

THE NORTHERN ASSURANCE COMPANY LIMITEDREPORT AND ACCOUNTSDIRECTORS' REPORT

The directors present their Report and Accounts of the Company for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The principal activity of the Company has not changed during the year and continues to comprise the transaction of general insurance and life and annuity assurance through its branches in the UK and overseas. The Non-Participation Life and Annuity Fund writes unit-linked business from which the shareholders derive a management charge for administration, and policyholders' benefits are principally determined by investment performance. Except for this, no new business has been written in the Non-Participation Life and Annuity Fund in recent years, apart from the acceptance of new participants and increases in sums assured within existing group schemes and treaties of reinsurance with fellow subsidiaries. The directors consider that the Company's activities will continue unchanged in the foreseeable future.

RESULTS AND DIVIDEND

The results for the year are shown on pages 3 to 5 and arise from continuing operations. The directors consider the results and the Company's financial position to be satisfactory. The directors, having declared an interim dividend of £87m (1995 £164.3m), do not recommend the payment of any further dividend for the year.

DIRECTORS

The directors in office during the year were as follows:

Mr J G T Carter  
Mr P J Foster  
Mr K N Grant  
Mr D I W Reynolds  
Mr P G Ward  
Mr A B Wyand

DIRECTORS' INTERESTS

The directors of the Company who held office at 31 December 1996 had the following interests in the shares of Commercial Union Group companies:

Commercial Union plcOrdinary Shares of 25p each

	1 January 1996		Options granted during the year	31 December 1996	
	Shareholdings	Share Options		Shareholdings	Share Options
K N Grant	1,859	23,105	4,410	2,794	27,515
D I W Reynolds	8,506	72,201	8,035	10,226	80,236

Neither of the above directors exercised any options during the year.

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THE NORTHERN ASSURANCE COMPANY LIMITEDDIRECTORS' REPORT (continued)DIRECTORS' INTERESTS (continued)

Messrs Carter, Foster, Ward and Wyand are directors of the Company's ultimate holding company and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802) are not required to disclose their interests in the Company's accounts. Their interests can be found in the Report and Accounts of Commercial Union plc.

FINANCIAL REPORTING STANDARD 8 'RELATED PARTY DISCLOSURES' ("FRS8")

There have been other transactions in the normal course of business with directors or other officers during the year. None of these transactions is material and therefore no disclosure is required under FRS8.

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 those terms, provided that the suppliers also comply with all relevant terms and conditions.

Approved and signed on behalf of the Board



K N GRANT  
Secretary

30 June 1997

Registered office: St. Helen's, 1 Undershaft, London, EC3P 3DQ

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**Profit and loss account - technical account-general business**  
**For the year ended 31 December 1996**

	1996		1995
	£'000	£'000	£'000
Gross premiums written	112,438		126,673
Outward reinsurance premiums	(33,263)		(43,793)
Net premiums written (notes 1b & 20)	<u>79,175</u>		<u>82,880</u>
Change in the provision for unearned premiums			
- gross amount	3,461		8,109
- reinsurers' share	(348)		5,122
	<u>3,113</u>		<u>13,231</u>
Earned premiums, net of reinsurance	<u>82,288</u>		<u>96,111</u>
Allocated investment return transferred from the non-technical account (note 1f)	12,162		26,024
Claims paid			
- gross amount	(82,362)	(95,488)	
- reinsurers' share	<u>23,918</u>	<u>24,322</u>	
	(58,444)		(71,166)
Change in the provision for claims			
- gross amount	625	(12,918)	
- reinsurers' share	<u>1,939</u>	<u>13,957</u>	
	2,564		1,039
Claims incurred, net of reinsurance (note 1c)	<u>(55,880)</u>		<u>(70,127)</u>
Net operating expenses (note 3)	<u>(25,996)</u>		<u>(26,849)</u>
General insurance operating result	12,574		25,159
Change in the equalisation provision (notes 1n & 17)	<u>(1,194)</u>		<u>-</u>
<b>Balance on the technical account - general business</b>	<u><u>11,380</u></u>		<u><u>25,159</u></u>

The notes on pages 9 to 21 are an integral part of these accounts. The Auditors' report is on page 22.

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**Profit and loss account - technical account-long term business**  
**For the year ended 31 December 1996**

	Non- participation life and annuity fund	Variable annuity fund	Total 1996	Non- participation life and annuity fund	Variable annuity fund	Total 1995
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	109,466	1,176	110,642	120,949	897	121,846
Outward reinsurance premiums	(567)	-	(567)	(498)	-	(498)
Earned premiums, net of reinsurance (note 1b)	108,899	1,176	110,075	120,451	897	121,348
Investment income (notes 1f & 2)	121,806	33,351	155,157	82,672	19,186	101,858
Unrealised gains/(losses) on investments (notes 1i & 2)	22,333	(4,967)	17,366	105,508	15,864	121,372
Claims paid						
- gross amount	(93,341)	(25,547)	(118,888)	(88,837)	(22,824)	(111,661)
- reinsurers' share	413	-	413	203	-	203
	(92,928)	(25,547)	(118,475)	(88,634)	(22,824)	(111,458)
Change in the provision for claims						
- gross amount	(576)	(219)	(795)	342	(53)	289
- reinsurers' share	86	-	86	-	-	-
	(490)	(219)	(709)	342	(53)	289
Claims incurred, net of reinsurance (note 1c)	(93,418)	(25,766)	(119,184)	(88,292)	(22,877)	(111,169)
Changes in other technical provisions, net of reinsurance (note 1o)						
Long term business provision						
- gross amount	11,757	-	11,757	(28,122)	-	(28,122)
- reinsurers' share	7	-	7	458	-	458
	11,764	-	11,764	(27,664)	-	(27,664)
Technical provision for linked liabilities, net of reinsurance	(116,166)	(2,727)	(118,893)	(134,861)	(12,003)	(146,864)
	(104,402)	(2,727)	(107,129)	(162,525)	(12,003)	(174,528)
Net operating expenses (note 3)	(10,666)	(148)	(10,814)	(12,583)	(164)	(12,747)
Investment expenses and charges (note 2)	(1,058)	(328)	(1,386)	(1,285)	(450)	(1,735)
Tax charge attributable to long term business (notes 4b & 1q)	(17,139)	(14)	(17,153)	(12,058)	(103)	(12,161)
Transfer to the fund for future appropriations (note 1p)	(11,355)	-	(11,355)	(13,888)	-	(13,888)
<b>Balance on the technical account - long term business</b>	<b>15,000</b>	<b>577</b>	<b>15,577</b>	<b>18,000</b>	<b>350</b>	<b>18,350</b>

The notes on pages 9 to 21 are an integral part of these accounts. The Auditors' report is on page 22.

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**Profit and loss account - non-technical account**  
**For the year ended 31 December 1996**

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
General insurance operating result	<u>12,574</u>	<u>25,159</u>
Change in the equalisation provision (notes 1n & 17)	<u>(1,194)</u>	<u>-</u>
Balance on general business technical account	<b>11,380</b>	25,159
Balance on long term business technical account	<b>15,577</b>	18,350
Taxation credit attributable to balance on the long term business technical account (note 1q)	<u>7,388</u>	<u>8,866</u>
Shareholders' pre-tax profit from long term business	<b>22,965</b>	27,216
Investment income (notes 1f & 2)	<b>92,136</b>	163,997
Investment expenses and charges (notes 1f & 2)	<b>(637)</b>	(341)
Allocated investment return transferred to the general business technical account (note 1f)	<u>(12,162)</u>	<u>(26,024)</u>
Investment return retained in the non-technical account	<u><b>79,337</b></u>	<u>137,632</u>
Profit on ordinary activities before taxation comprising:		
Operating profit	<b>112,826</b>	90,717
Change in the equalisation provision	<b>(1,194)</b>	-
Realised investment gains	<u><b>2,050</b></u>	<u>99,290</u>
	<b>113,682</b>	190,007
Tax on profit on ordinary activities (notes 1q & 4a)		
Operating profit	<b>(26,548)</b>	(24,041)
Other	<u><b>(415)</b></u>	<u>(1,624)</u>
	<u><b>(26,963)</b></u>	<u>(25,665)</u>
Profit for the financial year (note 1a)	<b>86,719</b>	164,342
Dividend payable	<b>(87,000)</b>	(164,300)
<b>Retained (loss)/profit</b>	<u><u><b>(281)</b></u></u>	<u><u>42</u></u>

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**THE NORTHERN ASSURANCE COMPANY LIMITED**

**Statement of total recognised gains and losses**  
**For the year ended 31 December 1996**

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial year	<b>86,719</b>	164,342
Movements in revaluation reserve after taxation (note 13b)	<b>46,079</b>	(5,208)
Total recognised gains and losses arising in the year	<b>132,798</b>	159,134

**Reconciliation of movements in equity shareholders' funds**  
**For the year ended 31 December 1996**

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 January	<b>1,448,643</b>	511,553
Total recognised gains and losses arising in the year	<b>132,798</b>	159,134
Dividends	<b>(87,000)</b>	(164,300)
Increase in capital	-	941,348
Goodwill and other movements	-	908
Balance at 31 December	<b>1,494,441</b>	1,448,643

The notes on pages 9 to 21 are an integral part of these accounts. The Auditors' report is on page 22.

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**Balance sheet**

**At 31 December 1996**

	<u>Long term business</u>		<u>General</u>		
	<u>Non-</u>	<u>Variable</u>	<u>business</u>		
	<u>participation</u>	<u>annuity</u>	<u>and other</u>	<b>Total</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>1996</b>	<b>1995</b>
				<b>£'000</b>	<b>£'000</b>
<b>Assets</b>					
Investments (note 1i)					
Land and buildings (note 8)	-	-	4,433	4,433	4,126
Investments in Group undertakings and participating interests (note 9)	6,214	-	406,379	412,593	369,171
Loans to Group undertakings (note 9f)	-	-	816,958	816,958	968,379
Other financial investments (note 10)	287,489	-	114,451	401,940	397,900
Valuation of in-force long term business (note 1k)	-	-	153,400	153,400	149,400
Deposits with ceding undertakings	-	-	821	821	1,195
	293,703	-	1,496,442	1,790,145	1,890,171
Assets held to cover linked liabilities	1,045,149	181,581	-	1,226,730	1,107,837
Reinsurers' share of technical provisions					
Provision for unearned premiums (note 1b)	-	-	12,037	12,037	14,677
Long term business provision (note 1o)	1,490	-	-	1,490	1,483
Claims outstanding (note 1c)	101	-	45,840	45,941	45,999
	1,591	-	57,877	59,468	62,159
Debtors					
Debtors arising out of direct insurance operations (note 11)	1,660	-	42,660	44,320	34,994
Debtors arising out of reinsurance operations	146	-	16,453	16,599	17,167
Amounts owed by parent company and fellow subsidiary undertakings	-	604	250,252	250,856	147,701
Other debtors	3,688	3,309	9,937	16,934	73,104
	5,494	3,913	319,302	328,709	272,966
Other assets					
Tangible assets (note 1h)	-	-	4,005	4,005	3,245
Cash at bank and in hand	3,119	-	2,386	5,505	4,068
	3,119	-	6,391	9,510	7,313
Prepayments and accrued income					
Accrued interest and rent	6,205	556	2,015	8,776	5,854
Deferred acquisition costs (note 1d)	2,209	-	10,233	12,442	14,496
Other prepayments and accrued income	-	-	2,937	2,937	3,020
	8,414	556	15,185	24,155	23,370
<b>Total assets</b>	<b>1,357,470</b>	<b>186,050</b>	<b>1,895,197</b>	<b>3,438,717</b>	<b>3,363,816</b>

The notes on pages 9 to 21 are an integral part of these accounts. The Auditors' report is on page 22.

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**Balance sheet**  
**At 31 December 1996**

	<u>Long term business</u>		<u>General</u>		
	<u>Non-</u>	<u>Variable</u>	<u>business</u>		
	<u>participation</u>	<u>annuity</u>	<u>and other</u>	<u>Total</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>1996</u>	<u>1995</u>
				<u>£'000</u>	<u>£'000</u>
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Called up share capital (note 12)				947,500	947,500
Revaluation reserve (note 13)				536,666	490,587
Profit and loss account (note 14)				10,275	10,556
<b>Equity shareholders' funds</b>				<u>1,494,441</u>	<u>1,448,643</u>
<b>Other liabilities</b>					
Fund for future appropriations	178,974	-	-	178,974	178,636
Technical provisions					
Provision for unearned premiums	-	-	51,928	51,928	57,060
Long term business provision (note 16)	82,883	-	-	82,883	94,640
Claims outstanding (note 1c)	2,652	361	150,108	153,121	160,525
Equalisation provision (notes 1n & 17)	-	-	1,194	1,194	-
	85,535	361	203,230	289,126	312,225
Technical provision for linked liabilities	1,045,149	181,581	-	1,226,730	1,107,837
Provision for other risks and charges (note 18)	681	-	1,691	2,372	4,228
Deposits received from reinsurers	-	-	223	223	231
<b>Creditors</b>					
Creditors arising out of direct insurance operations	487	340	7,078	7,905	4,220
Creditors arising out of reinsurance operations	76	-	9,431	9,507	6,390
Amounts owed to parent company and fellow subsidiary undertakings	17,632	1,001	166,236	184,869	258,074
Other creditors including taxation and social security	28,936	2,767	8,281	39,984	39,412
	47,131	4,108	191,026	242,265	308,096
Accruals and deferred income	-	-	4,586	4,586	3,920
<b>Total other liabilities</b>	<u>1,357,470</u>	<u>186,050</u>	<u>400,756</u>	<u>1,944,276</u>	<u>1,915,173</u>
<b>Total liabilities</b>				<u><u>3,438,717</u></u>	<u><u>3,363,816</u></u>

Approved by the Board on 30 June 1997



Director

The notes on pages 9 to 21 are an integral part of these accounts. The Auditors' report is on page 22.



# THE NORTHERN ASSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

#### (a) Basis of accounts

These accounts have been prepared in accordance with section 255 of, and the special provisions relating to insurance companies of schedule 9A to, the Companies Act 1985 and with the guidance on accounting for insurance business issued by the Association of British Insurers. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1996 as considered appropriate for an insurance company.

The profit and loss account for the year reflects all income and expenditure, other than items charged to provisions set up in earlier years and the following items which are taken directly to reserves after taxation:

- (i) unrealised gains and losses on non-life investments;
- (ii) gains and losses on movements in rates of exchange, which are taken to the retained profits of Commercial Union Assurance Company plc.

The general insurance technical result is determined on an annual basis except for London market business in respect of marine and aviation and non-marine treaty insurance, where in the opinion of the directors it is not currently possible to obtain all the information necessary to determine the result with the required degree of certainty at the end of the first year of development. This business is accounted for on a two year funded basis with the result being determined at the end of the second year.

#### (b) Premiums

General insurance premiums written reflect business inception during the year. General insurance unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on either the daily or monthly pro-rata basis. Long-term business premiums are accounted for when receivable, except for investment-linked premiums which are accounted for when units are created.

#### (c) Claims

General insurance claims incurred comprise all claims occurring during the year, whether reported or not, together with related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain general insurance claims, particularly in respect of liability and marine business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date. Outstanding claims and provisions in the balance sheet are based upon the estimated ultimate cost of all claims incurred but not settled at the date of the balance sheet, whether reported or not, together with related claims handling costs. Long-term business claims reflect the cost of all claims arising during the year, as well as policyholder bonuses paid in anticipation of a bonus declaration.

#### (d) Deferred acquisition costs

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. General business deferred acquisition costs are amortised over the period in which the related premiums are earned. Long term business deferred acquisition costs are amortised over a period not longer than that in which they are expected to be recoverable out of margins in revenues from the related policies.

#### (e) Unexpired risks

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of investment income expected to arise on assets relating to the relevant general insurance provisions.

#### (f) Investment income

Investment income comprises interest, dividends and rents receivable for the year, after adding back any related tax credit together with realised investment gains. Interest includes the interest rate differential on forward foreign exchange contracts. Realised investment gains and losses represent the difference between the net sale proceeds and the cost of acquisition. Investment income, excluding realised investment gains/losses and interest receivable on loans to Group undertakings, on the investments owned by general insurance operations is then transferred from the non-technical account to the general business technical account. Profits or losses arising on investment transactions with the long term funds are included in realised investment gains.

# THE NORTHERN ASSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

### 1. Accounting policies (continued)

#### (g) Long term business result and fund valuations

Transfers from the long term business technical account to the non-technical account are determined as a result of annual actuarial valuations, which are based on local practice, subject to the movements to or from the fund for future appropriations.

#### (h) Tangible assets

In the balance sheet, tangible assets, including motor cars and computer equipment, are capitalised and depreciated over the estimated length of their useful lives. The depreciation charge for the year is included in administrative expenses.

#### (i) Investments

Investments are stated at their current values at the end of the year, with the exception of non-linked long term business debt securities and fixed income securities which are shown at amortised cost as this basis more closely corresponds with the valuation of the relevant long term liabilities. Current values, for this purpose, comprise stock exchange mid-market values for listed securities, average trading prices for unlisted securities where a market exists and directors' valuations for unlisted securities, where no market exists, and for mortgages and loans. All properties are valued annually by qualified external valuers or members of staff, at market value. No depreciation is provided on properties held for own use since such property represents an immaterial proportion of total assets. No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view. Investments are stated after providing for the costs of realisation where they are to be disposed of within three months of the balance sheet date. Unrealised gains and losses on long term business investments are included in the long term business technical account. Other unrealised gains and losses are transferred to the revaluation reserve after providing for deferred tax.

#### (j) Financial instruments

For hedging purposes, the Group makes use of financial instruments, including forward foreign exchange contracts, interest rate swaps, futures and options. Except in the case of certain specific debt-related transactions, where they are accounted for as though they were part of the underlying transactions, financial instruments are accounted for as follows:

- forward foreign exchange contracts. The interest rate differential is included in investment income while the effect of the currency movements on these contracts is treated as an exchange difference;
- interest rate swaps. The interest payable and receivable is included within investment expenses or investment income as appropriate;
- futures contracts and purchased options. These are valued at market value and shown under the category of investments to which the contracts relate. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

#### (k) Valuation of in-force long term business

The valuation of in-force long term business is included in the balance sheet at the directors' valuation, based on advice from consulting actuaries. The valuation represents the discounted value of projected future cash flows applicable to shareholders from business in force, after deducting prudent risk margins. The assets of shareholders and policyholders that back the long term business are managed on a unified basis. The valuation is calculated after averaging realised and unrealised investment gains and losses on equities and property over five years, or since the date of acquisition if shorter, after allowing for the effect of interest rate changes. Movements in the valuation of in-force long term business are taken to the revaluation reserve.

# THE NORTHERN ASSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

### 1. Accounting policies (continued)

#### (l) Subsidiary undertakings

Subsidiary undertakings are included in the balance sheet at net asset value. Gains or losses over the book value of such investments are taken to the Company's unrealised gains on investments.

#### (m) Participating interests

Participating interests are investments in which the company has a long term equity holding of over 20% and not more than 50%. Where the interests are beneficial and significant influence is exercised, such interests are classified as associated undertakings. The appropriate proportion of the profit and loss on ordinary activities before taxation of associated undertakings is shown separately in the non-technical account. The appropriate proportion of the shareholders' funds of associated undertakings is included in the balance sheet. A number of associated undertakings, which do not represent a material part of the Company's income or assets, have been treated as investments and included within other participating interests.

#### (n) Equalisation provision

An equalisation provision is made in the accounts. This provision is required by law even though no actual liability exists at the balance sheet date.

#### (o) Long term business provision and technical provision for linked liabilities

The long term business provision is mainly calculated using the net premium method, based on United Kingdom actuarial principles. Within the long term business provision, explicit allowance is made for vested bonuses on 'with-profits' policies reassured from Commercial Union Life Assurance Company Limited but not for future reversionary or terminal bonuses. The provisions held for linked business are the unit liabilities together with certain non-unit provisions.

#### (p) Fund for future appropriations

The fund for future appropriations is used in connection with the Non-Participation Life fund which contains liabilities in respect of certain 'with-profits' policies, reassured from Commercial Union Life Assurance Company Limited. In this fund, the division between shareholders' reserves and policyholders' liabilities is uncertain and, as a result, amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held in the fund for future appropriations. Transfers between the fund for future appropriations and the long term business technical account represent the changes in the unallocated amounts between balance sheet dates.

#### (q) Taxation

The taxation charge in the non-technical account is based on the taxable profits for the year. Taxation, including taxation relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves. The current United Kingdom corporation tax liability has been transferred to Commercial Union Assurance Company plc. In the long term business technical account, the taxation charge is based on investment income and annuity profits less expenses. The Variable Annuity Fund does not bear any taxation except for overseas withholding tax on investment income. Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

#### (r) Exchange rates

Assets, liabilities and revenue transactions in non-sterling currencies are translated into sterling at the relevant rates of exchange ruling at 31 December. Exchange differences arising within life businesses are taken direct to the fund for future appropriations and other exchange differences are taken to the retained profits of Commercial Union Assurance Company plc.

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**NOTES TO THE ACCOUNTS**

	Non- participation	Variable annuity	Non- technical account 1996	Non- Participation	Variable annuity	Non- technical account 1995
	£'000	£'000	£'000	£'000	£'000	£'000
<b>2. Analysis of investment return</b>						
Profit from associated undertakings	-	-	1,342	-	-	3,432
Income from fellow subsidiary undertakings	-	-	77,924	-	-	52,548
Income from other participating interests	-	-	-	500	-	-
Income from other investments:						
- Land and buildings	2,698	-	658	2,736	-	552
- Other investments	49,738	8,444	10,162	43,101	7,520	8,175
Realised investment gains	69,370	24,907	2,050	36,335	11,666	99,290
Investment income	121,806	33,351	92,136	82,672	19,186	163,997
Expenses and charges, including allocated interest charges	(1,058)	(328)	(637)	(1,285)	(450)	(341)
	120,748	33,023	91,499	81,387	18,736	163,656
Movement in unrealised investment gains/(losses)	22,333	(4,967)	42,333	105,508	15,864	(16,082)
Total investment return before taxation	143,081	28,056	133,832	186,895	34,600	147,574

Unrealised investment gains not relating to long term business are dealt with in the revaluation reserve.

	General business		Non-participation		Variable annuity	
	1996	1995	1996	1995	1996	1995
	£'000	£'000	£'000	£'000	£'000	£'000
<b>3. Net operating expenses</b>						
Acquisition costs	23,167	26,545	5,286	5,889	48	66
Changes in deferred acquisition costs	110	1,057	1,811	3,563	-	-
Administrative expenses	5,356	4,905	3,569	3,131	100	98
	28,633	32,507	10,666	12,583	148	164
Reinsurance commissions receivable	(2,637)	(5,658)	-	-	-	-
Net operating expenses	25,996	26,849	10,666	12,583	148	164

Commission payable in respect of direct insurance business amounted to £18,459,000 (1995 £18,166,000).

**4. Taxation**  
**(a) Non-life**

	1996	1995
	£'000	£'000
(i) The taxation charge in the non-technical account comprises:		
United Kingdom corporation tax at 33% (1995 33%) based on taxable profits for the year	18,828	16,443
Tax credit on United Kingdom dividends received	747	356
Taxation attributable to shareholders' long term business profits	7,388	8,866
	26,963	25,665

The charge of £26,963,000 (1995 £25,665,000) includes a deferred taxation credit of £2,946,000 (1995 charge £2,593,000) arising from short-term timing differences.

	1996	1995
	£'000	£'000
(ii) The provision for deferred taxation, included within the provision for other risks and charges, comprises:		
Unrealised gains on investments	1,691	1,437
Timing differences	-	2,946
	1,691	4,383

**THE NORTHERN ASSURANCE COMPANY LIMITED**

**NOTES TO THE ACCOUNTS**

**4. Taxation (continued)**  
**(a) Non-life (continued)**

(iii) The potential amount of deferred taxation not expected to become a liability in the foreseeable future, for which provision has not been made, is:

	1996 £'000	1995 £'000
Unrealised gains on investments	15,310	7,516

<b>(b) Long term business</b>	<b>Non- participation 1996 £'000</b>	<b>Variable annuity 1996 £'000</b>	<b>Non- participation 1995 £'000</b>	<b>Variable annuity 1995 £'000</b>
The taxation charge in the long term business technical account comprises:				
United Kingdom corporation tax based on profits and income for the year	14,155	14	9,511	-
Tax credit on United Kingdom dividends received (net of available reliefs)	2,636	-	1,998	-
Overseas taxation	348	-	549	103
	17,139	14	12,058	103

The taxation charges above include a deferred taxation credit of £220,000 (1995 credit of £155,000) arising from short-term timing differences and deferred gains.

**5. Directors' emoluments and employee information**

None of the directors received emoluments in respect of their services as directors of the Company (1995 £Nil).  
The Company did not employ any staff during the year (1995 Nil).

**6. Auditors' remuneration**

Auditors' remuneration is charged in the accounts of Commercial Union Assurance Company plc.

# **THE NORTHERN ASSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

### **7. Balance sheet segmentation**

	<u>Long term business</u>				<u>General business and other</u>	
	Non-participation		Variable annuity			
	1996	1995	1996	1995	1996	1995
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Segmented assets comprise:</b>						
Investments						
Land and buildings	-	-	-	-	4,433	4,126
Investments in Group undertakings and participating interests	6,214	4,994	-	-	406,379	364,177
Loans to Group undertakings	-	-	-	-	816,958	968,379
Other financial investments	287,489	285,613	-	-	114,451	112,287
Valuation of in-force long term business	-	-	-	-	153,400	149,400
Deposits with ceding undertakings	-	-	-	-	821	1,195
	293,703	290,607	-	-	1,496,442	1,599,564
Assets held to cover linked liabilities	1,045,149	928,984	181,581	178,853	-	-
Reinsurers' share of technical provisions						
Provision for unearned premiums	-	-	-	-	12,037	14,677
Long term business provision	1,490	1,483	-	-	-	-
Claims outstanding	101	15	-	-	45,840	45,984
	1,591	1,498	-	-	57,877	60,661
Debtors						
Debtors arising out of direct insurance operations	1,660	2,922	-	-	42,660	32,072
Debtors arising out of reinsurance operations	146	70	-	1,461	16,453	15,636
Amounts owed by parent company and fellow subsidiary undertakings	-	1,157	604	224	250,252	146,320
Other debtors	3,688	15,994	3,309	853	9,937	56,257
	5,494	20,143	3,913	2,538	319,302	250,285
Other assets						
Tangible assets	-	-	-	-	4,005	3,245
Cash at bank and in hand	3,119	1,506	-	1,171	2,386	1,391
	3,119	1,506	-	1,171	6,391	4,636
Prepayments and accrued income						
Accrued interest and rent	6,205	4,015	556	-	2,015	1,839
Deferred acquisition costs	2,209	4,020	-	-	10,233	10,476
Other prepayments and accrued income	-	-	-	-	2,937	3,020
	8,414	8,035	556	-	15,185	15,335
<b>Total assets</b>	<b>1,357,470</b>	<b>1,250,773</b>	<b>186,050</b>	<b>182,562</b>	<b>1,895,197</b>	<b>1,930,481</b>

The cost of assets held to cover linked liabilities is £1,013,796,000 (1995 £903,099,000).

# **THE NORTHERN ASSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

### **7. Balance sheet segmentation (continued)**

Segmented liabilities excluding capital and reserves comprise:	Long term business				General business and other	
	Non-participation		Variable annuity			
	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Fund for future appropriations	178,974	178,636	-	-	-	-
Technical provisions						
Provision for unearned premiums	-	-	-	-	51,928	57,060
Long term business provision	82,883	94,640	-	-	-	-
Claims outstanding	2,652	2,076	361	142	150,108	158,307
Equalisation provision	-	-	-	-	1,194	-
	85,535	96,716	361	142	203,230	215,367
Technical provision for linked liabilities	1,045,149	928,984	181,581	178,853	-	-
Provision for other risks and charges	681	(155)	-	-	1,691	4,383
Deposits received from reinsurers	-	-	-	-	223	231
Creditors						
Creditors arising out of direct insurance operations	487	1,440	340	54	7,078	2,726
Creditors arising out of reinsurance operations	76	32	-	-	9,431	6,358
Amounts owed to parent company and fellow subsidiary undertaking	17,632	18,000	1,001	850	166,236	239,224
Other creditors including taxation and social security	28,936	27,120	2,767	2,657	8,281	9,635
	47,131	46,592	4,108	3,561	191,026	257,943
Accruals and deferred income	-	-	-	6	4,586	3,914
Total liabilities, excluding capital and reserves	1,357,470	1,250,773	186,050	182,562	400,756	481,838

### **8. Land and buildings**

	1996 £'000	1995 £'000
The carrying value of land and buildings comprises:		
Freeholds	4,433	4,126

The cost of land and buildings at 31 December 1996 was £3,020,000 (1995 £2,393,000).

The valuation of properties has been undertaken by qualified external valuers or members of staff reporting to the Managing Director of Commercial Union Properties Ltd, who is a Fellow of The Royal Institution of Chartered Surveyors. All properties are valued at market value.

# **THE NORTHERN ASSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

### **9. Investments in Group undertakings and participating interests**

(a) Investments in Group undertakings and participating interests included in the balance sheet comprise:	1996 £'000	1995 £'000
Shares in subsidiary undertakings at net asset value	368,820	333,002
Investments in participating interests	43,773	36,169
	<b>412,593</b>	<b>369,171</b>

(b) Shares in subsidiary undertakings are valued at net asset value, including the valuation of the in-force long term business. The resulting net gain over book value of £345,541,000 (1995 £309,723,000) has been credited to the Company's unrealised gains on investments.

At 31 December 1996, the Company held the issued share capital of the following wholly owned subsidiary undertakings, which are all registered in England:

	Issued share capital			Nature of business
	Number of shares	Par Value	Paid	
Commercial Union Financial Services Ltd	27,669,000	£1	fully	Marketing life and financial services
Commercial Union Homelink Ltd	20	£1	fully	Financial services
Commercial Union Life Assurance Company Ltd	3,175,000	£1	fully	Life assurance
Commercial Union Pensions Management Ltd	16,000	£100	fully	Pensions management

In the opinion of the directors, the value of the Company's investment in its subsidiary undertakings is, in the aggregate, not less than the amount at which it is stated in the balance sheet.

	Carrying value	Cost 1996	Carrying value	Cost 1995
	£'000	£'000	£'000	£'000
(c) Investments in participating interests included in the balance sheet comprise:				
Investments in associated undertakings	37,218	4,338	31,036	3,606
Other participating interests	6,555	6,704	5,133	3,580
	<b>43,773</b>	<b>11,042</b>	<b>36,169</b>	<b>7,186</b>

None of the other participating interests is listed on a recognised investment exchange.

(d) At 31 December 1996, the Company had an investment in the issued share capital of the following associated undertaking:

	Issued share capital			Nature of business/(Country of incorporation)
	Number of shares	Par value	Holding	
Hibernian Group Public Limited Company	14,983,705	IR 25p	28.1%	Insurance (Republic of Ireland)

The investment in Hibernian Group Public Limited Company is valued at its accounting date, 30 June 1996, and is listed on a recognised investment exchange.

(e) During 1995 the Company became a provider of Group finance for Commercial Union Participations SA, the French holding company for the Group's operations in France.



**THE NORTHERN ASSURANCE COMPANY LIMITED**

**NOTES TO THE ACCOUNTS**

<b>10. Other financial investments</b>	<b>Long term</b>	<b>General and other</b>	<b>Carrying value total</b>	<b>Cost 1996</b>	<b>Long term</b>	<b>General and other</b>	<b>Carrying value total</b>	<b>Cost 1995</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
(a) These financial investments comprise:								
Shares and other variable yield securities and units in unit trusts	184,792	55,971	240,763	156,027	177,503	51,538	229,041	166,140
Debt securities and other fixed income securities:								
At current value	-	48,227	48,227	47,092	-	53,121	53,121	50,886
At amortised cost	80,355	-	80,355	80,356	70,785	-	70,785	70,785
Loans secured by mortgages	48	2,704	2,752	2,752	47	2,834	2,881	2,881
Other loans:								
Loans secured on policies	377	-	377	377	386	-	386	386
Other loans	1	403	404	404	55	402	457	457
Deposits with credit institutions	21,916	7,146	29,062	29,062	36,837	4,392	41,229	41,229
	<b>287,489</b>	<b>114,451</b>	<b>401,940</b>	<b>310,076</b>	<b>285,613</b>	<b>112,287</b>	<b>397,900</b>	<b>332,764</b>

All investments above are shown at current value unless otherwise indicated.

	<b>Listed investments 1996 £'000</b>	<b>Listed investments 1995 £'000</b>
(b) Included in the carrying value above are:		
Shares and other variable yield securities and units in unit trusts	214,050	216,024
Debt securities and other fixed income securities	123,551	117,260

(c) The long term debt securities and other fixed income securities, which are shown at amortised cost, have a market value of £80,402,000 (1995 £71,959,000).

The redemption value of these investments held at the year end was the same as the amortised cost (1995 £3,600,000 greater).

(d) In addition to the investments in participating interests detailed in note 9, the Company holds investments exceeding 10% of a class of the equity capital in a number of other companies in the United Kingdom and elsewhere. These investments do not represent a material part of the assets or investment income of the Company.

# **THE NORTHERN ASSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

<b>11. Debtors arising out of direct insurance operations</b>	<b>1996</b>	<b>1995</b>
Debtors arising out of direct insurance operations comprise:	<b>£'000</b>	<b>£'000</b>
Amounts owed by policyholders	<b>28,826</b>	<b>26,003</b>
Amounts owed by intermediaries	<b>15,494</b>	<b>8,991</b>
	<b>44,320</b>	<b>34,994</b>
<hr/>		
<b>12. Share capital</b>		
The Company has an authorised share capital of 947,500,000 (1995: 947,500,000) ordinary shares of £1 each. The allotted and called up share capital comprises 947,500,000 (1995: 947,500,000) fully paid ordinary shares of £1 each.		
<b>13. Revaluation reserve</b>	<b>1996</b>	<b>1995</b>
(a) The balance on the revaluation reserve comprises:	<b>£'000</b>	<b>£'000</b>
Unrealised investment gains	<b>383,266</b>	<b>341,187</b>
Reserve arising on the valuation of in-force long term business	<b>153,400</b>	<b>149,400</b>
	<b>536,666</b>	<b>490,587</b>
<hr/>		
	<b>1996</b>	<b>1995</b>
(b) Movements in the revaluation reserve, after taxation, comprise:	<b>£'000</b>	<b>£'000</b>
Total gains on investments, excluding valuation of in-force long term business	<b>43,234</b>	<b>80,458</b>
Reserve arising on the valuation of in-force long term business	<b>4,000</b>	<b>12,000</b>
	<b>47,234</b>	<b>92,458</b>
Less:		
Realised gains after taxation included in the non-technical account	<b>(1,155)</b>	<b>(97,666)</b>
Movements in the revaluation reserve after taxation	<b>46,079</b>	<b>(5,208)</b>
Balance at 1 January	<b>490,587</b>	<b>495,795</b>
Balance at 31 December	<b>536,666</b>	<b>490,587</b>
<hr/>		
<b>14. Profit and loss account</b>	<b>1996</b>	<b>1995</b>
Movements in the profit and loss account comprise:	<b>£'000</b>	<b>£'000</b>
Transfer from non-technical account	<b>(281)</b>	<b>42</b>
Goodwill and other movements	<b>-</b>	<b>908</b>
Balance at 1 January	<b>10,556</b>	<b>9,606</b>
Balance at 31 December	<b>10,275</b>	<b>10,556</b>
The goodwill credited to the profit and loss account in 1995 is attributable to the transfer of the associated undertaking, Commercial Union of South Africa Limited, to the parent company, Commercial Union Assurance Company plc.		
<b>15. Long term business</b>		
(a) The Company underwrites long term business as follows:		
- in the Non-Participation Life fund, where shareholders are entitled to 100% of the distributed profits. The fund contains non-participation business and liabilities in respect of certain 'with-profits' policies reassured from Commercial Union Life Assurance Company Limited. New business mainly comprises unit-linked policies, where shareholders' profits are derived mainly from a management fee and policyholders' benefits are determined by investment performance.		
- in the Variable Annuity Fund, where shareholders are entitled to 100% of the profits. The fund contains non-participation business comprising unit-linked policies. Shareholders' profits are derived from a management fee and policyholders' benefits are determined by investment performance.		
(b) The directors have been advised by the Group Actuary that the assets of the long term operations were at least sufficient to meet their liabilities at 31 December 1996.		

# **THE NORTHERN ASSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

### **16. Long term business provision**

The principal assumptions used to calculate the long term business provision are as follows:

Contract type	Interest %	Mortality tables used
Assurances		
-Life	3 to 4.75	A67/70, plus further allowance for AIDS
-Pensions	3 to 6.25	A67/70
Annuities		
-Individual and group in deferment	3.75 to 5	A67/70 less 4 years from age
-Individual in payment	3.75 to 5	IM80/IF80 (C = 2010) less 2 years from age
-Group in payment	3.75 to 5	PMA80/PFA80 (C = 2020) less 1 year from age

Published standard mortality tables are used for different categories of business as appropriate. These tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

### **17. Equalisation provision**

An equalisation provision has been established in the accounts as explained in accounting policy 1n on page 11. This has had the effect of reducing the Company's shareholders' funds by £1,194,000 at the year end (1995 £Nil). The movement in the equalisation provision during the year resulted in a decrease in the balance on the general business technical account and the profit on ordinary activities before taxation by £1,194,000 (1995 £Nil)

### **18. Provision for other risks and charges**

Movements in provisions for other risks and charges comprise deferred taxation of:

	£'000
At 1 January 1996	4,228
General business	(2,692)
Long term business	836
At 31 December 1996	2,372

### **19. Life assurance policy loan**

Under normal practice relating to life assurance policies, the Company's subsidiary, Commercial Union Life Assurance Company Limited, has made the following loan to the undermentioned director of the Company and the Company's ultimate holding company, Commercial Union plc. The loan, which is fully secured, is repayable not later than maturity of the relevant policy or death of the director concerned. Interest is payable half-yearly.

Name of director	Final maturity date	Rate of interest	Liability for principal and interest		Maximum liability for principal and interest during the year
			At 1.1.96	At 31.12.96	
			£	£	£
A B Wyand	October 2003	9.5% p.a.	10,648	10,648	10,648

# THE NORTHERN ASSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

### 20. Segmental information

(a) The analyses of premiums after reinsurance, operating profit before taxation and net assets by business segment are:

	Premiums written after reinsurance		Operating profit before taxation		Net assets	
	1996	1995	1996	1995	1996	1995
	£'000	£'000	£'000	£'000	£'000	£'000
Life	110,075	121,348	22,965	27,216	-	-
General	79,175	82,880	89,861	63,501	1,341,041	1,299,243
Valuation of in-force life business	-	-	-	-	153,400	149,400
	189,250	204,228	112,826	90,717	1,494,441	1,448,643

(b) The business and net assets of the Company are predominantly in the United Kingdom. Premium income by destination does not differ materially from premium income by origin as most risks are located in the territories where the policies were written.

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	1996	1996	1996	1996	1996
	£'000	£'000	£'000	£'000	£'000
(c) A further analysis of general business technical account information is given below:					
Direct insurance:					
Accident and health	4,237	4,280	3,685	1,346	(88)
Motor (third party liability)	772	958	664	352	17
Motor (other classes)	24,331	25,297	20,704	3,322	305
Marine, aviation and transport	944	945	669	455	(221)
Fire and other damage to property	55,714	56,520	33,992	14,640	(5,507)
Third party liability	12,741	13,174	11,321	4,331	(597)
Credit and suretyship	3,293	3,298	2,923	442	(449)
Miscellaneous	2,536	3,062	1,718	1,405	1,239
	104,568	107,534	75,676	26,293	(5,301)
Reinsurance	7,870	8,365	6,061	2,340	184
	112,438	115,899	81,737	28,633	(5,117)

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	1995	1995	1995	1995	1995
	£'000	£'000	£'000	£'000	£'000
Direct insurance:					
Accident and health	3,216	3,041	3,983	482	(350)
Motor (third party liability)	2,387	2,741	(198)	112	(178)
Motor (other classes)	24,519	25,969	21,872	6,465	421
Marine, aviation and transport	1,084	715	958	154	(24)
Fire and other damage to property	55,728	60,454	34,523	17,123	(3,892)
Third party liability	14,062	14,393	12,600	3,528	(300)
Credit and suretyship	6,221	7,120	5,129	1,406	(60)
Miscellaneous	7,411	8,124	21,498	551	(430)
	114,628	122,557	100,365	29,821	(4,813)
Reinsurance	12,045	12,225	8,041	2,686	(453)
	126,673	134,782	108,406	32,507	(5,266)

# **THE NORTHERN ASSURANCE COMPANY LIMITED**

## **NOTES TO THE ACCOUNTS**

### **20. Segmental information (continued)**

(d) A further analysis of long term business technical account information is shown below.

	Non-participation		Variable annuity	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Gross premiums written:				
Individual premiums	109,461	120,942	1,176	897
Premiums under group contacts	5	7	-	-
	109,466	120,949	1,176	897
Periodic premiums	65,351	67,999	-	-
Single premiums	44,115	52,950	1,176	897
	109,466	120,949	1,176	897
Premiums from non-participating contracts	1,465	21,808	-	-
Premiums from investment linked contracts	108,001	99,141	1,176	897
	109,466	120,949	1,176	897

Of the total gross premiums written £nil (1995 £nil) came from inwards reinsurance.

### **21. Mortgages and loans**

The Company and certain other group companies have entered into an agreement to finance certain United Kingdom staff residential mortgages with deposits from a third party on a non-recourse basis. The mortgages and related deposits do not represent an economic benefit or risk to the Company and consequently have not been included in the balance sheet.

### **22. Holding companies' details**

The immediate holding company is Commercial Union Assurance Company plc.

The smallest group of undertakings, of which the Company is a member, that prepares group accounts is headed by Commercial Union Assurance Company plc. Its group accounts are available to the public, on payment of the appropriate fee, from Companies Registration Office, Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The ultimate holding company is Commercial Union plc. Its group accounts are available on application to the Group Company Secretary, Commercial Union plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

### **23. Cash flow statement**

As the Company is a wholly owned subsidiary within the Commercial Union Group, the cash flows of the Company are included in the consolidated group cash flow statement of Commercial Union plc. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

### **24. Related party transactions**

As consolidated accounts are publicly available, the Company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with related parties who are 90% or more owned within the same group.

## THE NORTHERN ASSURANCE COMPANY LIMITED

### Directors' responsibility for the accounts

The directors are required to ensure that accounts are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985, and which give a true and fair view of the state of affairs of the Company as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies have to be used and applied consistently in preparing accounts, using reasonable and prudent judgements and estimates, on the going concern basis unless it is inappropriate to presume that the Company will continue in business. Applicable accounting standards also have to be followed, with any material departures being disclosed and explained.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and for ensuring controls are in place for the prevention and detection of fraud and other irregularities.

### Auditors' report

To the members of The Northern Assurance Company Limited.

We have audited the accounts on pages 3 to 21.

### **Respective responsibilities of directors and auditors**

As described above, 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 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 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.

### **Equalisation provision**

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amounts set aside at 31 December 1996, and the effect of the movement in the provision during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in accounting policy 1n and note 17 to the accounts.

### **Opinion**

In our opinion, the accounts give a true and fair view of the state of affairs of the Company at 31 December 1996 and of the profit and total recognised gains for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

*Coopers & Lybrand*  
COOPERS & LYBRAND

Chartered Accountants and Registered Auditors  
London

*30 June 1997*