

THE NORTHERN ASSURANCE COMPANY LIMITEDREPORT AND ACCOUNTSDIRECTORS' REPORT

The directors present their Report and Accounts of the Company for the year ended 31 December 1995.

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. During the year, 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 Company also entered into a reinsurance agreement with a fellow subsidiary, The Welsh Insurance Corporation Limited, whereby 12½% of the non-life business is now reinsured with that company. 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 £164.3m (1994 £53.2m), do not recommend the payment of any further dividend for the year. The retained profit of £42,000 will be transferred to reserves.

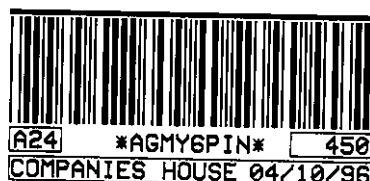
SHARE CAPITAL

On 20 June 1995, the Company increased its authorised share capital by £940m from £7.5m to £947.5m and its issued share capital from £6,151,610 to £947,500,000 by the issue of 941,348,390 ordinary shares of £1 each for the purpose of providing finance for the Group's operations in France.

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



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THE NORTHERN ASSURANCE COMPANY LIMITED

DIRECTORS' INTERESTS

The directors of the Company who held office at 31 December 1995 had the following interests in the shares of Commercial Union Group companies:

Commercial Union plc

Ordinary Shares of 25p each

	1 January 1995		Options exercised during the year	31 December 1995	
	Shareholdings	Share Options		Shareholdings	Share Options
K N Grant	773	51,718	30,187	1,859	23,105
D I W Reynolds	6,711	69,654	-	8,506	72,201

During the year Mr Grant and Mr Reynolds were granted 1,574 and 2,547 options respectively.

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.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the financial year, the Commercial Union Group effected insurance cover for the directors and officers of the Company as permitted by Section 310 of the Companies Act 1985.

Approved and signed on behalf of the Board



K N Grant
Secretary

30 SEPTEMBER 1996

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

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THE NORTHERN ASSURANCE COMPANY LIMITED

Profit and loss account - technical account-general business
For the year ended 31 December 1995

	1995	1994
	£'000	Restated £'000
Gross premiums written	126,673	144,030
Outward reinsurance premiums	(43,793)	(25,180)
Net premiums written (notes 1(b) & 21)	82,880	118,850
Change in the provision for unearned premiums		
- gross amount	8,109	1,182
- reinsurers' share	5,122	859
	13,231	2,041
Earned premiums, net of reinsurance	96,111	120,891
Allocated investment return transferred from the non-technical account (note 1(f))	26,024	29,691
Claims paid		
- gross amount	(95,488)	(84,828)
- reinsurers' share	24,322	11,306
	(71,166)	(73,522)
Change in the provision for claims		
- gross amount	(12,918)	(4,182)
- reinsurers' share	13,957	(1,275)
	1,039	(5,457)
Claims incurred, net of reinsurance (note 1(c))	(70,127)	(78,979)
Net operating expenses (note 5)	(26,849)	(33,122)
Balance on the technical account - general business	25,159	38,481

The notes on pages 9 to 22 are an integral part of these accounts. The Auditors' report is on page 23.

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THE NORTHERN ASSURANCE COMPANY LIMITED

Profit and loss account - technical account-long term business
For the year ended 31 December 1995

	Non-participation life and annuity fund	Variable annuity fund	Total 1995	Non-participation life and annuity fund	Variable annuity fund	Total 1994 Restated
	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written	120,949	897	121,846	154,430	1,322	155,752
Outward reinsurance premiums	(498)	-	(498)	(765)	-	(765)
Earned premiums, net of reinsurance (note 1(b))	120,451	897	121,348	153,665	1,322	154,987
Investment income (notes 1(f) & 4)	82,672	19,186	101,858	59,666	22,788	82,454
Unrealised gains/(losses) on investments (notes 1(j) & 4)	105,508	15,864	121,372	(131,420)	(35,536)	(166,956)
Claims paid						
- gross amount	(88,837)	(22,824)	(111,661)	(60,128)	(14,471)	(74,599)
- reinsurers' share	203	-	203	91	-	91
	(88,634)	(22,824)	(111,458)	(60,037)	(14,471)	(74,508)
Change in the provision for claims						
- gross amount	342	(53)	289	826	(74)	752
- reinsurers' share	-	-	-	-	-	-
	342	(53)	289	826	(74)	752
Claims incurred, net of reinsurance (note 1(c))	(88,292)	(22,877)	(111,169)	(59,211)	(14,545)	(73,756)
Changes in other technical provisions, net of reinsurance (note 1(n))						
Long term business provision						
- gross amount	(28,122)	-	(28,122)	2,153	287	2,440
- reinsurers' share	458	-	458	(347)	-	(347)
	(27,664)	-	(27,664)	1,806	287	2,093
Technical provision for linked liabilities, net of reinsurance	(134,861)	(12,003)	(146,864)	(26,536)	26,947	411
	(162,525)	(12,003)	(174,528)	(24,730)	27,234	2,504
Net operating expenses (note 5)	(12,583)	(164)	(12,747)	(19,516)	(860)	(20,376)
Investment expenses and charges (note 4)	(1,285)	(450)	(1,735)	(2,146)	(22)	(2,168)
Tax charge attributable to long term business (notes 6(b) & 1(p))	(12,058)	(103)	(12,161)	(3,005)	(94)	(3,099)
Transfers (to)/from the fund for future appropriations (note 1(o))	(13,888)	-	(13,888)	38,697	-	38,697
Balance on the technical account - long term business	18,000	350	18,350	12,000	287	12,287

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THE NORTHERN ASSURANCE COMPANY LIMITED

Profit and loss account - non-technical account
For the year ended 31 December 1995

	1995	1994
	£'000	Restated £'000
Balance on general business technical account	25,159	38,481
Balance on long term business technical account	18,350	12,287
Taxation credit attributable to balance on the long term business technical account (note 1(p))	8,866	5,910
Shareholders' pre-tax profit from long term business	27,216	18,197
Investment income (notes 1(f) & 4)	163,997	34,843
Investment expenses and charges (notes 1(f) & 4)	(341)	(1,990)
Allocated investment return transferred to the general business technical account (note 1(f))	(26,024)	(29,691)
Investment return retained in the non-technical account	137,632	3,162
Profit on ordinary activities before taxation		
Operating profit	90,717	56,678
Realised investment gains	99,290	3,162
	190,007	59,840
Tax on profit on ordinary activities (notes 1(p) & 6(a))		
Operating profit	(24,041)	(5,723)
Realised investment gains	(1,624)	(999)
	(25,665)	(6,722)
Profit for the financial year (note 1(a))	164,342	53,118
Dividend payable	(164,300)	(53,200)
Retained profit / (loss)	42	(82)

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The notes on pages 9 to 22 are an integral part of these accounts. The Auditors' report is on page 23.
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THE NORTHERN ASSURANCE COMPANY LIMITEDStatement of total recognised gains and losses
For the year ended 31 December 1995

	1995	1994
	£'000	Restated £'000
Profit for the financial year	164,342	53,118
Movements in revaluation reserve after taxation (note 15(b))	(5,208)	(47,056)
Total recognised gains and losses arising in the year	159,134	6,062

Reconciliation of movements in equity shareholders' funds
For the year ended 31 December 1995

	1995	1994
	£'000	Restated £'000
Balance at 1 January	511,553	558,691
Total recognised gains and losses arising in the year	159,134	6,062
Dividends	(164,300)	(53,200)
Increase in capital	941,348	-
Goodwill and other movements	908	-
Balance at 31 December	1,448,643	511,553

The notes on pages 9 to 22 are an integral part of these accounts. The Auditors' report is on page 23.

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THE NORTHERN ASSURANCE COMPANY LIMITED

Balance sheet
At 31 December 1995

	<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>1995</u>	<u>1994</u>
	£'000	£'000	£'000	£'000	Restated £'000
Assets					
Investments (note 1(j))					
Land and buildings (note 10)	-	-	4,126	4,126	4,961
Investments in Group undertakings and participating interests (note 11)	4,994	-	364,177	369,171	347,893
Loans to Group undertakings (note 11(f))	-	-	968,379	968,379	-
Other financial investments (note 12)	285,613	-	112,287	397,900	368,591
Valuation of in-force long term business (note 1(l))	-	-	149,400	149,400	137,400
Deposits with ceding undertakings	-	-	1,195	1,195	1,081
	290,607	-	1,599,564	1,890,171	859,926
Assets held to cover linked liabilities	928,984	178,853	-	1,107,837	960,429
Reinsurers' share of technical provisions					
Provision for unearned premiums (note 1(b))	-	-	14,677	14,677	9,534
Long term business provision (note 1(n))	1,483	-	-	1,483	1,025
Claims outstanding (note 1(c))	15	-	45,984	45,999	32,204
	1,498	-	60,661	62,159	42,763
Debtors					
Debtors arising out of direct insurance operations (note 13)	2,922	-	32,072	34,994	27,070
Debtors arising out of reinsurance operations	70	1,461	15,636	17,167	20,705
Amounts owed by parent company and fellow subsidiary undertakings	1,157	224	146,320	147,701	63,694
Other debtors	15,994	853	56,257	73,104	25,871
	20,143	2,538	250,285	272,966	137,340
Other assets					
Tangible assets (note 1(i))	-	-	3,245	3,245	2,932
Cash at bank and in hand	1,506	1,171	1,391	4,068	32,965
	1,506	1,171	4,636	7,313	35,897
Prepayments and accrued income					
Accrued interest and rent	4,015	-	1,839	5,854	4,971
Deferred acquisition costs (note 1(d))	4,020	-	10,476	14,496	20,604
Other prepayments and accrued income	-	-	3,020	3,020	2
	8,035	-	15,335	23,370	25,577
Total assets	1,250,773	182,562	1,930,481	3,363,816	2,061,932

The notes on pages 9 to 22 are an integral part of these accounts. The Auditors' report is on page 23.

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THE NORTHERN ASSURANCE COMPANY LIMITED

Balance sheet
At 31 December 1995

	<u>Long term business</u>		<u>General</u>		
	Non- participation	Variable annuity	<u>business and other</u>	Total 1995	Total 1994 Restated
	£'000	£'000	£'000	£'000	£'000
Liabilities					
Capital and reserves					
Called up share capital (note 14)				947,500	6,152
Revaluation reserve (note 15)				490,587	495,795
Profit and loss account (note 16)				10,556	9,606
Equity shareholders' funds				<u>1,448,643</u>	<u>511,553</u>
Other liabilities					
Fund for future appropriations	178,636	-	-	178,636	157,424
Technical provisions					
Provision for unearned premiums	-	-	57,060	57,060	65,003
Long term business provision (note 18)	94,640	-	-	94,640	66,518
Claims outstanding (note 1(c))	2,076	142	158,307	160,525	147,092
	96,716	142	215,367	312,225	278,613
Technical provision for linked liabilities	928,984	178,853	-	1,107,837	960,973
Provision for other risks and charges (note 19)	(155)	-	4,383	4,228	1,014
Deposits received from reinsurers	-	-	231	231	225
Creditors					
Creditors arising out of direct insurance operations	1,440	54	2,726	4,220	3,577
Creditors arising out of reinsurance operations	32	-	6,358	6,390	10,003
Amounts owed to parent company and fellow subsidiary undertakings	18,000	850	239,224	258,074	67,803
Other creditors including taxation and social security	27,120	2,657	9,635	39,412	63,777
	46,592	3,561	257,943	308,096	145,160
Accruals and deferred income	-	6	3,914	3,920	6,970
Total other liabilities	<u>1,250,773</u>	<u>182,562</u>	<u>481,838</u>	<u>1,915,173</u>	<u>1,550,379</u>
Total liabilities				<u>3,363,816</u>	<u>2,061,932</u>

Approved by the Board
on 30 September 1996



Director

The notes on pages 9 to 22 are an integral part of these accounts. The Auditors' report is on page 23.

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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. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1995 as considered appropriate for an insurance company. As explained in note 2, certain comparative figures for 1994 have been restated to reflect a number of changes in accounting policy primarily brought about by the implementation of the EC Insurance Accounts Directive into United Kingdom law.

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 profit 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 incepted 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, together with 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.

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THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

(g) Long term business bonuses

These represent reversionary and similar policyholder bonuses declared in the year.

(h) 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.

(i) 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.

(j) 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 and minority interests.

(k) 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.

(l) 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. Shareholders' and policyholders' assets backing 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.

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THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies (continued)

(m) Subsidiaries and associated 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. Companies in which the Company has an equity interest, held on a long-term basis, in excess of 20% and not more than 50%, are classified as participating interests. Where the interests are beneficial and significant influence is exercised, such interests are classified as associated undertakings. 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) 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.

(o) 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 so all 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.

(p) 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.

(q) 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.

2. Accounting changes

A number of changes to the format of the accounts and to accounting policies have been made following the implementation of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 (the "1993 Regulations"), which implemented the EC Insurance Accounts Directive into United Kingdom law, and the issue by the Association of British Insurers of guidance on accounting for insurance companies.

Changes to the format of the accounts affect both the profit and loss account and the balance sheet.

The profit and loss account is now split into three parts:

- the general business technical account, which shows the general insurance result;
- the long term business technical account, which shows the life results after taxation;
- the non-technical account, which includes the balance on the technical account together with other profit and loss account items.

Extensive changes have also been made to the balance sheet with the majority of items being subject to reclassification.

The principal changes in accounting policy are explained below:

(i) unrealised investment gains and losses for long term business are now accounted for in the long term business technical account. Certain of these gains and losses are transferred to the fund for future appropriations. In 1994, all these gains and losses were dealt with in the investment reserve.

(ii) the long term business fund and investment reserves have been reallocated between the long term business provision, the provision for linked liabilities, the fund for future appropriations and deferred acquisition costs.

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NOTES TO THE ACCOUNTS

2. Accounting changes (continued)

(iii) acquisition costs for long term business are deferred and amortised over a period no longer than that in which they are expected to be recoverable out of margins in revenues from the related policies. In prior years, such costs were expensed in the long term business fund as incurred.

(iv) where any part of the long term business profit is computed on an after taxation basis, that part is grossed up at the full rate of taxation. In prior years, the effective rate of taxation was used.

(v) non-linked long term business debt securities and fixed income securities are now shown at amortised cost, rather than current value, as this basis more closely corresponds to the valuation of the relevant long term liabilities.

(vi) the accounting policy for certain London market business has changed from a three year funded basis to a two year funded basis. This change in policy reflects better information being available at an earlier date.

3. Effect of changes in accounting policy

The balance sheet has been subject to extensive reclassification, following the introduction of the new formats required by the 1993 Regulations. Assets and liabilities have both been increased by £173.9m in the restated 1994 balance sheet.

	Non- participation	Variable annuity	Non- technical account 1995	Non- participation	Variable annuity	Non- technical account 1994
	£'000	£'000	£'000	£'000	£'000	£'000
4. Analysis of investment return						
Profit from associated undertakings	-	-	3,432	-	-	2,809
Income from fellow subsidiary undertakings	-	-	52,548	-	-	18,500
Income from other participating interests	500	-	-	-	-	-
Income from other investments:						
- Land and buildings	2,736	-	552	2,346	-	460
- Listed investments	36,137	7,811	5,010	29,031	5,985	6,077
- Other investments	6,964	(291)	3,165	5,982	334	3,835
Realised investment gains	36,335	11,666	99,290	22,307	16,469	3,162
Investment income	82,672	19,186	163,997	59,666	22,788	34,843
Expenses and charges, including allocated interest charges	(1,285)	(450)	(341)	(2,146)	(22)	(1,990)
	81,387	18,736	163,656	57,520	22,766	32,853
Movement in unrealised investment gains/(losses)	105,508	15,864	(16,082)	(131,420)	(35,536)	(25,709)
Total investment return before taxation	186,895	34,600	147,574	(73,900)	(12,770)	7,144

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

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	General business		Non-participation		Variable annuity	
	1995	1994	1995	1994	1995	1994
	£'000	£'000	£'000	£'000	£'000	£'000
5. Net operating expenses						
Acquisition costs	26,545	31,354	5,889	13,550	66	80
Changes in deferred acquisition costs	1,057	(105)	3,563	2,026	-	-
Administrative expenses	4,905	3,287	3,131	3,940	98	780
	32,507	34,536	12,583	19,516	164	860
Reinsurance commissions receivable	(5,658)	(1,414)	-	-	-	-
Net operating expenses	26,849	33,122	12,583	19,516	164	860

Commission payable in respect of direct income amounted to £18,166,000 (1994 £27,982,000).

6. Taxation
(a) Non-life

	1995	1994
	£'000	£'000
(i) The taxation charge in the non-technical account comprises:		
United Kingdom corporation tax at 33% (1994 33%) based on taxable profits for the year	16,443	(18)
Tax credit on United Kingdom dividends received	356	830
Taxation attributable to shareholders' long term business profits	8,866	5,910
	25,665	6,722

The charge of £25,665,000 (1994 £6,722,000) includes a deferred taxation charge of £2,593,000 (1994 credit £18,000) arising from short-term timing differences.

	1995	1994
	£'000	£'000
(ii) The provision for deferred taxation, included within the provision for other risks and charges, comprises:		
Unrealised gains on investments	1,437	311
Timing differences	2,946	354
	4,383	665

(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:

	1995	1994
	£'000	£'000
Unrealised gains on investments	7,516	18,256

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THE NORTHERN ASSURANCE COMPANY LIMITED**NOTES TO THE ACCOUNTS****6. Taxation (continued)**
(b) Long term business

	Non- participation 1995 £'000	Variable annuity 1995 £'000	Non- participation 1994 £'000	Variable annuity 1994 £'000
Taxation charge in the long term business technical account comprises:				
United Kingdom corporation tax based on profits and income for the year	9,511	-	(156)	-
Tax credit on United Kingdom dividends received (net of available reliefs)	1,998	-	2,656	-
Overseas taxation	549	103	505	94
	12,058	103	3,005	94

The taxation charges above include a deferred taxation credit of £155,000 (1994 credit of £1,811,000) arising from short-term timing differences and deferred gains.

7. Directors' emoluments and employee information

None of the directors received emoluments in respect of their services as directors of the Company (1994 £Nil).
The Company did not employ any staff during the year (1994 Nil).

8. Auditors' remuneration

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

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NOTES TO THE ACCOUNTS

9. Balance sheet segmentation

	Long term business				General business and other	
	Non-participation 1995 £'000	1994 £'000	Variable annuity 1995 £'000	1994 £'000	1995 £'000	1994 £'000
Segmented assets comprise:						
Investments						
Land and buildings	-	-	-	-	4,126	4,961
Investments in Group undertakings and participating interests	4,994	8,042	-	-	364,177	339,851
Loans to Group undertakings	-	-	-	-	968,379	-
Other financial investments	285,613	224,344	-	-	112,287	144,247
Valuation of in-force long term business	-	-	-	-	149,400	137,400
Deposits with ceding undertakings	-	-	-	-	1,195	1,081
	290,607	232,386	-	-	1,599,564	627,540
Assets held to cover linked liabilities	928,984	793,938	178,853	166,491	-	-
Reinsurers' share of technical provisions						
Provision for unearned premiums	-	-	-	-	14,677	9,534
Long term business provision	1,483	1,025	-	-	-	-
Claims outstanding	15	-	-	-	45,984	32,204
	1,498	1,025	-	-	60,661	41,738
Debtors						
Debtors arising out of direct insurance operations	2,922	2,628	-	(2)	32,072	24,444
Debtors arising out of reinsurance operations	70	17	1,461	-	15,636	20,688
Amounts owed by parent company and fellow subsidiary undertakings	1,157	3,238	224	16	146,320	60,440
Other debtors	15,994	13,082	853	2,464	56,257	10,325
	20,143	18,965	2,538	2,478	250,285	115,897
Other assets						
Tangible assets	-	-	-	-	3,245	2,932
Cash at bank and in hand	1,506	29,957	1,171	562	1,391	2,446
	1,506	29,957	1,171	562	4,636	5,378
Prepayments and accrued income						
Accrued interest and rent	4,015	3,204	-	8	1,839	1,759
Deferred acquisition costs	4,020	7,583	-	-	10,476	13,021
Other prepayments and accrued income	-	-	-	-	3,020	2
	8,035	10,787	-	8	15,335	14,782
Total assets	1,250,773	1,087,058	182,562	169,539	1,930,481	805,335

The cost of assets held to cover linked liabilities is £903,099,000 (1994 £853,502,000).

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NOTES TO THE ACCOUNTS

9. 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>			
	1995 £'000	1994 £'000	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Fund for future appropriations	178,636	157,424	-	-	-	-
Technical provisions						
Provision for unearned premiums	-	-	-	-	57,060	65,003
Long term business provision	94,640	66,518	-	-	-	-
Claims outstanding	2,076	2,404	142	89	158,307	144,599
	96,716	68,922	142	89	215,367	209,602
Technical provision for linked liabilities	928,984	794,123	178,853	166,850	-	-
Provision for other risks and charges	(155)	-	-	-	4,383	1,014
Deposits received from reinsurers	-	-	-	-	231	225
Creditors						
Creditors arising out of direct insurance operations	1,440	186	54	-	2,726	3,391
Creditors arising out of reinsurance operations	32	-	-	-	6,358	10,003
Amounts owed to parent company and fellow subsidiary undertaking	18,000	12,886	850	366	239,224	54,551
Other creditors including taxation and social security	27,120	53,517	2,657	2,234	9,635	8,026
	46,592	66,589	3,561	2,600	257,943	75,971
Accruals and deferred income	-	-	6	-	3,914	6,970
Total liabilities, excluding capital and reserves	1,250,773	1,087,058	182,562	169,539	481,838	293,782

10. Land and buildings

	1995 £'000	1994 £'000
The carrying value of land and buildings comprises:		
Freeholds	4,126	4,961

The cost of land and buildings at 31 December 1995 was £2,393,000 (1994 £2,369,000).

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.

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11. Investments in Group undertakings and participating interests	1995	1994 Restated
(a) Investments in Group undertakings and participating interests included in the balance sheet, comprise:	£'000	£'000
Shares in subsidiary undertakings at net asset value	333,002	263,046
Investments in participating interests	36,169	84,847
	369,171	347,893

(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 £309,723,000 (1994 £258,266,000) has been credited to the Company's unrealised gains on investments.

At 31 December 1995, 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.

(c) Investments in participating interests included in the balance sheet comprise:	Carrying value	Cost	Carrying value	Cost
	£'000	1995 £'000	£'000	1994 £'000
Investments in associated undertakings	31,036	3,606	76,805	3,888
Other participating interests	5,133	3,580	8,042	6,364
	36,169	7,186	84,847	10,252

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

(d) At 31 December 1995, 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	14,626,015	IR 25p	28.3%	Insurance (Republic of Ireland)

The investment in Hibernian Group Public Limited Company is valued at its accounting date, 30 June 1995.

During the year, the Company transferred its interest in Commercial Union of South Africa Limited to its parent company, Commercial Union Assurance Company plc. This interest represented a shareholding of 36.0% and was previously accounted for as an associated undertaking.

(e) In addition to the principal associated undertaking detailed above, 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.

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

NOTES TO THE ACCOUNTS

11. Investments in Group undertakings and participating interests (continued)

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

12. Other financial investments	General and other	Long term	Carrying value total	Cost 1995	General and other	Long term	Carrying value total	Cost 1994
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(a) These financial investments comprise:								
Shares and other variable yield securities and units in unit trusts	51,538	177,503	229,041	116,140	80,211	147,038	227,249	155,138
Debt securities and other fixed income securities:								
At current value	53,121	-	53,121	50,886	44,436	-	44,436	44,675
At amortised cost	-	70,785	70,785	70,785	-	51,848	51,848	51,848
Loans secured by mortgages	2,834	47	2,881	2,881	2,780	64	2,844	2,886
Other loans:								
Loans secured on policies	-	386	386	386	-	-	-	-
Other loans	402	55	457	457	-	453	453	453
Deposits with credit institutions	4,392	36,837	41,229	41,229	16,820	24,941	41,761	41,761
	112,287	285,613	397,900	332,764	144,247	224,344	368,591	296,761

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

	Listed on a recognised United Kingdom investment exchange	Other listed investments 1995	Listed on a recognised United Kingdom investment exchange	Other listed investments 1994
	£'000	£'000	£'000	£'000
(b) Included in the carrying value above are:				
Shares and other variable yield securities and units in unit trusts	98,137	117,887	63,516	121,772
Debt securities and other fixed income securities	101,076	16,184	74,281	13,857

(c) The long term debt securities and other fixed income securities, which are shown at amortised cost, have a market value of £71,959,000 (1994 £51,423,000).

The redemption value of these investments held at the year end was £3,600,000 lower (1994 £352,000 greater) than the amortised cost.

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13. Debtors arising out of direct insurance operations	1995	1994
Debtors arising out of direct insurance operations comprise:	£'000	£'000
Amounts owed by policyholders	15,437	18,209
Amounts owed by intermediaries	8,991	8,861
Premium financing	10,566	-
	34,994	27,070

The Company has taken advantage of the transitional exemption included in the amendment to Financial Reporting Standard 5 'Reporting the Substance of Transactions' available to insurers, which allows the offset of balances arising from insurance broking transactions.

14. Share capital

The Company has an authorised share capital of 947,500,000 (1994: 7,500,000) ordinary shares of £1 each. The allotted and called up share capital comprises 947,500,000 (1994: 6,151,610) fully paid ordinary shares of £1 each. During the year the Company issued 941,348,390 £1 ordinary shares at nominal value.

15. Revaluation reserve	1995	1994
(a) The balance on the revaluation reserve comprises:	£'000	Restated £'000
Unrealised investment gains	341,187	358,395
Reserve arising on the valuation of in-force long term business	149,400	137,400
	490,587	495,795

(b) Movements in the revaluation reserve, after taxation, comprise:	1995	1994
	£'000	Restated £'000
Total gains/(losses) on investments, excluding valuation of in-force long term business	80,458	(21,893)
Reserve arising on the valuation of in-force long term business	12,000	(23,000)
	92,458	(44,893)
Less:		
Realised gains after taxation included in the non-technical account	(97,666)	(2,163)
Movements in the revaluation reserve after taxation	(5,208)	(47,056)
Balance at 1 January (restated)	495,795	542,851
Balance at 31 December	490,587	495,795

16. Profit and loss account	1995	1994
Movement in the profit and loss account comprise:	£'000	Restated £'000
Transfer from non-technical account	42	(82)
Goodwill and other movements	908	-
Balance at 1 January	9,606	9,688
Balance at 31 December	10,556	9,606

The goodwill credited to the profit and loss account is attributable to the transfer of the associated undertaking, Commercial Union of South Africa Limited, to the parent company, Commercial Union Assurance Company plc.

17. 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.
- 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 1995.

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18. 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	4	A67/70
Annuities		
-Individual	4 to 5	IM80/IF80 (C=2010), less 2 years from age
-Group	4 to 5	PA90, less 4 years 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.

19. Provision for other risks and charges	Pensions and similar obligations	Deferred Tax (note 6)	Other	Total
Movements in provisions for other risks and charges comprise:	£'000	£'000	£'000	£'000
At 1 January 1995	87	665	262	1,014
General business	(87)	3,718	(262)	3,369
Long term business	-	(155)	-	(155)
At 31 December 1995	-	4,228	-	4,228

20. 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 1.1.95	At 31.12.95	
			£	£	£
A B Wyand	October 2003	9.5% p.a.	11,971	10,648	11,971

21. 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
	1995	1994	1995	1994	1994
	£'000	£'000	£'000	£'000	Restated £'000
General	82,880	118,850	63,501	38,481	374,153
Life	121,348	154,987	27,216	18,197	-
Valuation of in-force life business	-	-	-	-	-
	204,228	273,837	90,717	56,678	137,400
					511,553

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21. Segmental information (continued)

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 1995 £'000	Gross premiums earned 1995 £'000	Gross claims incurred 1995 £'000	Gross operating expenses 1995 £'000	Reinsurance balance 1995 £'000
(b) A further analysis of general business technical account information is given below:					
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)

	Gross premiums written Restated 1994 £'000	Gross premiums earned Restated 1994 £'000	Gross claims incurred Restated 1994 £'000	Gross operating expenses Restated 1994 £'000	Reinsurance balance Restated 1994 £'000
Direct insurance:					
Accident and health	3,281	3,336	3,620	1,013	(442)
Motor (third party liability)	4,172	4,440	2,946	709	304
Motor (other classes)	27,057	28,941	20,159	5,811	215
Marine, aviation and transport	1,269	1,311	1,277	151	(171)
Fire and other damage to property	65,068	65,346	33,551	18,044	9,250
Third party liability	15,657	15,621	13,156	3,623	43
Credit and suretyship	8,587	8,152	2,410	1,887	176
Miscellaneous	7,010	6,099	2,641	1,114	2,072
	132,101	133,246	79,760	32,352	11,447
Reinsurance	11,929	11,966	9,250	2,184	1,429
	144,030	145,212	89,010	34,536	12,876

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21. Segmental information (continued)

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

	Non-participation		Variable annuity	
	1995	1994	1995	1994
	£'000	£'000	£'000	£'000
Gross premiums written:				
Individual premiums	120,942	154,402	897	1,322
Premiums under group contacts	7	28	-	-
	120,949	154,430	897	1,322
Periodic premiums	67,999	67,422	-	-
Single premiums	52,950	87,008	897	1,322
	120,949	154,430	897	1,322
Premiums from non-participating contracts	21,808	816	-	-
Premiums from investment linked contracts	99,141	153,614	897	1,322
	120,949	154,430	897	1,322

Of the total gross premiums written £nil (1994 £Nil) came from inwards reinsurance.

22. 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.

23. Ultimate holding company

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

The smallest group of undertakings, of which the Company is a member, that prepares group accounts is headed by Commercial Union Assurance Company plc, which is registered in England and Wales. 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.

24. 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.

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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 22.

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.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company at 31 December 1995 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**

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