

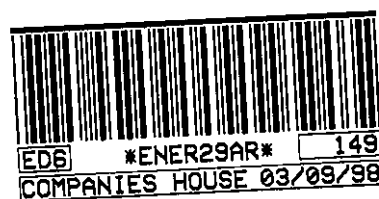
LANDMARK INSURANCE COMPANY LIMITED

Annual report for the year ended

30 November 1997

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POLICY

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Landmark Insurance Company Limited

Annual report for the year ended 30 November 1997

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Landmark Insurance Company Limited

Directors and advisers

Directors

G D Keys
K W Morris (Managing)
K J Peacock
J Portalatin
N C Walsh

Secretary

D Ogden

Registered office

120 Fenchurch Street
London
EC3M 5BP

Principal bankers

The Chase Manhattan Bank
125 London Wall
London
EC2Y 5AJ

Registered auditors

Coopers & Lybrand
1 Embankment Place
London
WC2N 6NN

Investment advisers

AIG Global Investment Corp. (Europe) Limited
Birchin Court
20 Birchin Lane
London
EC3V 9HB

Landmark Insurance Company Limited

Directors' report for the year ended 30 November 1997

The directors have pleasure in presenting their report and the audited financial statements of Landmark Insurance Company Limited for the year ended 30 November 1997.

Principal activities

The company carries on general insurance business principally in the United Kingdom.

On 3 December 1997, the company entered into a contract for the sale of the major part of its motor and household insurance business. Further information concerning this is set out in note 19 on page 19. The results of the business sold for the current and comparative periods are shown as discontinued activities in the financial statements.

Review of business

The results for the year are shown on pages 5 and 6.

The directors consider the year end financial position of the company to be satisfactory. Following the sale of the major part of the company's motor and household insurance business, the level of activity will be significantly reduced.

Dividends and transfer to reserves

The directors do not recommend the payment of a dividend for the year (1996: £Nil). The loss for the year of £2,432,000 (1996: £8,101,000) has been added to the accumulated deficit.

Directors and directors' interests

The directors of the company in the year ended 30 November 1997 and their interests in the shares of the company were:

	Interest as nominee shareholder only in shares of the company at	
	30 November 1997	1 December 1996 (or on appointment if later)
G D Keys (appointed 22 January 1997)	1	-
K W Morris	1	-
K J Peacock	1	1
J A Portalatin	1	1
N C Walsh	3	3

J Tissington resigned as a director on 17 October 1997.

Landmark Insurance Company Limited

Directors' report for the year ended 30 November 1997 (continued)

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 30 November 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Employees

The company is committed to employee involvement. Staff are provided with information on matters concerning them by way of in-house publications, circulars, notices, training schemes, meetings and reports dealing with the financial and underwriting performance of the company and its parent.

The continuing policy of the company is to make available to the disabled, on recruitment or subsequently, the fullest opportunity for employment, training, career development and promotion.

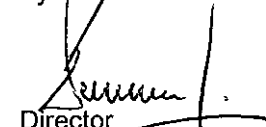
Creditor payment policy

It is the company's policy to pay creditors when they fall due for payment. Terms of payment are settled with suppliers when agreeing the terms of each transaction and it is the company's policy to abide by these terms, provided that the suppliers also comply with the relevant terms and conditions.

Auditors

A resolution to reappoint Coopers & Lybrand as the company's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board



Director
29 May 1998

Report of the auditors to the members of Landmark Insurance Company Limited

We have audited the financial statements on pages 5 to 19.

Respective responsibilities of the directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

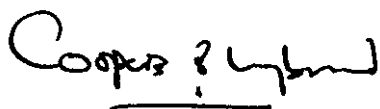
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation provision

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 30 November 1997, and the effect of the movement in the provision during the year on the balance on the general business technical account and loss on ordinary activities before taxation, are disclosed in notes 1 and 13 to the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 November 1997 and of its loss and total recognised losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors
London
29 May 1998

Landmark Insurance Company Limited

Profit and loss account Technical account - general business for the year ended 30 November 1997

		Continuing activities	1997 Discontinued activities	Total	Continuing activities	1996 Discontinued activities	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance							
Gross premiums written		95,881	56,490	152,371	93,952	51,917	145,869
Outward reinsurance premiums		(49,244)	(27,154)	(76,398)	(33,948)	(23,027)	(56,975)
Net premiums written	2A	<u>46,637</u>	<u>29,336</u>	<u>75,973</u>	<u>60,004</u>	<u>28,890</u>	<u>88,894</u>
Change in the gross provision for unearned premiums		(32,841)	(1,864)	(34,705)	(60,600)	5,130	(55,470)
Change in the provision for unearned premiums, reinsurers' share		<u>24,008</u>	<u>1,005</u>	<u>25,013</u>	<u>23,971</u>	<u>(2,940)</u>	<u>21,031</u>
Change in the net provision for unearned premiums		(8,833)	(859)	(9,692)	(36,629)	2,190	(34,439)
Earned premiums, net of reinsurance	2B	<u>37,804</u>	<u>28,477</u>	<u>66,281</u>	<u>23,375</u>	<u>31,080</u>	<u>54,455</u>
Claims incurred, net of reinsurance							
Claims paid							
Gross amount		20,310	40,256	60,566	11,011	40,403	51,414
Reinsurers' share		(9,471)	(18,182)	(27,653)	(3,120)	(18,894)	(22,014)
Net claims paid		<u>10,839</u>	<u>22,074</u>	<u>32,913</u>	<u>7,891</u>	<u>21,509</u>	<u>29,400</u>
Change in the provision for claims							
Gross amount		1,442	10,683	12,125	(1,395)	11,101	9,706
Reinsurers' share		(1,808)	(4,722)	(6,530)	(40)	(5,072)	(5,112)
Change in the net provision for claims		<u>(366)</u>	<u>5,961</u>	<u>5,595</u>	<u>(1,435)</u>	<u>6,029</u>	<u>4,594</u>
Claims incurred net of reinsurance	2C	<u>(10,473)</u>	<u>(28,035)</u>	<u>(38,508)</u>	<u>(6,456)</u>	<u>(27,538)</u>	<u>(33,994)</u>
Change in other technical provisions		183	-	183	(193)	735	542
Net operating expenses							
Loss arising on assignment of lease	3	-	-	-	-	(1,718)	(1,718)
Reinsurers' contribution to marketing costs	3	-	2,784	2,784	-	3,510	3,510
Supplementary depreciation	4	-	(1,511)	(1,511)	-	-	-
Other net operating expenses	3	(28,106)	(8,006)	(36,112)	(19,137)	(16,464)	(35,601)
		<u>(592)</u>	<u>(6,291)</u>	<u>(6,883)</u>	<u>(2,411)</u>	<u>(10,395)</u>	<u>(12,806)</u>
Change in the equalisation provisions	13	<u>(503)</u>	-	<u>(503)</u>	-	-	-
Balance on the general business technical account		<u>(1,095)</u>	<u>(6,291)</u>	<u>(7,386)</u>	<u>(2,411)</u>	<u>(10,395)</u>	<u>(12,806)</u>

Landmark Insurance Company Limited

Profit and loss account Non-technical account for the year ended 30 November 1997

		Continuing activities	1997 Discontinued activities	Total	Continuing activities	1996 Discontinued activities	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Balance on the general business technical account		(1,095)	(6,291)	(7,386)	(2,411)	(10,395)	(12,806)
Investment income							
Income from other investments		1,679	3,138	4,817	1,337	3,123	4,460
Gains/(losses) on realisation of investments		94	175	269	164	179	343
Investment expenses and charges		(46)	(86)	(132)	(47)	(51)	(98)
Loss on ordinary activities before tax		632	(3,064)	(2,432)	(957)	(7,144)	(8,101)
Tax on loss on ordinary activities	7	-	-	-	-	-	-
Loss for the financial year	16	632	(3,064)	(2,432)	(957)	(7,144)	(8,101)

Statement of total recognised gains and losses

	1997 £'000	1996 £'000
Loss for the financial year	(2,432)	(8,101)
Movement on investment reserve	93	40
Total recognised losses relating to the year	(2,339)	(8,061)

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Landmark Insurance Company Limited

Balance sheet as at 30 November 1997

	Notes	1997 £'000	1996 £'000
<u>ASSETS</u>			
Investments	8	70,608	66,813
Reinsurers' share of technical provisions			
Provision for unearned premiums		99,845	74,832
Claims outstanding		23,040	16,510
		<u>122,885</u>	<u>91,342</u>
Debtors	9	31,554	26,501
Other assets			
Tangible assets	10	12	2,588
Cash at bank and in hand		9,416	1,647
		<u>9,428</u>	<u>4,235</u>
Prepayments and accrued income			
Deferred acquisition costs		77,260	69,891
Other prepayments and accrued income		3,385	4,535
		<u>80,645</u>	<u>74,426</u>
Total assets		<u><u>315,120</u></u>	<u><u>263,317</u></u>
<u>LIABILITIES</u>			
Capital and reserves			
Called up share capital	15	57,772	57,772
Investment reserve	16	1,335	1,242
Profit and loss account	16	(28,266)	(25,834)
Shareholders' funds - equity interests	17	<u>30,841</u>	<u>33,180</u>
Technical provisions			
Provision for unearned premiums		208,161	173,456
Claims outstanding		54,844	42,719
Other technical provisions			
Provision for unexpired risks		-	183
Equalisation provisions	13	503	-
		<u>263,508</u>	<u>216,358</u>
Provision for other risks and charges	14	1,358	684
Creditors	12	<u>14,871</u>	<u>5,392</u>
Accruals and deferred income		4,542	7,703
Total liabilities		<u><u>315,120</u></u>	<u><u>263,317</u></u>

The financial statements on pages 5 to 19 were approved by the board of directors on 29 May 1998 and signed on its behalf by:



Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and with the guidance on accounting for insurance business issued by the Association of British Insurers in December 1995. The financial statements have been prepared in accordance with section 255 of and schedule 9A to the Companies Act 1985.

The results for both the current and the comparative period of those parts of the company's business which were sold after the year end are shown separately under the heading discontinued activities.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention modified by the revaluation of certain assets.

Results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance as follows:

- (a) Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued.
- (b) Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. The period of cover in respect of certain pecuniary loss policies does not commence until one year after inception. Accordingly, no earned premiums are recognised during the first year. In the opinion of the directors the provision for unearned premiums is not materially different from one based on the pattern of incidence of risk.
- (c) Provision for unexpired risks is made where expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums, after taking account of future investment income.
- (d) Acquisition costs are deferred over the period in which the related premiums are earned. The nature of acquisition costs so deferred differs according to the distribution channel through which policies are sold. For direct business, costs deferred relate to direct marketing expenditure and expenses associated with policy issuance. For other business, costs deferred relate to commission charges from intermediaries.
- (e) Claims incurred comprises claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Provision for the cost of claims incurred but not reported until after the balance sheet date is made by the directors for each type of business transacted by the company on the basis of the best information available at the time, including potential outstanding loss advices and experience of development of similar claims.

- (f) Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1996 and associated regulations.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

1 Accounting policies (continued)

Tangible assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of the tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Motor vehicles	25
Leasehold premises - improvements	10
Office furniture, equipment and computer software	10 - 33.33

When there is a permanent diminution in the value of a fixed assets, supplementary depreciation is provided to reduce the carrying value of fixed assets to the estimated recoverable amount.

Investments

Investments in subsidiary companies are stated at cost. As none of the subsidiaries have traded since incorporation and none are material to these financial statements, consolidated group accounts have not been prepared.

Other investments, other than deposits with credit institutions, are stated in the balance sheet at the quoted middle market value ruling on the balance sheet date, any surplus or deficit on revaluation being dealt with through the investment reserve.

Investment income and realised gains and losses on investments

Income from investments is included, together with the related tax credit, in the profit and loss account, non-technical account on an accrual basis.

Realised gains and losses on investments are calculated with reference to original cost and are included within investment income.

Foreign exchange

Assets and liabilities in foreign currencies are translated into sterling at the middle market rates of exchange ruling on the balance sheet date. Transactions during the year are translated into sterling using the rate of exchange prevailing at the time of the transaction with the exchange gains and losses included in either the profit and loss account, technical account or the profit and loss account, non-technical account, according to transaction type.

Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

1 Accounting policies (continued)

Deferred tax

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

Pensions

The company participates in both a defined benefit and a defined contribution pension scheme. The company's contributions for the year in respect of the defined contribution scheme are taken directly to the profit and loss account. Contributions with respect to the defined benefits scheme are charged to the profit and loss account so as to spread the cost of pensions over employee's working lives. The effect of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. The company provides no other post retirement benefits to its employees.

Cash flow statement

Under paragraph 5(a) of Financial Reporting Standard Number 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement and therefore no such statement is included in these financial statements.

Loss adjustment expenses

Loss adjustment expenses of £1,790,000 were included in other operating expenses in the technical account - general business for the year ended 30 November 1996. This amount has been reclassified and included in gross paid claims in the comparative amounts shown in these financial statements. Loss adjustment expenses of £1,783,000 are included in paid claims for the year ended 30 November 1997.

2 Segmental information

A Written premiums

	Gross	1997 Reinsur- ance ceded	Net	Gross	1996 Reinsur- ance ceded	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Discontinued activities						
Direct insurance						
Motor	33,742	16,684	17,058	30,576	14,071	16,505
Property	22,748	10,470	12,278	21,341	8,956	12,385
Total discontinued activities	56,490	27,154	29,336	51,917	23,027	28,890
Continuing activities						
Direct insurance						
Motor	2,936	1,454	1,482	3,966	416	3,550
Property	832	356	476	886	620	266
Pecuniary loss	90,101	47,434	42,667	86,170	32,912	53,258
	93,869	49,244	44,625	91,022	33,948	57,074
Reinsurance acceptances	2,012	-	2,012	2,930	-	2,930
Total continuing activities	95,881	49,244	46,637	93,952	33,948	60,004
Total	152,371	76,398	75,973	145,869	56,975	88,894

With the exception of reinsurance acceptances which relate to pecuniary loss business written in Israel, all business is written in the United Kingdom. Premiums are stated net of insurance premium taxes.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

2 Segmental information (continued)

B Earned premiums

	Gross	1997 Reinsur- ance ceded	Net	Gross	1996 Reinsur- ance ceded	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Discontinued activities						
Direct insurance						
Motor	31,705	15,597	16,108	38,870	18,292	20,578
Property	22,921	10,552	12,369	18,177	7,675	10,502
Total discontinued activities	54,626	26,149	28,477	57,047	25,967	31,080
Continuing activities						
Direct insurance						
Motor	3,043	1,506	1,537	5,744	1,292	4,452
Property	966	417	549	1,065	705	360
Pecuniary loss	57,848	23,313	34,535	25,023	7,980	17,043
	61,857	25,236	36,621	31,832	9,977	21,855
Reinsurance acceptances	1,183	-	1,183	1,520	-	1,520
Total continuing activities	63,040	25,236	37,804	33,352	9,977	23,375
Total	117,666	51,385	66,281	90,399	35,944	54,455

C Incurred claims

	Gross	1997 Reinsur- ance ceded	Net	Gross	1996 Reinsur- ance ceded	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Discontinued activities						
Direct insurance						
Motor	34,329	16,257	18,072	34,163	16,666	17,497
Property	16,610	6,647	9,963	17,341	7,300	10,041
Total discontinued activities	50,939	22,904	28,035	51,504	23,966	27,538
Continuing activities						
Direct insurance						
Motor	5,091	2,037	3,054	773	350	423
Property	2,016	925	1,091	1,528	626	902
Pecuniary loss	13,463	8,317	5,146	6,403	2,184	4,219
	20,570	11,279	9,291	8,704	3,160	5,544
Reinsurance acceptances	1,182	-	1,182	912	-	912
Total continuing activities	21,752	11,279	10,473	9,616	3,160	6,456
Total	72,691	34,183	38,508	61,120	27,126	33,994

Movement in prior year technical provisions

Net incurred claims for the year relating to the discontinued motor business include £4,558,000 in respect of a difference between the technical provision made at the beginning of the year for outstanding claims incurred in previous years and payments made during the year in respect of such claims plus the technical provision shown at the end of the year for such claims.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

2 Segmental information (continued)

D Operating expenses

	Gross	1997 Reinsur- ance ceded	Net	Gross	1996 Reinsur- ance ceded	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Discontinued activities						
Direct insurance						
Motor	12,004	6,867	5,137	17,912	10,337	7,575
Property	8,892	4,512	4,380	13,324	4,435	8,889
Total discontinued activities	20,896	11,379	9,517	31,236	14,772	16,464
Continuing activities						
Direct insurance						
Motor	415	582	(167)	(613)	1,706	(2,319)
Property	260	184	76	2,280	(1,257)	3,537
Pecuniary loss	28,435	772	27,663	18,204	890	17,314
	29,110	1,538	27,572	19,871	1,339	18,532
Reinsurance acceptances	534	-	534	605	-	605
Total continuing activities	29,644	1,538	28,106	20,476	1,339	19,137
Total	50,540	12,917	37,623	51,712	16,111	35,601

Further details of operating expenses are provided in Note 3.

E Loss on ordinary activities before tax

	Gross	1997 Reinsur- ance ceded	Net	Gross	1996 Reinsur- ance ceded	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Discontinued activities						
Direct insurance						
Motor	(10,141)	7,527	(2,614)	(9,691)	8,711	(980)
Property	(1,057)	607	(450)	(10,224)	4,060	(6,164)
Total discontinued activities	(11,198)	8,134	(3,064)	(19,915)	12,771	(7,144)
Continuing activities						
Direct insurance						
Motor	(1,463)	1,113	(350)	5,964	764	6,728
Property	(854)	692	(162)	(1,817)	(1,336)	(3,153)
Pecuniary loss	15,902	(14,224)	1,678	371	(4,906)	(4,535)
	13,585	(12,419)	1,166	4,518	(5,478)	(960)
Reinsurance acceptances	(534)	-	(534)	3	-	3
Total continuing activities	13,051	(12,419)	632	4,521	(5,478)	(957)
Total	1,853	(4,285)	(2,432)	(15,394)	7,293	(8,101)

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

3 Net operating expenses

	1997			1996		
	Continuing activities	Discontinued activities	Total	Continuing activities	Discontinued activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Acquisition costs	(37,531)	(6,563)	(44,094)	(48,664)	(8,547)	(57,211)
Change in deferred acquisition costs	9,352	(671)	8,681	30,152	(4,216)	25,936
Administrative expenses	(1,465)	(13,662)	(15,127)	(1,821)	(15,106)	(16,927)
	<u>(29,644)</u>	<u>(20,896)</u>	<u>(50,540)</u>	<u>(20,333)</u>	<u>(27,869)</u>	<u>(48,202)</u>
Reinsurance commissions receivable	2,286	11,943	14,229	1,326	10,152	11,478
Change in deferred reinsurance commissions	(748)	(564)	(1,312)	(130)	1,253	1,123
	<u>1,538</u>	<u>11,379</u>	<u>12,917</u>	<u>1,196</u>	<u>11,405</u>	<u>12,601</u>
	(28,106)	(9,517)	(37,623)	(19,137)	(16,464)	(35,601)
Loss arising from assignment of lease	-	-	-	-	(1,718)	(1,718)
Reinsurer's contribution to marketing costs	-	2,784	2,784	-	3,510	3,510
Total net operating expenses	<u>(28,106)</u>	<u>(6,733)</u>	<u>(34,839)</u>	<u>(19,137)</u>	<u>(14,672)</u>	<u>(33,809)</u>

During 1997 the company assigned its interest in a leasehold property. The loss of £1,718,000 arising on this transaction was recognised in the profit and loss account technical account for the year ended 30 November 1996.

Total commissions payable to brokers and other intermediaries during the year was £39,387,000 (1996: £49,635,000).

Net operating expenses for the year have been reduced by a contribution from reinsurers of £2,784,000 towards marketing costs incurred by the company in the year ended 30 November 1996 (1996: £3,510,000 towards marketing costs incurred by the company in the years ended 30 November 1994 and 30 November 1995). This amount has been apportioned between direct motor and direct property business in line with the marketing costs incurred.

4 Supplementary depreciation

Supplementary depreciation of £1,511,000 has been charged in order to reduce the carrying value of certain fixed assets used in the company's motor and household business to their estimated recoverable amounts.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

5 Directors' emoluments

	1997 £'000	1996 £'000
Aggregate emoluments	194	215
Compensation for loss of office	-	45

Two directors are accruing benefits under the company's defined benefits scheme.

Two directors received emoluments from the company during the year (1996: 4). All the other directors are paid by other group companies for their contribution to the American International Group as a whole. Except as disclosed above, directors' emoluments are not recharged to the company. Other than two directors who spend the majority of their time on the affairs of the company, the directors' roles are largely of a non-executive nature. As a result, other than for these two directors, directors' emoluments paid by other group companies are deemed to be wholly attributable to their services to other group companies and, accordingly no amounts are shown in the above analysis.

6 Loss on ordinary activities before tax

	1997 £'000	1996 £'000
Loss on ordinary activities before tax is stated after charging:		
Depreciation charge for the year:		
recurring	1,165	1,355
supplementary	1,511	85
Auditors' remuneration for:		
audit	94	106
other services	39	9
Operating lease rentals:		
land and buildings	358	1,254
office equipment	<u>72</u>	<u>14</u>

Rental costs in respect of the company's premises are accrued over the life of the leases. At 30 November 1997 the company had commitments of £501,000 (1996: £1,512,000) in the year to 30 November 1998 in respect of operating leases which expire after more than five years.

7 Tax on loss on ordinary activities

	1997 £'000	1996 £'000
UK corporation tax		
Current	-	-
Deferred	-	-
	<u>-</u>	<u>-</u>

No account has been taken of the deferred tax asset arising from accumulated trading losses available to be offset against future trading profits. At 30 November 1997 the deferred tax asset amounted to approximately £10,000,000 (1996: £8,000,000).

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

8 Investments

	Market value £'000	1997 Cost £'000	Market value £'000	1996 Cost £'000
Investments in group undertakings and participating interests	-	-	-	-
Other financial investments				
Shares and other variable yield securities and units in unit trusts				
Shares in open ended investment companies	652	560	610	560
Debt securities and other fixed income securities				
UK government fixed interest securities	14,996	14,870	10,014	9,728
Other fixed interest securities	54,960	53,843	56,180	55,274
Deposits with credit institutions	-	-	9	9
	<u>70,608</u>	<u>69,273</u>	<u>66,813</u>	<u>65,571</u>

The UK government fixed interest bonds and the shares in open ended investment companies included above are listed investments.

Deposits with credit institutions are time deposits which represent liquid investments.

Investments in subsidiary undertakings include the following companies which are wholly owned subsidiaries of Landmark Insurance Company Limited:

- Landmark Express Limited
- Landmark Protect Limited
- Auto Elite Limited
- Landmark Programmes Limited
- Landmark Select Limited

All the above companies are registered in England and Wales and have not traded since incorporation.

9 Debtors

	1997 £'000	1996 £'000
Debtors arising out of direct insurance operations		
Due from policyholders	11,139	10,573
Due from intermediaries	8,641	5,584
Due from fellow subsidiaries	9,857	6,930
Other debtors - tax recoverable	1,917	3,414
	<u>31,554</u>	<u>26,501</u>

£2,098,000 (1996: £4,196,000) included within amounts due from fellow subsidiaries is receivable more than one year after the balance sheet date.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

10 Tangible assets

	Motor vehicles	Fixtures & fittings	Computer equipment and software	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 December 1996	192	3,984	3,424	7,600
Additions	-	106	29	135
Disposals	(165)	(1,162)	-	(1,327)
At 30 November 1997	<u>27</u>	<u>2,928</u>	<u>3,453</u>	<u>6,408</u>
Depreciation				
At 1 December 1996	111	2,311	2,590	5,012
Charge for year	34	1,779	863	2,676
Disposals	(130)	(1,162)	-	(1,292)
At 30 November 1997	<u>15</u>	<u>2,928</u>	<u>3,453</u>	<u>6,396</u>
Net book value at 30 November 1997	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>
Net book value at 30 November 1996	<u>81</u>	<u>1,673</u>	<u>834</u>	<u>2,588</u>

11 Employee information

The average number of persons (including directors) employed by the company during the year is analysed below:

	1997 Number	1996 Number
Direct selling	201	212
Administration	56	62
Claims handling	88	84
Total	<u>345</u>	<u>358</u>

Total remuneration paid to employees during the year was:

	1997 £'000	1996 £'000
Wages and salaries	5,464	6,313
Social security	460	525
Other pension costs	298	223
	<u>6,222</u>	<u>7,061</u>

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

12 Creditors

	1997 £'000	1996 £'000
Amounts owed to credit institutions	252	354
Creditors arising out of direct insurance operations	14,169	4,493
Due to fellow subsidiaries	450	545
	<u>14,871</u>	<u>5,392</u>

All amounts included in creditors are payable within one year.

13 Equalisation provision

Equalisation reserves are 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 to 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.

Movements in equalisation provisions during the year were as follows:

	£'000
Balance at 1 December 1996	-
Net charge to the general business technical account	503
Balance at 30 November 1997	<u>503</u>

14 Provisions for other risks and charges

	Pension obligations £'000	Policyholders' Protection Board levy £'000	Total £'000
As at 1 December 1996	156	528	684
Profit and loss account	-	674	674
As at 30 November 1997	<u>156</u>	<u>1,202</u>	<u>1,358</u>

15 Called up share capital

	1997 Number '000	1997 £'000	1996 Number '000	1996 £'000
Ordinary shares of £1 each				
Issued and fully paid up	57,772	57,772	57,772	57,772
Authorised	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

16 Reserves

	Investment reserve	Profit and loss account
	£'000	£'000
At 1 December 1996	1,242	(25,834)
Change in unrealised gain on investments	93	-
Loss for the financial year	-	(2,432)
At 30 November 1997	<u>1,335</u>	<u>(28,266)</u>

17 Reconciliation of movement in equity shareholders' funds

	1997 £'000	1996 £'000
Opening equity shareholder's funds	33,180	31,741
Share capital issued - cash consideration	-	9,500
Change in unrealised gain on investments	93	40
Loss for the financial year	(2,432)	(8,101)
Closing equity shareholders' funds	<u>30,841</u>	<u>33,180</u>

18 Pension arrangements

The company operates a defined benefit scheme in association with other group companies operating in the United Kingdom, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with a fund management company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. In the intervening years the actuary reviews the continuing appropriateness of the rates.

A full valuation of the scheme was carried out as at 6 April 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment and the rates of increase in salaries. It was assumed that the investment returns would be 9% per annum and that salary increases would average 6% per annum.

The valuation as at 6 April 1995 showed that the actuarial value of the scheme's assets including those relating to employees of other participating companies was £17,217,000 and that this represented 115% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The company is contributing to the scheme at a rate of 6% of pensionable salaries. The employees make no contributions.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund. There were no outstanding contributions at the balance sheet date.

The pension charge for the year was £298,000 (1996: £223,000). An amount of £156,000 (1996: £156,000) is included in provisions which represents the accumulated pension cost over the payment of contributions to the pension scheme.

Landmark Insurance Company Limited

Notes to the financial statements for the year ended 30 November 1997 (continued)

19 Post balance sheet events

On 3 December 1997, the company entered into a contract for the sale of the major part of its motor and household insurance business. Following the granting of consent by The Secretary of State, on 28 February 1998 net liabilities relating to that part of this business written prior to 30 November 1997 of £43,902,000 were transferred to the purchaser in return for a cash payment by the company of £43,630,000. On the same day, the company received £58,500,000 in respect of the goodwill associated with the business sold. Subject to the consent of The Secretary of State, a transfer of liabilities in respect of business written between 1 December 1997 and 28 February 1998 will occur on 27 June 1998. The amount to be paid by the company in respect of this second transfer will be equal to the book value of the liabilities transferred.

An estimated pro forma balance sheet as at 30 November 1997 showing the effect of this sale is set out below:

	Balance sheet as reported £'000	Cash flow on business to 28 February 1998 £'000	Goodwill, corporation tax and costs £'000	Portfolio transfer £'000	Pro forma balance sheet £'000
Investments	70,608				70,608
Reinsurers' share of technical provisions	122,896				122,896
Debtors	31,554	(6,597)		(5,010)	19,947
Tangible assets	12				12
Cash at bank and in hand	9,416	(6,337)	58,500	(43,630)	17,949
Prepayments and accrued income	80,634			(3,514)	77,120
Total assets	315,120	(12,934)	58,500	(52,154)	308,532
Capital and reserves	30,841		35,228	272	66,341
Technical provisions	263,006	(12,934)		(52,085)	197,987
Other technical provisions	502				502
Provisions for other risks and charges	1,358				1,358
Creditors	14,871		23,272	(341)	37,802
Accruals	4,542				4,542
Total liabilities	315,120	(12,934)	58,500	(52,154)	308,532

20 Ultimate parent company and related party transactions

The company is a wholly owned subsidiary of American International Underwriters Overseas Limited. The ultimate parent company is American International Group, Inc., a company incorporated in the State of Delaware, United States of America. Copies of the ultimate parent company's consolidated financial statements may be obtained from The Secretary, AIG Europe (UK) Limited, 3rd Floor, Ship Canal House, King Street, Manchester, M2 4WU.

The ultimate parent company has confirmed continuing financial support for the company.

There have been no material transactions with directors or other officers during the year, requiring disclosure under Financial Reporting Standard Number 8.

As consolidated accounts are publicly available, the company has taken advantage of the exemption from the requirement to disclose transactions with related parties who are 90% or more owned within the same group.