

**THE NATIONAL INSURANCE AND
GUARANTEE CORPORATION PLC**

ANNUAL REPORT 1997

Registration No. 42133

Registered Office:
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145 City Road
London EC1V 1LP



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THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

MANAGEMENT

CHAIRMAN AND DIRECTORS

H-E F Andersson (Swedish)
Chairman

J Carrier BA (Hons) DIPM MBA MCIM
Managing Director

P M Bunker BSc (Econ) ACA
Personal Lines Director

C H D Earle MA MSc ACII
Commercial Director

H S Hughes FCA
Finance Director

C E Oscarson (Swedish)

U G Spång (Swedish)

H M Troye (Norwegian)

COMPANY SECRETARY

P B Cassidy MA ACA

SENIOR MANAGEMENT

M D E Elkin BSc ARCS MBA
Marketing Manager

D H Grant MA MSc FCII MCIM
Marketing Manager

J F Hall FCCA
Group Finance Manager

A Judt BSc ACA
Operations Manager - Peterborough

E L T Lovegrove
Personal Lines Manager

B Medhurst BSc (Hons)
Information Systems Manager

K Newman ACII
Claims Manager

G M Rapley FCII
Special Risks Manager

J Rhule BA
Human Resources Manager

P E Savory
Claims Manager

G Tooby
Commercial Manager

M G Bennett ACII
Managing Director
G F Bennett and Dial Direct

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

SUMMARY OF RESULTS

	Restated				
	1993 £'000	1994 £'000	1995 £'000	1996 £'000	1997 £'000
Net premiums written	252,719	242,919	280,409	244,135	239,206
Balance on the technical account for general business	13,725	20,241	8,544	(5,408)	4,477
Profit/(loss) before taxation and exceptional items	32,671	(10,549)	19,859	2,687	12,359
Gross assets *	437,743	438,723	455,302	447,764	461,474
Shareholder's funds	110,234	96,758	102,456	103,996	110,290

* Gross assets are defined as shareholder's funds plus net technical provisions.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

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THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

DIRECTORS' REPORT

The Directors submit their report and accounts for the year ended December 31, 1997.

GROUP RESULTS AND DIVIDENDS

Gross premiums written were £353.2m (1996 - £380.5m) and the profit before tax for the year was £12.4m (1996 - £2.7m).

The profit for the year after taxation and minority interests was £8.5m (1996 - £3.8m). After a dividend of £11.2m (1996 - £2.4m) there is a retained loss of £2.7m (1996 - profit of £1.4m) which the Directors propose to transfer from reserves.

SHARE CAPITAL

During the year the capital structure of the Corporation was changed by the conversion of all preference shares into ordinary shares. Subsequently, a further £10million of ordinary £1 shares were allotted at par in order to strengthen the solvency of the Corporation.

REVIEW OF THE BUSINESS

The Corporation's principal activity is the transaction of all classes of insurance business other than life assurance. The principal activities of subsidiary undertakings are set out in note 11. The Directors do not envisage any change to these activities in the foreseeable future.

DIRECTORS AND THEIR INTERESTS

The current Directors of the Corporation are set out on page 1 of this report.

On April 7, 1997 Mr P Björgås was appointed as Chairman in place of Mr J M Gaynor. Mr Gaynor resigned as a Director on August 13, 1997.

During the course of the year, the following other changes in the Directors occurred:

Mr R M P Richards	(resigned July 1, 1997)
Mr A Hogström	(resigned August 13, 1997)
Mr L G Victorin	(resigned August 13, 1997)
Mr C H D Earle	(appointed July 1, 1997)
Mr H-E F Andersson	(appointed August 13, 1997)
Mr H M Troye	(appointed August 13, 1997)
Mr H S Hughes	(appointed October 23, 1997)

On April 23, 1998 Mr P Björgås resigned as Chairman, and Mr H-E F Andersson was appointed in his place. Mr U G Spång was also appointed a Director on April 23, 1998.

No Director had any interest in the Corporation which requires disclosure under the Companies Act 1985.

EMPLOYEES

The Corporation supports employee organisations, reports on its trading position on a regular basis, consults with employees where appropriate and pursues a policy of providing, where possible, the same employment opportunities to disabled persons as to others.

PAYMENT OF SUPPLIERS

It is the policy of the Corporation to pay all its suppliers within agreed periods of credit; where no terms are agreed, payment is made within one month of invoice receipt.

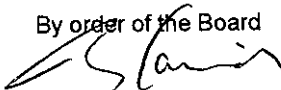
POST BALANCE SHEET EVENTS

There have been no significant post balance sheet events.

AUDITORS

Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be put to the members at the Annual General Meeting.

By order of the Board



P B Cassidy
Secretary

29th June

1998

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which show a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts 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 accounts; and
- * prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

REPORT OF THE AUDITORS

to the members of The National Insurance and Guarantee Corporation PLC

We have audited the accounts on pages 7 to 26, which have been prepared on the basis of the accounting policies set out on pages 11 to 13.

Respective responsibilities of Directors and auditors

As described on page 5 the company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount 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 the profit before tax are disclosed in note 16.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at December 31, 1997 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
London

31/6/1998

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

PROFIT AND LOSS ACCOUNT

for the year ended December 31, 1997

	Notes	1997 £'000	1996 £'000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written - continuing operations		353,234	380,518
- discontinued operations		-	<u>2</u>
		<u>353,234</u>	<u>380,520</u>
Outward reinsurance premiums		<u>114,028</u>	<u>136,385</u>
Net premiums written		239,206	244,135
Change in the gross provision for unearned premiums		17,131	1,921
Change in the provision for unearned premiums, reinsurers' share		<u>7,607</u>	<u>9,595</u>
Change in the net provision for unearned premiums		9,524	(7,674)
Earned premiums, net of reinsurance	2	229,682	251,809
Allocated investment return transferred from the non-technical account		<u>22,507</u>	<u>21,861</u>
TOTAL TECHNICAL INCOME		<u>252,189</u>	<u>273,670</u>
Claims paid			
- gross amount		186,543	198,475
- reinsurers' share		<u>30,751</u>	<u>28,321</u>
- net of reinsurance		155,792	170,154
Change in the provision for claims			
- gross amount		(4,000)	(9,136)
- reinsurers' share		<u>196</u>	<u>(3,326)</u>
- net of reinsurance		(4,196)	(5,810)
Claims incurred net of reinsurance	3	151,596	164,344
Change in other technical provisions, net of reinsurance - unexpired risk reserve		2,072	580
Net operating expenses	4	<u>92,978</u>	<u>113,091</u>
TOTAL CHARGES		<u>246,646</u>	<u>278,015</u>
Total technical income less total charges		5,543	(4,345)
Transfer to equalisation reserve	16	<u>1,066</u>	<u>1,063</u>
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		<u>4,477</u>	<u>(5,408)</u>
Attributable to:			
Continuing operations		4,637	(4,967)
Discontinued operations		<u>(160)</u>	<u>(441)</u>
		<u>4,477</u>	<u>(5,408)</u>
Attributable to:			
The Corporation		4,477	(2,441)
Subsidiary undertakings		<u>-</u>	<u>(2,967)</u>
		<u>4,477</u>	<u>(5,408)</u>

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

PROFIT AND LOSS ACCOUNT for the year ended December 31, 1997

	Notes	1997 £'000	1996 £'000
NON TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		4,477	(5,408)
Investment income	8	42,603	39,217
Other income		<u>9,812</u> <u>56,892</u>	<u>3,170</u> <u>36,979</u>
Investment expenses and charges - investment management expenses		3,100	6,251
Allocated investment return transferred to the general business technical account		22,507	21,861
Other charges		<u>18,926</u> <u>44,533</u>	<u>6,180</u> <u>34,292</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		12,359	2,687
Taxation charge /(credit) on profit on ordinary activities	9	<u>2,709</u>	<u>(2,648)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		9,650	5,335
Minority interests - equity		<u>(1,135)</u>	<u>(1,555)</u>
PROFIT FOR THE YEAR		8,515	3,780
Dividends	10	<u>11,187</u>	<u>2,375</u>
(LOSS)/PROFIT RETAINED FOR THE FINANCIAL YEAR		<u>(2,672)</u>	<u>1,405</u>
Attributable to:			
The Corporation		3,664	(138)
Subsidiary undertakings		<u>(6,336)</u>	<u>1,543</u>
		<u>(2,672)</u>	<u>1,405</u>

There were no gains or losses recognised in the year other than the loss for the year.

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is not deemed to be a departure from the unmodified historical cost basis of accounting, and a separate note of historical cost profits and losses is, therefore, unnecessary.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

BALANCE SHEET at December 31, 1997

		Group		Company	
	Notes	1997 £'000	1996 £'000	1997 £'000	1996 £'000
ASSETS					
INVESTMENTS					
	11				
Subsidiary undertakings		-	-	38,000	38,400
Other financial investments		<u>432,943</u>	<u>412,786</u>	<u>425,866</u>	<u>412,786</u>
		<u>432,943</u>	<u>412,786</u>	<u>463,866</u>	<u>451,186</u>
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Provision for unearned premiums		50,945	43,338	50,945	43,338
Claims outstanding	12	<u>11,963</u>	<u>11,767</u>	<u>11,963</u>	<u>11,767</u>
		<u>62,908</u>	<u>55,105</u>	<u>62,908</u>	<u>55,105</u>
DEBTORS					
Direct insurance operations - intermediaries		27,884	32,464	27,798	32,464
Other debtors		<u>4,378</u>	<u>10,211</u>	<u>13,075</u>	<u>7,181</u>
		<u>32,262</u>	<u>42,675</u>	<u>40,873</u>	<u>39,645</u>
OTHER ASSETS					
Tangible assets	13	1,835	2,021	1,835	2,021
Properties under development and for resale		4,942	10,626	-	-
Cash at bank and in hand		<u>20,688</u>	<u>13,537</u>	<u>16,616</u>	<u>11,586</u>
		<u>27,465</u>	<u>26,184</u>	<u>18,451</u>	<u>13,607</u>
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest		6,256	3,921	6,256	3,921
Deferred acquisition costs	14	<u>17,357</u>	<u>16,307</u>	<u>17,357</u>	<u>16,307</u>
Other prepayments and accrued income		<u>1,352</u>	<u>752</u>	<u>862</u>	<u>752</u>
		<u>24,965</u>	<u>20,980</u>	<u>24,475</u>	<u>20,980</u>
TOTAL ASSETS					
		<u>580,543</u>	<u>557,730</u>	<u>610,573</u>	<u>580,523</u>

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

BALANCE SHEET at December 31, 1997

		Group	Company		
		1997	1996	1997	1996
	Notes	£'000	£'000	£'000	£'000
LIABILITIES					
CAPITAL AND RESERVES					
Called up share capital	17	87,968	77,968	87,968	77,968
Share premium account		5,182	5,182	5,182	5,182
Profit and loss account		<u>16,856</u>	<u>20,711</u>	<u>22,912</u>	<u>19,250</u>
Shareholders' funds	20	110,006	103,861	116,062	102,400
Minority interests		<u>284</u>	<u>135</u>	<u>-</u>	<u>-</u>
		110,290	103,996	116,062	102,400
TECHNICAL PROVISIONS					
Provision for unearned premiums		164,857	147,726	164,857	147,726
Claims outstanding	12	261,811	265,811	261,811	265,811
Unexpired risk reserve	15	2,652	580	2,652	580
Equalisation reserve	16	<u>2,129</u>	<u>1,063</u>	<u>2,129</u>	<u>1,063</u>
		<u>431,449</u>	<u>415,180</u>	<u>431,449</u>	<u>415,180</u>
CREDITORS					
Arising out of direct insurance operations	18	4,023	11,377	1,945	11,380
Accrued dividend on preference shares		-	1,187	-	1,187
Taxation	19	1,056	-	1,056	-
Other creditors including taxation and social security		<u>33,725</u>	<u>25,990</u>	<u>60,061</u>	<u>50,376</u>
		<u>38,804</u>	<u>38,554</u>	<u>63,062</u>	<u>62,943</u>
TOTAL LIABILITIES		580,543	557,730	610,573	580,523

Approved at a meeting of the Board of Directors on 29th June

1998 and signed on its behalf.


J. Carrier
Managing Director

29th June

1998

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

1. ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accounts of the Group comprise those of the Corporation and its subsidiary undertakings for the year ended December 31, 1997.

The accounts are prepared in compliance with the special provisions relating to insurance companies of section 255 and section 255A of, and Schedule 9A to, the Companies Act 1985. The accounts have also been prepared in accordance with applicable accounting standards. The accounts also comply in all material respects with the guidance on accounting for insurance business issued by the Association of British Insurers. The accounts do not comply in all respects with Swedish law or Skandia accounting principles.

BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of The National Insurance & Guarantee Corporation PLC and all its subsidiary undertakings drawn up to December 31 each year. No profit and loss account is presented for The National Insurance and Guarantee Corporation PLC as permitted by Section 230 of the Companies Act 1985. The group consolidates as subsidiary undertakings its interest in various entities of which it holds 50% of the share capital as it exerts significant influence over the undertakings.

CASH FLOW STATEMENT

As permitted by Financial Reporting Standards Number 1 (revised), a cash flow statement is not presented as the company is a wholly owned subsidiary of Skandia Insurance Company Ltd (publ), the consolidated accounts of which are publicly available.

PREMIUMS WRITTEN

Written premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepting during the financial year, together with adjustments arising in the financial year to such premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries.

Written premiums exclude insurance premium tax. The amount of this tax due by the group which has not been paid over to Customs & Excise as at the year end has been included in the balance sheet as a liability under the heading "Other creditors including taxation and social security".

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

UNEARNED PREMIUMS

The provision for unearned premiums on all business as at December 31, is calculated on the 24ths method after making an appropriate deduction for reinsurance ceded.

UNEXPIRED RISKS

Provision is made for any excess over the provision for unearned premiums of claims and administrative expenses likely to arise after the end of the year from contracts concluded before that date. The assessment of whether a provision is necessary is made by considering separately each category of business accounted for on the annual basis of accounting on the basis of information available as at the balance sheet date, but offsetting surpluses and deficits between categories that are managed together.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS

at December 31, 1997

ACCOUNTING POLICIES

continued

DEFERRED ACQUISITION COSTS

Commission and management costs which vary with, and are primarily related to, the acquisition of new insurance contracts, and the renewal of existing insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

OUTSTANDING CLAIMS

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs, anticipated inflation and settlement trends. A provision for claims incurred but not reported is established on a statistical basis. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

EQUALISATION RESERVE

Equalisation reserves have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 and included as the equalisation provision within technical provisions.

INSTALMENT TRANSACTIONS

Interest income on instalment transactions is recognised over the period of the loan with regard to the amount of principal outstanding.

DEPRECIATION

Office equipment and motor vehicles are written off in the year of purchase.

Data processing equipment and software, both leased under finance leases and purchased outright, are depreciated on a straight line basis over period of up to four years.

Certain subsidiary undertakings capitalise motor vehicles and other office equipment, where this is considered more appropriate to their own circumstances. Such assets are written off on consolidation. The financial effect of this difference in policy is disclosed in note 13.

PROPERTY

Trading properties and those under development are valued at the lower of cost and net realisable value with any unrealised losses taken to profit and loss account.

OPERATING LEASES

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

ACCOUNTING POLICIES continued

INVESTMENTS

Listed investments are valued at the middle market value at December 31. Other investments are included at market value at December 31, and loans and mortgages at cost. Profits and losses on realisation of investments and unrealised gains and losses are included in investment income for the year. Realised gains and losses are calculated as the difference between net sale proceeds and historical cost. An allocation of investment income from the non-technical account to the general business technical account is made on the basis of a risk-free rate of return on the average technical provisions for the year.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiary undertakings are stated at cost except where, in the opinion of the Directors, there has been a permanent diminution in value, in which case they are stated at Directors' valuation.

DEFERRED TAXATION

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

FOREIGN EXCHANGE

Transactions in currencies other than sterling are recorded in the accounts at the average exchange rate prevailing for the year. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account as a part of investment income.

PENSIONS

The group operates two pension schemes, both of which are funded by the payment of contributions to separately administered funds. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. Contributions to the defined benefit scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual years using the projected unit method.

GOODWILL

Goodwill arising on the acquisition of subsidiary undertakings is taken to reserves in the year of acquisition.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

2. EARNED PREMIUMS NET OF REINSURANCE

	Gross £'000	Reinsurance £'000	Net £'000
1997			
Premiums written	353,234	114,028	239,206
Unearned premiums carried forward	164,857	50,945	113,912
Unearned premiums brought forward	147,726	43,338	104,388
	<hr/>	<hr/>	<hr/>
Increase in unearned premiums	17,131	7,607	9,524
	<hr/>	<hr/>	<hr/>
Premiums earned	336,103	106,421	229,682
	<hr/>	<hr/>	<hr/>
1996			
Premiums written	380,520	136,385	244,135
Unearned premiums carried forward	147,726	43,338	104,388
Unearned premiums brought forward	145,805	33,743	112,062
	<hr/>	<hr/>	<hr/>
Increase / (decrease) in unearned premiums	1,921	9,595	(7,674)
	<hr/>	<hr/>	<hr/>
Premiums earned	378,599	126,790	251,809
	<hr/>	<hr/>	<hr/>

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross £'000	Reinsurance £'000	Net £'000
1997			
Claims paid	178,544	30,751	147,793
Claims handling expenses	7,999	-	7,999
	<hr/> 186,543	<hr/> 30,751	<hr/> 155,792
Outstanding claims carried forward	261,811	11,963	249,848
Outstanding claims brought forward	265,811	11,767	254,044
	<hr/>	<hr/>	<hr/>
(Decrease)/Increase	(4,000)	196	(4,196)
	<hr/>	<hr/>	<hr/>
Claims incurred	182,543	30,947	151,596
	<hr/>	<hr/>	<hr/>
1996			
Claims paid	189,090	28,321	160,769
Claims handling expenses	9,385	-	9,385
	<hr/> 198,475	<hr/> 28,321	<hr/> 170,154
Outstanding claims carried forward	265,811	11,767	254,044
Outstanding claims brought forward	274,947	15,093	259,854
	<hr/>	<hr/>	<hr/>
(Decrease)	(9,136)	(3,326)	(5,810)
	<hr/>	<hr/>	<hr/>
Claims incurred	189,339	24,995	164,344
	<hr/>	<hr/>	<hr/>

The deviation between the loss provision at the beginning of the year for outstanding claims and the payments during the year on account of claims incurred in previous years and the loss provision at the end of the year for such outstanding claims was £13,922,000 (1996 - £13,344,000).

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

4. NET OPERATING EXPENSES

1997	Gross £'000	Reinsurance £'000	Net £'000
Commission	141,794	71,268	70,526
Other acquisition costs	11,879	-	11,879
Total acquisition costs	153,673	71,268	82,405
Deferred acquisition costs carried forward	17,357	-	17,357
Deferred acquisition costs brought forward	16,307	-	16,307
Increase	1,050	-	1,050
Incurred acquisition costs	152,623	71,268	81,355
Administrative expenses	11,623	-	11,623
	164,246	71,268	92,978
1996	Gross £'000	Reinsurance £'000	Net £'000
Commission	177,707	97,141	80,566
Other acquisition costs	19,624	-	19,624
Total acquisition costs	197,331	97,141	100,190
Deferred acquisition costs carried forward	16,307	-	16,307
Deferred acquisition costs brought forward	19,070	-	19,070
(Decrease)	(2,763)	-	(2,763)
Incurred acquisition costs	200,094	97,141	102,953
Administrative expenses	10,138	-	10,138
	210,232	97,141	113,091

5. ADMINISTRATIVE EXPENSES

	1997 £'000	1996 £'000
Administrative expenses include :		
Depreciation fixed assets	1,371	1,348
Policyholders' Protection Act Levy	598	2,440
Auditors' remuneration, including expenses	193	172
Fees for non-audit services	71	19
Pensions costs	1,636	1,844

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

6. STAFF COSTS

	1997 £'000	1996 £'000
Wages and salaries	18,247	17,463
Social security costs	1,774	1,660
Other pension costs	1,636	1,844

The average weekly number of employees, including executive directors, during the year was comprised as follows :-

	1997 No.	1996 No.
Underwriting	145	193
Claims	246	234
Administration	311	297
Insurance intermediaries	<u>363</u>	<u>242</u>
	<u>1,065</u>	<u>966</u>

7. DIRECTORS' EMOLUMENTS

	1997 £'000	1996 £'000
Aggregate emoluments (excluding pension contributions)	951	1,018
Aggregate pension contributions	<u>320</u>	<u>596</u>
	<u>1,271</u>	<u>1,614</u>
Highest paid director's emoluments (excluding pension contributions)	397	265
Highest paid director's pension contributions	91	327

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

8. INVESTMENT INCOME

	1997 £'000	1996 £'000
Income from:		
Land and buildings	624	5,729
Fixed interest securities	12,469	9,970
Equities	2,027	2,176
Deposits	8,286	7,550
Other investments	5,245	4,126
	<hr/>	<hr/>
	28,651	29,551
Realised gains and losses	3,164	6,093
Unrealised gains and losses	10,788	3,573
	<hr/>	<hr/>
Total income	42,603	39,217
	<hr/>	<hr/>

Income from land and buildings includes £nil (1996 - £737,000) charged by a subsidiary undertaking in respect of premises occupied by the Corporation. The cost is reflected in the Technical Account for General Business.

9. TAXATION

	1997 £'000	1996 £'000
The charge for taxation comprises:		
Current taxation:		
Corporation tax at 31.5% (1996 - 33%)	388	(66)
Group relief at 31.5% (1996 - 33%)	847	(1,951)
Tax credits on franked investment income	353	428
Adjustment to prior years - group relief	65	(1,059)
Deferred taxation	1,056	-
	<hr/>	<hr/>
	2,709	(2,648)
	<hr/>	<hr/>

10. DIVIDENDS

	1997 £'000	1996 £'000
Dividend paid on ordinary shares	10,000	-
Dividend paid on preference shares	1,187	2,375
	<hr/>	<hr/>
	11,187	2,375
	<hr/>	<hr/>

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

11. INVESTMENTS

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
a) <u>Subsidiary undertakings</u>				
Shares at cost	-	-	38,000	38,400
b) <u>Other investments</u>				
<u>Market value</u>				
Listed equity shares	60,446	68,648	60,446	68,648
Fixed interest securities	188,590	152,086	188,590	152,086
Floating rate notes	117,392	-	117,392	-
Deposits with credit institutions	18,171	149,456	18,161	149,456
Loan to parent undertaking	19,033	20,030	19,033	20,030
Other loans	29,311	22,566	22,244	22,566
Total other investments at market value	432,943	412,786	425,866	412,786
<u>Historical cost</u>				
Listed equity shares	45,982	63,686	45,982	63,686
Fixed interest securities	187,764	152,586	187,764	152,586
Floating rate notes	117,654	-	117,654	-
Deposits with credit institutions	18,171	149,456	18,161	149,456
Loan to parent undertaking	19,033	20,030	19,033	20,030
Other loans	29,311	22,566	22,244	22,566
Total other investments at historical cost	417,915	408,324	410,838	408,324

The listed equity shares are all listed on the London Stock Exchange. The fixed interest securities are all listed on either the London or Luxembourg Stock Exchanges.

Subsidiary undertakings	% Ownership	Activity
NIG Skandia Investments Limited	Ordinary shares 100	Holding company
Dial Direct Insurance Marketing Limited	Ordinary shares 75	Insurance marketing
G F Bennett (Holdings) Limited	Ordinary shares 75	Holding company
G F Bennett (Holdings) Limited	A Ordinary shares 100	Holding company
G F Bennett (Holdings) Limited	B Ordinary shares -	Holding company
G F Bennett (Holdings) Limited	C Ordinary shares 100	Holding company
G F Bennett and Company Limited	Ordinary shares 75	Insurance broking
The Careful Drivers Association Limited	Ordinary shares 75	Holding company
Pratts Insurance Office	Ordinary shares 75	Insurance broking
Dial Direct Finance Limited	Ordinary shares 100	Dormant company
Finsure Premium Finance Limited	Ordinary shares 100	Premium finance
Skansprint Limited	Ordinary shares 100	Printing company
NIG Skandia Property Holdings Limited	Ordinary shares 100	Holding company
NIG Trading Limited	Ordinary shares 100	Property trading
NIG Sheridan Properties Limited *	A Ordinary shares 100	Property joint ventures
	B Ordinary shares -	
Stafford Park Developments Limited *	A Ordinary shares 50	Property joint ventures

The companies marked with an asterisk are considered to be subsidiary undertakings of the Corporation because it has a participating interest in each of the companies in the form of share capital and it exercises a dominant influence over each of them by virtue of being the sole lender of development finance to each company.

All subsidiary undertakings are incorporated in the U.K.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

12. CLAIMS OUTSTANDING

	Gross £000	Reinsurance £000	Net £000
1997			
Notified outstanding claims	247,924	11,963	235,961
Provision for claims incurred but not reported	11,596	-	11,596
Claims handling expenses	2,291	-	2,291
	<hr/>	<hr/>	<hr/>
	261,811	11,963	249,848
	<hr/>	<hr/>	<hr/>
1996			
Notified outstanding claims	249,257	11,767	237,490
Provision for claims incurred but not reported	14,179	-	14,179
Claims handling expenses	2,375	-	2,375
	<hr/>	<hr/>	<hr/>
	265,811	11,767	254,044
	<hr/>	<hr/>	<hr/>

13. TANGIBLE ASSETS

	Data Processing Equipment £'000
Cost:	
At 1 January 1997	5,127
Purchases in the year	1,185
Disposal and write off of assets	(1,164)
	<hr/>
At December 31, 1997	5,148
	<hr/>
Depreciation:	
At January 1, 1997	3,106
Charge for the year	1,371
Disposal and write off of assets	(1,164)
	<hr/>
At December 31, 1997	3,313
	<hr/>
Net book value:	
At December 31, 1997	1,835
At December 31, 1996	2,021

The financial effect of writing off on consolidation certain assets capitalised in the accounts of subsidiary undertakings was to reduce the profit for the year by £596,000 (1996 : increase by £92,000)

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1996

14. DEFERRED ACQUISITION COSTS

	1997 £'000	1996 £'000
Gross and net	17,357	16,307

15. UNEXPIRED RISK RESERVE

	1997 £'000	1996 £'000
At January 1	580	-
Provision for the year	2,072	580
At December 31	2,652	580

16. EQUALISATION RESERVES

Equalisation reserves have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These reserves, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A of the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £2,129,000 (1996: £1,063,000). The movement in equalisation reserves during the year has resulted in a decrease in the general business technical result and the profit before taxation by £1,066,000 (1996: £1,063,000).

17. SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised:		
150,000,000 (1996 - 114,450,000) A ordinary shares of £1 each	150,000	114,450
10,000,000 10.5% non-cumulative redeemable preference shares of £1 each	-	10,000
13,050,000 10.15% A non-cumulative redeemable preference shares of £1 each	-	13,050
12,500,000 B zero coupon redeemable preference shares of £1 each	-	12,500
	150,000	150,000
Allotted, issued and fully paid:		
87,968,182 A ordinary shares of £1 each	87,968	42,418
10,000,000 10.5% non-cumulative redeemable preference shares of £1 each	-	10,000
13,050,000 10.15% A non-cumulative redeemable preference shares of £1 each	-	13,050
12,500,000 B zero coupon redeemable preference shares of £1 each	-	12,500
	87,968	77,968

The following shares were reclassified as A ordinary shares of £1 each on August 13, 1997:

10,000,000 10.5% non-cumulative redeemable preference shares of £1 each	-	10,000
13,050,000 10.15% A non-cumulative redeemable preference shares of £1 each	-	13,050
12,500,000 B zero coupon redeemable preference shares of £1 each	-	12,500
	-	35,550

These reclassified A ordinary shares rank pari passu in all respects with the existing A ordinary shares of the company.

On October 20, 1997 a further £10,000,000 A ordinary shares of £1 each were allotted, issued and fully paid.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

18. CREDITORS

All creditors are payable within a period of one year.

19. TAXATION

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Deferred taxation	1,056	-	1,056	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,056	-	1,056	-
	<hr/>	<hr/>	<hr/>	<hr/>

Although both the Corporation and the group made a profit for the year for tax purposes, there is no provision for current taxation in the accounts, since there is an overall recovery of taxation due for the current year and all prior years.

Deferred tax provided in the accounts and the amounts not provided are as follows:

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Potential and provided:				
Unrealised appreciation on listed investments	4,484	2,451	4,484	2,451
Capital allowances	(2,049)	(2,433)	(2,049)	(2,451)
Other timing differences	(1,379)	(18)	(1,379)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,056	-	1,056	-
	<hr/>	<hr/>	<hr/>	<hr/>
Potential and not provided:				
Capital allowances	-	(39)	-	(39)
Capital losses	-	-	-	-
Other timing differences	-	(1,947)	-	(216)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(1,986)	-	(255)
	<hr/>	<hr/>	<hr/>	<hr/>

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital	Share Premium	Profit and loss account	Goodwill Reserve	Total
	£'000	£'000	£'000	£'000	£'000
Group					
At January 1, 1996	77,968	5,182	20,944	(1,638)	102,456
Retained profit for the financial year			1,405		1,405
At December 31, 1996	77,968	5,182	22,349	(1,638)	103,861
At January 1, 1997	77,968	5,182	22,349	(1,638)	103,861
Retained loss for the financial year			(2,672)		(2,672)
Allotted share capital	10,000				10,000
Goodwill				(1,183)	(1,183)
At December 31, 1997	87,968	5,182	19,677	(2,821)	110,006
Attributable to:					
Equity interests					110,006
Company					
At January 1, 1996	77,968	5,182	19,388	-	102,538
Retained profit for the financial year			(138)		(138)
At December 31, 1996	77,968	5,182	19,250	-	102,400
At January 1, 1997	77,968	5,182	19,250	-	102,400
Retained profit for the financial year			3,662		3,662
Allotted share capital	10,000				10,000
At December 31, 1997	87,968	5,182	22,912	-	116,062
Attributable to:					
Equity interests					116,062

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

21. SEGMENTAL INFORMATION

	Personal Lines £'000	Commercial Lines £'000	Special Risks £'000	Other Business £'000	Total £'000
1997					
Gross premiums written	<u>136,833</u>	<u>34,925</u>	<u>181,476</u>	<u>-</u>	<u>353,234</u>
Net technical result	<u>(5,184)</u>	<u>4,893</u>	<u>4,735</u>	<u>33</u>	<u>4,477</u>
Net investment income on shareholders' funds					<u>7,882</u>
Profit before taxation					<u>12,359</u>
Net technical provisions	<u>255,046</u>	<u>54,021</u>	<u>36,225</u>	<u>5,892</u>	<u>351,184</u>
Unallocated net assets					<u>110,290</u>
Total net assets					<u>461,467</u>
1996					
Gross premiums written	<u>125,450</u>	<u>34,123</u>	<u>220,778</u>	<u>169</u>	<u>380,520</u>
Net technical result	<u>(9,816)</u>	<u>2,738</u>	<u>2,082</u>	<u>(412)</u>	<u>(5,408)</u>
Net investment income on shareholders' funds					<u>8,095</u>
Profit before taxation					<u>2,687</u>
Net technical provisions	<u>253,933</u>	<u>51,618</u>	<u>32,292</u>	<u>5,925</u>	<u>343,768</u>
Unallocated net assets					<u>103,996</u>
Total net assets					<u>447,764</u>

All business relates to risks underwritten in the United Kingdom.

Special Risks are principally represented by extended warranty business.

22. RELATED PARTY TRANSACTIONS

Loan to parent undertaking

The Corporation has made a loan to its immediate parent undertaking; the balance outstanding on the loan at December 31, 1997 was £19,033,000 (1996: £20,030,000) and interest earned during the year amounted to £1,534,000 (1996: £711,000). The loan is repayable on demand and bears interest at a margin in excess of Libor. Of the total loan balance outstanding at December 31, 1997, £16,000,000 (1996: £16,000,000) was secured by a Letter of Credit issued by a major European bank.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

23. CONTINUING AND DISCONTINUED OPERATIONS

The discontinued business is the run-off of a London Market treaty account which the Corporation wrote until 1983. The breakdown of the principal general business technical account figures between this discontinued business and the Corporation's continuing business is as follows:-

	Continuing £'000	Discontinued £'000	Total £'000
1997			
Gross premiums written	<u>353,234</u>	<u>-</u>	<u>353,234</u>
Earned premiums, net of reinsurance	229,682	-	229,682
Allocated investment return	22,167	340	22,507
Claims incurred, net of reinsurance	151,147	449	151,596
Other technical provisions	2,072	-	2,072
Net operating expenses	92,927	51	92,978
Equalisation reserve	<u>1,066</u>	<u>-</u>	<u>1,066</u>
Balance on the technical account	<u>4,637</u>	<u>(160)</u>	<u>4,477</u>
1996			
Gross premiums written	<u>380,518</u>	<u>2</u>	<u>380,520</u>
Earned premiums, net of reinsurance	251,807	2	251,809
Allocated investment return	21,476	385	21,861
Claims incurred, net of reinsurance	(163,516)	(828)	(164,344)
Other technical provisions	(580)	-	(580)
Net operating expenses	(113,091)	-	(113,091)
Equalisation reserve	<u>(1,063)</u>	<u>-</u>	<u>(1,063)</u>
Balance on the technical account	<u>(4,967)</u>	<u>(441)</u>	<u>(5,408)</u>

24. OPERATING LEASES

The annual commitment under operating leases is as follows :-

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Land and Buildings				
Leases expiring in less than 1 year	65	18	43	-
Leases expiring between 2 and 5 years	303	34	34	34
Leases expiring after 5 years	<u>4,178</u>	<u>4,050</u>	<u>4,159</u>	<u>3,906</u>

25. CAPITAL COMMITMENTS

There were capital commitments outstanding at December 31, 1997 of £174,000 (1996 - £117,500).

26. CONTINGENT LIABILITIES

There were no contingent liabilities at December 31, 1997 (1996 - £nil).

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

NOTES TO THE ACCOUNTS at December 31, 1997

27. PENSION COMMITMENTS

The Group operates two pension schemes both of which are funded by the payment of contributions to separately administered funds.

The contributions to the schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The contributions to the funded defined benefit scheme are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method. The results of the most recent valuation which was conducted as at December 31, 1996 were as follows:-

Main assumptions:

Rate of return on investments (% per annum)	8.5%
Rate of salary increases (% per annum)	7%
Market value of scheme's assets	£11,753,000
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	130%

28. ULTIMATE AND INTERMEDIATE PARENT UNDERTAKINGS

The ultimate parent undertaking is Skandia Insurance Company Limited (publ), a company incorporated in Sweden.

The parent undertaking of the largest, and only, group of undertakings for which group accounts are drawn up of which the company is a member is the Skandia Insurance Company Limited (publ). Copies of these accounts are available from Crown House, 145 City Road, London EC1V 1LP.

29. CONSOLIDATION IN THE GROUP FINANCIAL STATEMENTS OF HOLDING COMPANIES

The Corporation's financial statements will be consolidated in the group financial statements of the ultimate holding company.

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION PLC

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