

THE NORTHERN ASSURANCE COMPANY LIMITED

REPORT AND ACCOUNTS

DIRECTORS' REPORT

The directors present their Report and Accounts of the Company for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES

The principal activity of the Company has not changed during the year and it 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 whole of the long term business of Commercial Union Pensions Management Limited ("CUPM"), a subsidiary of the Company, was transferred to the Company by an order of the High Court of Justice deemed to have been effected as between the Company and CUPM on 31 December 1997. Long term business of CUPM was comprised almost entirely of unit-linked pensions, which is complementary to the Company's existing business. The directors consider that the Company's activities will continue unchanged in the foreseeable future.

CHANGE OF NAME - ULTIMATE HOLDING COMPANY

The ultimate holding company changed its name from Commercial Union plc to CGU plc on 2 June 1998, following the merger with General Accident plc.

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 (1996 £87m), do not recommend the payment of any further dividend for the year.

DIRECTORS

The directors in office during the year were:

Sir John Carter (resigned 31 December 1997)

Mr P J Foster

Mr K N Grant

Mr D I W Reynolds

Mr P G Ward

Mr A B Wyand (resigned 31 December 1997)

Mr C A C M Schrauwers was appointed as a director on 1 January 1998

Mr K N Grant and Mr P G Ward resigned as directors on 27 February 1998



COOPERS & LYBRAND
INITIALLED FOR
IDENTIFICATION PURPOSES
ONLY

J. L. L. DATE 17/1/98

P.A.F.

THE NORTHERN ASSURANCE COMPANY LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

The directors of the Company who held office at 31 December 1997 had the following interests in the shares of Commercial Union plc:

Ordinary Shares of 25p each

	1 January 1997		Options granted during the year	31 December 1997	
	Shareholdings	Share Options		Shareholdings	Share Options
K N Grant	2,794	27,515	14,176	2,573	41,691
D I W Reynolds	10,226	80,236	24,221	11,404	104,457

Four directors exercised share options in relation to shares in Commercial Union plc during the year and five directors received or became entitled to receive shares under the Commercial Union Group long-term incentive plan.

Mr Foster and Mr Ward are not required to disclose their interests as they are directors of the Company's ultimate holding company, CGU plc (formerly Commercial Union plc), and details of their interests are given in that company's accounts.

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

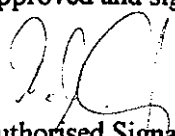
There have been other transactions in the normal course of business with directors and other officers during the year. None of these transactions is material and therefore no disclosure is required under FRS8.

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.

The number of days' purchases represented by the amounts due to trade creditors of the Company at 31 December 1997, calculated in accordance with the provisions of Schedule 7 of the Companies Act 1985, was 21 days.

Approved and signed on behalf of the Board


Authorised Signatory
CGU Company Secretarial Services Limited
Secretary

27 July 1998

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 1997

	Notes	£'000	1997 £'000	£'000	1996 £'000
Gross premiums written			110,487		112,438
Outward reinsurance premiums			(29,352)		(33,263)
Net premiums written	1b & 20		81,135		79,175
Change in the provision for unearned premiums					
- gross amount			(1,900)		3,461
- reinsurers' share			(551)		(348)
			(2,451)		3,113
Earned premiums, net of reinsurance			78,684		82,288
Allocated investment return transferred from the non-technical account	1f		8,543		12,162
Claims paid					
- gross amount		(81,639)		(82,362)	
- reinsurers' share		20,840		23,918	
			(60,799)		(58,444)
Change in the provision for claims					
- gross amount		(1,432)		625	
- reinsurers' share		(1,312)		1,939	
			(2,744)		2,564
Claims incurred, net of reinsurance	1c		(63,543)		(55,880)
Net operating expenses	3		(24,572)		(25,996)
General insurance operating result			(888)		12,574
Change in the equalisation provision	1o & 17		(1,297)		(1,194)
Balance on the technical account - general business			(2,185)		11,380

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 1997

	Non- participation life and annuity fund	Variable annuity fund	Total 1997	Non- participation life and annuity fund	Variable annuity fund	Total 1996
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	125,093	1,256	126,349	109,466	1,176	110,642
Outward reinsurance premiums	(566)	-	(566)	(567)	-	(567)
Earned premiums, net of reinsurance (note 1b)	124,527	1,256	125,783	108,899	1,176	110,075
Investment income (notes 1f & 2)	99,974	24,905	124,879	121,806	33,351	155,157
Unrealised gains/(losses) on investments (notes 1i & 2)	157,686	11,074	168,760	22,333	(4,967)	17,366
Claims paid						
- gross amount	(95,528)	(30,606)	(126,134)	(93,341)	(25,547)	(118,888)
- reinsurers' share	358	-	358	413	-	413
	(95,170)	(30,606)	(125,776)	(92,928)	(25,547)	(118,475)
Change in the provision for claims						
- gross amount	91	(20)	71	(576)	(219)	(795)
- reinsurers' share	(78)	-	(78)	86	-	86
	13	(20)	(7)	(490)	(219)	(709)
Claims incurred, net of reinsurance (note 1c)	(95,157)	(30,626)	(125,783)	(93,418)	(25,766)	(119,184)
Changes in other technical provisions, net of reinsurance (note 1o)						
Long term business provision						
- gross amount	8,378	-	8,378	11,757	-	11,757
- reinsurers' share	24	-	24	7	-	7
	8,402	-	8,402	11,764	-	11,764
Technical provision for linked liabilities, net of reinsurance	(184,274)	(5,570)	(189,844)	(116,166)	(2,727)	(118,893)
	(175,872)	(5,570)	(181,442)	(104,402)	(2,727)	(107,129)
Net operating expenses (note 3)	(10,730)	(165)	(10,895)	(10,666)	(148)	(10,814)
Investment expenses and charges (note 2)	(2,203)	(333)	(2,536)	(1,058)	(328)	(1,386)
Tax charge attributable to long term business (notes 1r and 4b)	(23,508)	(17)	(23,525)	(17,139)	(14)	(17,153)
Transfer to the fund for future appropriations (note 1q)	(59,717)	-	(59,717)	(11,355)	-	(11,355)
Balance on the technical account - long term business	15,000	524	15,524	15,000	577	15,577

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 1997

	1997 £'000	1996 £'000
General insurance operating result	(888)	12,574
Change in the equalisation provision (notes 1o & 17)	<u>(1,297)</u>	<u>(1,194)</u>
Balance on general business technical account	(2,185)	11,380
Balance on long term business technical account	15,524	15,577
Taxation credit attributable to balance on the long term business technical account (note 1r)	<u>6,898</u>	<u>7,388</u>
Shareholders' pre-tax profit from long term business	22,422	22,965
Investment income (notes 1f & 2)	88,635	92,136
Investment expenses and charges (notes 1f & 2)	(355)	(637)
Allocated investment return transferred to the general business technical account (note 1f)	<u>(8,543)</u>	<u>(12,162)</u>
Investment return retained in the non-technical account	<u>79,737</u>	<u>79,337</u>
Profit on ordinary activities before taxation comprising:		
Operating profit	95,317	112,826
Change in the equalisation provision	(1,297)	(1,194)
Realised investment gains	<u>5,954</u>	<u>2,050</u>
	99,974	113,682
Tax on profit on ordinary activities (notes 1r & 4a)		
Operating profit	(19,673)	(26,548)
Other	<u>(1,232)</u>	<u>(415)</u>
	<u>(20,905)</u>	<u>(26,963)</u>
Profit for the financial year (note 1a)	79,069	86,719
Dividend payable	(87,000)	(87,000)
Retained loss	<u><u>(7,931)</u></u>	<u><u>(281)</u></u>

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THE NORTHERN ASSURANCE COMPANY LIMITED

Statement of total recognised gains and losses
For the year ended 31 December 1997

	1997 £'000	1996 £'000
Profit for the financial year	79,069	86,719
Movements in revaluation reserve after taxation (note 13b)	89,187	46,079
Total recognised gains and losses arising in the year	<u>168,256</u>	<u>132,798</u>

Reconciliation of movements in equity shareholders' funds
For the year ended 31 December 1997

	1997 £'000	1996 £'000
Balance at 1 January	1,494,441	1,448,643
Total recognised gains and losses arising in the year	168,256	132,798
Dividend	(87,000)	(87,000)
Balance at 31 December	<u>1,575,697</u>	<u>1,494,441</u>

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THE NORTHERN ASSURANCE COMPANY LIMITED

Balance sheet At 31 December 1997

	<u>Long term business</u>		<u>General</u>		
	<u>Non-</u>	<u>Variable</u>	<u>business</u>	<u>Total</u>	<u>Total</u>
	<u>participation</u>	<u>annuity</u>	<u>and other</u>	<u>1997</u>	<u>1996</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Assets					
Investments (note 1i)					
Land and buildings (note 8)	-	-	4,237	4,237	4,433
Investments in Group undertakings and participating interests (note 9)	5,971	-	445,274	451,245	412,593
Loans to Group undertakings (note 9e)	-	-	647,465	647,465	816,958
Other financial investments (note 10)	354,304	-	179,316	533,620	401,940
Valuation of in-force long term business (note 1k)	-	-	184,200	184,200	153,400
Deposits with ceding undertakings	-	-	592	592	821
	360,275	-	1,461,084	1,821,359	1,790,145
Assets held to cover linked liabilities	1,383,305	187,151	-	1,570,456	1,226,730
Reinsurers' share of technical provisions					
Provision for unearned premiums (note 1b)	-	-	13,133	13,133	12,037
Long term business provision (note 1o)	1,530	-	-	1,530	1,490
Claims outstanding (note 1c)	23	-	43,267	43,290	45,941
	1,553	-	56,400	57,953	59,468
Debtors					
Debtors arising out of direct insurance operations (note 11)	2,306	231	44,382	46,919	44,320
Debtors arising out of reinsurance operations	201	-	17,037	17,238	16,599
Amounts owed by parent company and fellow subsidiary undertakings	2	-	467,421	467,423	250,856
Other debtors	15,598	3,017	11,462	30,077	16,934
	18,107	3,248	540,302	561,657	328,709
Other assets					
Tangible assets (note 1h)	-	-	4,942	4,942	4,005
Cash at bank and in hand	2,379	91	2,715	5,185	5,505
	2,379	91	7,657	10,127	9,510
Prepayments and accrued income					
Accrued interest and rent	5,766	472	1,977	8,215	8,776
Deferred acquisition costs (note 1d)	1,018	-	10,602	11,620	12,442
Other prepayments and accrued income	-	-	2,447	2,447	2,937
	6,784	472	15,026	22,282	24,155
Total assets	1,772,403	190,962	2,080,469	4,043,834	3,438,717

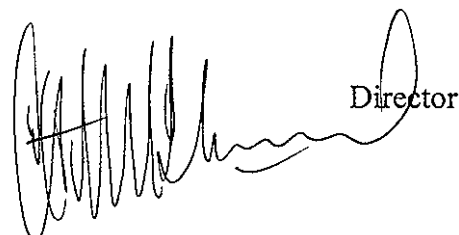
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THE NORTHERN ASSURANCE COMPANY LIMITED

Balance sheet At 31 December 1997

	<u>Long term business</u>		<u>General business and other</u>	Total 1997	Total 1996
	<u>Non-participation</u>	<u>Variable annuity</u>			
	£'000	£'000	£'000	£'000	£'000
Liabilities					
Capital and reserves					
Called up share capital (note 12)				947,500	947,500
Revaluation reserve (note 13)				625,853	536,666
Profit and loss account (note 14)				2,344	10,275
Equity shareholders' funds				<u>1,575,697</u>	<u>1,494,441</u>
Other liabilities					
Fund for future appropriations	232,447	-	-	232,447	178,974
Technical provisions					
Provision for unearned premiums	-	-	53,110	53,110	51,928
Long term business provision (note 16)	84,786	-	-	84,786	82,883
Claims outstanding (note 1c)	2,561	381	146,820	149,762	153,121
Equalisation provision (notes 1o & 17)	-	-	2,491	2,491	1,194
	87,347	381	202,421	290,149	289,126
Technical provision for linked liabilities	1,383,305	187,151	-	1,570,456	1,226,730
Provision for other risks and charges (note 18)	6,068	-	2,629	8,697	2,372
Deposits received from reinsurers	-	-	204	204	223
Creditors					
Creditors arising out of direct insurance operations	553	7	4,944	5,504	7,905
Creditors arising out of reinsurance operations	203	-	9,449	9,652	9,507
Amounts owed to parent company and fellow subsidiary undertakings	15,530	564	272,267	288,361	184,869
Other creditors including taxation and social security	46,950	2,859	8,388	58,197	39,984
	63,236	3,430	295,048	361,714	242,265
Accruals and deferred income	-	-	4,470	4,470	4,586
Total other liabilities	<u>1,772,403</u>	<u>190,962</u>	<u>504,772</u>	<u>2,468,137</u>	<u>1,944,276</u>
Total liabilities				<u>4,043,834</u>	<u>3,438,717</u>

Approved by the Board on 27 July 1998


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 in December 1995 including revisions made in January 1997. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1997 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 after 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. To these are added related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain general business 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 and unrealised investment gains and losses

Investment income consists of interest, dividends and rents receivable for the year, after adding back any related tax credit, together with realised investment gains and losses. Dividend income within the life and pension funds is also grossed up for tax credits. 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. Long term business investment income and unrealised gains are included in the long term business technical account. All other unrealised gains are transferred to the revaluation reserve after providing for deferred tax. 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, 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 other unlisted securities, 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.

(j) Financial instruments

For hedging purposes, the Company uses financial instruments, including forward foreign exchange contracts, interest rate swaps, futures and options. 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 included 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 present value, at risk discount rates, of the projected releases to shareholders arising from the business in force, less a charge for the cost of capital supporting the solvency requirements of the business. The cost of capital is the difference between the nominal value of required solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital. 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) Group consolidation

The Company has taken advantage of the exemption under section 228 of the Companies Act 1985 not to prepare consolidated accounts.

(o) 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.

(p) 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.

(q) 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.

(r) Taxation

The taxation credit/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.

(s) 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	
	1997	1996	1997	1996	1997	1996
	£'000	£'000	£'000	£'000	£'000	£'000
2. Analysis of investment return						
Profit from associated undertakings	-	-	-	-	1,363	1,342
Income from subsidiary undertakings	-	-	-	-	74,138	77,924
Income from other investments:						
- Land and buildings	2,801	2,698	-	-	603	658
- Other investments	50,263	49,738	6,479	8,444	6,577	10,162
Realised investment gains	46,910	69,370	18,426	24,907	5,954	2,050
Investment income	99,974	121,806	24,905	33,351	88,635	92,136
Expenses and charges, including						
Allocated interest charges	(2,203)	(1,058)	(333)	(328)	(355)	(637)
	97,771	120,748	24,572	33,023	88,280	91,499
Movement in unrealised investment gains/losses	157,686	22,333	11,074	(4,967)	59,325	42,333
Total investment return before taxation	255,457	143,081	35,646	28,056	147,605	133,832

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

	Non-participation		Variable annuity		General Business	
	1997	1996	1997	1996	1997	1996
	£'000	£'000	£'000	£'000	£'000	£'000
3. Net operating expenses						
Acquisition costs	6,122	5,286	84	48	22,779	23,167
Changes in deferred acquisition costs	1,191	1,811	-	-	(416)	110
Administrative expenses	3,417	3,569	81	100	4,382	5,356
	10,730	10,666	165	148	26,745	28,633
Reinsurance commissions receivable	-	-	-	-	(2,173)	(2,637)
Net operating expenses	10,730	10,666	165	148	24,572	25,996

Commission payable in respect of direct insurance business amounted to £12,095,000 (1996 £18,459,000).

4. Taxation

(a) Non-life

	1997	1996
	£'000	£'000
(i) The taxation charge in the non-technical account comprises:		
United Kingdom corporation tax at 31.5% (1996 33%) based on taxable profits for the year	13,683	18,828
Tax credit on United Kingdom dividends received	324	747
Taxation attributable to shareholders' long term business profits	6,898	7,388
	20,905	26,963

The charge of £20,905,000 (1996 £26,963,000) includes a deferred taxation credit of £Nil (1996 charge £2,946,000) arising from short-term timing differences.

	1997	1996
	£'000	£'000
(ii) The provision for deferred taxation, included within the provision for other risks and charges, comprises:		
Unrealised gains on investments	2,629	1,691

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:

	1997 £'000	1996 £'000
Unrealised gains on investments	24,306	15,310

(b) Long term business	Non- participation 1997 £'000	Variable annuity 1997 £'000	Non- participation 1996 £'000	Variable annuity 1996 £'000
The taxation charge in the long term business technical account comprises:				
United Kingdom corporation tax based on profits and income for the year	20,590	17	14,155	14
Tax credit on United Kingdom dividends received (net of available reliefs)	2,820	-	2,636	-
Overseas taxation	98	-	348	-
	23,508	17	17,139	14

The taxation charges above include a deferred taxation charge of £5,387,000 (1996 credit of £220,000) 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 (1996 £Nil). The Company did not employ any staff during the year (1996 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>	
	<u>Non-participation</u>		<u>Variable annuity</u>			
	1997	1996	1997	1996	1997	1996
Segmented assets comprise:	£'000	£'000	£'000	£'000	£'000	£'000
Investments						
Land and buildings	-	-	-	-	4,237	4,433
Investments in Group undertakings and participating interests	5,971	6,214	-	-	445,274	406,379
Loans to Group undertakings	-	-	-	-	647,465	816,958
Other financial investments	354,304	287,489	-	-	179,316	114,451
Valuation of in-force long term business	-	-	-	-	184,200	153,400
Deposits with ceding undertakings	-	-	-	-	592	821
	360,275	293,703	-	-	1,461,084	1,496,442
Assets held to cover linked liabilities	1,383,305	1,045,149	187,151	181,581	-	-
Reinsurers' share of technical provisions						
Provision for unearned premiums	-	-	-	-	13,133	12,037
Long term business provision	1,530	1,490	-	-	-	-
Claims outstanding	23	101	-	-	43,267	45,840
	1,553	1,591	-	-	56,400	57,877
Debtors						
Debtors arising out of direct insurance operations	2,306	1,660	231	-	44,382	42,660
Debtors arising out of reinsurance operations	201	146	-	-	17,037	16,453
Amounts owed by parent company and fellow subsidiary undertakings	2	-	-	604	467,421	250,252
Other debtors	15,598	3,688	3,017	3,309	11,462	9,937
	18,107	5,494	3,248	3,913	540,302	319,302
Other assets						
Tangible assets	-	-	-	-	4,942	4,005
Cash at bank and in hand	2,379	3,119	91	-	2,715	2,386
	2,379	3,119	91	-	7,657	6,391
Prepayments and accrued income						
Accrued interest and rent	5,766	6,205	472	556	1,977	2,015
Deferred acquisition costs	1,018	2,209	-	-	10,602	10,233
Other prepayments and accrued income	-	-	-	-	2,447	2,937
	6,784	8,414	472	556	15,026	15,185
Total assets	1,772,403	1,357,470	190,962	186,050	2,080,469	1,895,197

The cost of assets held to cover linked liabilities is £1,242,834,000 (1996 £1,013,796,000).

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS

7. Balance sheet segmentation (continued)

Segmented liabilities excluding capital and reserves comprise:	<u>Long term business</u>				<u>General business and other</u>	
	<u>Non-participation</u>		<u>Variable annuity</u>			
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Fund for future appropriations	232,447	178,974	-	-	-	-
Technical provisions						
Provision for unearned premiums	-	-	-	-	53,110	51,928
Long term business provision	84,786	82,883	-	-	-	-
Claims outstanding	2,561	2,652	381	361	146,820	150,108
Equalisation provision	-	-	-	-	2,491	1,194
	87,347	85,535	381	361	202,421	203,230
Technical provision for linked liabilities	1,383,305	1,045,149	187,151	181,581	-	-
Provision for other risks and charges	6,068	681	-	-	2,629	1,691
Deposits received from reinsurers	-	-	-	-	204	223
Creditors						
Creditors arising out of direct insurance operations	553	487	7	340	4,944	7,078
Creditors arising out of reinsurance operations	203	76	-	-	9,449	9,431
Amounts owed to parent company and fellow subsidiary undertaking	15,530	17,632	564	1,001	272,267	166,236
Other creditors including taxation and social security	46,950	28,936	2,859	2,767	8,388	8,281
	63,236	47,131	3,430	4,108	295,048	191,026
Accruals and deferred income	-	-	-	-	4,470	4,586
Total liabilities, excluding capital and reserves	1,772,403	1,357,470	190,962	186,050	504,772	400,756

8. Land and buildings

	1997 £'000	1996 £'000
The carrying value of land and buildings comprises:		
Freeholds	4,237	4,433

The cost of land and buildings at 31 December 1997 was £2,745,000 (1996 £3,020,000).

The valuation of properties has been undertaken by qualified external valuers or prepared or monitored by qualified 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:	1997 £'000	1996 £'000
Shares in subsidiary undertakings at net asset value	407,077	368,820
Investments in participating interests	44,168	43,773
	451,245	412,593

(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 £383,798,000 (1996 £345,541,000) has been credited to the Company's unrealised gains on investments.

At 31 December 1997, 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	
Commercial Union Financial Services Ltd	27,669,000	£1	Marketing life and financial services
Commercial Union Homelink Ltd	20	£1	Financial services
Commercial Union Life Assurance Company Ltd	3,175,000	£1	Life assurance
Commercial Union Pensions Management Ltd	16,000	£100	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.

(c) Investments in participating interests included in the balance sheet comprise:	Carrying value	Cost	Carrying value	Cost
	£'000	1997 £'000	£'000	1996 £'000
Investments in associated undertaking	37,958	3,800	37,218	4,338
Other participating interests	6,210	5,409	6,555	6,704
	44,168	9,209	43,773	11,042

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

(d) At 31 December 1997, 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	27.9%	Insurance (Republic of Ireland)

The investment in Hibernian Group Public Limited Company is valued at its accounting date, 30 June 1997, and is listed on a recognised investment exchange.

(e) The Company is 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

10. Other financial investments	Long term business	General business and other	Carrying value total	Cost 1997	Long term business	General business and other	Carrying value total	Cost 1996
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) These financial investments comprise:								
Shares and other variable yield securities and units in unit trusts	257,504	72,508	330,012	148,252	184,792	55,971	240,763	156,027
Debt securities and other fixed income securities:								
At current value	-	95,109	95,109	92,762	-	48,227	48,227	47,092
At amortised cost	76,148	-	76,148	77,562	80,355	-	80,355	80,356
Loans secured by mortgages	30	2,581	2,611	2,611	48	2,704	2,752	2,752
Other loans:								
Loans secured on policies	378	-	378	378	377	-	377	377
Other loans	1	2	3	3	1	403	404	404
Deposits with credit institutions	20,243	9,116	29,359	29,359	21,916	7,146	29,062	29,062
	354,304	179,316	533,620	350,927	287,489	114,451	401,940	310,076

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

	1997 £'000	1996 £'000
(b) Listed investments included in the carrying value above are:		
Shares and other variable yield securities and units in unit trusts	314,196	214,050
Debt securities and other fixed income securities	167,160	123,551

(c) The long term debt securities and other fixed income securities, which are shown at amortised cost, have a market value of £82,028,000 (1996 £80,402,000).

The redemption value of these investments held at both 31 December 1996 and 1997 was the same as the amortised cost.

(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

11.	Debtors arising out of direct insurance operations	1997 £'000	1996 £'000
	Amounts owed by policyholders	28,078	28,826
	Amounts owed by intermediaries	18,841	15,494
	Debtors arising out of direct insurance operations	46,919	44,320

12. Share capital

The Company's authorised, allotted and called up share capital comprises 947,500,000 (1996: 947,500,000) fully paid ordinary shares of £1 each.

13.	Revaluation reserve	1997 £'000	1996 £'000
	(a) The balance on the revaluation reserve comprises:		
	Unrealised investment gains	441,653	383,266
	Reserve arising on the valuation of in-force long term business	184,200	153,400
		625,853	536,666

		1997 £'000	1996 £'000
	(b) Movements in the revaluation reserve, after taxation, comprise:		
	Total gains on investments, excluding valuation of in-force long term business	63,109	43,234
	Reserve arising on the valuation of in-force long term business	30,800	4,000
		93,909	47,234

Less:

	Realised gains after taxation included in the non-technical account	(4,722)	(1,155)
	Movements in the revaluation reserve after taxation	89,187	46,079
	Balance at 1 January	536,666	490,587
	Balance at 31 December	625,853	536,666

14.	Profit and loss account	1997 £'000	1996 £'000
	Movements in the profit and loss account comprise:		
	Transfer from non-technical account	(7,931)	(281)
	Balance at 1 January	10,275	10,556
	Balance at 31 December	2,344	10,275

15. Long term business

(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. The whole of the long term business of Commercial Union Pensions Management Limited ("CUPM"), a subsidiary of the Company was transferred to the Company on 31 December 1997. The long term business of CUPM was comprised almost entirely of unit-linked pensions of which is complimentary to the existing business.
- 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 1997.

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 4.25	A67/70, plus further allowance for AIDS
-Pensions	3 to 5.5	A67/70
Annuities		
-Individual and group in deferment	3 to 4	A67/70 less 4 years from age
-Individual in payment	3 to 4	IM80/IF80 (C = 2010) less 2 years from age
-Group in payment	3 to 4	PMA80/PFA80 (C = 2020) less 2 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 1(n) on page 11. This has had the effect of reducing the Company's shareholders' funds by £2,491,000 at the year end (1996 £1,194,000). 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 £1,297,000 (1996 £1,194,000)

18. Provision for other risks and charges

Movements in the provision for deferred taxation comprise:

	1997 £'000
Balance at 1 January	2,372
General business	938
Long term business	5,387
Balance at 31 December	8,697

Further details on deferred taxation are given in note 4(a) and (b) on pages 12 and 13.

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 1.1.97	At 31.12.97	
			£	£	£
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
	1997	1996	1997	1996	1997	1996
	£'000	£'000	£'000	£'000	£'000	£'000
Life	125,783	110,075	22,422	22,965	-	-
General	81,135	79,175	72,895	89,861	1,391,821	1,341,041
Valuation of in-force long term business	-	-	-	-	184,200	153,400
	206,918	189,250	95,317	112,826	1,576,021	1,494,441

(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
	1997	1997	1997	1997	1997
	£'000	£'000	£'000	£'000	£'000
(c) A further analysis of general business technical account information is given below:					
Direct insurance:					
Accident and health	6,860	6,630	5,263	1,214	(65)
Motor (third party liability)	1,617	1,720	1,500	497	14
Motor (other classes)	25,988	23,644	21,570	5,516	(138)
Marine, aviation and transport	684	685	510	198	(10)
Fire and other damage to property	51,616	51,874	31,514	16,666	(6,089)
Third party liability	13,007	12,408	12,137	3,694	(242)
Credit and suretyship	3,883	3,860	2,017	767	(630)
Miscellaneous	1,846	2,102	1,260	627	(614)
	105,501	102,923	75,771	29,179	(7,774)
Reinsurance	4,986	5,664	7,300	(2,434)	(428)
	110,487	108,587	83,071	26,745	(8,202)

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	1996	1996	1996	1996	1996
	£'000	£'000	£'000	£'000	£'000
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)

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	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Gross premiums written:				
Individual premiums	125,093	109,461	1,256	1,176
Premiums under group contacts	-	5	-	-
	125,093	109,466	1,256	1,176
Periodic premiums	73,593	65,351	-	-
Single premiums	51,500	44,115	1,256	1,176
	125,093	109,466	1,256	1,176
Premiums from non-participating contracts	1,293	1,465	-	-
Premiums from investment linked contracts	123,800	108,001	1,256	1,176
	125,093	109,466	1,256	1,176

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.

On 2 June 1998, the ultimate holding company, Commercial Union plc, changed its name to CGU plc. The group accounts for Commercial Union plc for the year ended 31 December 1997 are available on application to the Group Company Secretary, CGU plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

23. Post balance sheet event

On 2 June 1998, Commercial Union plc merged with General Accident plc and was renamed CGU plc.

24. Cash flow statement

As the Company is a wholly owned subsidiary within the Commercial Union Group, the cash flows of the Company were 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.

25. 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 1997, 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 1(n) 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 1997 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

28 July 1998