(72)	(630)
Net operating expenses	5.	109,645	107,751
Change in the equalisation provision	19.	6,840	(41,487)
Total technical charges		307,768	346,523
<b>Balance on the technical account for general business</b>	3.	(30,048)	(44,794)



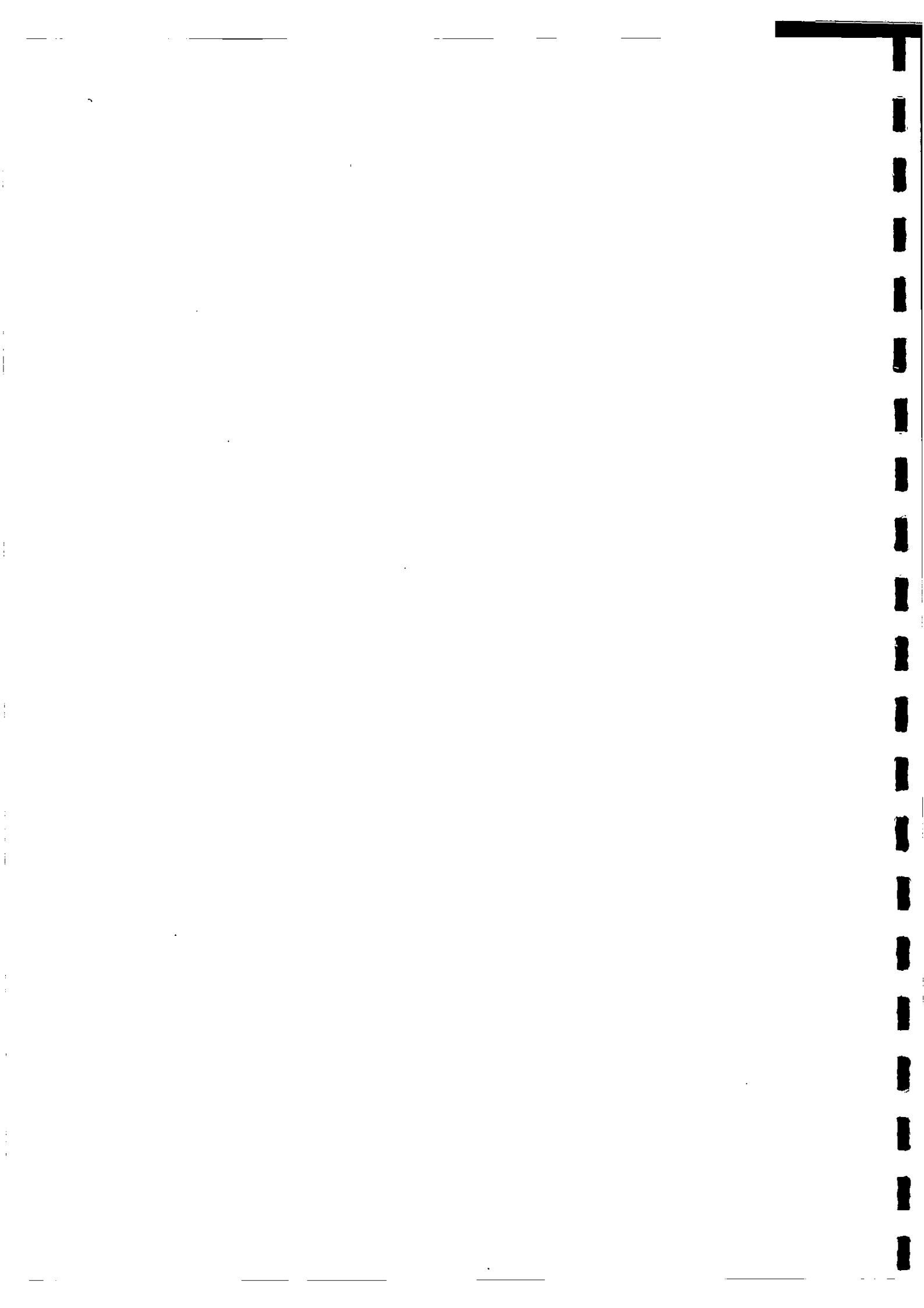


**LEGAL & GENERAL INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008**

<b>Non-technical account</b>	<b>Note</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Balance on the general business technical account		(30,048)	(44,794)
Investment income	6.	17,429	22,314
Investment expenses and charges	6.	(8,629)	(8,245)
Unrealised losses on investments	6.	(22,175)	(4,759)
Continuing operations		(41,410)	(45,802)
Discontinued operations		(1,833)	11,318
<b>Total operating loss</b>		<b>(43,243)</b>	<b>(34,484)</b>
Provision for loss on discontinued operations		-	(1,000)
<b>Loss on ordinary activities before tax</b>		<b>(43,423)</b>	<b>(35,484)</b>
Tax credit on loss on ordinary activities	9.	10,764	9,477
<b>Retained loss for the financial year</b>		<b><u>(32,659)</u></b>	<b><u>(26,007)</u></b>

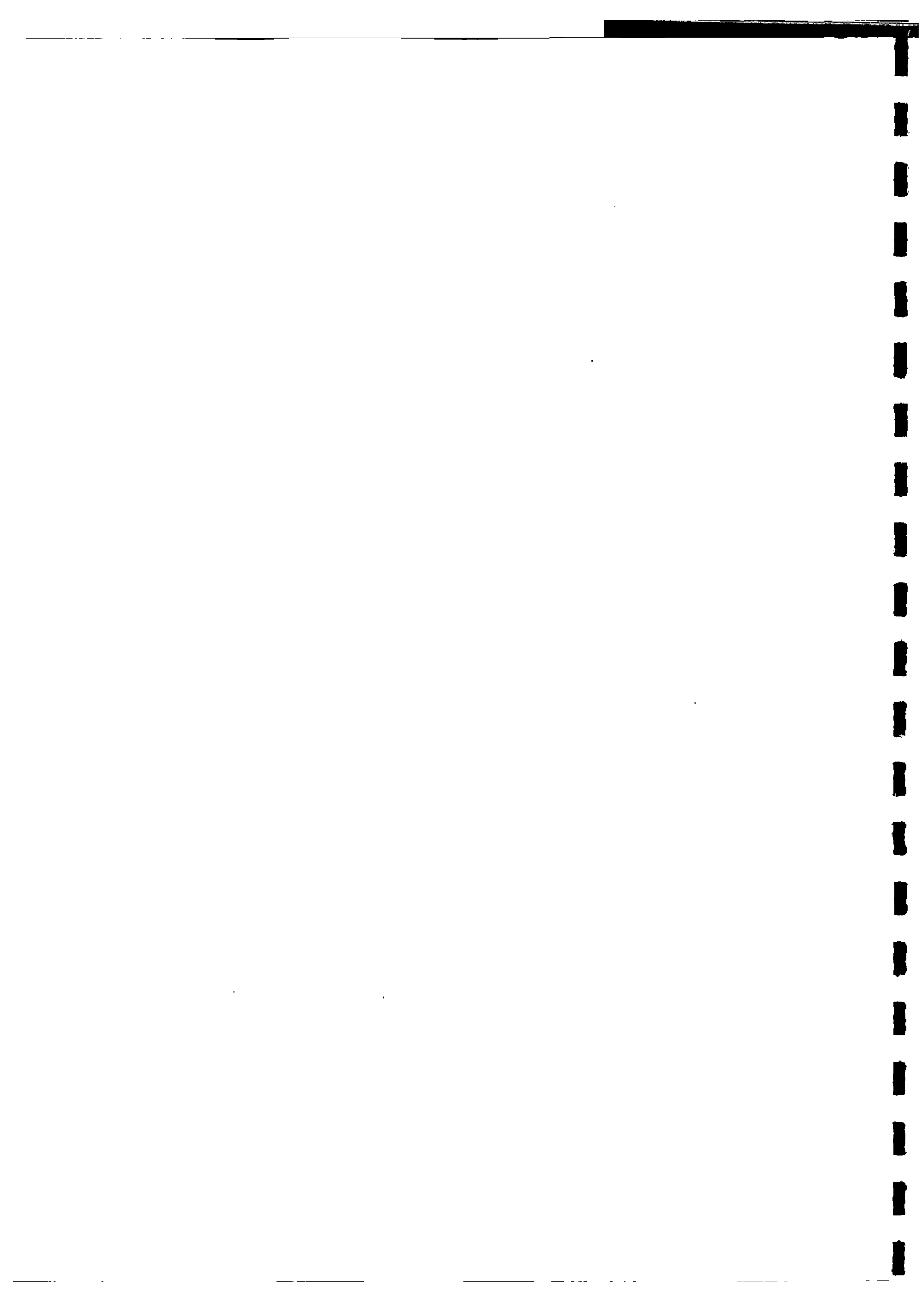
No Statement of Total Recognised Gains and Losses has been produced as the company has no recognised gains and losses other than the loss for the period.

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 2008**

<b>Assets</b>		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Investments</b>			
Investments in group undertakings and participating interests	10(i).	2,608	2,608
Other financial investments	10(ii).	252,320	297,992
		254,928	300,600
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	20.	8,538	6,607
Claims outstanding		4,226	12,050
		12,764	18,657
<b>Debtors</b>			
Debtors arising out of direct insurance operations - policyholders		68,709	68,592
- intermediaries		13,944	19,751
		82,653	88,343
Debtors arising out of reinsurance operations		1,554	2,017
Other debtors	12.	8,215	4,590
		92,422	94,950
<b>Other assets</b>			
Tangible assets	11.	241	455
Cash at bank and in hand		4,607	8
		4,848	463
<b>Prepayments and accrued income</b>			
Accrued interest and rent		5,384	6,558
Deferred acquisition costs	20.	45,369	44,199
		50,753	50,757
<b>Total assets</b>		<b>415,715</b>	<b>465,427</b>

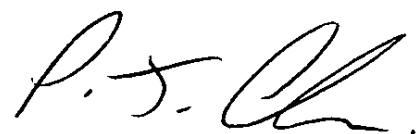


**LEGAL & GENERAL INSURANCE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2008**

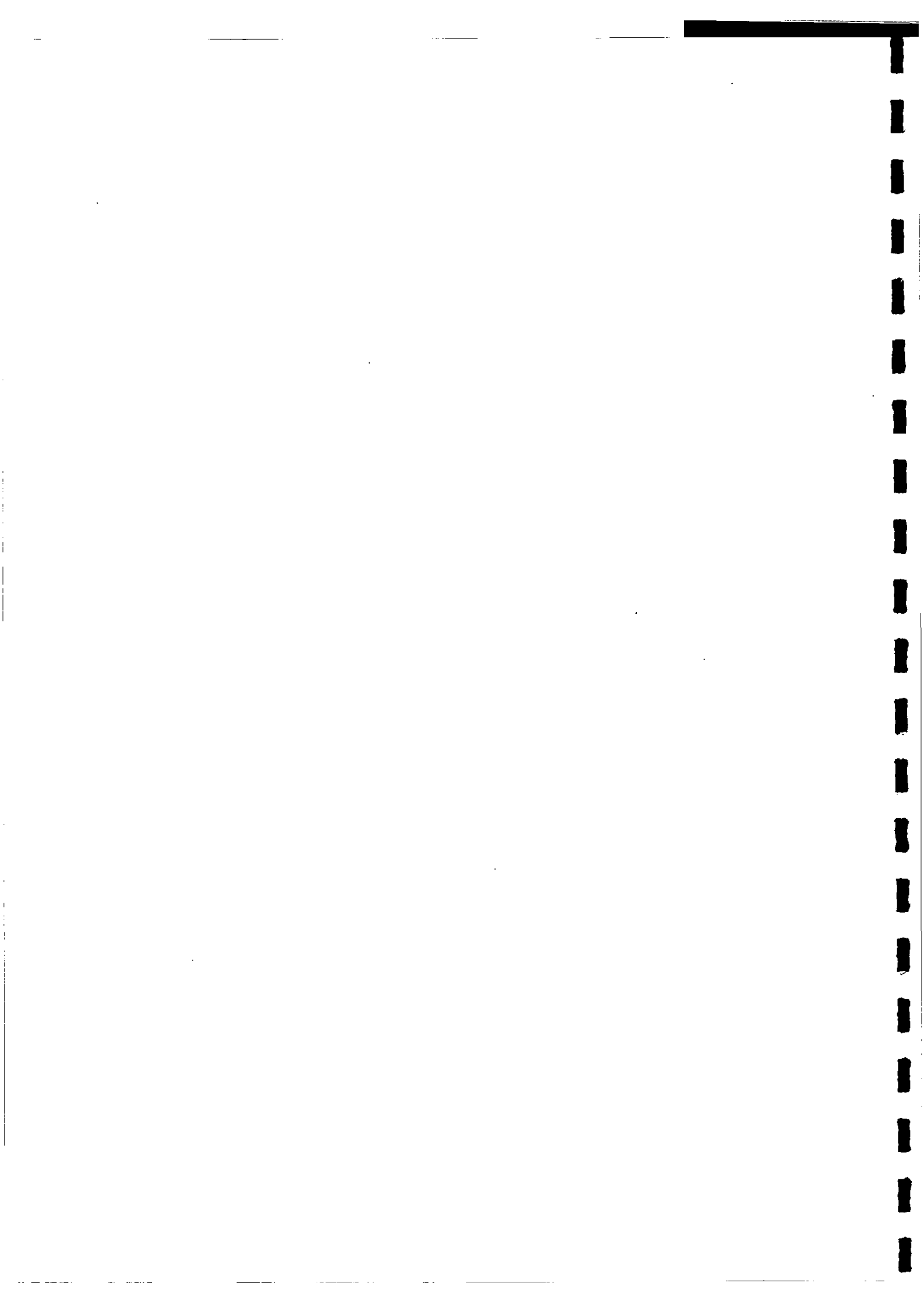
<b>Liabilities</b>		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital and reserves</b>			
Called up share capital	16.	3,500	3,500
Share premium account		96,053	96,053
Revaluation reserve	17.	(33,833)	(11,663)
Profit and loss account	17.	18,984	14,473
<b>Equity shareholders' funds</b>		<b>84,704</b>	<b>102,363</b>
<b>Technical provisions</b>	20.		
Provision for unearned premiums		131,642	132,966
Claims outstanding		125,417	169,561
Equalisation provision		7,757	917
Other technical provisions		-	72
		<b>264,816</b>	<b>303,516</b>
<b>Provision for other risks and charges</b>	14.	<b>136</b>	<b>981</b>
<b>Creditors; amounts falling due within one year</b>			
Creditors arising out of direct insurance operations		6,219	4,432
Creditors arising out of reinsurance operations		10,576	5,875
Other creditors, including taxation and social security	13.	44,936	43,660
		<b>61,731</b>	<b>53,967</b>
<b>Accruals and deferred income</b>		<b>828</b>	<b>1,100</b>
<b>Total current liabilities</b>		<b>412,215</b>	<b>359,564</b>
<b>Creditors; amounts falling due after more than one year</b>			
Preference shares	16.	3,500	3,500
<b>Total liabilities and shareholders' funds</b>		<b>415,715</b>	<b>465,427</b>
<b>Reconciliation of movements in shareholders' funds</b>			
Balance at 1 January		102,363	128,370
Capital injection		15,000	-
Total recognised gains and losses		(32,659)	(26,007)
<b>Balance at 31 December</b>		<b>84,704</b>	<b>102,363</b>

The notes on pages 9 to 23 form an integral part of these financial statements.

The financial statements on pages 11 to 23 were approved by the directors on 23 March 2009 and were signed on their behalf by



P.J. Graham, Director



## LEGAL & GENERAL INSURANCE LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### 1. Accounting policies

##### a) Basis of preparation

The financial statements conform to applicable accounting standards and have been prepared on a going concern basis under the historical cost convention, modified by the revaluation of certain fixed assets, and in accordance with the provisions of Section 255 of, and schedule 9A to the Companies Act 1985 and applicable accounting standards. They conform to the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business (the "ABI SORP") issued in December 2005. 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.

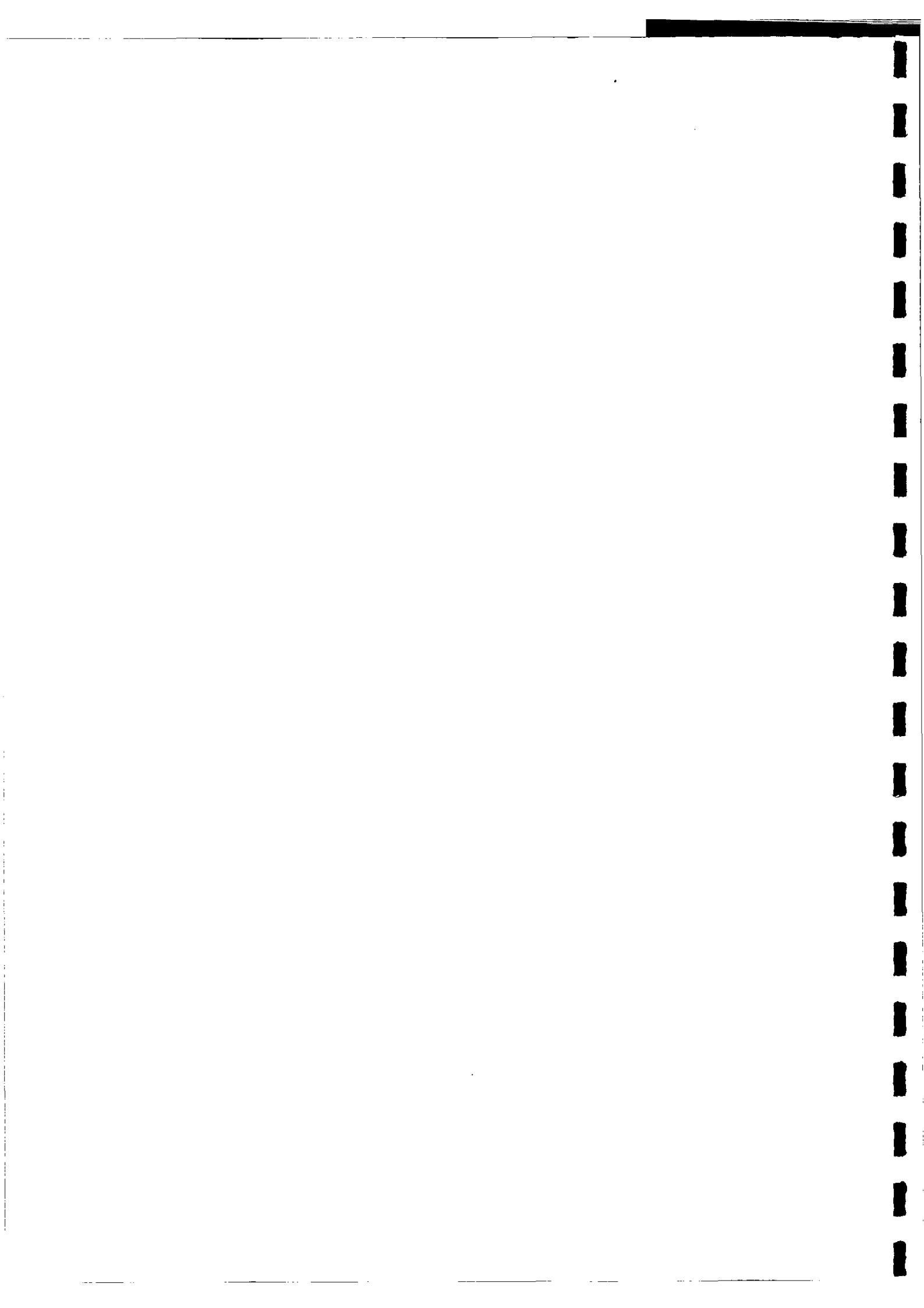
Provision is made at the year-end for the estimated cost of claims and related insurance recoveries incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling 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.

Equalisation provisions have been established in accordance with the FSA's Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985, to be included within technical provisions.





## LEGAL AND GENERAL INSURANCE LIMITED

### NOTES TO FINANCIAL STATEMENTS

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#### **1. Accounting policies (continued)**

##### **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 revaluation reserve within the balance sheet, since they are not distributable.

##### **f) Deferred tax**

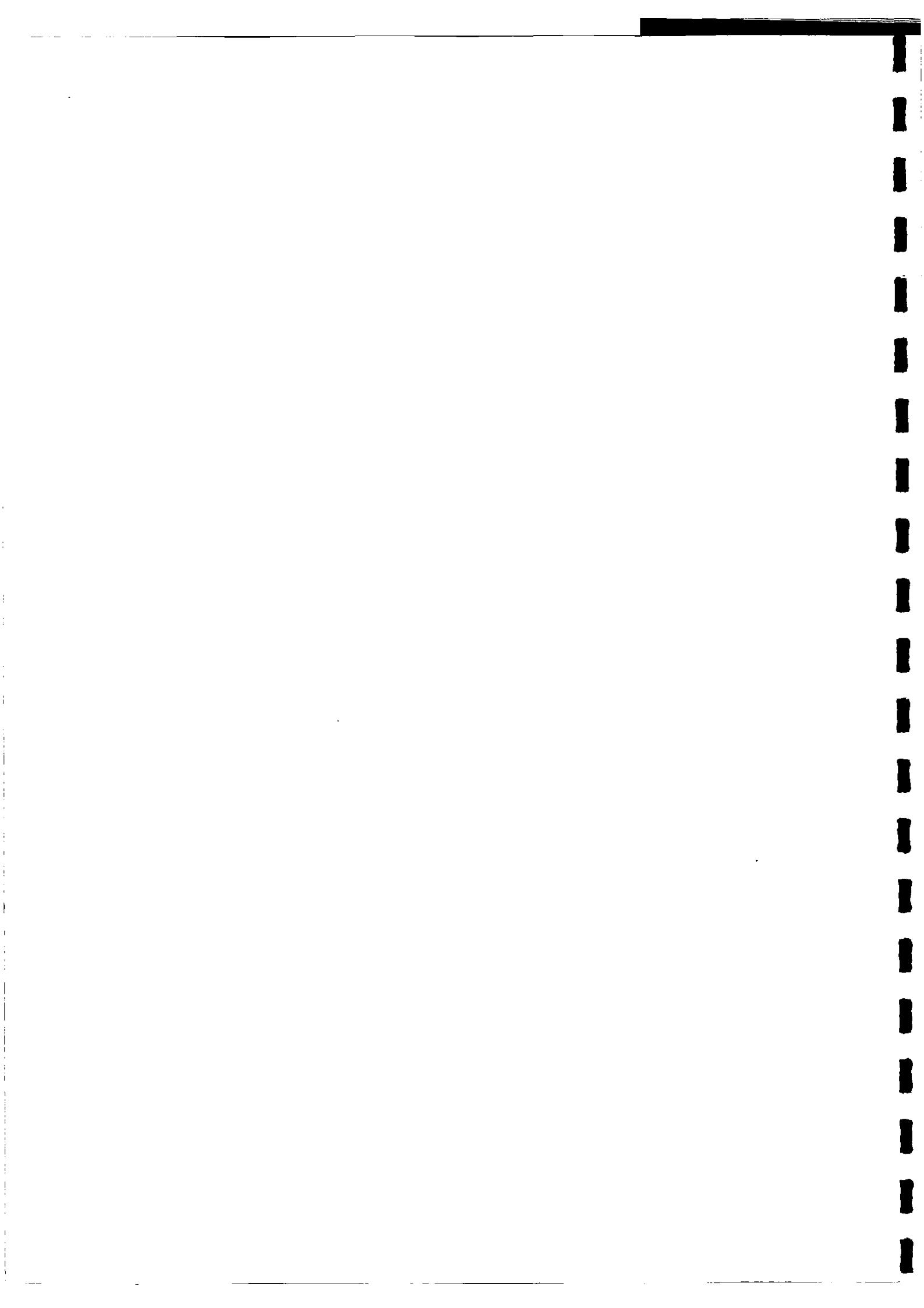
The charge for taxation is based on the result for the year adjusted for disallowable items. Deferred taxation is provided in full on all timing differences at the rate at which it is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that it is more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



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

<b>2. Profit/loss on ordinary activities before tax</b>	<b>2008</b>	<b>2007</b>
Profit/(loss) on ordinary activities before tax is stated after	£'000	£'000
charging/(crediting):	321	278
Depreciation of tangible assets	<u>93</u>	<u>90</u>
Auditors remuneration	<u>414</u>	<u>368</u>

The disclosure of fees payable to PricewaterhouseCoopers LLP and its associates for other (non-audit) services has not been made because these have been disclosed in the consolidated accounts of Legal & General Group Plc.

<b>3. Class segmental analysis</b>	<b>2008</b>	<b>2007</b>
	£'000	£'000
<b>Gross premiums written</b>		
Accident & Health	11,585	13,042
Fire & other damage to property	266,895	255,720
Other business	<u>17,377</u>	<u>16,009</u>
Total Continued	295,857	284,771
Motor (third party liability and other classes)	-	(62)
Health	<u>(55)</u>	<u>22,746</u>
Total Discontinued	<u>(55)</u>	<u>22,684</u>
All premiums result from contracts written in the United Kingdom.	<u>295,802</u>	<u>307,455</u>
<b>Gross premiums earned</b>		
Accident & Health	11,771	9,470
Fire & other damage to property	264,169	245,748
Other business	<u>16,591</u>	<u>18,774</u>
Total Continued	295,531	273,992
Motor (third party liability and other classes)	-	3,815
Health	<u>4,594</u>	<u>40,639</u>
Total Discontinued	<u>4,594</u>	<u>44,454</u>
	<u>297,125</u>	<u>318,446</u>
<b>Gross claims incurred</b>		
Accident & Health	3,639	3,534
Fire & other damage to property	173,383	257,329
Other business	<u>5,952</u>	<u>3,107</u>
Total Continued	182,974	263,970
Motor (third party liability and other classes)	3,100	(1,305)
Health	<u>4,131</u>	<u>29,253</u>
Total Discontinued	<u>7,231</u>	<u>27,948</u>
	<u>190,205</u>	<u>291,918</u>
<b>Gross operating expenses</b>		
Accident & Health	3,609	3,246
Fire & other damage to property	100,943	88,118
Other business	<u>5,140</u>	<u>6,029</u>
Total Continued	109,692	97,393
Motor (third party liability and other classes)	(155)	2,908
Health	<u>1,976</u>	<u>5,160</u>
Total Discontinued	<u>1,821</u>	<u>8,068</u>
	<u>111,513</u>	<u>105,461</u>



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

**3. Class segmental analysis (continued)**

	2008	2007
	£'000	£'000
<b>Reinsurance balance</b>		
Accident	717	1,623
Fire & other damage to property	18,053	1,439
Other business	956	2,804
Total Continued	19,726	5,866
Motor (third party liability and other classes)	(982)	2,289
Health	(56)	(178)
Total Discontinued	(1,038)	2,111
	<u>18,688</u>	<u>7,977</u>
<b>Balance on the technical account for general business</b>		
Accident	3,807	1,066
Fire & other damage to property	(35,685)	(61,457)
Other business	5,250	8,656
Total Continued	(26,628)	(51,735)
Motor (third party liability and other classes)	(1,963)	537
Health	(1,457)	6,404
Total Discontinued	(3,420)	6,941
	<u>(30,048)</u>	<u>(44,794)</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

**4. Other technical income**

Other income relates to the payment in 2007 of £7m received from AXA PPP Healthcare Limited for the introduction of healthcare customers on renewal following our exit from this line of business.

**5. Net operating expenses**

	2008	2007
	£'000	£'000
Acquisition costs	102,549	100,809
Change in deferred acquisition costs	(1,170)	(847)
Administrative expenses	10,134	12,499
Reinsurance commissions and profit participation	(1,868)	(4,710)
	<u>109,645</u>	<u>107,751</u>

The above figures include commissions for direct business amounting to: 66,485 62,568



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

<b>6. Investment return</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
<b>(i) Investment income</b>		
Income in respect of other investments	<u>17,429</u>	<u>22,314</u>
<b>(ii) Investment expenses and charges</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	(2)	(17)
Interest payable to group undertakings	(1,163)	(2,700)
Investment management expenses	(395)	(524)
Realised investment losses	(6,893)	(4,827)
Preference share dividends	<u>(176)</u>	<u>(177)</u>
	<u>(8,629)</u>	<u>(8,245)</u>
<b>(iii) Unrealised losses on investments</b>	<u>(22,175)</u>	<u>(4,759)</u>
Total investment return	<u>(13,375)</u>	<u>9,310</u>

**7. Directors' emoluments**

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

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
In respect of services as directors:		
Aggregate emoluments	820	579
Aggregate money purchase contributions	<u>84</u>	<u>30</u>

No fees were paid by the Company to the directors.

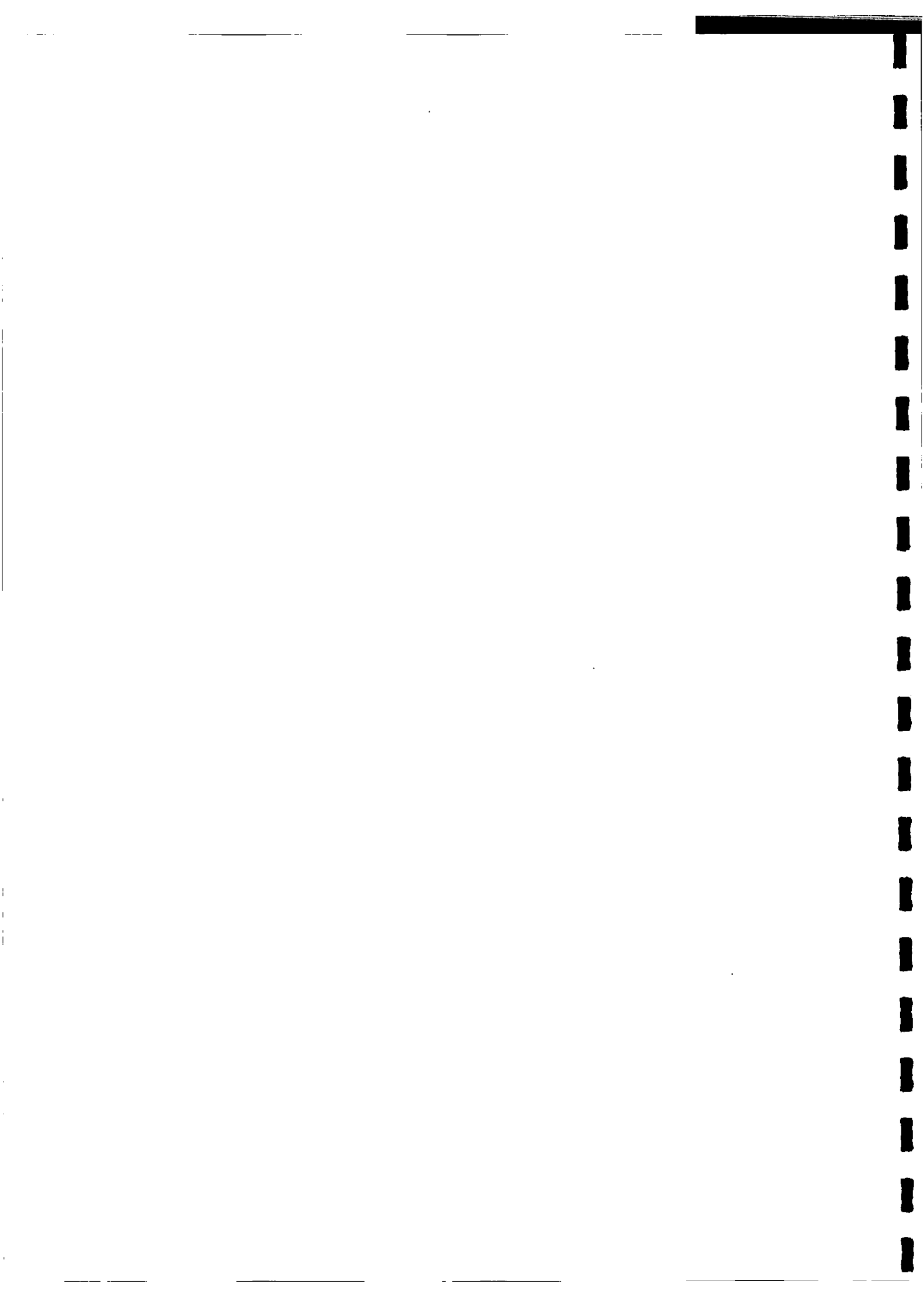
The emoluments received by the directors have been settled by a fellow group company, Legal & General Resources Limited, and included within the recharge made to the Company.

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Highest paid director:		
Emoluments	247	142
Defined benefit pension scheme accrued at end of year	-	32
Money purchase contributions	<u>24</u>	<u>-</u>

**8. Pensions**

The Company has no direct employees and hence makes no direct contributions towards retirement benefits (2007: £Nil).





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

9. Tax (credit)/charge	2008 £'000	2007 £'000
UK Corporation tax at 28.5% (2007: 30%)		
- current tax for the year	(11,577)	(7,460)
- adjustments in respect of prior periods	226	633
Total current tax	<u>(11,351)</u>	<u>(6,827)</u>
Deferred tax		
- origination and reversal of timing differences	587	(2,650)
Tax on loss on ordinary activities	<u>(10,764)</u>	<u>(9,477)</u>

Factors affecting current tax charge for the period:

The tax assessed for the period is higher (2007: higher) than the standard rate of corporation tax in the UK (28.5%) (2007: 30%). The differences are explained below:

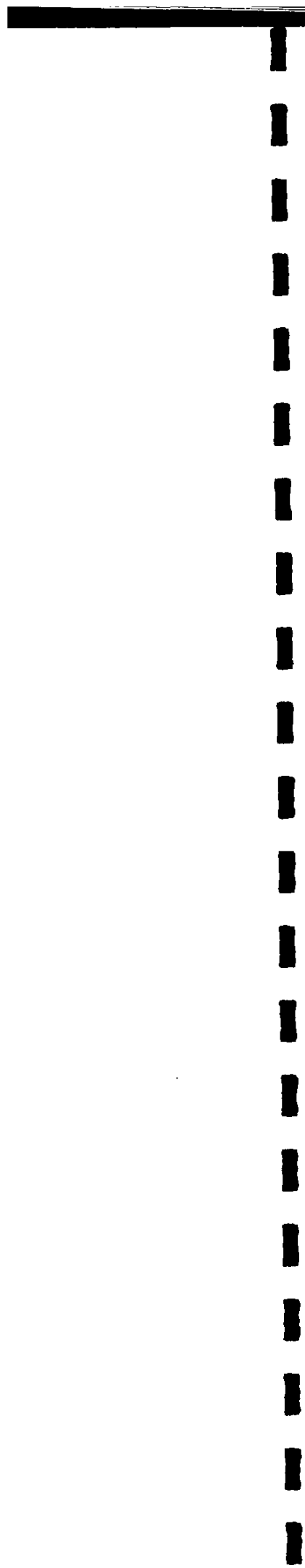
	2008 £'000	2007 £'000
Loss on ordinary activities before tax	<u>(43,423)</u>	<u>(35,484)</u>
Corporation tax at 28.5% (2007: 30%)	(12,374)	(10,645)
Effects of:		
Disallowable expenditure	985	1,371
Adjustments in respect of prior periods	226	633
Capital allowances for period in excess of depreciation	(188)	(338)
Loss on sale of fixed assets	-	3
Difference between taxable and accounting investment gains/losses	-	2,149
Current tax charge for period	<u>(11,351)</u>	<u>(6,827)</u>

10. Investments	2008 £'000	2007 £'000
(i) Investments in group undertakings and participating interests		
Shares in group undertakings	<u>2,608</u>	<u>2,608</u>

**Subsidiary undertakings**

The principal subsidiaries of Legal & General Insurance Limited are listed below. None of the subsidiary undertakings omitted from the list materially affects the profits or assets of the Company. All subsidiaries were dormant during the current year.

Held directly by the Company	Nature of Business	Incorporated In
Southgate Associates Limited	Holding company	Great Britain
<b>Held indirectly through subsidiary undertakings</b>		
Glanfield Securities Limited	Investment company	Great Britain
Legal & General Investment Trust Limited	Investment company	Great Britain



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

<b>(ii) Other financial investments</b>		<b>2008</b>	<b>2007</b>
		<b>£'000</b>	<b>£'000</b>
Debt securities and other fixed income securities		237,749	290,041
Deposits with credit institutions		14,571	7,951
		<u>252,320</u>	<u>297,992</u>
<b>Total investments</b>		<u>254,928</u>	<u>300,600</u>
Listed investments included in current values above:		<u>237,749</u>	<u>290,041</u>
<b>Original cost of financial investments:</b>			
Investments in group undertakings and participating interests		11,077	11,077
Debt securities and other fixed income securities		271,588	301,705
Deposits with credit institutions		14,571	7,951
		<u>297,236</u>	<u>320,733</u>
<b>11. Tangible assets</b>		<b>2008</b>	<b>2007</b>
Fixtures, fittings, tools and equipment (principally computer equipment).		<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
Balance at beginning of year		1,379	2,441
Additions		110	147
Disposals		(246)	(1,209)
Balance at end of year		1,243	1,379
<b>Depreciation</b>			
Balance at beginning of year		924	1,836
Provided during the year		321	278
Disposals		(243)	(1,190)
Balance at end of year		<u>1,002</u>	<u>924</u>
<b>Net book value at 31 December</b>		<u>241</u>	<u>455</u>
<b>12. Debtors</b>		<b>2008</b>	<b>2007</b>
		<b>£'000</b>	<b>£'000</b>
Other debtors		294	179
Deferred tax asset		1,464	2,051
Corporation tax receivable		6,457	2,360
		<u>8,215</u>	<u>4,590</u>
<b>Deferred tax</b>		<b>2008</b>	<b>2007</b>
		<b>£'000</b>	<b>£'000</b>
The balance for deferred tax consists of the following amounts:			
The excess of depreciation over capital allowances		(893)	(1,048)
Other timing differences		(571)	(1,003)
		<u>(1,464)</u>	<u>(2,051)</u>

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

**12. Debtors (continued)**

Deferred tax has been determined using the rate of corporation tax applicable from 1 April 2008 of 28% (2007: 30%).

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.

<b>13. Analysis of other creditors</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Corporation tax payable	-	-
Amounts owed to group undertakings	36,342	37,908
Other creditors	8,594	5,752
	<u>44,936</u>	<u>43,660</u>

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

	<b>Provision for Discontinued Operation £'000</b>
At 1 January 2008	981
Additional provision during the year	33
Release of provision during the year	(878)
At 31 December 2008	<u>136</u>

**15. 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.



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

<b>16. Share capital</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
<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		
<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 2008 of £176,000 (2007: £177,000), 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.

<b>17. Movements in reserves</b>	<b>Revaluation Reserve £'000</b>	<b>Profit and loss Account £'000</b>
Balance at 1 January 2008	(11,663)	14,473
Retained loss	-	(32,659)
Unrealised investment transfer	(22,175)	22,175
Unrealised exchange gain	5	(5)
Capital Injection		15,000
<b>Balance at 31 December 2008</b>	<b>(33,833)</b>	<b>18,984</b>

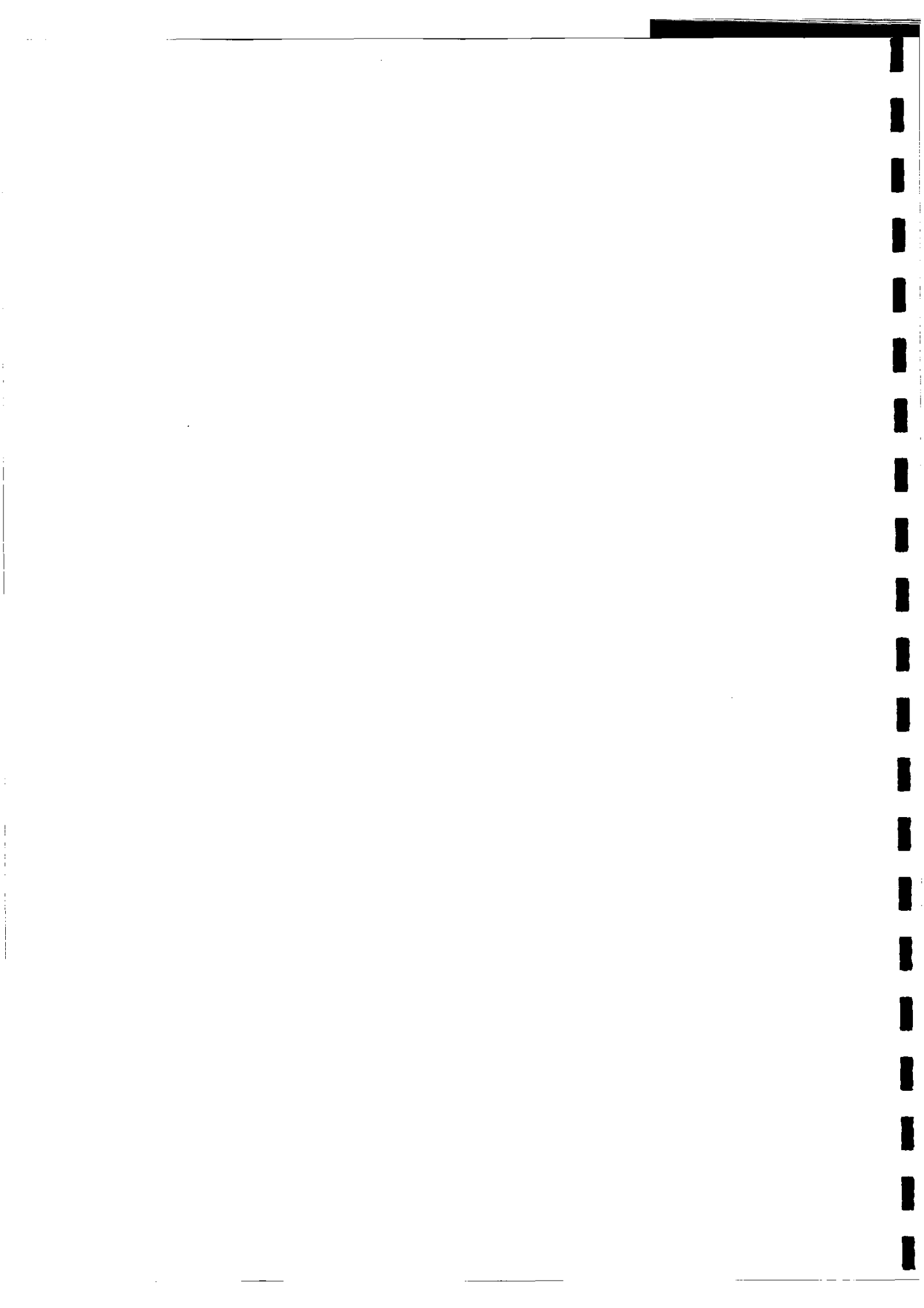
To support future growth and ensure sufficient capitalisation, Legal & General Assurance Limited provided a capital contribution of £15m in November 2008.

**18. Holding company**

The company's immediate parent undertaking is Legal & 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 at the Registered Office, One Coleman Street, London, EC2R 5AA.

**19. 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 £7,757,000 (2007: decrease of £917,000). 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 £6,840,000 (2007: increase of £41,487,000).

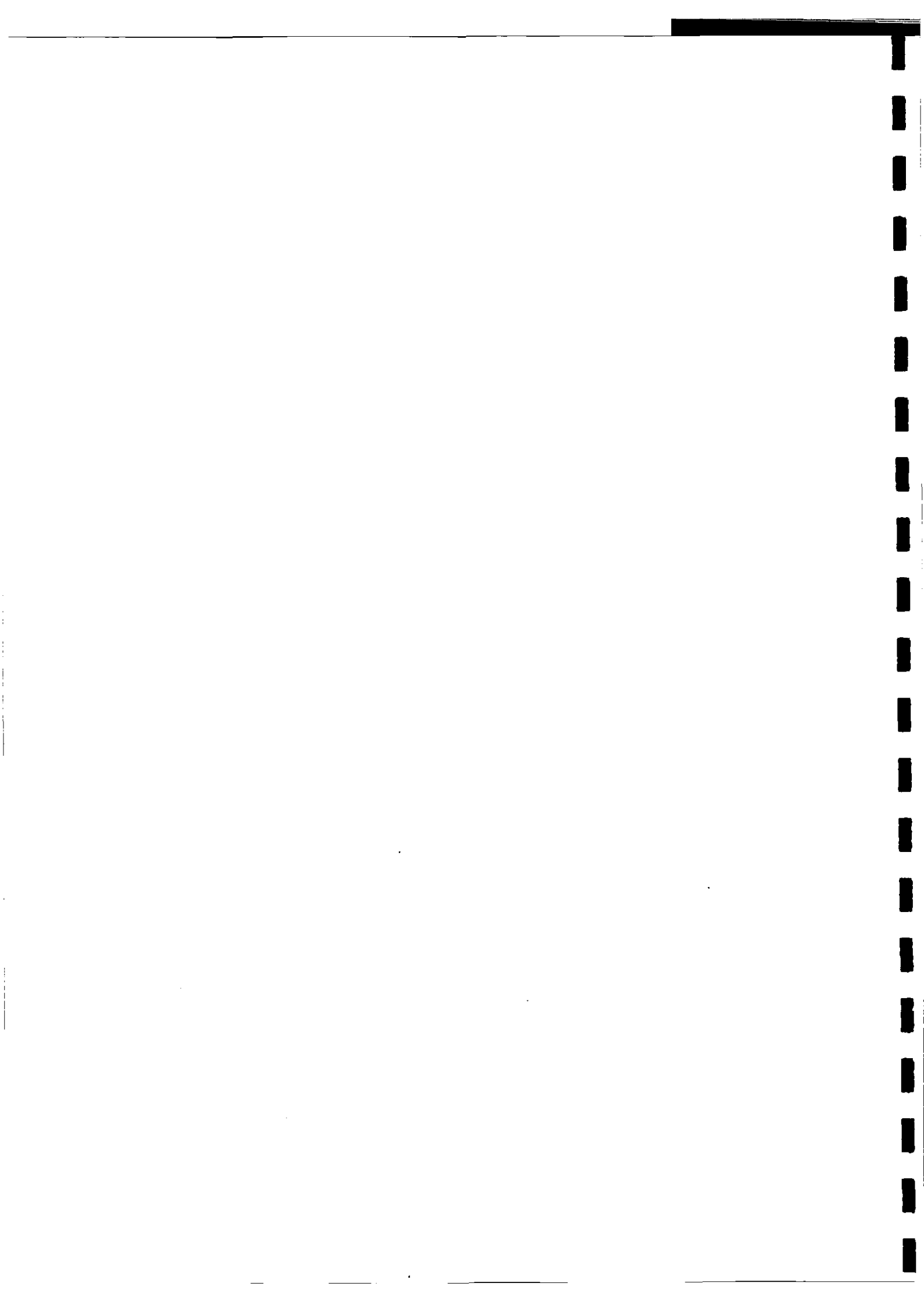




**LEGAL & GENERAL INSURANCE LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**

<b>20. Technical provisions</b>	<b>At 31 December 2007 £'000</b>	<b>Technical Account Movement £'000</b>	<b>At 31 December 2008 £'000</b>
<b>Unearned premiums</b>			
Gross	132,966	(1,324)	131,642
Reinsurance	(6,607)	(1,931)	(8,538)
Net	126,359	(3,255)	123,104
<b>Unexpired risks</b>			
Gross	72	(72)	-
Reinsurance	-	-	-
Net	72	(72)	-
<b>Outstanding claims</b>			
Gross	169,561	(44,144)	125,417
Reinsurance	(12,050)	7,824	(4,226)
Net	157,511	(36,320)	121,191
<b>Equalisation provision</b>	917	6,840	7,757
<b>Deferred acquisition costs</b>			
Gross	(44,199)	(1,170)	(45,369)
Reinsurance	1,100	(272)	828
Net	(43,099)	(1,442)	(44,541)
<b>Total</b>	<b>241,760</b>	<b>(34,249)</b>	<b>207,511</b>
<b>Segmental analysis</b>			
Accident	13,757	(13,707)	50
Motor & Health	16,360	(4,140)	12,220
Fire & other damage to property	203,156	(32,045)	171,111
Other business	8,487	15,643	24,130
	<b>241,760</b>	<b>(34,249)</b>	<b>207,511</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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**21. 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:

	2008 £'000	2007 £'000
Health	1,078	2,354
Motor (third party liability and other classes)	(1,987)	4,017
Fire & other damage to property	9,324	7,058
Accident	<u>2,540</u>	<u>1,665</u>
	<u>10,955</u>	<u>15,094</u>

**22. Related party transactions**

The Company has taken advantage of the exemptions 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.

**23. 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.

