

THE NORTHERN ASSURANCE COMPANY LIMITED

**Accounts for the year
ended 31 December 1999**



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 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company continued to comprise the transaction of general insurance through its branches in the UK and overseas. As part of the restructuring of the CGU Group, the Company has reduced its general business activities in the UK and is now accepting reinsurance from its immediate parent company, CGU International Insurance plc. On 1 January 1999, part of the Company's long term business was transferred to CGU Linked Life Assurance Ltd (CGULLA), a company within the CGU Group. The remaining long term business was reinsured to CGULLA with effect from 1 January 2000.

ULTIMATE HOLDING COMPANY

On 30 May 2000, the ultimate holding company, CGU plc, merged with Norwich Union plc and was renamed CGNU plc. However, the references within these accounts are to CGU plc and the CGU Group as they existed at 31 December 1999.

RESULTS AND DIVIDEND

The results for the year are shown on pages 4 to 6 and arise from continuing operations. The directors, having declared an interim dividend of £30,000,000 (1998 £444,991,000), do not recommend the payment of any further dividend for the year.

DIRECTORS

The directors in office during the year were:

Mr P J Foster
Drs C A C M Schrauwers (resigned on 1 November 2000)

The following directors were appointed on 1 November 2000:

Mr M N Biggs
Mr R J Harvey
Mr P G Scott
Mr R A Scott
Mr P J Twyman
Mr A B Wyand

THE NORTHERN ASSURANCE COMPANY LIMITED**DIRECTORS' REPORT (continued)****DIRECTORS' INTERESTS**

The directors of the Company who held office at 31 December 1999 had the following interests in the shares of CGU plc:

	Ordinary Shares of 25p each					
	1 January 1999				31 December 1999	
	Shares	Share options	Options granted during the year	Options exercised during the year	Shares	Share options
C A C M Schrauwers	8,012	83,948	31,411	-	11,605	115,359

In addition, Drs Schrauwers was granted a restricted award over 28,802 CGU shares under the CGU Integration Incentive Plan. The shares under the Plan will be released to participants in January 2001, as the CGU Group has achieved its stated integration cost savings targets.

At 31 December 1999, Drs Schrauwers also held nil cost options over 34,298 shares under the Commercial Union Long Term Incentive Plan. This has been discontinued and all awards have now either vested or lapsed.

Mr Foster is a director of the ultimate holding company, CGNU plc, and under the Companies (Disclosure of Directors' Interest) (Exceptions) Regulations 1985 (SI 1985/802) is not required to disclose his share interests in CGU plc in the Company's accounts. His interests can be found in the Report and Accounts of CGU plc.

Save as disclosed above, none of the directors who held office at 31 December 1999 had any beneficial interests in the Company's shares or the shares of any other company within the CGU Group.

FRS 8 DISCLOSURES

There have been no significant transactions between the directors and the Company during the year.

THE NORTHERN ASSURANCE COMPANY LIMITED

DIRECTORS' REPORT (continued)

YEAR 2000 AND EURO

The CGU Group, of which the Company is a member, benefited from the substantial time and effort incurred in preparing for the impact of year 2000 issues and as a consequence suffered no significant problems. Total costs incurred by the CGU Group in preparing for year 2000 amounted to £135m of which £41m was included in the 1999 results.

Year 2000 claims from policyholders are expected to have an insignificant impact on the CGU Group's underwriting results. There is no impact on the Company's result.

The CGU Group's businesses in the euro zone are continuing to work actively for the final conversion. Costs incurred by the Group to date for the introduction of the euro amount to £35m, of which £15m has been included in the 1999 results.

CREDITOR PAYMENT POLICY

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

Approved and signed on behalf of the Board on 30 March, 2001



Authorised Signatory
CGNU Company Secretarial Services Limited
Secretary

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 1999

	Notes	£'000	1999 £'000	1998 £'000
Gross premiums written	17c		133,883	113,347
Outward reinsurance premiums			(22,870)	(23,064)
Net premiums written	1b		111,013	90,283
Change in the provision for unearned premiums				
- gross amount			3,362	3,199
- reinsurers' share			(1,916)	(5,191)
			1,446	(1,992)
Earned premiums, net of reinsurance			112,459	88,291
Allocated investment return transferred from the non-technical account	1f		18,760	99,137
Claims paid				
- gross amount		(108,646)		(96,377)
- reinsurers' share		18,076		19,239
			(90,570)	(77,138)
Change in the provision for claims				
- gross amount		1,790		(7,112)
- reinsurers' share		(453)		2,795
			1,337	(4,317)
Claims incurred, net of reinsurance	1c		(89,233)	(81,455)
Unexpired risk provision			558	(2,921)
Net operating expenses	3		(33,847)	(29,057)
General insurance operating result			8,697	73,995
Change in the equalisation provision	1m & 15		(479)	2,527
Balance on the technical account -				
General business			8,218	76,522

The notes on pages 10 to 20 are an integral part of these accounts. The auditors' report is on page 21.

THE NORTHERN ASSURANCE COMPANY LIMITED

Profit and loss account - technical account - long term business For the year ended 31 December 1999

	Total 1999 Non- participation life and annuity fund	Non- participation life and annuity fund	Variable annuity fund	Total 1998
	£'000	£'000	£'000	£'000
Gross premiums written (note 17d)	85,840	169,964	888	170,852
Outward reinsurance premiums	(85,840)	(616)	-	(616)
Earned premiums, net of reinsurance (note 1b)	-	169,348	888	170,236
Investment income (notes 1f & 2)	-	192,854	27,826	220,680
Unrealised gains/(losses) on investments (notes 1i & 2)	-	95,617	(1,371)	94,246
Claims paid				
- gross amount	(43,706)	(126,049)	(30,671)	(156,720)
- reinsurers' share	43,706	337	-	337
	-	(125,712)	(30,671)	(156,383)
Change in the provision for claims				
- gross amount	-	762	-	762
- reinsurers' share	-	(23)	-	(23)
	-	739	-	739
Claims incurred, net of reinsurance (note 1c)		(124,973)	(30,671)	(155,644)
Changes in other technical provisions, net of reinsurance (note 1n)				
Long term business provision				
- gross amount	-	4,689	-	4,689
- reinsurers' share	-	8	-	8
	-	4,697	-	4,697
Technical provision for linked liabilities, net of reinsurance				
	-	(219,390)	3,902	(215,488)
	-	(214,693)	3,902	(210,791)
Net operating expenses (note 3)	-	(11,032)	(258)	(11,290)
Investment expenses and charges (note 2)	-	(3,508)	(316)	(3,824)
Tax charge attributable to long term business (notes 1p and 4b)	-	(21,746)	-	(21,746)
Transfer to the fund for future Appropriations (note 1o)	-	(62,867)	-	(62,867)
Balance on the technical account - long term business	-	19,000	-	19,000

The notes on pages 10 to 20 are an integral part of these accounts. The auditors' report is on page 21.

THE NORTHERN ASSURANCE COMPANY LIMITED

Profit and loss account - non-technical account

For the year ended 31 December 1999

	1999	1998
	£'000	£'000
General insurance operating result	8,697	73,995
Change in the equalisation provision (notes 1m & 15)	<u>(479)</u>	<u>2,527</u>
Balance on general business technical account	8,218	76,522
Balance on long term business technical account	-	19,000
Taxation credit attributable to balance on the long term business technical account (note 1p)	<u>-</u>	<u>8,536</u>
Shareholders' pre-tax profit from long term business	-	27,536
Investment income (notes 1f & 2)	(9,838)	154,831
Unrealised losses on investments (note 2)	(5,746)	(24,943)
Investment expenses and charges (notes 1f & 2)	(659)	(202)
Allocated investment return transferred to the general business technical account (note 1f)	<u>(18,760)</u>	<u>(99,137)</u>
Investment return retained in the non-technical account	<u>(35,003)</u>	<u>30,549</u>
(loss)/profit on ordinary activities before taxation comprising:		
Operating (loss)/profit	(18,221)	139,873
Change in the equalisation provision	(479)	2,527
Realised and unrealised investment gains	<u>(8,400)</u>	<u>(7,793)</u>
	(26,785)	134,607
Net gain arising from sale of subsidiary undertakings (note 9a)	-	510,266
Tax on (loss)/profit on ordinary activities (notes 1p & 4)		
Operating profit	5,929	(43,976)
Other	<u>6,156</u>	<u>(3,756)</u>
	12,085	(47,732)
(loss)/profit for the financial year (note 1a)	(14,700)	597,141
Dividend payable	(30,000)	(444,991)
Retained (loss)/profit	<u><u>(44,700)</u></u>	<u><u>152,150</u></u>

The notes on pages 10 to 20 are an integral part of these accounts. The auditors' report is on page 21.

THE NORTHERN ASSURANCE COMPANY LIMITED

**Statement of total recognised gains and losses
For the year ended 31 December 1999**

	1999 £'000	1998 £'000
(loss)/profit for the financial year	(14,700)	597,141
Movement in the revaluation reserve (note 13)	(280,483)	(286,086)
Foreign exchange rate movements	(1,381)	-
Total recognised gains and losses arising in the year	<u>(296,564)</u>	<u>311,055</u>

**Reconciliation of movements in equity shareholders' funds
For the year ended 31 December 1999**

	1999 £'000	1998 £'000
Balance at 1 January	1,441,761	1,575,697
Total recognised gains and losses arising in the year	(296,564)	311,055
Dividend	(30,000)	(444,991)
Balance at 31 December	<u>1,115,197</u>	<u>1,441,761</u>

The notes on pages 10 to 20 are an integral part of these accounts. The auditors' report is on page 21.

THE NORTHERN ASSURANCE COMPANY LIMITED

Balance sheet

At 31 December 1999

	<u>Long term business</u>	<u>General business and other</u>	<u>Total 1999</u>	<u>Total 1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Assets				
Investments (note 1i)				
Land and buildings (note 8)	-	2,364	2,364	4,277
Investments in Group undertakings and participating interests (note 9)	-	4,590	4,590	7,681
Loans to Group undertakings (note 9d)	-	284,433	284,433	383,526
Other financial investments (note 10)	-	282,924	282,924	636,715
Valuation of in-force long term business (note 1j)	-	-	-	281,920
Deposits with ceding undertakings	-	-	-	480
	-	574,311	574,311	1,314,599
Assets held to cover linked liabilities	-	-	-	1,785,944
Reinsurers' share of technical provisions				
Provision for unearned premiums (note 1b)	-	9,537	9,537	4,340
Long term business provision (note 1n)	-	-	-	1,395
Claims outstanding (note 1c)	-	29,577	29,577	28,158
Provision for unit-linked liabilities	947,534	-	947,534	-
	947,534	39,114	986,648	33,893
Debtors				
Debtors arising out of direct insurance operations (note 11)	-	7,920	7,920	43,949
Debtors arising out of reinsurance operations	-	1,113	1,113	15,539
Amount owed by parent company	-	684,872	684,872	701,938
Amounts owed by other group companies	-	23,716	23,716	11,066
Other debtors	-	2,789	2,789	19,342
		720,410	720,410	791,834
Other assets				
Tangible assets (note 1h)	-	328	328	3,695
Cash at bank and in hand	-	6,864	6,864	12,563
		7,192	7,192	16,258
Prepayments and accrued income				
Accrued interest and rent	-	3,056	3,056	8,215
Deferred acquisition costs (note 1d)	-	15,099	15,099	12,920
Other prepayments and accrued income	-	1,885	1,885	768
		20,040	20,040	21,903
Total assets	947,534	1,361,067	2,308,601	3,964,431

The notes on pages 10 to 20 are an integral part of these accounts. The auditors' report is on page 21.

THE NORTHERN ASSURANCE COMPANY LIMITED

Balance sheet At 31 December 1999

	<u>Long term business</u>	<u>General business and other</u>	<u>Total 1999</u>	<u>Total 1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Liabilities				
Capital and reserves				
Called up share capital (note 12)			947,500	947,500
Revaluation reserve (note 13)			1,429	281,912
Profit and loss account (note 13)			166,268	212,349
Equity shareholders' funds			<u>1,115,197</u>	<u>1,441,761</u>
Other liabilities				
Fund for future appropriations	-	-	-	298,790
Technical provisions				
Provision for unearned premiums	-	60,057	60,057	47,272
Long term business provision (note 14)	-	-	-	79,954
Claims outstanding (note 1c)	-	173,061	173,061	143,325
Other technical provisions	-	2,362	2,362	3,338
Equalisation provision (notes 1m & 15)	-	479	479	-
		235,959	235,959	273,889
Technical provision for linked liabilities	947,534	-	947,534	1,785,944
Provision for other risks and charges (note 16)	-	679	679	11,088
Deposits received from reinsurers	-	-	-	209
Creditors				
Creditors arising out of direct insurance operations	-	451	451	6,382
Creditors arising out of reinsurance operations	-	723	723	7,618
Loans with credit institutions (note 18)	-	760	760	-
Amount owed to parent company	-	-	-	67,320
Amounts owed to other group companies	-	162	162	40,337
Other creditors including taxation and social security	-	4,813	4,813	28,682
		6,909	6,909	150,339
Accruals and deferred income	-	2,323	2,323	2,411
Total other liabilities	<u>947,534</u>	<u>245,870</u>	<u>1,193,404</u>	<u>2,522,670</u>
Total liabilities			<u>2,308,601</u>	<u>3,964,431</u>

Approved by the Board on 30 March 2001

Director

The notes on pages 10 to 20 are an integral part of these accounts. The auditors' report is on page 21.

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 Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP"). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 1999 as considered appropriate for an insurance company. Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation. These alterations have had no effect on net assets.

The profit and loss account for the year reflects all income and expenditure, including realised and unrealised investment gains, other than items charged to provisions set up in earlier years.

(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 were amortised over a period not longer than that in which they were 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, together with realised investment gains and losses. Realised investment gains and losses represent the difference between the net sale proceeds and the cost of acquisition. Unrealised investments gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year. Long term business investment income and unrealised gains are included in the long term business technical account. Non-long term business investment income and unrealised gains and losses are taken to the non-technical account. Investment income, excluding realised and unrealised investment and foreign exchange 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. Unrealised gains and losses on the valuation of internally generated in-force long term business were taken to the revaluation reserve as explained in accounting policy j.

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 transfers 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) Valuation of in-force long term business

The valuation of in-force long term business was included in the balance sheet at the directors' valuation, based on advice from consulting actuaries. The valuation represented 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. Movements in the valuation of in-force long term business were taken to the revaluation reserve.

(k) 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.

(l) Group consolidation

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

(m) 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.

(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. 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 was used in connection with the Non-Participation Life fund which contained 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 was uncertain and, as a result, amounts whose allocation either to policyholders or shareholders had not been determined by the end of the financial year were held in the fund for future appropriations. Transfers between the fund for future appropriations and the long term business technical account represented the changes in the unallocated amounts between balance sheet dates.

(p) Taxation

The taxation charge or credit 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. In the long term business technical account, the taxation charge is based on investment income and annuity profits less expenses. The Variable Annuity Fund did 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.

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

(q) Exchange rates

Transactions denominated in foreign currencies are translated at the exchange rate at the date of transaction. Foreign currency assets and liabilities held at the year end are translated at year end rates of exchange.

	Non-participation		Variable annuity		Non-technical account	
	1999	1998	1999	1998	1999	1998
	£'000	£'000	£'000	£'000	£'000	£'000
2. Analysis of investment return						
Profit from associated undertakings	-	-	-	-	-	1,726
Income from subsidiary undertakings	-	-	-	-	722	-
Income from other Group undertakings	-	-	-	-	15,159	36,616
Income from other investments:						
- Land and buildings	-	3,160	-	-	137	620
- Other investments	-	53,877	-	5086	19,282	98,719
Foreign exchange losses	-	-	-	-	(42,484)	-
Realised investment losses	-	135,817	-	22,740	(2,654)	17,150
Investment income	-	192,854	-	27,826	(9,838)	154,831
Expenses and charges, including allocated interest charges	-	(3,508)	-	(316)	(659)	(202)
	-	189,346	-	27,510	(10,497)	154,629
Movement in unrealised investment gains/(losses)	-	95,617	-	(1,371)	(5,746)	(24,943)
Total investment return before taxation	-	284,963	-	26,139	(16,243)	129,686

	Non-participation		Variable annuity		General business	
	1999	1998	1999	1998	1999	1998
	£'000	£'000	£'000	£'000	£'000	£'000
3. Net operating expenses						
Acquisition costs	-	6,394	-	64	32,453	22,050
Changes in deferred acquisition costs	-	671	-	-	345	(478)
Administrative expenses	-	3,967	-	194	4,060	8,245
	-	11,032	-	258	36,858	29,817
Reinsurance commissions receivable	-	-	-	-	(3,011)	(760)
Net operating expenses	-	11,032	-	258	33,847	29,057

Commission payable in respect of direct insurance business amounted to £19,341,000 (1998 £14,380,000).

4. Taxation

(a) Non-life

	1999	1998
	£'000	£'000
(i) The taxation (credit)/charge in the non-technical account comprises:		
United Kingdom corporation tax at 30.25% (1998 31%) based on taxable profits for the year	(12,085)	38,379
Tax credit on United Kingdom dividends received	-	283
Taxation attributable to shareholders' long term business profits	-	8,536
Tax on unrealised gains on investments	-	534
	(12,085)	47,732

The credit of £12,085,000 (1998 charge of £47,732,000) includes a deferred taxation debit of £3,163,000 (1998 £nil) arising from short-term timing differences.

	1999	1998
	£'000	£'000
(ii) The provision for deferred taxation, included within the provision for Other risks and charges, relates to:		
Unrealised gains on investments	-	3,163

(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:

	1999	1998
	£'000	£'000
Tax on unrealised gains on investments	-	1,595

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

(b) Long term business	Non- participation 1999 £'000	Variable annuity 1999 £'000	Non- participation 1998 £'000	Variable annuity 1998 £'000
The taxation charge in the long term business				
Technical account comprises:				
United Kingdom corporation tax based on profits and income for the year	-	-	20,582	-
Tax credit on United Kingdom dividends received (net of available reliefs)	-	-	933	-
Overseas taxation	-	-	231	-
	-	-	21,746	-

The taxation charges above include a deferred taxation charge of £nil (1998 charge of £1,857,000) arising from short-term timing differences and deferred gains.

5. Directors' emoluments and employee information

None of the directors received emoluments in respect of his services as director of the Company (1998 £nil).

The average number of persons employed by the Company during the year was 199 (1998 189). Staff costs for 1999 totalled £4,885,000, comprising wages and salaries £4,273,000, social security costs £418,000 and pension costs £194,000. 1998 staff costs were borne by the immediate parent company.

6. Auditors' remuneration

Auditors' remuneration is charged in the accounts of CGU International Insurance plc.

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Balance sheet segmentation

	Long term business				General business	
	Non-participation		Variable annuity		And other	
	1999	1998	1999	1998	1999	1998
Segmented assets comprise:	£'000	£'000	£'000	£'000	£'000	£'000
Investments						
Land and buildings	-	-	-	-	2,364	4,277
Investments in Group undertakings and participating interests	-	5,894	-	-	4,590	1,787
Loans to Group undertakings	-	-	-	-	284,433	383,526
Other financial investments	-	436,914	-	-	282,924	199,801
Valuation of in-force long term business	-	-	-	-	-	281,920
Deposits with ceding undertakings	-	-	-	-	-	480
	-	442,808	-	-	574,311	871,791
Assets held to cover linked liabilities	-	1,602,695	-	183,249	-	-
Reinsurers' share of technical provisions						
Provision for unearned premiums	-	-	-	-	9,537	4,340
Long term business provision	-	1,395	-	-	-	-
Claims outstanding	-	-	-	-	29,577	28,158
Provision for unit-linked liabilities	947,534	-	-	-	-	-
	947,534	1,395	-	-	39,114	32,498
Debtors						
Debtors arising out of direct insurance operations	-	1,687	-	2,303	7,920	39,959
Debtors arising out of reinsurance operations	-	115	-	-	1,113	15,424
Amounts owed by parent company	-	-	-	-	684,872	701,938
Amounts owed by other group companies	-	-	-	-	23,716	11,066
Other debtors	-	5,313	-	3,808	2,789	10,221
	-	7,115	-	6,111	720,410	778,608
Other assets						
Tangible assets	-	-	-	-	328	3,695
Cash at bank and in hand	-	7,664	-	3,091	6,864	1,808
	-	7,664	-	3,091	7,192	5,503
Prepayments and accrued income						
Accrued interest and rent	-	6,070	-	436	3,056	1,709
Deferred acquisition costs	-	347	-	-	15,099	12,573
Other prepayments and accrued income	-	-	-	-	1,885	768
	-	6,417	-	436	20,040	15,050
Total assets	947,534	2,068,094	-	192,887	1,361,067	1,703,450

The cost of assets held to cover linked liabilities is £nil (1998 £1,332,940,000).

As part of the restructuring of the CGU Group, certain assets and liabilities of the Company were transferred to the immediate parent company, CGU International Insurance plc, on 1 January 1999.

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Balance sheet segmentation (continued)

Segmented liabilities excluding capital and reserves comprise:	Long term business		General business and other	
	Non-participation	Variable annuity		
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Fund for future appropriations	-	298,790	-	-
Technical provisions				
Provision for unearned premiums	-	-	60,057	47,272
Long term business provision	-	79,954	-	-
Claims outstanding	-	1,822	173,061	141,123
Other technical provisions	-	-	2,362	3,338
Equalisation provision	-	-	479	-
	-	81,776	235,959	191,733
Technical provision for linked liabilities	947,534	1,602,695	-	-
Provision for other risks and charges	-	7,925	679	3,163
Deposits received from reinsurers	-	-	-	209
Creditors				
Creditors arising out of direct insurance operations	-	2,616	451	3,666
Creditors arising out of reinsurance operations	-	28	723	7,590
Loans with credit institutions	-	-	760	-
Amount owed to parent company	-	67,320	-	-
Amounts owed to other group companies	-	508	162	39,829
Other creditors including taxation and social Security	-	6,436	4,813	13,088
	-	76,908	6,909	64,173
Accruals and deferred income	-	-	2,323	2,411
Total liabilities, excluding capital and reserves	947,534	2,068,094	245,870	261,689

8. Land and buildings

	1999	1998
The carrying value of land and buildings comprises:	£'000	£'000
Freeholds	2,364	4,277

The cost of land and buildings at 31 December 1999 was £940,000 (1998 £2,711,000).

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 (continued)

9. Investments in Group undertakings and participating interests

(a) Investments in Group undertakings and participating interests included in the balance sheet comprise:

	Shares in subsidiary undertakings £'000	Investments in participating interests £'000	1999 Total £'000
Cost			
At 1 January	1,605	6,974	8,579
Transfers (to)/from other Group companies	333	(6,974)	(6,641)
Additional investment in year	1,223	-	1,223
At 31 December	3,161	-	3,161
Unrealised gains			
At 1 January	(8)	(890)	(898)
Movement in the year	1,437	890	2,327
At 31 December	1,429	-	1,429
Investments at 31 December 1999	4,590	-	4,590
Investments at 31 December 1998	1,597	6,084	7,681

(b) Shares in subsidiary undertakings are valued at net asset value. The resulting net gain over book value of £1,429,000 (1998 loss of £8,000) has been credited (1998 debited) to the Company's unrealised gains on investments (see note 13).

At 31 December 1999 the Company held the issued share capital of the following subsidiary undertakings:

Company	Class of share	Proportion held	Country of incorporation and operation
Edinburgh Assurance Company (formerly Commercial Union Pensions Management Ltd)	Ordinary shares - £100 shares	100%	England
CGU Insurance (Thai) Co. Ltd	Ordinary shares - no par value	49%	Thailand

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.

In the 1998 accounts, CU Homelink was incorrectly listed as a subsidiary even though it had been transferred to CGU Life Services on 1 October 1998.

(c) Investments in participating interests included in the balance sheet comprise:	Carrying Value £'000	Cost 1999 £'000	Carrying value £'000	Cost 1998 £'000
Other participating interests	-	-	6,084	6,974
	-	-	6,084	6,974

(d) The Company is a provider of Group finance for CGU Participations SA, the French holding company for the Group's operations in France.

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

10. Other financial investments

	Long term Business	Non-long term business	Total 1999	Long term business	Non-long term business	Total 1998
(a) These financial investments comprise:	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	-	23,413	23,413	284,844	72,937	357,781
Debt securities and other fixed income securities:						
At current value	-	247,204	247,204	-	121,806	121,806
At amortised cost	-	-	-	81,241	-	81,241
Loans secured by mortgages	-	-	-	398	2,431	2,829
Other loans:						
Loans secured on policies	-	-	-	-	-	-
Other loans	-	-	-	-	2	2
Deposits with credit institutions	-	12,307	12,307	70,431	2,625	73,056
	-	282,924	282,924	436,914	199,801	636,715

All investments above are shown at current value unless otherwise indicated. The cost of financial investments above was £276,510,000 (1998 £477,498,000).

	1999 £'000	1998 £'000
(b) Listed investments included in the carrying value above are:		
Shares and other variable yield securities and units in unit trusts	12,479	347,943
Debt securities and other fixed income securities	246,903	177,144

(c) The long term debt securities and other fixed income securities, which are shown at amortised cost, have a market value of £nil (1998 £86,696,000). The redemption value of these investments held at 31 December 1999 was the same as the amortised cost.

11. Debtors arising out of direct insurance operations

	1999 £'000	1998 £'000
Amounts owed by policyholders	3,528	14,739
Amounts owed by intermediaries	4,392	29,210
Debtors arising out of direct insurance operations	7,920	43,949

12. Called up share capital

The Company's authorised, allotted and called up share capital comprises 947,500,000 (1998 947,500,000) fully paid ordinary shares of £1 each.

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

13. Reserves

	Revaluation reserve			
	Value of in-force long term business £'000	Other (note 9) £'000	Profit and loss account £'000	Total £'000
At 1 January 1999	281,920	(8)	212,349	494,261
Transfer from non-technical account	-	-	(44,700)	(44,700)
Unrealised gains	-	1,437	-	1,437
Transfer to fellow subsidiary company	(281,920)	-	-	(281,920)
Foreign exchange differences on consolidation of overseas branches	-	-	(1,381)	(1,381)
At 31 December 1999	-	1,429	166,268	169,697

14. Long term business

(a) With effect from 1 January 1999, the Non-Participation Life fund was transferred to a fellow subsidiary of the CGU Group under the terms of an order of the High Court of Justice.

As all the business is now fully reinsured, the long term business assumptions have not been stated in these accounts.

(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 1999.

15. Equalisation provision

An equalisation provision has been established in the accounts as explained in accounting policy 1(m) on page 11. This has had the effect of reducing the Company's shareholders' funds by £479,000 at the year end (1998 *£nil*). The movement in the equalisation provision during the year resulted in a decrease in the balance on the general business technical account and the profit on ordinary activities before taxation of £479,000 (1998 *increase of £2,527,000*).

16. Provision for other risks and charges

Movements in the provisions for other risks and charges were:	Pensions and similar obligations £'000	Deferred taxation £'000	Total £'000
Balance at 1 January	-	11,088	11,088
Transfers (to)/from other Group companies	569	(11,088)	(10,519)
Additional provisions made in year	91	-	91
Exchange rate movements	19	-	19
Balance at 31 December	679	-	679

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

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Segmental information

As part of the restructuring of the CGU Group, the Company has reduced its general business activities in the UK and is now accepting reinsurance from its immediate parent company, CGU International Insurance plc.

(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
	1999	1998	1999	1998	1999	1998
	£'000	£'000	£'000	£'000	£'000	£'000
Life	-	170,236	-	27,536	-	-
General	111,013	90,283	(18,221)	112,337	1,115,197	1,159,841
Valuation of in-force long term business	-	-	-	-	-	281,920
	111,013	260,519	(18,221)	139,873	1,115,197	1,441,761

(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
	1999	1999	1999	1999	1999
	£'000	£'000	£'000	£'000	£'000
(c) A further analysis of general business technical account information is given below:					
Direct insurance:					
Accident and health	14,488	14,235	11,265	3,497	(1,190)
Motor	9,614	8,609	5,393	2,891	(296)
Marine, aviation and transport	1,918	1,900	442	730	(334)
Fire and other damage to property	14,833	14,848	8,743	2,914	(3,053)
Third party liability	2,934	2,684	921	826	(733)
Miscellaneous	628	612	2,078	310	1,329
	44,415	42,888	28,842	11,168	(4,277)
Reinsurance	89,468	94,357	77,456	25,690	125
	133,883	137,245	106,298	36,858	(4,152)

Gross claims incurred in the table above include the change in the unexpired risk provision.

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance
	1998	1998	1998	1998	1998
	£'000	£'000	£'000	£'000	£'000
Direct insurance:					
Accident and health	5,258	5,882	5,412	1,098	(761)
Motor	32,297	31,603	32,190	6,556	(1,066)
Marine, aviation and transport	1,271	1,663	358	11	(448)
Fire and other damage to property	51,477	52,803	35,933	19,363	(7,320)
Third party liability	12,571	13,406	19,648	3,553	2,757
Miscellaneous	4,485	4,882	3,057	1,321	(1,004)
	107,359	110,239	96,598	31,902	(7,842)
Reinsurance	5,988	6,307	9,812	(2,085)	2,381
	113,347	116,546	106,410	29,817	(5,461)

THE NORTHERN ASSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Segmental information (continued)

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

	Non-participation		Variable annuity	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Gross premiums written:				
Individual premiums	81,854	160,946	-	888
Premiums under group contacts	3,986	9,018	-	-
	85,840	169,964	-	888
Periodic premiums	57,835	96,581	-	-
Single premiums	28,005	73,383	-	888
	85,840	169,964	-	888
Premiums from non-participating contracts	-	159,699	-	-
Premiums from investment linked contracts	85,840	10,265	-	888
	85,840	169,964	-	888

18. Creditors: amounts owed to credit institutions

Amounts owed to credit institutions comprise bank borrowings, denominated in United Arab Emirate Dirhams which are repayable in less than one year. Interest is payable at a fixed rate of 7% per annum.

19. Holding companies' details

The immediate holding company is CGU International Insurance Company plc.

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

The ultimate holding company is CGNU plc (formerly CGU plc) (see note 22). Its group accounts are available on application to the Group Company Secretary, CGNU plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.

20. Cash flow statement

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

21. 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.

22. Post balance sheet events

(a) On 30 May 2000, CGU plc, the ultimate holding company, merged with Norwich Union plc and was renamed CGNU plc.

(b) On 14 March 2000, Commercial Union Pensions Management Limited, a wholly - owned subsidiary of the Company changed its name to Edinburgh Assurance Company Limited.

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 4 to 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described above, the accounts. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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 1999, 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(m) and note 15 to the accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of the Company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

4 April 2001