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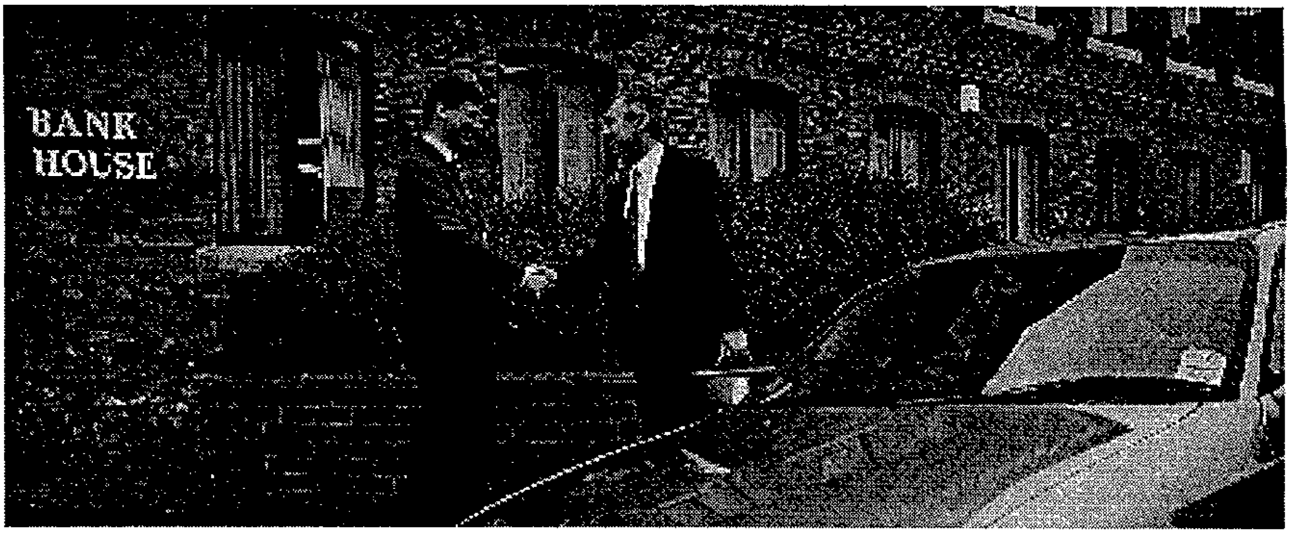


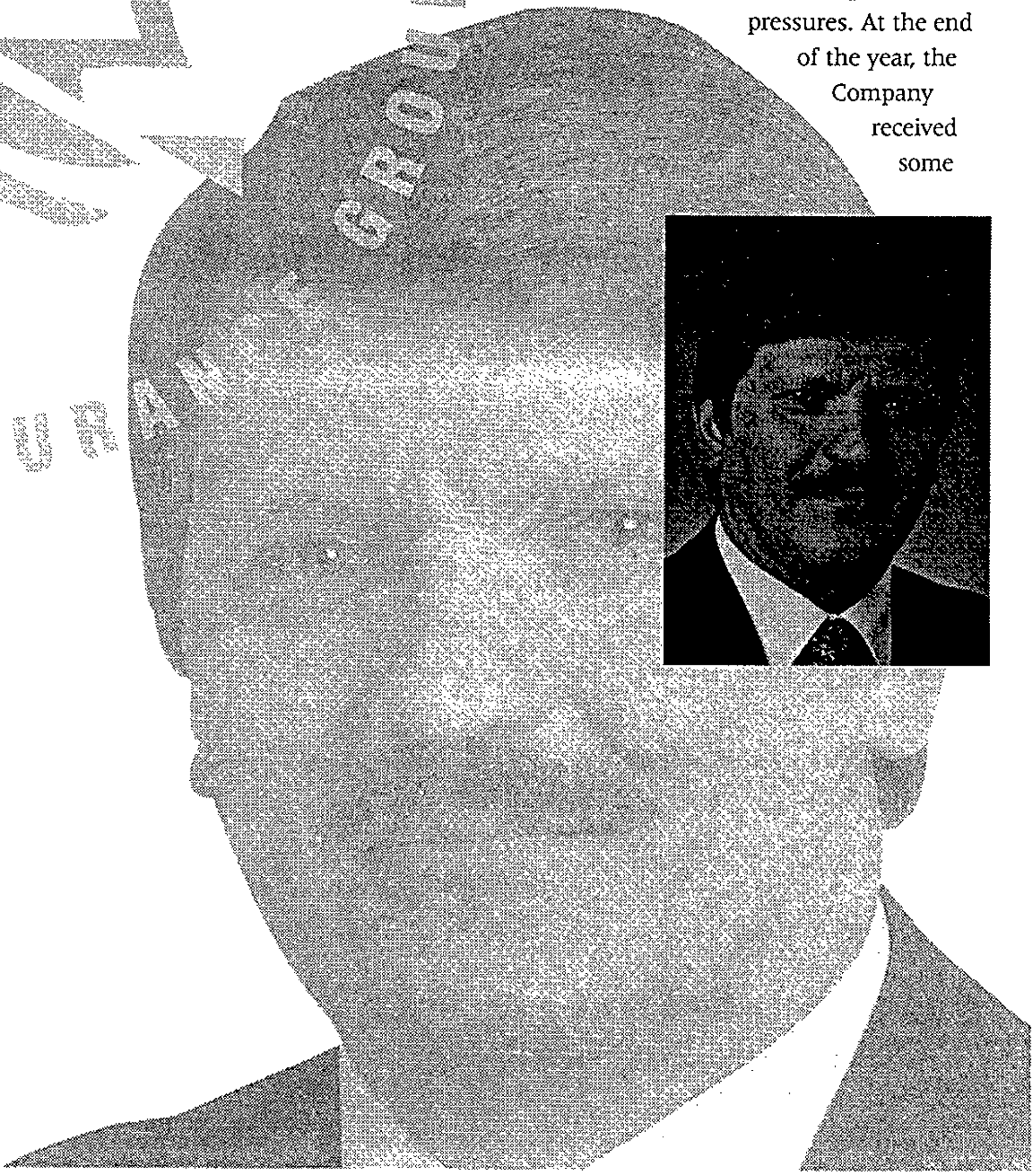
CONTENTS

CHAIRMAN'S STATEMENT

1996 has been a year of mixed fortunes for Lombard, reflecting both the difficult trading conditions in the insurance markets where Lombard participate and the balancing effect of the availability of excellent investment returns.

Against this background, Lombard performed creditably to achieve a pre-tax profit of £6.1 million.

Although market conditions in the commercial lines market have been tough, it is pleasing to report that we have achieved 7% growth in commercial premium income.
The performance of our commercial lines business, both in terms of result and development, has been due in no small measure to the continuing support of our brokers and their resilience to competitive pressures. At the end of the year, the Company received some



"Underwriting Driven and Focused on Quality in all areas of the business"

In this we are committed to:

- Our policyholders
- Our brokers and intermediaries
- Our colleagues
- Our shareholders

To meet these commitments we are dedicated to:

Clear, consistent and positive leadership with an insistence on the highest professional standards and levels of efficiency.

Excellence in all areas of our business, coupled with a thorough and disciplined approach.

Consistency in offering the very best in terms of product and delivery. We will be innovative, demonstrate flair, but always remain aware of the need for cost effectiveness.

Considered and communicated decision making at all levels, tightly controlled in a disciplined but flexible manner.

REPORT AND ACCOUNTS
LOMBARD INSURANCE GROUP

reward for its efforts, being voted one of three finalists for the title "Commercial Insurer of the Year".

During 1996, competition within UK personal lines markets has been intense. The impact of lower premium rates, especially in private motor, coupled with an increase in claims frequency, has produced a much reduced underwriting result. However, our home insurance business, which grew during the year, has performed very well with a substantial contribution from our growing book of affinity group clients.

Where appropriate, underwriting action has been taken and the Group will continue to seek out and concentrate on markets capable of delivering quality results on a consistent and long term basis.

It is encouraging to report that quality and high professional standards continue to be watchwords in the organisation and this is evidenced by Lombard General Insurance Company Ltd recently achieving the 'Investors in People' award and the excellent progress we are making towards ISO9001 accreditation. It is perhaps even more encouraging to witness that standards and quality play a very real part in the day to day activities, with staff committed to improve service levels in all areas of the operation.

Lombard has continued to encourage a performance culture throughout the organisation. The overall focus is to create an environment where decision-making is taken as close to the market place as possible. With this in mind, Lombard remains committed to developing a dialogue with its intermediaries to solve problems and to provide the right products for its customers.

Last year, in the first review following the acquisition of Lombard, we reported on the integration of the company within Groupama and we emphasised how the Company had rapidly established itself as a significant and valued member of the Group. This integration has continued and, indeed, has been developed throughout 1996, creating opportunities to share experiences and to exchange technical know-how between Lombard and different Group operations. This process has highlighted the rigorous professional standards which exist in Lombard and has earned the Executive Directors, Management and staff alike, the respect of people with whom they have come into contact.

As we look forward to 1997, Lombard will remain focused and committed to its brokers and, in partnership with them, will seek to improve efficiency still further. The Company has plans to enhance further its profile in the year and will be intensifying its development activities. We feel confident that it is well positioned to capitalise on the many opportunities and considerable potential arising from an anticipated upswing in the market.

It has been, by any standards, a challenging year and I would like, once again, to express my thanks to David Young and Ray Salter for their valuable contributions as Non-Executive Directors and for sharing their considerable experience with us.

Finally, and on behalf of the whole Board, we thank our brokers for their support and the management and staff for their commitment and enthusiasm which ensures that Lombard can look forward to 1997 with real optimism.

Giorgio Giordani
CHAIRMAN

MANAGING DIRECTOR'S REVIEW

FINANCIAL REVIEW

Result

Market conditions have been very difficult during 1996 although, as the year progressed, we did see hardening of rates in some areas.

Against this background our pre-tax profit of £6.1 million can be regarded as satisfactory, particularly as a provision of £1.2 million has been made for claims equalisation under the new regulations.

Underwriting

Extreme competition has prevailed in the Commercial Lines and Personal Lines environments in which we operate. This is reflected in the technical result of the Group as a whole which has reduced from a profit of £5.7 million for 1995 to a loss of just under £1.0 million during 1996.

I am pleased to report an excellent performance on our Commercial Lines account. Gross premiums have increased despite severe competition. In addition a technical profit has been achieved in all underwriting classes, except for commercial vehicle. We believe that this performance is attributable to our underwriting led approach.

The Household account has performed well. Gross premiums written have demonstrated reasonable growth and the account has contributed significantly to our technical result, despite the continued presence of subsidence claims.

The performance of the private Motor account has been severely affected by extreme competition and, during the year, we have taken corrective underwriting action. We believe that our result is likely to be indicative of the market place as a whole because of reducing premium rates and increased frequency and the escalating costs of personal injury claims.

Claims
We have continued with our conservative approach to claims reserving and are amongst the few general insurance companies to have our reserves reviewed by an independent firm of actuaries. We continue to publish their report within our report and accounts.

Claims which occurred prior to 1 June 1993 are protected by an indemnity received from The Continental Corporation at the time of the management buy-out. The indemnity, of 120% of the original loss reserves of £38.9 million, was originally secured by a trust fund and the balance on the trust fund of approximately £10 million was transferred to Lombard General Insurance Company Ltd during June 1996. The investment income from that date has accrued to the benefit of the Group.

Investments and Cash Flow
The Group's cash and funds under investment grew from £116.7 million at 31 December 1995 to £133.8 million at 31 December 1996. Investment income shown in the technical and non-technical accounts amounts to £12.5 million, compared with £8.3 million for 1995, of which £3.4 million stems from realised gains following the decision to take advantage of the strong performance of the equity markets during 1996.

Security
During the year Lombard General Insurance Company Ltd received an "A–" claims paying ability rating from Standard & Poors which places us favourably amongst our competitors. Standard & Poors specifically make reference to the quality of backing provided by Groupama, excellent capitalisation and excellent operating performance derived from high quality broker distribution. The process for gaining such a rating involves detailed analysis of confidential data, such as management accounts and reserving calculations, in addition to discussions with senior management and I am pleased to announce that our confidence in welcoming such an in depth scrutiny was found to be well placed.

Subsidiaries
The Group owns two intermediaries which operate in niche areas of the market.

Legal & Professional Indemnity Limited markets insurance products for the conveyancing industry. Its commission income has increased significantly from its 1995 level and it is anticipated that the upturn in the housing market will ensure that this growth continues.

Mastercover Insurance Services Limited (formerly SG Insurance Services Limited) has a portfolio of Personal Lines specialist schemes. This subsidiary has reported a 24% increase in turnover for the year to 31 December 1996, which has enabled it to return to profitability.

OPERATING REVIEW
During 1996 we have focused on our major areas of operations to ensure that we are well placed to take advantage of the upturn in the market, which we anticipate will occur in the short to medium term.

Information Technology
We have embarked on 'Vision 2000', a major project to replace our current systems for underwriting and claims and it is anticipated that an eighteen month implementation period will commence in mid 1997. This will require a substantial investment and forms part of an ongoing effort to improve our products and services in view of rapidly changing markets. As part of this project we are actively addressing the need for system changes to be in place to enable us to process business into the next century. We continued to develop EDI trading for our personal lines business and now 75% of our new private car business is transacted using this medium. Our motorcycle and household products will follow suit in the near future.
By the end of 1997 we anticipate that EDI will account for 90% of private car and 50% of household and motorcycle new business.

Quality
The Group is committed to quality in all aspects of its business. As part of this drive for quality, we have undergone a programme of activity dedicated to achieving accreditation to ISO9001. The accreditation process is phased and to date two thirds of the Company have achieved accreditation, including our Information Technology Department which gained the prestigious TickIt Award.

It is anticipated that full accreditation will be achieved by the end of November 1997.

Investors in People

Lombard also prides itself on the quality of its staff in terms of the standards which it demands and works hard to ensure that all individuals are provided with the development and training opportunities which will allow them to develop to their full potential. In this context I am delighted to report that Lombard General Insurance Company Ltd recently achieved the prestigious 'Investors in People' award.

Brokers and Intermediaries

In January, we launched the Lombard Target programme with the objective of developing our Personal Lines business with a select panel of preferred brokers and intermediaries. The initiative has been a success and I am pleased to report that our initial business targets have been achieved.

Throughout the year, we have also concentrated on the further development of our highly successful Lombard Circle programme for our best supporting commercial lines brokers.

This panel continues to go from strength to strength and currently produces almost 20% of our total income.

We have plans to increase gradually the number of Lombard Circle brokers over the next three years.

At the end of 1996, we were voted one of three finalists in the "Best Insurer (Commercial Lines)" category at the Broker Industry Awards organised by the Institute of Insurance Brokers. We are very pleased with this achievement and see it as recognition of the efforts we are making to offer our customers the best service and support.

Development Activities

During 1997, we anticipate some improvement in the insurance cycle for some classes of business and are keen to take maximum advantage of the potential that this will offer us.

We intend further enhancing the profile of the Company by launching a series of business seminars throughout the UK for our supporting brokers. In addition, an extensive programme of product development is underway with the intention of adding a number of valuable new products to our range.

We are confident that an investment in these key business areas will enable us to be ready to meet the opportunities which the future presents.

ACKNOWLEDGMENTS

I would like to thank the staff, the management and my fellow Directors for their loyalty, commitment and professionalism throughout what has been another challenging year.

Our links with Groupama have become stronger and we should like to express our appreciation for their support. We look forward to building on these relationships in years to come.

My special thanks go to David Wilson for the contribution which he made to Lombard over the years in terms of his technical expertise as well as other personal qualities. I wish him every success in his future career.

I would also like to thank our policyholders, our brokers and intermediaries and our reinsurers for their support during 1996 and look forward to strengthening our links with them in the future.

Andrew K. Laing ACII
MANAGING DIRECTOR

Andrew K Laing ACII
Managing Director, Age: 53

Andy Laing has 37 years' experience in the insurance industry. He joined Lombard as Assistant General Manager after spending 22 years with NFU/Avon and Orion, mainly within the underwriting discipline. He has had general management responsibilities for all of his fifteen years with Lombard. He became a Director of Lombard in 1988 and was appointed Managing Director in 1991. He piloted the Company through its successful management buyout, subsequent flotation and acquisition by Groupama and was appointed Managing Director of the new Company on its foundation in 1993.

James P Manning FCA
Director and Company Secretary, Age: 55

James Manning qualified as a Chartered Accountant in 1965 and became FCA in 1976. He has 24 years' experience in the insurance industry, the first 14 years with C E Heath and Armco Financial Services. He joined Lombard in 1987 and was responsible for the financial, treasury and statistical operations. He was appointed a Director of the Company on its foundation in 1993 and became the Company Secretary in 1994. He assumed responsibility for Personnel and Training in 1996.

Kenneth Maciver CA, ACII
Finance and Operations Director, Age: 39

Kenneth Maciver qualified as a Chartered Accountant in 1980. He has 14 years' experience in the insurance industry, having worked initially in Bermuda with Mutual Risk Management. Between 1986 and 1993 he was employed by a subsidiary of The Continental Corporation, in the capacity of Director of Finance responsible for the direct insurance operations throughout Europe and the Middle East. He joined Lombard in 1993, was appointed Finance Director in 1994 and is responsible for Finance, Claims, Reinsurance, Information Technology and Branch Operations.

David W Drew FCII
Sales and Underwriting Director, Age: 42

David Drew has 24 years' experience in the insurance industry. He worked for Commercial Union and Orion before joining Lombard in 1985. He held a number of senior underwriting and sales management positions prior to joining the General Management team as Regional Manager (North) in 1991. In 1992 he was appointed Commercial Lines Underwriting Manager and in 1993 became Underwriting Manager, with responsibility for both Commercial and Personal Lines. He was appointed a Director in 1995 and is responsible for Sales, Underwriting, the centralised Personal Lines Operations unit and Marketing.

DIRECTORS AND ADVISERS

Non-Executive Chairman
G. Giordani (iii)

Executive Directors
A.K. Laing ACII – Managing Director (iii)
D. Drew FCII
K. Maciver CA, ACII (ii)
J.P. Manning FCA (i)

Non-Executive Directors
J-F Allard (i)
B. Delas (iii)
G.M.F. Laporte (ii)
C.H. Lemaire (ii)
J-P. D. Rousseau
R.M. Salter (ii)
R.J. Thomas
J-L. M.H. Wibratte
D.T. Young (i)

Secretary and Registered Office
J.P. Manning FCA
Lombard House
182 High Street
Tonbridge
Kent TN9 1BY

Registered number 2772002

(i) Member of Audit Committee
(ii) Member of Finance and Investment Committee
(iii) Member of Remuneration Committee

Auditors
Coopers & Lybrand
1 Embankment Place
London WC2N 6NN

Legal Advisers
Lovell White Durrant
65 Holborn Viaduct
London EC1A 2DY

Principal Bankers
National Westminster Bank plc
21 Lombard Street
London EC3P 3AR

Investment Managers
Mercury Asset Management plc
33 King William Street
London EC4R 9AS

REPORT OF THE DIRECTORS

The Directors present their report and financial statements for the year to 31 December 1996.

Principal Activity and Business Review

The principal activity of the Company is that of a holding company. The activity of its principal wholly owned subsidiary, Lombard General Insurance Company Ltd, is that of an authorised general insurance company writing commercial and personal lines business in the UK Provincial Market. Its commercial lines business, which is targeted at small to medium-sized businesses, comprises products for fire, accident, commercial vehicle, general and employer's liability, personal accident, contractors all risks and contingency insurance, whilst its personal lines business comprises personal motor, household and provincial marine products.

The Group, which derives its business through a network of approximately 1,150 brokers and intermediaries, seeks to write risks of low to moderate hazard. Relations with brokers and intermediaries are maintained through eight branch offices throughout the UK.

Both the level of business for the year and the year end financial position are considered satisfactory and are expected to continue.

Change of Name

On 20 December 1996, the Company, previously Lombard Insurance Group plc, re-registered as a private company and changed its name to Lombard Insurance Group Limited

Results for the Year

The results for the year ended 31 December 1996 are shown in the consolidated profit and loss account set out on pages 15 and 16.

Dividends

On 28 November 1996, the Directors declared an interim dividend of £2,500,000 representing 7.0176p (net) per Ordinary Share, which was paid on 30 December 1996 to Groupama (UK) plc.

The total cost of dividends for the year amounted to £2,500,000 (1995 : £3,100,000). No final dividend is proposed.

Share Capital

Details of the share capital at 31 December 1996 are set out in note 18 to the financial statements

Directors and Directors' Interests

The current directors are shown on page 8. The following resignations from the Board of Directors took place during the year to 31 December 1996:

31 May 1996	J.A. Clench
19 September 1996	R.P. Bouche
11 December 1996	D.M. Wilson

The interests of the Directors in office at 31 December 1996 in loan notes issued by Groupama (UK) plc were as follows:

	1996	1995
	£	£
A.K. Laing	904,000	932,000
D.W. Drew	166,140	204,400
K. Maciver	59,834	64,834
J.P. Manning	396,484	436,484
D.T. Young	–	13,500

With the exception of the above, there were no contracts of significance subsisting during or at the end of the year under review in which a Director of the Company was materially interested, other than service contracts.

Directors' Responsibilities

The Directors are required by UK company law to prepare financial statements for each financial year which comply with the provisions of the Companies Act 1985.

The directors confirm that suitable accounting policies have been adopted and applied consistently, reasonable and prudent judgements have been made in the preparation of the financial statements, applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the companies Act 1985 and for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Employees

The employees' contracts of employment are with subsidiary companies. Particulars of numbers of people employed during the year and their remuneration are set out in note 8 to the financial statements.

The Group recognises the importance of communication between the management and the staff, with a high level communications committee set up to oversee all activities in this area. In addition, a number of publications are produced and formal briefings held to ensure that staff are aware of matters which affect them and the Group's performance.

A Staff Association Committee is elected and meets quarterly with the General Management representative to discuss matters of mutual interest. The committee does not have executive powers. The Group also operates a Staff Suggestion Scheme which enables the staff to benefit financially from ideas which assist the Group.

The Group operates an objective driven appraisal system. Salary increases are based on performance and remuneration policy is managed with the help of a job evaluation scheme.

REPORT OF THE DIRECTORS

(continued)

Employees *continued*

The Group recognises the importance of the continued training and development of its employees to help it to achieve its business objectives, while, at the same time, enabling them to achieve their potential. This is supported by the Group's commitment to the Investors in People initiative.

As a responsible and caring employer, it is the Group's aim to ensure that all staff and applicants for employment are treated equally. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Creditor Payment Policy

The Group's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers the Group's policy is to:

(a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;

(b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Auditors

Coopers & Lybrand have indicated their willingness to continue as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

J.P. Manning FCA
Secretary
27 March 1997

Lombard House
182 High Street
Tonbridge Kent TN9 1BY

REPORT OF THE ACTUARIES TO THE MEMBERS OF LOMBARD INSURANCE GROUP LIMITED

We have undertaken an actuarial review of the technical reserves of the Company's insurance subsidiary, Lombard General Insurance Company Ltd ('Lombard') as at 31 December 1996.

Basis of opinion

An actuarial review of technical reserves uses past claims data and current market knowledge to project statistically the likely overall liabilities which will arise from business already written on the basis of the information available. The reserves set up by a company are then reviewed against these projected values taking account of the statistical uncertainty inherent in the claims process. For liability business further uncertainty is caused by the possibility of claims arising from latent risks which cannot be projected statistically from past data.

In the case of Lombard we have reviewed the reserves separately for each class of business. Consideration was given to the past developments of claims both gross and net of reinsurance.

We have not reviewed reinsurance contracts or specifically examined the security of individual reinsurers of Lombard other than to note the presence of the major international reinsurers. However, any non-recovery under reinsurance contracts which commenced prior to 1 June 1993 would be covered by an indemnity backed by The Continental Corporation.

At the time of the management buy-out The Continental Corporation agreed to indemnify Lombard in respect of losses occurring prior to 1 June 1993. Any deterioration in such claims, up to a maximum of £7.779 million, is guaranteed by The Continental Corporation.

The purpose of our actuarial review was to assess the adequacy of Lombard's estimate of the amount needed to cover the technical liabilities and we have not considered the value or suitability of the assets required to cover these liabilities.

Opinion

Lombard has established a reserve of £54.362 million (£57.922 million net of subrogation expected of £3.560 million) at 31 December 1996 to cover outstanding claims including incurred but not reported claims arising out of its general insurance business. The reserve exceeds our best estimate for all classes of business in aggregate and therefore we believe that this reserve is reasonable. In addition, Lombard holds an amount of £1.210 million as a claims equalisation reserve, calculated on the statutory basis.

An unearned premium reserve (net of deferred acquisition costs) of £31.922 million is held to cover the unexpired portion of business already written. On the basis of information currently available our projections indicate that the unearned premium reserve should, on current trends, be adequate to meet the claims and continuing expenses that will arise.

A recovery of £7.518 million is set against gross outstanding claims of the same amount in respect of losses occurring prior to 1 June 1993. This amount includes provision for incurred but not reported claims and we consider it to be a reasonable estimate of the corresponding losses. The guarantee from Continental provides significant protection against deterioration on claims occurring prior to 1 June 1993.

REPORT OF THE ACTUARIES TO THE MEMBERS OF LOMBARD INSURANCE GROUP LIMITED

(continued)

In our opinion, the technical reserves of Lombard at 31 December 1996 are soundly based in that, overall, they exceed our projection of the corresponding liabilities (net of reinsurance) based on past and current trends.

M.E. Trayhorn
Fellow of the Institute of Actuaries
Partner in the Firm of Watson Wyatt Partners
21 March 1997

REPORT OF THE AUDITORS TO THE MEMBERS OF LOMBARD INSURANCE GROUP LIMITED

We have audited the financial statements on pages 15 to 40.

Respective Responsibilities of Directors and Auditors

As described on page 10 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Equalisation Reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirements for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 1996, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 21.

Opinion

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

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and
Registered Auditors
London
27 March 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

For the year ended 31 December 1996

	Note	1996 £000	1996 £000	1995 £000	1995 £000
Earned premiums, net of reinsurance					
Gross premiums written		102,249		98,916	
Outward reinsurance premium		(14,160)		(13,256)	
Net premiums written			88,089		85,660
Change in the gross provision for unearned premiums		(1,430)		(2,985)	
Change in the provision for unearned premiums, reinsurers' share		214		1,003	
Change in the net provision for unearned premiums			(1,216)		(1,982)
Earned premiums, net of reinsurance			86,873		83,678
Allocated investment return transferred from the non-technical account			4,660		3,349
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(61,063)		(53,834)	
Reinsurers' share		11,708		15,423	
Net claims paid		(49,355)		(38,411)	
Change in the provision for claims:					
Gross amount		(7,566)		(7,260)	
Reinsurers' share		(3,136)		(6,774)	
Change in the net provision for claims		(10,702)		(14,034)	
Claims incurred, net of reinsurance			(60,057)		(52,445)
Net operating expenses and levies	4		(31,230)		(28,881)
Change in equalisation reserve	21		(1,210)		-
Balance on the technical account for general business			(964)		5,701

CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

For the year ended 31 December 1996

	Note	1996 £000	1996 £000	1995 £000	1995 £000
Balance on the general business technical account			(964)		5,701
Investment income and realised gains	5	12,733		7,860	
Unrealised gains on investments		–		529	
Investment expenses and charges	6	(259)		(107)	
		12,474		8,282	
Allocated investment return transferred to the general business technical account		(4,660)		(3,349)	
			7,814		4,933
Other income			116		58
Other charges, including value adjustments			(825)		(596)
Exceptional item			–		(1,071)
Profit on ordinary activities before tax			6,141		9,025
Tax on profit on ordinary activities	10		(2,460)		(3,017)
Profit for the financial year after tax			3,681		6,008
Dividends	11		(2,500)		(3,100)
Retained profit for the year	19		1,181		2,908

	Note	1996 £000	1995 £000
Retained profit for the financial year		1,181	2,908
Unrealised (losses)/gains on investments	19	(2,366)	3,030
Total recognised losses and gains for the financial year		(1,185)	5,938

All of the Group's activities are continuing

CONSOLIDATED BALANCE SHEET

As at 31 December 1996

	Note	1996 £000	1996 £000	1995 £000	1995 £000
Assets					
Investments	12		133,518		116,450
Intangible assets	13		779		1,054
Reinsurers' share of technical provisions					
Provision for unearned premiums	20	2,720		2,506	
Claims outstanding	20	18,547		21,683	
			21,267		24,189
Debtors					
Debtors arising out of direct insurance operations	15	32,757		31,657	
Debtors arising out of reinsurance operations		927		1,634	
Other debtors	16	2,039		1,441	
			35,723		34,732
Other assets					
Tangible assets	17	2,365		2,078	
Cash at bank and in hand		245		437	
			2,610		2,515
Prepayments and accrued income					
Accrued interest and rent		1,922		1,831	
Deferred acquisition costs	20	13,417		12,627	
Other prepayments and accrued income		828		745	
			16,167		15,203
Total assets			210,064		194,143

CONSOLIDATED BALANCE SHEET

(continued)

As at 31 December 1996

	Note	1996 £000	1996 £000	1995 £000	1995 £000
Liabilities					
Capital and Reserves					
Called up share capital	18	3,562		3,562	
Share premium	19	29,573		29,573	
Other reserves	19	8,119		10,643	
Profit and loss account	19	18,951		17,612	
Shareholders' funds attributable to equity interests			60,205		61,390
Technical provisions					
Provision for unearned premiums	20	48,059		46,629	
Claims outstanding	20	76,469		68,440	
Equalisation reserve	21	1,210		–	
			125,738		115,069
Provision for other risks and charges	22		385		1,651
Deposits received from reinsurers	27		7,690		890
Creditors					
Creditors arising out of direct insurance operations	23	6,491		6,609	
Creditors arising out of reinsurance operations		1,691		459	
Other creditors including taxation and Social Security	24	7,000		7,538	
		15,182		14,606	
Accruals and deferred income		864		537	
			16,046		15,143
Total liabilities			210,064		194,143

The financial statements on pages 15 to 40 were approved by the Board of Directors on 27 March 1997 and were signed on its behalf by:

.... Director   .... Director

A.K. Laing   *G. Giordani*

COMPANY BALANCE SHEET

As at 31 December 1996

		1996		1995	
	Note	£000	£000	£000	£000
Shares in Group companies	14		65,250		66,182
Current Assets:					
Due from subsidiary undertakings		264		1,290	
Cash at bank		11		4	
Corporation Tax recoverable		61		181	
		336		1,475	
Current Liabilities:					
Due to subsidiary undertaking		–		1,005	
Sundry Creditors		18		4	
		18		1,009	
Net current assets			318		466
Total assets less current liabilities			65,568		66,648
Creditors: Amounts falling due after more than one year					
Due to subsidiary undertaking	26		5,950		5,950
Provision for other risks and charges	22		59		159
			59,559		60,539
Shareholders' funds					
Called up share capital	18		3,562		3,562
Share premium	19		29,573		29,573
Other reserves	19		26,379		27,311
Profit and loss account	19		45		93
Equity shareholders' funds			59.559		60,539

The financial statements on pages 15 to 40 were approved by the Board of Directors on 27 March 1997 and were signed on its behalf by:

Director *Director*

A.K. Laing *G. Giordani*

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1996

	Note	1996 £000	1996 £000	1995 £000	1995 £000
Net cash flow from operating activities	A		24,322		18,019
Interest paid			(7)		(4)
Taxation paid			(3,203)		(3,260)
Capital expenditure			(1,152)		(1,170)
Acquisitions and disposals	B		45		(737)
Equity dividends paid			(2,500)		(4,080)
Management of liquid resources			(252)		–
Financing			(34)		–
			17,219		8,768
Cash flow invested as follows:					
Decrease in cash holdings			(5)		(1,040)
Net portfolio investment					
Shares		(13,378)		464	
Fixed income securities		34,452		27,781	
Deposits with credit institutions		(3,910)		(18,507)	
Other investments		60		70	
	B		17,224		9,808
Net investment in cash flows			17,219		8,768

NOTES TO THE CASH FLOW STATEMENT

For the year ended 31 December 1996

A. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996		1995	
	£000	£000	£000	£000
Operating profit before taxation after interest		6,141		9,025
Depreciation of tangible fixed assets	864		790	
Loss/(profit) on sale of fixed assets	–		(16)	
Interest paid	7		4	
Realised gain on sale or maturity of investments	(3,379)		(643)	
Unrealised gain on investments	–		(529)	
Goodwill written off	229		96	
Decrease in reinsurers' share of technical provisions	2,922		5,771	
Increase in debtors arising out of direct insurance operations (excluding IPT)	(1,085)		(2,944)	
Decrease/(increase) in debtors arising out of reinsurance operations	707		(1,592)	
Decrease in sundry debtors	146		16	
Increase in accrued interest and rent	(91)		(327)	
Increase in deferred acquisition costs	(790)		(1,052)	
Increase in other prepayments and accrued income	(83)		(23)	
Increase in technical provisions	10,669		10,667	
(Decrease)/increase in provision for other risks and charges (excluding tax)	(74)		159	
Increase/(decrease) in deposits received from reinsurers	6,800		(787)	
(Decrease)/increase in creditors arising out of direct insurance operations	(118)		425	
Increase/(decrease) in creditors arising out of reinsurance operations	1,232		(539)	
Decrease in other creditors (excluding tax,fixed assets, dividend, loan notes and deferred consideration)	(102)		(214)	
Increase/(decrease) in accruals and deferred income	327		(268)	
		18,181		8,994
Net cash inflow from operating activities		24,322		18,019

NOTES TO THE CASH FLOW STATEMENT

For the year ended 31 December 1996

B. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1996		1995	
	£000	£000	£000	£000
Acquisitions and disposals				
Acquisition of subsidiary	–		542	
Net overdraft acquired with subsidiary	–		195	
Refund of deposit	45		–	
		45		737
Portfolio Investments				
Purchase of ordinary shares	(471)		(464)	
Purchase of fixed income securities	(183,623)		(166,997)	
Deposits with credit institutions	(247,188)		(200,499)	
Movement on other investments	(60)		(70)	
Sale of ordinary shares	13,849		–	
Sale of fixed income securities	149,171		139,216	
Withdrawals from credit institutions	251,098		219,006	
Net cash outflow on portfolio investments		(17,224)		(9,808)

NOTES TO THE CASH FLOW STATEMENT

For the year ended 31 December 1996

C. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	1 January 1996 £000	Cash Flow £000	Unrealised Losses £000	Realised Gains £000	31 December 1996 £000
Cash in hand, at bank	250	(5)	–	–	245
Ordinary shares – unit trusts	18,974	(13,378)	(1,898)	2,951	6,649
Fixed income securities	74,903	34,452	(1,632)	428	108,151
Deposits with credit institutions	22,503	(3,910)	(5)	–	18,588
Other investments	70	60	–	–	130
	116,700	17,219	(3,535)	3,379	133,763

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and with the draft Statement of Recommended Practice ("SORP") on accounting for insurance business issued by the Association of British Insurers ("ABI") in December 1995. In all aspects, the financial statements have been prepared in accordance with Section 255A of, and schedule 9A to, the Companies Act 1985.

The balance sheet of the Company is prepared in accordance with provisions applying to companies generally.

In the Group's financial statements for the year ended 31 December 1995, the Group took advantage of the exemption from Financial Reporting Standard Number 5 "Reporting the Substance of Transactions" which allowed debtors and creditors arising from insurance broking transactions to be offset. The Group has fully complied with FRS5 at 31 December 1996. Notes 15 and 23 to these financial statements, have been restated accordingly.

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group and the Company's financial statements.

(a) Acquisitions

Unless otherwise stated, business combinations are accounted for by the acquisition method of accounting. All subsidiary undertakings are included in the consolidated accounts.

On the acquisition of a business, its fair value to the Group is determined by restating the book values of the separable net assets acquired in accordance with the Group's accounting policies and by making appropriate provision for other costs arising from the acquisition. The difference between the fair value of the separable net assets acquired and the fair value of the consideration given is accounted for as goodwill or capital reserve as appropriate. Where the consideration payable is contingent upon a particular level of performance by the acquired business or Company, the fair value of the consideration includes a reasonable estimate of the future consideration payable which is adjusted as necessary when the final amount payable is determined.

Amounts included in the capital reserve on acquisition are transferred to the profit and loss account reserve in the period in which the related assets or liabilities originally acquired are realised.

Goodwill on acquisition is capitalised and amortised over its estimated economic life.

(b) Technical Result

The technical result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group, less an allowance for cancellations and lapses.

ACCOUNTING POLICIES *(continued)*

(ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In the opinion of the Directors the resulting provision is not materially different from one based on the pattern of incidence of risk.

(iii) Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which correspond to the proportion of gross premiums written which are unearned at the balance sheet date.

(iv) Provision is made for unexpired risks where the claims and administrative expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premium reserve, after taking into account relevant investment income. The provision for unexpired risks is calculated separately by classes which, in the opinion of the Directors, are managed together.

(v) Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

(vi) Outstanding claims comprise provisions for the estimated ultimate cost of claims notified but not settled at the date of the balance sheet, the estimated cost of claims incurred but not reported at that date and the related handling expenses. Where applicable, prudent estimates are made for salvage and subrogation recoveries which are shown in the balance sheet as assets.

(c) Investments

Investments are shown in the balance sheet at market value. Realised investment gains and losses are taken to the profit and loss account. Net unrealised gains are taken to reserves, whilst net unrealised losses are taken to the profit and loss account.

(d) Investment Income

Income from investments is included, together with the related tax credit, in the non-technical account on an accruals basis. Account is taken of dividend income when the related investment goes "ex-dividend".

(e) Transfer of investment return

A transfer of investment return, including realised gains and losses and net unrealised losses, recorded in the profit and loss account, expenses and charges, is made from the non-technical account to the technical account-general business to reflect the return made on those assets directly attributable to the insurance business.

ACCOUNTING POLICIES *(continued)*

(f) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The cost of tangible fixed assets is their purchase cost, or related fair value if acquired as part of a business acquisition. Incidental costs of acquisition are included in the purchase cost.

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

	Percent
Office equipment and furniture	20-33 1/3
Motor vehicles	25

(g) Deferred taxation

Provision is made for deferred taxation using the liability method to allow for timing differences in the treatment of certain items for taxation and accounting purposes, but only when it is considered that the deferred tax will crystallise in the foreseeable future.

(h) Pension costs

Contributions to the defined benefit pension scheme are charged to the revenue account on a systematic basis such that the regular pension cost is a substantially level percentage of pensionable payroll. The effects of variations from regular cost are spread over the expected average working lives of employees in the scheme.

(i) Operating Leases

Operating lease rental costs are charged to expenses as they are incurred.

(j) Finance leases

Finance leases are recorded on the balance sheet as a fixed asset and an obligation to pay future rentals at the present value of the minimum lease payment. The total finance charge under the lease is allocated over the life of the lease so as to produce a constant periodic rate of charge on the balance remaining.

3. MOVEMENTS IN PRIOR YEARS' CLAIMS PROVISIONS

(Under)/over provisions for claims at the beginning of the year, as compared with payments during the year and provisions at the end of the year, in respect of prior years' claims are as follows:

	1996 £000	1995 £000
Accidental and health	(42)	44
Motor	(1,688)	527
Fire and other damage to property	2,329	1,816
Marine	(214)	79
General liability	(34)	182
Miscellaneous	285	111
	636	2,759

4. NET OPERATING EXPENSES AND LEVIES

	1996 £000	1995 £000
Acquisition costs	27,687	25,915
Changes in gross deferred acquisition costs	(914)	(1,572)
Administrative expenses	5,787	5,243
Gross operating expenses	32,560	29,586
Reinsurance commission and profit participation	(1,454)	(1,225)
Change in deferred reinsurance commission	124	520
	31,230	28,881

The total commission incurred during the year was £17,473,000 (1995 : £16,451,000).

5. INVESTMENT INCOME AND REALISED GAINS

	1996 £000	1995 £000
Income from investments	9,354	7,217
Gains on realisation of investments	3,379	643
	12,733	7,860

6. INVESTMENT EXPENSES AND CHARGES

	1996 £000	1995 £000
Investment management expenses	252	105
Interest payable (see note 25)	7	2
	259	107

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	1996 £000	1995 £000
Profit on ordinary activities before tax is stated after charging:		
Depreciation:		
Tangible owned fixed assets	860	789
Assets held under finance leases	4	1
Operating lease rentals:		
Equipment	288	141
Property	909	876
Auditors' remuneration for:		
Group : Audit	70	69
: Other services	47	87
Company : Audit	6	5
: Other services	6	5
Amortisation of Goodwill (note 13)	229	96

8. STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including executive directors) during the year was as follows:

	1996 No	1995 No
Sales and Marketing	36	36
Underwriting and Personal Lines Administration	162	150
Claims	57	57
Administration and Accounting	126	110
Insurance Intermediaries	17	9
	398	362

STAFF NUMBERS AND COSTS *(continued)*

The aggregate payroll costs in respect of these persons were as follows:

	1996 £000	1995 £000
Wages and salaries	8,707	7,716
Social Security costs	788	712
Other pension costs	1,191	1,006
	10,686	9,434

9. DIRECTORS' EMOLUMENTS

Emoluments paid to the Directors of the Company by a subsidiary undertaking in respect of services to the Group, are set out below:

	1996 £000	1995 £000
Non-executive Directors' fees	21	28
Salary payments (including benefits in kind)	503	490
Incentive bonus	–	134
Long term incentive bonus	(35)	81
Pension contributions	66	64
Compensation for loss of executive office	203	-
	758	797

DIRECTORS' EMOLUMENTS *(continued)*

The incentive bonus is determined on the basis of the Group's performance against budget and is approved by the Remuneration Committee.

The Long Term Incentive Bonus is to reward senior executives for growth in the net asset value of the Group. The scheme operates in a similar way to a Share Option Scheme but no shares are issued and the value at the time of grant and exercise is determined using notional factors. The "options" are granted annually by the Remuneration Committee. With the exception of certain circumstances, the "options" cannot be realised until after the third anniversary of their grant, when a payment equivalent to the difference between the notional value at the date of grant and the notional value at the date of exercise will be made.

The compensation for loss of office includes the value of two company cars plus £70,000 which was paid in the form of pension contributions.

	Chairman 1996 £000	Highest paid Director 1996 £000	Chairman 1995 £000	Highest paid Director 1995 £000
Directors' fees	–	–	6	–
Salary payments (including benefits in kind)	–	131	–	118
Incentive bonus	–	–	–	37
Long Term Incentive Bonus Scheme	–	(10)	–	20
Pension contributions	–	18	–	16
	–	139	6	191

The current Chairman is remunerated by the ultimate holding company for his services to this Group as a whole and no amounts are included above.

DIRECTORS' EMOLUMENTS *(continued)*

The number of directors, including the above, whose emoluments, excluding pension contributions fell within the ranges listed below were:

	1996 No	1995 No
£Nil – £ 5,000	9	9
£ 10,001 – £ 15,000	2	2
£ 40,001 – £ 45,000	1	–
£ 65,001 – £ 70,000	1	1
£ 70,001 – £ 75,000	1	–
£ 75,001 – £ 80,000	1	–
£ 85,001 – £ 90,000	1	–
£100,001 – £105,000	–	1
£105,001 – £110,000	–	1
£120,001 – £125,000	1	–
£125,001 – £130,000	–	1
£130,001 – £135,000	–	1
£175,001 – £180,000	–	1

10. TAXATION

	1996 £000	1995 £000
The charge for taxation comprises		
UK Corporation Tax at 33%		
Based on the results for the year	2,188	3,208
Tax on franked investment income	113	104
Deferred taxation	(1,166)	1,492
Under/(over) provision in respect of prior years	159	(295)
	1,294	4,509
Presentation of tax charges:		
Trading profits	2,460	3,017
Investment revaluation reserve (note 21)	(1,166)	1,492
	1,294	4,509

Prior to the acquisition by the Group of the business of Continental Management Services Limited (formerly Lombard Continental Insurance plc) that company had overall trading losses for tax purposes. Pending agreement with the Inland Revenue, the Group has not recognised any benefit which would derive from carrying forward any such trading losses to be set against future trading profits.

11. DIVIDENDS

	1996 £000	1995 £000
Dividends on equity shares:		
Ordinary – interim paid 30 June 1995 of 4.49p per share	–	1,600
– interim paid 29 December 1995 of 4.21p per share	–	1,500
– interim paid 30 December 1996 of 7.02p per share	2,500	–
	2,500	3,100

No final dividend is proposed

12. INVESTMENTS: OTHER FINANCIAL INVESTMENTS

Group:

	1996 Market Value £000	1996 Cost £000	1995 Market Value £000	1995 Cost £000
Shares and other variable yield securities and units in unit trusts	6,649	5,195	18,974	15,623
Debt securities and other fixed interest securities	108,151	108,616	74,903	73,735
Deposits with credit institutions	18,588	18,588	22,503	22,500
Other	130	130	70	70
	133,518	132,529	116,450	111,928

Of the above £6,635,000 (1995 : £18,959,000) of shares and other variable yield securities and units in unit trusts and all of the debt securities and other fixed interest securities are listed on a recognised investment exchange.

13. INTANGIBLE ASSETS: GOODWILL

Group:

	1996 £000	1995 £000
Cost		
At beginning of year	1,150	–
Adjustment to cost of acquisition	(46)	1,150
At end of year	1,104	1,150
Accumulated Amortisation		
At beginning of year	96	–
Charge to profit and loss account – non-technical account	229	96
At end of year	325	96
Net Book Value		
At end of year	779	1,054
Net Book Value		
At beginning of year	1,054	–

14. SHARES IN GROUP COMPANIES

Company:

	1996 £000	1995 £000
Cost or valuation at beginning of year	66,182	60,924
Revaluation	(932)	5,258
At end of year	65,250	66,182

Investments of the Company are shares in subsidiary undertakings, details of which are as follows:

Name of undertaking	Description of shares held	Proportion of value of issued shares held by: Group %	Company %
Lombard General Insurance Company Ltd	£1.00 ordinary	100	100
Lombard Group Services Limited	£1.00 ordinary	100	100
Lombard Group Trustee Company Limited	£1.00 ordinary	100	100
Legal & Professional Indemnity Limited	£1.00 ordinary	100	Nil
Homecover Insurance Services Limited	£1.00 ordinary	100	Nil
Mastercover Insurance Services Limited	£1.00 ordinary	100	Nil

The principal business activities of the above companies are:

(a) Lombard General Insurance Company Ltd carries on the business of an authorised general insurance company in the UK.

(b) Lombard Group Services Limited carries on the business of an administration company for the Group.

(c) Lombard Group Trustee Company Limited is trustee to the Group's pension scheme.

(d) Legal & Professional Indemnity Limited, Homecover Insurance Services Limited and Mastercover Insurance Services Limited are all insurance intermediaries. Mastercover Insurance Services Limited changed its name from S.G. Insurance Services Limited on 31 January 1997.

Lombard Trustees Limited, Phonecover Insurances Services Limited and Healthcover Insurance Services Limited, which had been subsidiaries of the Group, were removed from the Register of Companies during 1996.

15. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

Group:

	1996 £000	1995 £000
Amounts owed by policyholders	9,483	9,581
Amounts owed by intermediaries	19,600	18,885
Court recoveries	34	36
Salvage and subrogation recoveries	3,560	3,098
Miscellaneous	80	57
	32,757	31,657

16. OTHER DEBTORS

Group:

	1996 £000	1995 £000
Income tax recoverable	1,705	1,257
Due from Groupama (UK) plc	60	23
Escrow deposit	259	–
Sundry debtors	15	161
	2,039	1,441

17. TANGIBLE ASSETS

Group:

	Office Equipment and Furniture £000	Motor Vehicles £000	Total £000
Cost			
At beginning of year	2,302	1,072	3,374
Additions	842	396	1,238
Disposals	–	(315)	(315)
At end of year	3,144	1,153	4,297
Accumulated Depreciation			
At beginning of year	1,051	245	1,296
Charged in the year	530	334	864
Disposals	–	(228)	(228)
At end of year	1,581	351	1,932
Net Book Value			
At end of year	1,563	802	2,365
At beginning of year	1,251	827	2,078

The net book value of motor vehicles held under hire purchase contracts was £5,256 and the depreciation thereon was £4,445

18. CALLED UP SHARE CAPITAL

Group and Company:

	1996 £000	1995 £000
Authorised:		
Equity shares		
47,500,000 Ordinary shares of 10p each	4,750	4,750
Allotted, called up and fully paid		
Equity shares		
35,625,000 Ordinary shares of 10p each	3,562	3,562

19. MOVEMENT IN SHARE CAPITAL, SHARE PREMIUM ACCOUNT AND RESERVES

Group:	Issued Share Capital Account £000	Share Premium Account £000	Capital Reserve £000	Capital Redemption Reserve £000	Investment Revaluation Reserve £000	Profit & Loss Account £000
At beginning of year	3,562	29,573	158	7,455	3,030	17,612
Retained profit for the year						1,181
Unrealised investment losses after tax (note 10)					(2,366)	
Transfers			(158)			158
At end of year	3,562	29,573	–	7,455	664	18,951
Company:						
At beginning of year	3,562	29,573	5,950	7,455	13,906	93
Retained loss for the year						(48)
Movement on investment revaluation reserve (note 14)					(932)	
At end of year	3,562	29,573	5,950	7,455	12,974	45

The transfer from the capital reserve to the profit and loss account reflects the depreciation of tangible fixed assets which gave rise to the original capital reserve.

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. Of the consolidated profit after taxation for the year, a profit of £2,452,000 (December 1995 : £2,929,000) is dealt with in the financial statements of the Company.

20. TECHNICAL PROVISIONS AND DEFERRED ACQUISITION COSTS

	Provision for Unearned Premiums 1996 £000	Claims Outstanding 1996 £000	Total £000
Gross amount			
At beginning of year	46,629	68,440	115,069
Movement in the provision	1,430	8,029	9,459
At end of year	48,059	76,469	124,528
Reinsurance amount			
At beginning of year	2,506	21,683	24,189
Movement in the provision	214	(3,136)	(2,922)
At end of year	2,720	18,547	21,267
Net technical provisions			
At end of year	45,339	57,922	103,261
At beginning of year	44,123	46,757	90,880

NET INSURANCE FUNDS

	1996 £000	1996 £000	1995 £000	1995 £000
Net technical provision at end of year		103,261		90,880
Deferred acquisition costs				
– gross	(14,060)		(13,147)	
– reinsurance commissions	643		520	
		(13,417)		(12,627)
Debtors – subrogation recoveries		(3,560)		(3,098)
Net insurance funds		86,284		75,155

21. EQUALISATION RESERVES

Equalisation reserves are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These reserves, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £1,210,000. The movement in equalisation reserves during the year resulted in a decrease in the general business technical account result and the profit before taxation of £1,210,000.

22. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred Tax	Long Term Incentive Bonus Scheme
	£000	£000
As at 1 January 1996	1,492	159
Movement on unrealised gains	(1,166)	–
Options exercised during the year	–	(32)
Movement on provision	–	(68)
As at 31 December 1996	326	59

The provision for the Long Term Incentive Bonus Scheme (note 9) is also included in the Company's balance sheet.

Deferred tax provided in the financial statements relates to unrealised appreciation of investments and represents the total liability.

23. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1996	1995
	£000	£000
Amounts owed to intermediaries	4,934	4,546
Amounts due to insurance companies	77	14
Levies – Policyholders Protection Board	830	1,651
– Motor Insurers Bureau	650	398
	6,491	6,609

24. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

Group:	1996 £000	1995 £000
Corporation taxation payable	5,313	6,294
Insurance Premium Tax payable	554	539
Other taxation and Social Security	274	271
Loan notes (note 25)	97	131
Hire purchase obligations	2	9
Deferred payment on acquisition	61	187
Due to Groupama (UK) plc	462	-
Miscellaneous	237	107
	7,000	7,538

Of the above, the following amounts fall due after more than one year:

	1996 £000	1995 £000
Loan notes (note 25)	35	49
Deferred payment on acquisition	-	88
Hire purchase obligations	-	2

The consideration payable for the acquisition of Legal & Professional Indemnity Limited is payable on a deferred basis by reference to the premium volume generated by the company during the three years ending 31 December 1997. The estimated consideration payable has reduced by £63,463 during 1996.

25. LOAN NOTES

Interest is payable in arrears on 30 June and 31 December in each year. The Loan Notes carry interest for each six monthly period at the rate of the base rate of National Westminster Bank plc on the first business day of each interest period, less 1.0 per cent per annum.

The Loan Notes are redeemable at the option of the holder in whole or in part for cash at par on or after 31 December 1996, and on each succeeding 30 June or 31 December. With respect to £51,000 of the Loan Notes issued, the maximum that may be redeemed in any one year is £16,000. All outstanding Loan Notes will be repaid at par on 28 September 2000 by the Group.

26. DUE TO SUBSIDIARY UNDERTAKING

This amount, due to Lombard Group Services Limited, does not bear interest and has no fixed date of repayment.

27. TRUST FUND

During 1993, the Company purchased business previously underwritten by Continental Management Services Limited ("CMS"). As part of the acquisition CMS entered into an agreement to reinsure losses occurring prior to 1 June 1993 arising from the business transferred. Reinsurance claims were paid from a trust fund which was established for that purpose and, in accordance with the agreement, this trust fund was wound up during 1996 and the remaining monies transferred to Lombard General Insurance Company Ltd. The balance of monies transferred, less the claims paid since the transfer, is shown as a deposit received from reinsurers. The Continental Corporation has also provided an indemnity of up to 120% of the original loss reserves of £38.9 million.

28. PENSION COSTS

The Group operates a defined benefit non-contributory pension scheme (the Lombard Group Pension Scheme) covering substantially all of its UK employees including Executive Directors. The scheme is administered by a trustee company and the assets are held by the scheme in a trust fund which is independent of the Group's finances.

The recommended Group contributions to the scheme are determined by an independent qualified actuary on the basis of an actuarial valuation using the projected unit method. The most recent actuarial valuation of the scheme was made as at 30 June 1996 (the pension scheme year end). The assumptions which have the most significant effect on the valuation are those relating to the rate of interest on the investments, rate of salary growth and the rate of increase in pensions. It was assumed that the real investment return would be 4½% per annum, real salary growth will average 2½% per annum and that the pensions in excess of the GMP element will increase at the absolute rate of 5% per annum.

On this basis, as at 30 June 1996, the actuarial value of the scheme's assets represented 103% of the benefits that had accrued to members after allowing for expected future increases in salaries. The market value of the scheme as at 30 June 1996 was £11,255,000.

The pension charge for the year to 31 December 1996 was £1,165,000 (1995 : £1,006,000).

29. CAPITAL COMMITMENTS

The company had no outstanding contracts for capital expenditure committed as at 31 December 1996 (December 1995 : £Nil).

30. OPERATING LEASE COMMITMENTS

The company has annual commitments under various operating leases to make payments totalling £1,147,101 (December 1996 : £1,022,555) in the year to 31 December 1997 as follows:

	Land & Buildings £000	Other Operating Leases £000	Total £000
Expiring:			
Between one and five years	26	257	283
After five years	883	31	914
	909	288	1,197

31. ULTIMATE HOLDING COMPANY

The Company's immediate parent is Groupama (UK) plc, a company incorporated in the United Kingdom and registered in England and Wales. A copy of that company's financial statements is available from the Company Secretary, Lombard House, 182 High Street, Tonbridge, Kent TN9 1BY.

The Company's ultimate holding company and controlling party is Caisse Centrale Des Assurances Mutuelles Agricoles which is a mutual insurance company incorporated in France. A copy of its financial statements is available from its registered office at 8–10, rue d'Astorg, 75413 Paris, France.

32. RELATED PARTIES

Under the terms of Financial Reporting Standard 8 "Related Party Transactions", the Company has taken advantage of the exemption from:

- disclosing transactions and balances between group entities which have been eliminated on consolidation; and

- disclosing transactions with entities which are part of the group headed by Caisse Centrale des Assurances Mutuelles Agricoles ("CCAMA") on the basis that more than 90% of shares of those companies are controlled by CCAMA.

Lombard General Insurance Company Ltd, the principal operating subsidiary of the Group, accepts insurance business through Capital & County Insurance Associates, a Lombard circle broker. R. Laing, a partner in Capital & County Insurance Associates, is the brother of A.K. Laing who is Managing Director of Lombard General Insurance Company Ltd. During 1996 the value of the premium income derived from this source was £712,065 and the level of commission attributable to this source was £102,210. The debt at 31 December 1996 (net of commission) was £118,118. Approximately £150,000 was paid to Capital & County Insurance Associates during the year in respect of the Group's own insurances placed through them.

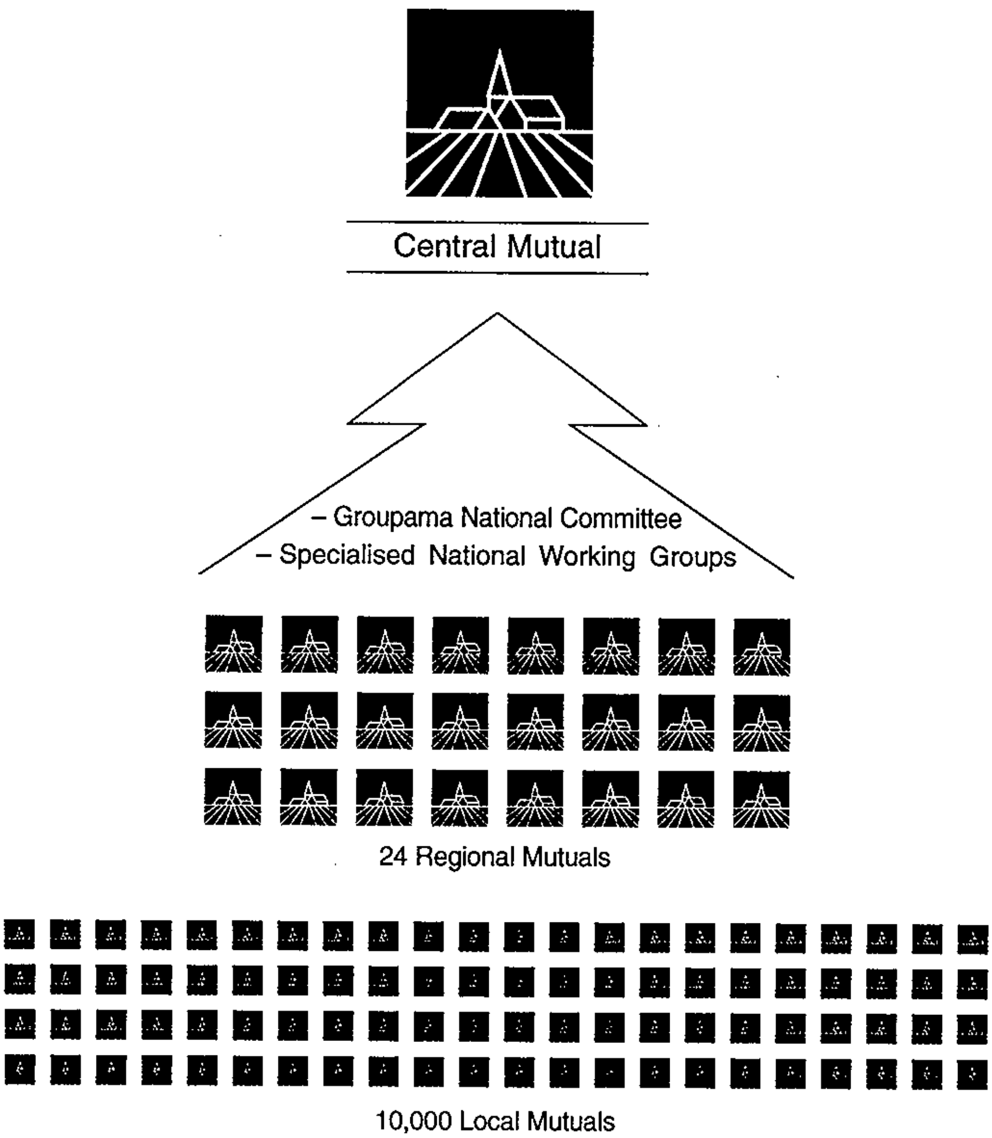
Certain of the directors hold personal insurance contracts with Lombard General Insurance Company Ltd. The value of these is not considered material for disclosure purposes.

GROUPAMA

Groupama is the largest mutual insurance company and the second largest general insurer in France. In 1995 it had a group premium income of FF35 billion (£4.0 billion) and net assets of FF35 billion at the end of 1995. It has a 9.7% share of its domestic non-life market.

Groupama conducts most of its business in the form of a mutualist company. Its insurance business is managed by 24 Regional Mutuals. These Mutuals are fully autonomous enterprises with their own Board of Directors and distribution network. Reinsured by the Central Mutual, the Regional Mutuals in turn reinsure the Group's 10,000 Local Mutuals. These are true mutual societies which exemplify Groupama's philosophy of local service. In each Department, Federations represent the Group vis-à-vis public officials and industry organisations. They also promote consensus, the flow of information and coordination of the Local Mutuals.

Although the group's origins, culture and founding values are rooted in the agricultural community, it has begun to develop international insurance and reinsurance business. As part of this strategy, Groupama acquired Lombard in February 1995. Currently the group's reinsurance and direct insurance operations outside of the UK include Spain, Canada, USA, Germany, Singapore, Mexico, Mauritius and the Ivory Coast.



GENERAL MANAGEMENT

SALES & MARKETING

Jamie Marchant FCII
Marketing Manager

Robin Westmore
Sales Manager – Personal

Mike Bridge
Sales Manager – Commercial

UNDERWRITING & CLAIMS

Alan Dool ACII
Claims Manager

Steve Hazzard
Underwriting Manager – Personal

Tim Osborne ACII
Underwriting Manager – Commercial

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REGIONS & INFORMATION TECHNOLOGY

Derek Timmins
Information Technology Manager

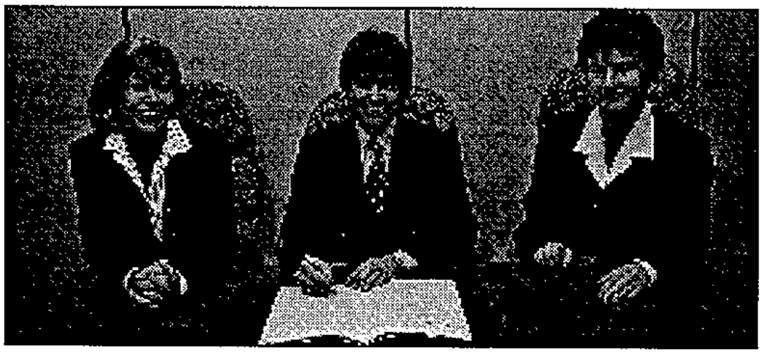
Nick Jewitt ACII
Branch Operations Manager

PERSONNEL, REINSURANCE & FINANCIAL SERVICES

Julie Bass ACII
Personnel & Training Manager

Kelvin Phillips ACII
Risk Management & Reinsurance Manager

Liz Tulloch ACA
Financial Controller

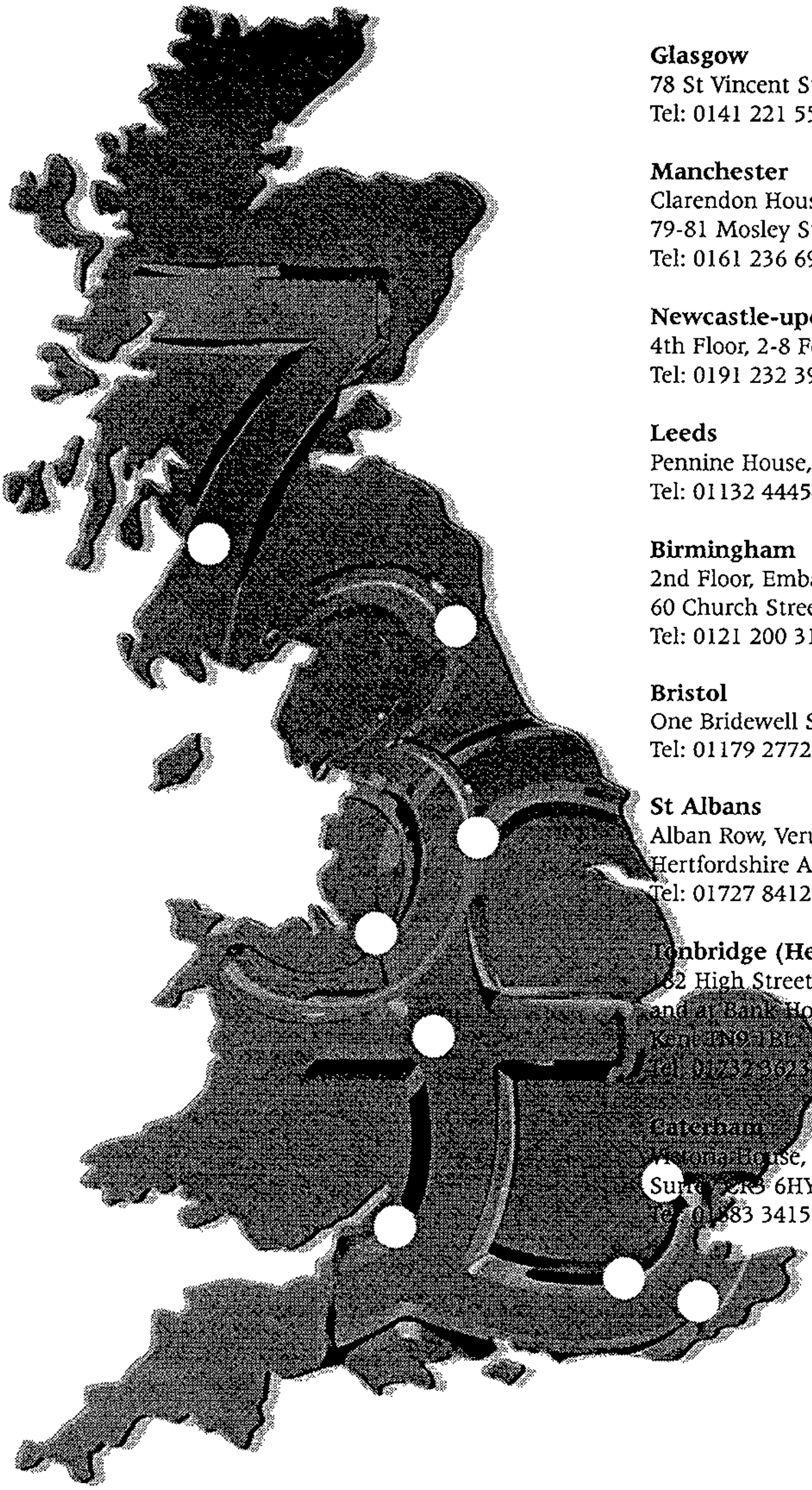


SUBSIDIARIES

Harvey Pink ACII
Managing Director
Mastercover Insurance Services Ltd

Grant Whiskin
Managing Director
Legal & Professional Indemnity Ltd

WHERE WE ARE



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and at Bank House, Bank Street,
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Tel: 01883 341531 Fax: 01883 348600