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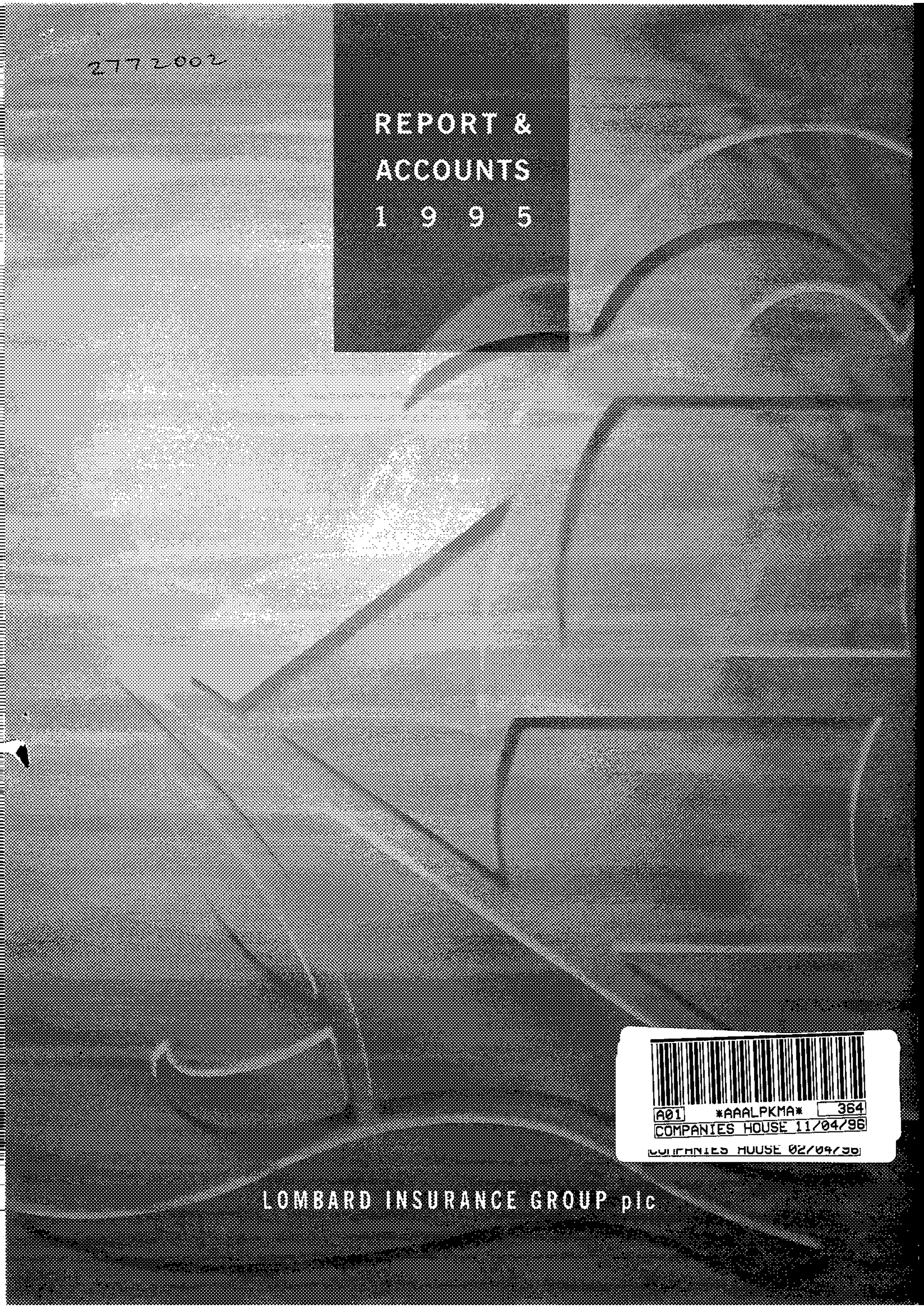


REPORT & ACCOUNTS 1995

LOMBARD INSURANCE GROUP plc

CONTENTS

"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

CHAIRMAN'S STATEMENT

Giorgio Giordani
Chairman

I am pleased to present our Report & Accounts for the year ended 31 December 1995 which you will notice is in a substantially changed format from previous years. These changes are designed to comply with the new regulations which came into force for accounting periods commencing after 22 December 1994.

It is satisfying to report in my first statement since Lombard Insurance Group plc was acquired by Groupama, a profit of £10.10 million before an exceptional charge of £1.07 million relating to advisory costs incurred at the time of the takeover. This performance is very satisfactory when it is recognised that the underwriting result was substantially affected by the increased incidence of subsidence following the extraordinarily dry summer, and by the very severe weather at the end of the year which led to many claims. These weather losses have been fully reserved in our 1995 figures.

The underlying result in difficult markets is very good and I would like to thank the Executive Directors and all of the staff for their effort and commitment during the period. This has been particularly important during a year in which the ownership of the Company has changed. The workloads placed on the directors and management over a very busy three year period, including a management buyout, flotation and takeover, have been very demanding and their resilience impressive.

Groupama acquired Lombard because it thought highly of the management; believed in the philosophy of the Company; and saw potential for long term growth. In the period since the acquisition, these views have been confirmed and Lombard is rapidly establishing itself as a significant contributor to the group, both financially and through exchange of know-how. I am really pleased at the way the integration between the two companies has developed. Groupama's philosophy as a mutual is to empower its operations and this will enable Lombard to maximise its potential as a niche insurer.

Lombard has continued its work in pursuit of quality in all areas of its business. It is this pursuit of quality which encourages the brokers to support the Company in times of difficult markets. Lombard is currently working towards acquiring accreditation to the quality standard ISO9000.

The market will not be easy during 1996 but, with our strong commitment to our brokers and intermediaries and the quality service which we are able to supply, we believe that we will continue to develop our Company. The Group's investment income continues to grow as the funds under management increase. The remaining balance in the Trust Fund, which secures an indemnity provided by the Continental Corporation at the time of our Management Buyout, will be transferred in total to us in May 1996. The effect will be to further increase our investment income. It is important to stress, however, that the related indemnity will remain in force indefinitely.

At the time that Groupama acquired Lombard, Paul Bradshaw resigned as a non-executive director. Paul provided invaluable support and guidance to the Executive Directors and the Company during the period from just prior to flotation until the acquisition by Groupama. We thank him for that contribution. We are pleased that David Young and Ray Salter have agreed to continue to serve as Non-Executive Directors. We welcome to the Board David Drew, who was appointed as Executive Director responsible for Sales and Regions, and the French elected representatives and managing directors who have agreed to join the Board in a non-executive capacity.

It is with some sadness that I report that, at his request, John Clench will be taking early retirement and will leave the Company on 31 May 1996. John has been an important member of the management team since he joined the Company in 1982. He played a key role in the management buyout, the flotation and the acquisition of Lombard by Groupama. His contribution is greatly appreciated and we wish him a long and healthy retirement.

I would like to conclude by thanking our brokers for their continued support and by re-emphasising our appreciation of our staff who are exceptional in their ability and commitment.

MANAGING DIRECTOR'S REVIEW

A K Laing
Managing Director

ACQUISITION BY GROUPAMA

In February 1995, Lombard Insurance Group was acquired by Groupama. The friendly nature of the takeover and the similarities in philosophy have meant that relationships have developed very satisfactorily during the first year. The management of Lombard has been empowered to continue developing the business in line with its pre-acquisition strategy. We have found our French colleagues to be helpful and supportive.

ACQUISITIONS

During 1995 the Group acquired two intermediaries which operate in niche areas of the market. We believe that these acquisitions will enable us to develop our strong position in their specialist areas.

Legal and Professional Indemnity Limited is a leader in the development and marketing of insurance products for the conveyancing industry. While the business has been hampered because of the situation in the housing market, we believe that there is great potential and limited competition.

Homecover Insurance Services Limited has a portfolio of specialist schemes mostly in the personal lines area which are, in the main, affinity group based. We believe that the affinity group approach is one of the best ways to grow our business and we anticipate using the skills of Homecover to develop new specialist products. Homecover will continue to support its agencies with other carriers.

THE MARKET

The environment in both personal and commercial lines has been extremely aggressive as companies seek to retain market share. In the personal lines market, we anticipate no further significant reduction in private car rates and indeed expect to see them increasing by the end of 1996. Household rates, on the other hand, are anticipated to remain under pressure until mid-1997 although the impact of large subsidence losses and the subsequent winter weather losses should encourage hardening of rates.

The current pressure on new business rates in the commercial market can be expected to continue during 1996. We expect that the position should start to improve from mid-1997.

Despite the difficult markets, at Lombard we have maintained our underwriting led philosophy which we believe is essential if we are to continue to outperform the market.

RESULTS

1995 has been another successful year for the Group with a profit of £10.10 million before an exceptional item of £1.07 million. The quality of our underwriting has continued to be reflected in the very satisfactory loss ratios we have experienced.

Although our underwriting profit has reduced compared with 1994, it should be recognised that 1994 was the peak of the underwriting cycle. Nevertheless, we have achieved a technical profit of £5.7 million. Our investment income for the year was substantially increased over 1994 at £8.28 million of which £3.35 million is included in the technical profit. This was partially due to the increased value of funds invested but also because of the excellent performance of financial markets during 1995. In addition, we have unrealised gains in our portfolio of £4.52 million which are reflected in the balance sheet.

PERSONAL LINES BUSINESS

Market conditions have meant that growth of our personal lines account has been difficult and profitability has been harder to achieve than in 1994. Nevertheless, the account has performed very satisfactorily, producing a technical profit of £4.22 million.
Personal lines now forms 53 % of our total business as compared to 56 % at the end of 1994.

PERSONAL MOTOR

The underwriting performance of this account has continued to be very good with profits being achieved in both the private car and motorcycle accounts. We have introduced an Electronic Data Interchange (EDI) service during 1995 and anticipate significant growth of the business through this medium in 1996.

HOUSEHOLD

Competition has continued to be extremely strong in the household account and in terms of sales our performance has been flat. Nevertheless, the account continues to be very profitable, although subsidence claims and severe weather claims have impacted on the overall result.

COMMERCIAL LINES

Competition in this market has continued to reduce rates. Our view, as always, has been not to write business unless we can anticipate an underwriting profit. This has meant that growth in the account has been difficult, but the underwriting performance has been good, with underwriting profits being achieved overall and in virtually all individual accounts. Despite taking specific action, our Employers' Liability account continues to disappoint. This is a market problem and in fact our results are significantly better than the industry average. We will continue to take appropriate steps to improve our results but we believe it is essential that the market as a whole reacts to this problem. We continue to target superior quality business, selling on the basis of our overall value of product and service.

As an enhancement to the service we offer to our brokers and clients, we have introduced the Lombard Advantage product which guarantees rates (subject to the loss experience) if the insured commits to renewing his business for three consecutive years. This gives the client the benefit of control over his premiums and the company the benefit of a guaranteed forward income. This product was given the award of 'Best New Product – Commercial Lines' at the Institute of Insurance Brokers Industry Awards in 1995.

AFFINITY GROUPS

We already underwrite a substantial amount of affinity group business through relationships developed over a long period. We have decided to make a significant investment in the further development of this area of business and are setting up specialist sales and support services.

CLAIMS ASPECTS

Our approach to claims reserving continues to be prudent and conservative. We were the first publicly quoted general insurance company to ask our actuaries, Watson Wyatt, to review our reserves on an annual basis and to include their report in our Report & Accounts. We have continued with that practice and their positive conclusions appear on pages 17 and 18.

We have further improved our claims service by introducing the Lombard Rapide facility. This is a new 24-hour motor claims assistance service which is offered free of charge to claimants under our private car and caravanette policies. It is aimed at minimising the inconvenience and improving the quality of repairs when an accident occurs.

TRUST FUND

Claims which occurred prior to 1 June 1993 are protected by an indemnity received from the Continental Corporation at the time of the Management Buyout. The indemnity is secured by a Trust Fund, the value of which was £11.57 million at 31 December 1995.

Under the terms of the Trust Fund agreement, the balance in the fund as at 28 May 1996 may be transferred to Lombard General Insurance Company Ltd. It is anticipated that we will exercise that right. The investment income on those additional funds will then accrue to the benefit of the Group. The indemnity relating to the Trust Fund will continue to remain in force indefinitely.

INVESTMENTS AND CASHFLOW

Net cashflow from operating activities during 1995 was £18.01 million. Our cash and funds under investment have risen to £116.89 million compared to £102.42 million at the end of December 1994. Our consolidated shareholders' funds are now £61.39 million.

The Group earned investment income of £8.28 million during the year. The excellent investment performance was due substantially to the very positive UK financial markets. The rise in the markets led to us having unrealised gains of £4.52 million which compares to unrealised losses of £0.53 million at 31 December 1994.

INFORMATION TECHNOLOGY

We implemented our first EDI product during 1995 and are now progressing quickly with the implementation of additional services. We anticipate a significant proportion of our business on personal lines being handled in this way in the future.

We have embarked on a major project to improve the service associated with the handling of our commercial lines business. We believe that EDI will impact on commercial lines business as well as personal lines and have joined the CLMI (Commercial Lines Market Initiative) organisation. In addition, we have seconded one of our underwriters to support directly the work being carried out by CLMI to produce a blue print for electronic trading associated with small businesses and packages.

During 1995 we have acquired a second high volume laser printer to extend our in-house production of schedules and policy documents. We have also introduced Document Image Processing into our back office systems.

BROKER NETWORK

Our strategy of building long term relationships with quality brokers continues to be an important part of our strategy. We are currently looking to increase gradually our panel of brokers, without impacting on the service we are able to offer to our existing supporters and also without reducing the standards we look for in our partners. Lombard Circle status is given to a limited number of brokers with whom we have an exceptional relationship. This involves high levels of support from them and a commitment for special financial and service incentives from us. We are pleased that we have recently increased the number of brokers who have been able to meet our demanding criteria and have been given membership.

In 1996, we will be launching the Lombard Target concept, which is similar to the Circle facility but for personal lines brokers. We will also be continuing with the process begun in 1995 of increasing and improving the package of benefits available to both our Circle and Target brokers.

ACKNOWLEDGMENTS

1995 has, like the two preceding years, been a momentous one for the Group. I would like to thank the staff, the management, my fellow executive directors, and our non-executive directors both British and French, for their support while we achieved the change from a publicly owned company to an active member of Groupama.

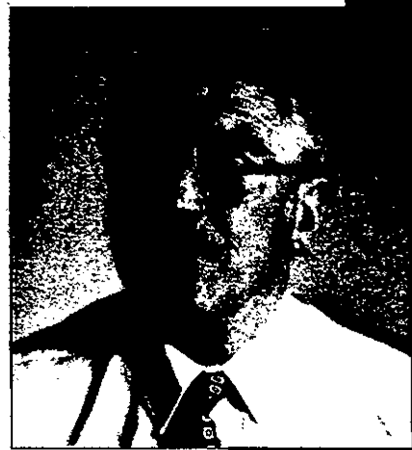
I would like to give my special thanks to John Clench for his support over many years and, in particular, for the vital role he played in the management buyout and subsequent developments, and wish him every happiness in his retirement.

I would also like to thank those who are key to our business including our policyholders, our brokers and intermediaries, and our reinsurers. I thank them for their support during 1995 and look forward to further strengthening our relationships with them in the future.

EXECUTIVE DIRECTORS

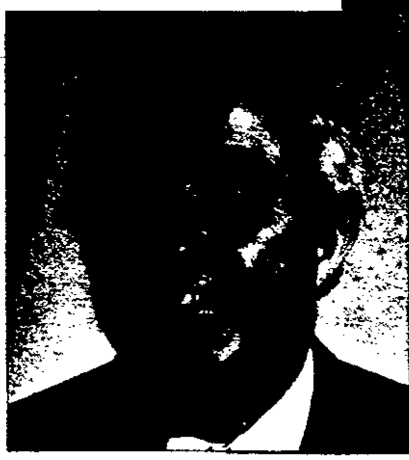
Andrew K Laing ACII

John A Clench MIMgt



David M Wilson FCII

James P Manning FCA



Andrew K Laing ACII
Managing Director, Age: 52

Andy Laing has 36 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 fourteen 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 buy-out and was appointed Managing Director of the new Company on its foundation in 1993.

John A Clench MIMgt
Operations Director, Age: 54

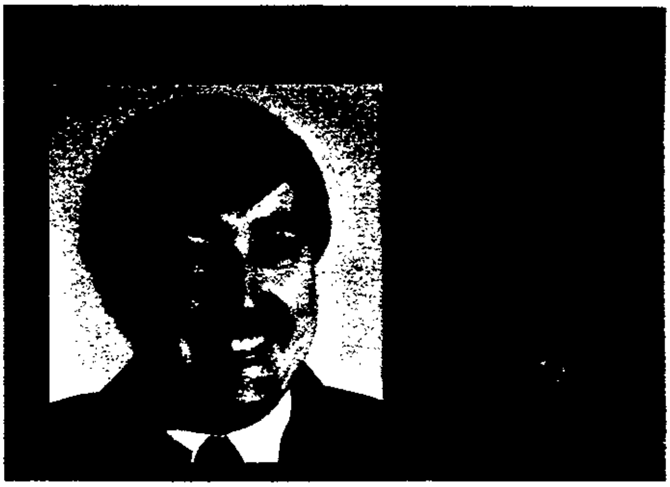
John Clench has spent 38 years within the insurance industry. The first 24 were with the Orion where, following a period in technical areas of insurance, he spent 16 years in data processing. He has been employed by the Company since 1982. For a period of two years he was Continental's Personnel Director responsible for all UK and European operations. He was appointed Operations Director of the Company on its foundation in 1993 and has responsibility for information technology, personnel, personal lines operations, office services and quality.

David M Wilson FCII
Underwriting and Claims Director, Age: 44

David Wilson has 25 years' experience in the insurance industry, all spent within the underwriting discipline. He worked for Phoenix and Cigna before joining Lombard in 1986. He was appointed to the General Management of Lombard in 1987 and appointed a Director of Lombard in 1991. He became a Director of the Company on its foundation in 1993 and has responsibility for underwriting and claims.

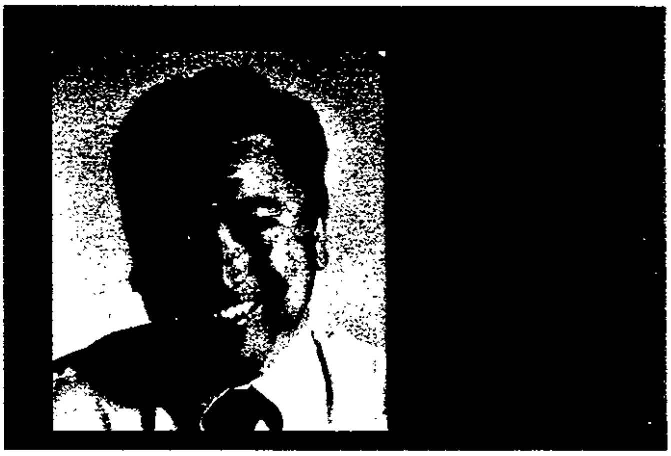
James P Manning FCA
Director and Company Secretary, Age: 54

James Manning qualified as a Chartered Accountant in 1965 and became FCA in 1976. He has 23 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.



Kenneth Maciver CA, ACII
Finance Director, Age: 38

Kenneth Maciver qualified as a Chartered Accountant in 1980. He has 13 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 the financial and treasury operations.



David W Drew FCII
Sales & Regions Director, Age: 41

David Drew has 23 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 with responsibility for Sales, Marketing and the Branch network.

DIRECTORS AND ADVISERS

NON-EXECUTIVE CHAIRMAN

G. Giordani (iii)

AUDITORS

Coopers & Lybrand
1 Embankment Place
London WC2N 6NN

EXECUTIVE DIRECTORS

A.K. Laing	ACII	- Managing Director (iii)	
J.A. Clench	MIMgt		
D.W. Drew	FCII		
K. Maciver	CA, ACII		(ii)
J.P. Manning	FCA		(i)
D.M. Wilson	FCII		

LEGAL ADVISERS

Macfarlanes
10 Norwich Street
London EC4A 1BD

NON-EXECUTIVE DIRECTORS

J-F. Allard	(i)
R.P.M. Bouche	
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)

PRINCIPAL BANKERS

National Westminster Bank plc
21 Lombard Street
London EC3P 3AR

SECRETARY AND REGISTERED OFFICE

J.P. Manning FCA
Lombard House
182 High Street
Tonbridge
Kent TN9 1BY

Registered Number 2772002

INVESTMENT MANAGERS

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

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

The Directors present their report and financial statements for the year to 31 December 1995.

ACQUISITION BY GROUPAMA (UK) PLC

It was announced on 25 January 1995 that the Boards of Groupama (UK) plc and the Company had reached agreement on the terms of a recommended cash offer by Groupama (UK) plc for the whole of the issued share capital of the Company. This offer became unconditional on 22 February 1995 and Groupama (UK) plc is now the Company's immediate parent company.

CHANGE OF FINANCIAL YEAR

Following the takeover by Groupama (UK) plc, the Company and its subsidiary undertakings retrospectively changed their financial year ends from 30 June to 31 December, the existing year end of Groupama (UK) plc. The comparative figures in these financial statements, therefore, are for the six month period ended 31 December 1994.

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 employers' 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 1,100 brokers and intermediaries, seeks to write risks of low to moderate hazard. Relations with brokers and intermediaries are maintained through nine 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.

ACQUISITIONS

On 12 January 1995, Lombard Group Services Limited, a subsidiary company, subscribed for the issued share capital of LGS 1994 Limited, a company formed to acquire the business of Legal & Professional Indemnity Limited, a financial products intermediary. The consideration for the acquisition of the business is payable on a deferred basis which is further described in note 15. On completion of the acquisition, LGS 1994 Limited changed its name to Legal & Professional Indemnity Limited.

On 28 September 1995, Lombard Group Services Limited agreed to acquire all the ordinary issued share capital of Homecover Insurance Services Limited. As discussed in note 15 to the financial statements the consideration was partly in cash and partly in loan notes.

RESULTS FOR THE PERIOD

The results for the year ended 31 December 1995 are shown in the consolidated profit and loss account set out on pages 20 and 21.

DIVIDENDS AND TRANSFER TO RESERVES

On 24 May 1995, the Directors declared an interim dividend of £1,600,000 representing 4.49p (net) per Ordinary Share, which was paid on 30 June 1995 to Groupama (UK) plc.

On 5 December 1995, the Directors declared an interim dividend of £1,500,000 representing 4.21p (net) per Ordinary Share, which was paid on 29 December 1995 to Groupama (UK) plc.

The total cost of dividends for the year amounted to £3,100,000 (6 months to 31 December 1994 : £980,000). No final dividend is proposed. The retained profits of £2,908,000 were transferred to reserves.

SHARE CAPITAL

Details of the share capital at 31 December 1995 are set out in note 21 to the financial statements.

SHARE OPTION AND SHARESAVE SCHEME

(1) An approved Executive Share Option Scheme was adopted by the Company at a General Meeting held on 4 May 1994. No options were granted under this scheme which was cancelled following the acquisition by Groupama (UK) plc.

(2) An approved Savings Relating Share Option Scheme ("Sharesave Scheme") was adopted by the Company at a General Meeting held on 4 May 1994. The Board issued invitations to employees to apply for options under the Sharesave Scheme for 533,289 Ordinary Shares on 23 May 1994 at an exercise price of 131p per Ordinary Share. The employees had the right to exercise these options at the end of five years from the date of grant of option. The Sharesave Scheme offer was fully subscribed. Following the acquisition by Groupama (UK) plc, the Sharesave Scheme was cancelled after acceptance by the staff of cash payments by Groupama (UK) plc.

DIRECTORS AND DIRECTORS' INTERESTS

The current directors are shown on page 12.

The following changes to the Board of Directors took place during the year to 31 December 1995.

	Appointments		Resignations
11 April 1995	J-F. Allard	31 March 1995	P.R. Bradshaw
	G.M.F. Laporte	30 June 1995	D.M.C. Ploton
	G. Giordani		
	J-P.D. Rousseau		
	R.J. Thomas		
13 July 1995	D.W. Drew		
	R.P.M. Bouche		
	C.H. Lemaire		
	J-L.M.H. Wibratte		
14 September 1995	B. Delas		

On 11 April 1995 Mr. G. Giordani was appointed Chairman.

DIRECTORS AND DIRECTORS' INTERESTS (continued)

The interests of the Directors and their immediate families in the share capital of the Company, as shown by the register kept in accordance with Section 325 of the Companies Act 1985, are set out below. In addition certain of the undernoted Directors had rights to subscribe for shares in the Savings Related Share Option Scheme during the year. These are also detailed below:

	31 December 1994 Ordinary Shares of 10p each	31 December 1994 Options over Ordinary Shares
A.K. Laing	416,509	7,953
P.R. Bradshaw	9,375	-
J.A. Clench	227,390	7,953
K. Maciver	43,826	7,953
J.P. Manning	230,251	7,953
R.M. Salter	9,375	-
D.M. Wilson	230,999	7,953
D.T. Young	12,500	-

Following the acquisition by Groupama (UK) plc on 22 February 1995, the Directors sold all their shares and their rights to subscribe for shares in the Savings Related Share Option Scheme were cancelled.

Under the terms of the Acquisition Agreement, certain of the Directors exercised their right to receive a loan note alternative from Groupama (UK) plc, instead of cash. As at 31 December 1995, the amounts of the loan notes outstanding were as follows:

	£
A.K. Laing	932,000
D.W. Drew	204,400
J.A. Clench	449,818
K. Maciver	64,834
J.P. Manning	436,484
D.M. Wilson	498,000
D.T. Young	13,500

With the exception of the above, there was no contract 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.

TANGIBLE FIXED ASSETS

Significant changes in tangible fixed assets are set out in note 20 to the financial statements.

DONATIONS

During the year the Group made charitable donations totalling £6,044 (six months to 31 December 1994 : £3,292). No donation was made to any political party.

REPORT OF THE DIRECTORS

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 applicable to insurance companies.

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 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.

INSURANCE OF DIRECTORS

As permitted by the Companies Act 1985, insurance was effected during the year on behalf of the Directors and Secretary in respect of liabilities arising in the course of their duties.

EMPLOYEES

The employees' contracts of employment are with subsidiary companies.

Particulars of numbers of persons employed during the year and their remuneration are set out in note 10 to the financial statements.

The Group recognises the importance of communication between the management and the staff. As such, a number of publications are produced and informal staff briefings held to ensure that staff are aware of matters which affect them and the Group's performance.

Special arrangements were made to enable staff to participate in the listing of the Company. The Group encouraged share participation through the Save as You Earn Scheme. Following the acquisition of the Company, Groupama (UK) plc purchased the rights of the employees to shares under this scheme.

With effect from 1 January 1996, a Profit Related Pay Scheme was introduced.

A Staff Association Committee is elected and meets quarterly with a 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.

Employees' remuneration is based on a job evaluation scheme and all salary increases are merit based. In addition, a comprehensive profit sharing arrangement has been introduced for the staff.

As a responsible and caring employer, it is the Group's aim to ensure that all staff and applicants for employment are treated equally, whatever their age, sex, nationality, country of origin, religion, marital status and whether or not they are disabled. Where disabled persons are employed all necessary assistance with training is provided. 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.

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
12 March 1996

Lombard House
182 High Street
Tonbridge Kent TN9 1BY

REPORT OF THE ACTUARIES

TO THE MEMBERS OF LOMBARD INSURANCE GROUP plc

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 1995.

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. This indemnity is secured by a trust fund and, additionally, 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

Company

Lombard has established a reserve of £43.659 million (£46.757 million net of subrogation expected of £3.098 million) at 31 December 1995 to cover outstanding claims including incurred but not reported claims arising out of its general insurance business. The reserves for each major class of business exceed our best estimate. Overall, we believe this reserve is reasonable in that it is more likely to prove sufficient than otherwise.

An unearned premium reserve (net of deferred acquisition costs) of £31.496 million is held to cover the unexpired portion of business already written. On the basis of information currently available, the business is profitable and our projections indicate that the unearned premium reserve should, on current trends, be comfortably adequate to meet the claims and continuing expenses that will arise.

REPORT OF THE ACTUARIES (continued)

OPINION (continued)
Trust Fund

A recovery from the trust fund of £11.574 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 potential surplus remaining in the trust fund together with the guarantee from Continental provides significant protection against deterioration on claims occurring prior to 1 June 1993.

Overall

In our opinion, the technical reserves of Lombard at 31 December 1995 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 of the Firm of Watson Wyatt

23 February 1996

REPORT OF THE AUDITORS

TO THE MEMBERS OF LOMBARD INSURANCE GROUP plc

We have audited the financial statements on pages 20 to 56.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 16 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.

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 1995 and of the profit, total recognised gains 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

12 March 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS
For the year ended 31 December 1995

		Year December 1995		Six Months December 1994 (as restated)	
	Note	£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	3	98,916		44,976	
Outward reinsurance premium		(13,256)		(4,706)	
Net premiums written			85,660		40,270
Change in the gross provision for unearned premiums		(2,985)		1,524	
Change in the provision for unearned premiums, reinsurers' share		1,003		(208)	
Change in the net provision for unearned premiums			(1,982)		1,316
Earned premiums, net of reinsurance	3		83,678		41,586
Allocated investment return transferred from the non-technical account			3,349		1,051
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(53,834)		(20,574)	
Reinsurers' share		15,423		4,593	
Net claims paid		(38,411)		(15,981)	
Change in the provision for claims					
Gross amount		(7,260)		(8,811)	
Reinsurers' share		(6,774)		2,844	
Change in the net provision for claims		(14,034)		(5,967)	
Claims incurred, net of reinsurance			(52,445)		(21,948)
Net operating expenses and levies	5		(28,881)		(14,136)
Balance on the technical account for general business			5,701		6,553

The notes on pages 29 to 56 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

NON-TECHNICAL ACCOUNT
For the year ended 31 December 1995

	Note	Year December 1995 £000	Year December 1995 £000	Six Months December 1994 (as restated) £000	Six Months December 1994 (as restated) £000
Balance on the general business technical account			5,701		6,553
Investment income and realised gains	6	7,860		2,799	
Unrealised gains on investments		529		-	
Investment expenses and charges	7	(107)		(169)	
Unrealised losses on investments		-		(529)	
	6	8,282		2,101	
Allocated investment return transferred to the general business technical account		(3,349)		(1,051)	
			4,933		1,050
Other income			58		-
Other charges, including value adjustments			(596)		-
Exceptional item	8		(1,071)		-
Profit on ordinary activities before tax			9,025		7,603
Tax on profit on ordinary activities	12		(3,017)		(2,862)
Profit for the financial year after tax			6,008		4,741
Dividends	13		(3,100)		(980)
Retained profit for the year			2,908		3,761

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 1995

	Year December 1995 £000	Six Months December 1994 (as restated) £000
Retained profit for the financial year	2,908	3,761
Unrealised gains on investments	3,030	-
Total recognised gains and losses relating to the year	5,938	3,761
Prior year adjustment (see note 22)	(820)	
Total recognised gains and losses since the last financial statements	5,118	

The notes on pages 29 to 56 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 1995

	Note	1995 £000	1995 £000	1994 (as restated) £000	1994 (as restated) £000
Assets					
Investments	14		116,450		100,948
Intangible assets	15		1,054		-
Reinsurers' share of technical provisions					
Provision for unearned premiums	23	2,506		1,503	
Claims outstanding	23	21,683		28,457	
			24,189		29,960
Debtors					
Debtors arising out of direct insurance operations	18	28,240		25,296	
Debtors arising out of reinsurance operations		1,634		42	
Other debtors	19	1,441		750	
			31,315		26,088
Other assets					
Tangible assets	20	2,078		1,619	
Cash at bank and in hand		437		1,477	
			2,515		3,096
Prepayments and accrued income					
Accrued interest and rent		1,831		1,504	
Deferred acquisition costs		12,627		11,575	
Other prepayments and accrued income		745		722	
			15,203		13,801
Total assets			190,726		173,893

CONSOLIDATED BALANCE SHEET
As at 31 December 1995

	Note	1995 £000	1995 £000	1994 (as restated) £000	1994 (as restated) £000
Liabilities					
Capital and reserves					
Called up share capital	21	3,562		3,562	
Share premium	22	29,573		29,573	
Other reserves	22	10,643		7,929	
Profit and loss account	22	17,612		14,388	
Shareholders' funds attributable to equity interests			61,390		55,452
Technical provisions					
Provision for unearned premiums	23	46,629		43,644	
Claims outstanding	23	68,440		60,758	
			115,069		104,402
Provision for other risks and charges	24		1,651		-
Deposits received from reinsurers			890		1,677
Creditors					
Creditors arising out of direct insurance operations	25	3,192		2,767	
Creditors arising out of reinsurance operations		459		998	
Other creditors including taxation and social security	26	7,538		7,793	
			11,189		11,558
Accruals and deferred income			537		804
Total liabilities			190,726		173,893

These financial statements were approved by the Board of Directors on 12 March 1996

Director .... Director ....
A.K. Laing G. Giordani

The notes on pages 29 to 56 form part of these financial statements.

COMPANY BALANCE SHEET

As at 31 December 1995

	Note	1995 £000	1995 £000	1994 (as restated) £000	1994 (as restated) £000
Shares in Group Companies	17		66,182		60,924
Current Assets:					
Due from subsidiary undertaking		1,290		1,328	
Advance Corporation tax recoverable		-		386	
Short term deposits and cash		4		-	
Corporation tax recoverable		181		-	
		1,475		1,714	
Current Liabilities:					
Corporation tax payable		-		250	
Sundry creditors		4		6	
Due to subsidiary undertaking		1,005		-	
Interim dividend		-		980	
		1,009		1,236	
Net current assets			466		478
Total assets less current liabilities			66,648		61,402
Creditors: Amounts falling due after more than one year					
Due to subsidiary undertaking			5,950		5,950
Provision for other risks and charges	24		159		-
			60,539		55,452
Shareholders' funds					
Called up share capital	21		3,562		3,562
Share premium	22		29,573		29,573
Other reserves	22		27,311		22,053
Profit and loss account	22		93		264
Equity shareholders' funds			60,539		55,452

These financial statements were approved by the Board of Directors on 12 March 1996

Director .... Director ....

A.K. Laing G. Giordani

The notes on pages 29 to 56 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

As at 31 December 1995

	Note	Year December 1995 £000	Year December 1995 £000	Six Months December 1994 (as restated) £000	Six Months December 1994 (as restated) £000
Operating Activities					
Net cash flow from operating activities	A		18,015		15,288
Returns on Investments and Servicing of Finance					
Dividends paid			(4,080)		(563)
Taxation					
Tax paid			(3,260)		(512)
Net cash inflow before investing activities			10,675		14,213
Investing Activities					
Purchase of subsidiary undertakings and businesses (net of cash equivalents)		(737)		-	
Purchase of tangible fixed assets		(1,373)		(366)	
Sale of tangible fixed assets		203		57	
Purchase of investments		(368,030)		(148,850)	
Sale of investments		358,222		70,784	
			(11,715)		(78,375)
Net cash outflow			(1,040)		(64,162)

NOTES TO THE CASH FLOW STATEMENT

As at 31 December 1995

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

	Year December 1995 £000	Six Months December 1994 (as restated) £000
Profit before tax	9,025	7,603
Depreciation	790	350
Profit on sale of fixed assets	(16)	(10)
(Gain)/loss on sale or maturity of investments	(643)	68
Unrealised (gain)/loss on investments	(529)	529
Goodwill written off	96	-
Decrease/(increase) in reinsurers' share of technical provisions	5,771	(2,718)
(Increase)/decrease in debtors arising out of direct insurance operations	(2,944)	309
(Increase)/decrease in debtors arising out of reinsurance operations	(1,592)	94
Decrease in other debtors (excluding tax)	16	74
Increase in accrued interest and rent	(327)	(1,230)
(Increase)/decrease in deferred acquisition costs	(1,052)	82
(Increase)/decrease in other prepayments and accrued income	(23)	132
Increase in technical provisions	10,667	7,369
Increase in provision for other risks and charges (excluding tax)	159	-
(Decrease)/increase in deposits received from reinsurers	(787)	1,677
Increase in creditors arising out of direct insurance operations	425	410
Decrease in creditors arising out of reinsurance operations	(539)	(345)
(Decrease)/Increase in other creditors (excluding tax , fixed assets, dividend, loan notes and deferred consideration)	(214)	912
Decrease in accruals and deferred income	(268)	(18)
Net cash inflow from operating activities	18,015	15,288

B. ANALYSIS OF CHANGES IN CASH AND OTHER INVESTMENTS DURING THE YEAR

	Cash and Cash Equivalents 1995 £000	Other Investments 1995 £000	Total 1995 £000
Balance as at 1 January 1995	1,477	100,948	102,425
Net cash outflow	(1,040)	-	(1,040)
Purchase of investments	-	368,030	368,030
Sale of investments	-	(358,222)	(358,222)
Gain on sale of investments	-	643	643
Change in market values	-	5,051	5,051
Balance as at 31 December 1995	437	116,450	116,887

C. ANALYSIS OF THE BALANCES OF CASH AND OTHER INVESTMENTS AS SHOWN IN THE BALANCE SHEET

	December 1995 £000	Change in period £000	December 1994 £000
Short term deposits and cash	437	(1,040)	1,477
Investments	116,450	15,502	100,948
	116,887	14,462	102,425

NOTES TO THE CASH FLOW STATEMENT

As at 31 December 1995

D. EFFECTS OF ACQUISITION OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES

	£000
Tangible assets	63
Debtors and prepayments	91
Less: Creditors and accruals	(444)
Net liabilities	(290)
Goodwill	1,150
	860
Satisfied by : Cash	542
: Loan notes	131
: Deferred consideration	187
	860

E. ANALYSIS OF MOVEMENT OF CASH AND CASH EQUIVALENTS IN RESPECT OF ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES

	£000
Cash consideration	542
Overdraft acquired	195
	737

NOTES TO THE FINANCIAL STATEMENTS

31 December 1995

1. BASIS OF PREPARATION

(a) 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, except for taking advantage of the exemption from FRS 5 as disclosed in note 2(f). 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.

A summary of the more important accounting policies, which have been applied consistently, except for the policy for recording the levies payable to the Policyholders' Protection Board and the Motor Insurers' Bureau, as explained below, are set out in note 2.

(b) Change in accounting policies

The requirements of The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations") came into effect for periods commencing after 22 December 1994 and accordingly have been applied for the first time in these financial statements. The Company has restated the comparative figures for the six month period ended 31 December 1994 to reflect the changes in the presentation of the financial statements introduced by the Regulations.

The Company is also complying with the draft SORP issued by the ABI in December 1995. Included within this SORP is a requirement that provision should be made at the balance sheet date for any levy which it is expected will be raised, by either the Policyholders' Protection Board or the Motor Insurers' Bureau, based on premium income which has been recognised in the financial statements up to that balance sheet date, provided adequate information is available to calculate the provision. This represents a change in accounting policy. In prior years the Company accounted for such levies that were raised within the financial year by these two bodies, based on premium income recorded in prior financial years. No provision was made for any such future levies which might be raised on the basis of the current year's premium income. Also, in prior years the levies were accounted for as part of claims incurred, but in accordance with the SORP, they are now accounted for as part of administrative expenses and the comparative figures have been changed to reflect this.

The effect of the above change is disclosed in note 22.

2. ACCOUNTING POLICIES

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

(a) Acquisitions

Unless otherwise stated, business combinations are accounted for by the acquisition method of accounting.

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 useful 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.

(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.

ACCOUNTING POLICIES (continued)

(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".

ACCOUNTING POLICIES (continued)

(e) *Transfer of investment return*

A transfer of investment return, including realised gains and losses and 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 account to reflect the return made on those assets directly attributable to the insurance business.

(f) *Debtors and creditors arising out of direct insurance operations*

As permitted by an amendment to Financial Reporting Standard Number 5 "Reporting the Substance of Transactions", the Company has offset amounts receivable and payable arising from insurance broking transactions. This basis of presentation in the accounts is consistent with prior years. Full compliance with FRS 5 will be required by December 1996.

(g) *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 the 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:

	Per cent
Office equipment and furniture	20-33⅓
Motor vehicles	25

(h) *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.

(i) *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.

ACCOUNTING POLICIES (continued)

(j) *Operating Leases*

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

(k) *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. SEGMENTAL INFORMATION

A Written premiums

	Year December 1995			Six Months December 1994		
	Gross £000	Reinsurance ceded £000	Net £000	Gross £000	Reinsurance ceded £000	Net £000
Direct insurance						
Accident and health	4,078	(2,369)	1,709	800	(63)	737
Motor - Third party	8,178	(330)	7,848	3,033	(124)	2,909
- Other	29,356	(1,183)	28,173	14,008	(574)	13,434
Fire and other damage to property	39,555	(6,302)	33,253	19,108	(2,802)	16,306
Marine	3,895	(685)	3,210	1,528	(197)	1,331
General liability	12,397	(1,782)	10,615	5,836	(722)	5,114
Miscellaneous	1,457	(605)	852	663	(224)	439
Total	98,916	(13,256)	85,660	44,976	(4,706)	40,270

All gross written premiums in respect of direct business are written in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS

31 December 1995

SEGMENTAL INFORMATION (continued)

B Earned premiums

	Year December 1995			Six Months December 1994		
	Gross £000	Reinsurance ceded £000	Net £000	Gross £000	Reinsurance ceded £000	Net £000
Direct insurance						
Accident and health	2,940	(1,473)	1,467	739	(55)	684
Motor - Third party	7,426	(307)	7,119	3,149	(121)	3,028
- Other	29,561	(1,209)	28,352	15,255	(543)	14,712
Fire and other damage to property	39,830	(6,313)	33,517	19,876	(3,130)	16,746
Marine	2,990	(684)	2,306	1,283	(174)	1,109
General liability	11,940	(1,782)	10,158	5,563	(695)	4,868
Miscellaneous	1,244	(485)	759	635	(196)	439
Total	95,931	(12,253)	83,678	46,500	(4,914)	41,586

C Incurred Claims

	Year December 1995			Six Months December 1994		
	Gross £000	Reinsurance ceded £000	Net £000	Gross £000	Reinsurance ceded £000	Net £000
Direct insurance						
Accident and health	1,347	(817)	530	283	(68)	215
Motor - Third party	3,704	(84)	3,620	1,232	(68)	1,164
- Other	22,354	(879)	21,475	10,882	(924)	9,958
Fire and other damage to property	22,955	(4,268)	18,687	13,248	(5,987)	7,261
Marine	2,977	(1,734)	1,243	719	(148)	571
General liability	7,046	(554)	6,492	2,889	(187)	2,702
Miscellaneous	711	(313)	398	132	(55)	77
Total	61,094	(8,649)	52,445	29,385	(7,437)	21,948

SEGMENTAL INFORMATION (continued)

D Operating expenses

	Year December 1995			Six Months December 1994		
	Gross £000	Reinsurance ceded £000	Net £000	Gross £000	Reinsurance ceded £000	Net £000
Direct insurance						
Accident and health	1,136	(593)	543	267	-	267
Motor - Third party	2,010	-	2,010	762	-	762
- Other	7,345	-	7,345	3,817	-	3,817
Fire and other damage to property	13,662	5	13,667	6,783	(20)	6,763
Marine	978	-	978	443	-	443
General liability	4,112	-	4,112	1,938	-	1,938
Miscellaneous	343	(117)	226	276	(130)	146
Total	29,586	(705)	28,881	14,286	(150)	14,136

E Operating profit

	Year December 1995			Six Months December 1994		
	Gross £000	Reinsurance ceded £000	Net £000	Gross £000	Reinsurance ceded £000	Net £000
Direct insurance						
Accident and health	497	(63)	434	186	13	199
Motor - Third party	1,935	(223)	1,712	1,231	(53)	1,178
- Other	944	(330)	614	930	381	1,311
Fire and other damage to property	4,201	(2,050)	2,151	174	2,877	3.051
Marine	(886)	1,050	164	143	(26)	117
General liability	1,691	(1,228)	463	983	(508)	475
Miscellaneous	218	(55)	163	233	(11)	222
Total	8,600	(2,899)	5,701	3,880	2,673	6,553

4. MOVEMENTS IN PRIOR YEARS' CLAIMS PROVISIONS

Significant over provisions for claims at the beginning of the year as compared with payments and provisions at the end of the year in respect of prior years' claims are as follows:

	Year December 1995 £000	Six Months December 1994 £000
Motor – other	527	-
Fire and other damage to property	2,050	816
General liability	182	332
	2,759	1,148

5. NET OPERATING EXPENSES

	Year December 1995 £000	Six Months December 1994 £000
Acquisition costs	25,915	11,652
Changes in gross deferred acquisition costs	(1,572)	82
Administrative expenses	5,243	2,552
Gross operating expenses	29,586	14,286
Reinsurance commission and profit participation	(1,225)	(150)
Change in deferred reinsurance commission	520	-
	28,881	14,136

The total commission incurred during the year in respect of direct insurance was £16,451,000 (1994 : £7,929,000).

6. INVESTMENT INCOME

	Year December 1995 £000	Six Months December 1994 £000
Income from investments other than participating interests		
Income from other investments	7,217	2,799
Gains on realisation of investments	643	-
	7,860	2,799

Income from investments includes £4,146,206 (1994 : £1,513,195) from listed investments.

INVESTMENT INCOME (continued)

Investment activity account

	Year December 1995 £000	Six Months December 1994 £000
Investment income	7,860	2,799
Investment management charges including interest	(107)	(169)
	7,753	2,630
Movement in unrealised investment gains and losses	529	(529)
Total investment return	8,282	2,101

7. INVESTMENT EXPENSES AND CHARGES

	Year December 1995 £000	Six Months December 1994 £000
Investment management expenses	105	101
Losses on realisation of investments	-	68
Interest payable (see note 27)	2	-
	107	169

8. EXCEPTIONAL ITEM

The exceptional item relates to advisory costs incurred by the Company at the time of the acquisition by Groupama (UK) plc of the whole of the issued share capital of the Company.

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

		Year December 1995 £000	Six Months December 1994 £000
Profit on ordinary activities before tax is stated after charging:			
Depreciation:			
Tangible owned fixed assets		789	340
Assets held under finance leases		1	-
Operating lease rentals:			
Equipment		141	28
Property		876	395
Auditors remuneration for:			
Group	: Audit	69	47
	: Other services	87	18
Company	: Audit	5	5
	: Other services	5	3
Amortisation of Goodwill (note 15)		96	-

Additional non-audit costs of £20,000 relating to the takeover by Groupama are included within exceptional items. A further £30,000 of non-audit costs were incurred during the acquisition of Homecover Insurance Services Limited and have been capitalised.

10. STAFF NUMBERS AND COSTS

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

	Year December 1995 No.	Six Months December 1994 No.
Sales and marketing	36	39
Underwriting and Personal Lines Administration	150	142
Claims	57	54
Administration and accounting	110	100
Insurance intermediaries	9	-
	362	335

STAFF NUMBERS AND COSTS (continued)

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

	Year December 1995 £000	Six Months December 1994 £000
Wages and salaries	7,716	3,634
Social Security costs	712	317
Other pension costs	1,006	519
	9,434	4,470

11. 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:

	Year December 1995 £000	Six Months December 1994 £000
Non-executive Directors' fees	28	25
Salary payments (including benefits in kind)	490	185
Incentive bonus	134	48
Long term incentive bonus	81	-
Pension contributions	64	31
	797	289

Included in Executive Directors' emoluments is an incentive bonus amount of £133,930 (six months December 1994 : £47,804) which is determined on the basis of the Group's performance against budget and is approved by the remuneration committee.

Also included is a provision with respect to the Long Term Incentive Bonus Scheme for anticipated future payments. This scheme was formed at the time of acquisition by Groupama and 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 will be 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.

DIRECTORS' EMOLUMENTS (continued)

	Chairman Year December 1995 £000	Highest paid Director Year December 1995 £000	Chairman Six Months December 1994 £000	Highest paid Director Six Months December 1994 £000
Directors' fees	6	-	10	-
Salary payments (including benefits in kind)	-	118	-	55
Incentive bonus	-	37	-	17
Long Term Incentive Bonus Scheme	-	20	-	-
Pension contributions	-	16	-	9
	6	191	10	81

The current Chairman, appointed on 11 April 1995, is remunerated by the ultimate holding company for his services to this Group as a whole and no amounts are included above.

The number of Directors serving at 31 December 1995, including the above, whose emoluments, excluding pension contributions, fell within the ranges listed below were:

	Year December 1995 Nos	Six Months December 1994 Nos
£Nil - £ 5,000	9	-
£ 5,001 - £10,000	-	4
£10,001 - £15,000	2	-
£40,001 - £45,000	-	1
£50,001 - £55,000	-	1
£55,001 - £60,000	-	1
£65,001 - £70,000	1	-
£70,001 - £75,000	-	1
£100,001 - £105,000	1	-
£105,001 - £110,000	1	-
£125,001 - £130,000	1	-
£130,001 - £135,000	1	-
£175,001 - £180,000	1	-

12. TAXATION

	Year December 1995 £000	Six Months December 1994 (as restated see note 22) £000
The charge for taxation comprises UK corporation tax at 33%		
Based on the results for the period	3,208	2,852
Tax on franked investment income	104	10
Deferred taxation	1,492	-
Over provision in respect of prior years	(295)	-
	4,509	2,862

	Year December 1995 £000	Six Months December 1994 £000
Presentation of tax charges:		
Trading profits	3,017	2,862
Investment revaluation reserve (note 22)	1,492	-
	4,509	2,862

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.

13. DIVIDENDS

	Year December 1995 £000	Six Months December 1994 £000
Dividends on equity shares:		
Ordinary - interim paid 16 March 1995 of 2.75p per share	-	980
- interim paid 30 June 1995 of 4.49p per share	1,600	-
- interim paid 29 December 1995 of 4.21p per share	1,500	-
	3,100	980

No final dividend is proposed.

14. INVESTMENTS: OTHER FINANCIAL INVESTMENTS
Group:

	1995 Market Value £000	Cost £000	1994 Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	18,974	15,623	15,462	15,160
Debt securities and other fixed interest securities	74,903	73,735	44,587	45,311
Deposits with credit institutions	22,503	22,500	40,899	41,006
Other	70	70	-	-
	116,450	111,928	100,948	101,477

Of the above, £18,959,000 (1994: £15,462,000) 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.

15. INTANGIBLE ASSETS : GOODWILL

During the year a subsidiary company acquired the business of Legal & Professional Indemnity Limited and all of the issued share capital of Homecover Insurance Services Limited. As mentioned in note 2(a), it is the Group's accounting policy to amortise the value of goodwill over the estimated useful economic life of the assets acquired as determined by the Directors. With respect to the two businesses acquired, goodwill is to be amortised over five years. Details of the acquisitions are as follows:

Legal & Professional Indemnity Limited

On 12 January 1995, the Group subscribed for the whole of the issued share capital in LGS 1994 Limited, a company formed to acquire the business of Legal & Professional Indemnity Limited, a financial products intermediary. On completion of the acquisition, LGS 1994 Limited changed its name to Legal & Professional Indemnity Limited. The consideration payable for the acquisition of the business is payable in cash on a deferred basis, by reference to the premium volume generated by the company during the three years ending 31 December 1997. The Directors currently estimate that the total consideration, including costs, will be £255,000.

Homecover Insurance Services Limited and subsidiaries

On 28 September 1995, the Group agreed to acquire Homecover Insurance Services Limited and its subsidiaries S.G. Insurance Services Limited, for a consideration of £605,000 including costs. The consideration was settled partly in cash and partly in loan notes. As at 31 December 1995, the amounts outstanding on the loan notes totalled £130,657 (see note 27).

INTANGIBLE ASSETS : GOODWILL (continued)

The goodwill arising on acquisitions has been calculated as follows:

Fair Value Table

	Book Value £000
Assets	
Debtors	
Debtors arising out of direct insurance operations	66
Other debtors	12
Other assets	
Tangible assets	63
Cash at bank and in hand	-
Prepayments and accrued income	
Other prepayments and accrued income	13
TOTAL ASSETS	154
Liabilities	
Creditors	
Creditors arising out of direct insurance operations	206
Other creditors including taxation and Social Security	213
Accruals and deferred income	25
TOTAL LIABILITIES	444
NET LIABILITIES ACQUIRED	290
Consideration payable including costs	860
GOODWILL	1,150

There were no differences between book value and fair values at the date of acquisition

INTANGIBLE ASSETS : GOODWILL (continued)
Group:

	1995 £000
Cost	
At beginning of year	-
Goodwill arising from acquisition during year	1,150
At end of year	1,150
Accumulated Amortisation	
At beginning of year	-
Charge to profit and loss account - technical account	96
At end of year	96
Net Book Value	
At end of year	1,054
Net Book Value	
At beginning of year	-

16. RESULTS OF ACQUIRED COMPANIES AND BUSINESSES

The results of the companies and businesses acquired during the year can be summarised as follows:

	Post Acquisition 1995 £000	Pre Acquisition 1995 £000	Pre Acquisition 1994 £000
(Loss)/profit on ordinary activities before tax	(171)	(66)	18
Taxation	121	-	-
(Loss)/profit for the financial year after tax	(50)	(66)	18

The results above are drawn solely from the statutory accounts of these companies. The business produced by these intermediaries was £1.85 million of gross written premiums for the Group as a whole.

RESULTS OF ACQUIRED COMPANIES AND BUSINESSES (continued)

The pre acquisition results and the prior year results relate to Homecover Insurance Services Limited which was acquired on 28 September 1995. Since Legal & Professional Indemnity Limited's business was acquired on 1 January 1995, all of its 1995 results are post acquisition. Homecover Insurance Services Limited's financial year began on 1 January 1995.

17. SHARES IN GROUP COMPANIES

Company:

	1995	1994 (as restated)
	£000	£000
Cost or valuation at beginning of year	60,924	56,841
Prior year adjustment (note 22)		(820)
Cost or valuation as restated		56,021
Revaluation (note 22)	5,258	4,903
At end of year	66,182	60,924

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

Name of undertaking	Country of incorporation/ registration	Description of shares held	Proportion of value of issued shares held by: Group %	Company %
Lombard General Insurance Company Ltd	England & Wales	£1.00 ordinary	100	100
Lombard Group Services Limited	England & Wales	£1.00 ordinary	100	100
Lombard Group Trustee Company Ltd	England & Wales	£1.00 ordinary	100	100
Lombard Trustees Ltd	England & Wales	£1.00 ordinary	100	100
Legal & Professional Indemnity Limited	England & Wales	£1.00 ordinary	100	Nil
Homecover Insurance Services Limited	England & Wales	£1.00 ordinary	100	Nil
S.G. Insurance Services Limited	England & Wales	£1.00 ordinary	100	Nil
Healthcover Insurance Services Ltd	England & Wales	£1.00 ordinary	100	Nil
Phonecover Insurance Services Ltd	England & Wales	£1.00 ordinary	100	Nil

SHARES IN GROUP COMPANIES (continued)

The above companies operate in their country of registration.

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) Lombard Trustees Limited, Healthcover Insurance Services Ltd and Phonecover Insurance Services Ltd are dormant.
(e) Legal & Professional Indemnity Limited, Homecover Insurance Services Limited and S.G. Insurance Services Limited are all insurance intermediaries.

18. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

Group:	1995	1994
	£000	£000
Amounts owed by policyholders	9,567	9,117
Amounts owed by intermediaries	15,482	13,460
Court recoveries	36	36
Salvage and subrogation recoveries	3,098	2,676
Miscellaneous	57	7
	28,240	25,296

Advantage has been taken of the transitional exemption in the amendment to Financial Reporting Standard No. 5: Reporting the Substance of Transactions available to insurers in respect of the offset of balances arising from insurance broking transactions.

19. OTHER DEBTORS

Group:

	1995 £000	1994 £000
ACT recoverable	-	386
Income tax recoverable	1,257	255
Due from parent company	23	-
Sundry debtors	161	109
	1,441	750

20. TANGIBLE ASSETS

Cost	**Office Equipment and Furniture £000**	**Motor Vehicles £000**	**Total £000**
At beginning of year	1,575	779	2,354
Fair value of fixed assets acquired	41	22	63
Additions	793	580	1,373
Disposals	(107)	(309)	(416)
At end of year	2,302	1,072	3,374
Accumulated Depreciation			
At beginning of year	574	161	735
Charged in the year	493	297	790
Disposals	(16)	(213)	(229)
At end of year	1,051	245	1,296
Net Book Value			
At beginning of year	1,001	618	1,619
At end of year	1,251	827	2,078

The net book value of motor vehicles held under hire purchase contracts was £19,662 and the depreciation thereon was £6,115.

21. CALLED UP SHARE CAPITAL

	1995	1994
Group and Company:	£000	£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

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

	Issued Share Capital Account £000	Share Premium Account £000	Capital Reserve £000	Capital Redemption Reserve £000	Investment Revaluation Reserve £000	Profit & Loss Account £000
Group:						
At beginning of year	3,562	29,573	474	7,455	-	15,208
Prior year adjustment	-	-	-	-	-	(820)
As restated	3,562	29,573	474	7,455	-	14,388
Retained Profit for the year	-	-	-	-	-	2,908
Unrealised investment gains (after tax see note 12)	-	-	-	-	3,030	-
Transfer from Capital Reserve to profit and loss account	-	-	(316)	-	-	316
At end of year	3,562	29,573	158	7,455	3,030	17,612

MOVEMENT IN SHARE CAPITAL, SHARE PREMIUM ACCOUNT AND RESERVES (continued)

	Issued Share Capital Account £000	Share Premium Account £000	Capital Reserve £000	Capital Redemption Reserve £000	Investment Revaluation Reserve £000	Profit & Loss Account £000
Company:						
At beginning of year	3,562	29,573	5,950	7,455	9,468	264
Prior year adjustment	-	-	-	-	(820)	-
As restated	3,562	29,573	5,950	7,455	8,648	264
Retained profit for the year	-	-	-	-	-	(171)
Movement on investment revaluation reserve	-	-	-	-	5,258	-
At end of year	3,562	29,573	5,950	7,455	13,906	93

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 £2,929,000 (December 1994 : £1,000) is dealt with in the financial statements of the Company.

The prior year adjustment as described in note 1(b) relates to a change in accounting policy regarding the accrual for certain industry levies. The effect of this was to reduce the profit on ordinary activities before tax by £243,000 for the six month period ended 31 December 1994, and by £93,083 for the current year. The prior period tax charge has been adjusted by £80,000.

23. TECHNICAL PROVISIONS AND DEFERRED ACQUISITION COSTS

	Provision for unearned premiums £000	Claims outstanding £000	Total £000
Gross amount			
At beginning of year	43,644	60,758	104,402
Movement in the provision	2,985	7,682	10,667
At end of year	46,629	68,440	115,069
Reinsurance amount			
At beginning of year	1,503	28,457	29,960
Movement in the provision	1,003	(6,774)	(5,771)
At end of year	2,506	21,683	24,189
Net technical provisions			
At end of year	44,123	46,757	90,880
At beginning of year	42,141	32,301	74,442

NET INSURANCE FUNDS

	1995 £000	1995 £000	1994 £000	1994 £000
Net technical provisions at end of year		90,880		74,442
Deferred acquisition costs				
- gross	(13,147)		(11,575)	
- reinsurance commissions	520		-	
		(12,627)		(11,575)
Debtors - subrogation recoveries		(3,098)		(2,676)
Net insurance funds		75,155		60,191

24. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred tax £000	Long Term Incentive Bonus Scheme £000
As at 1 January 1995	-	-
Movement on unrealised gains	1,492	-
Provision during the year	-	159
As at 31 December 1995	1,492	159

The provision for the Long Term Incentive Bonus Scheme (note 11) 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.

25. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1995 £000	1994 £000
Amounts owed to intermediaries	1,143	1,098
Levies - Policyholders Protection Board	1,651	1,219
- Motor Insurers Bureau	398	450
	3,192	2,767

26. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1995 £000	1994 £000
Group:		
Corporation taxation payable	6,294	5,922
Insurance Premium Tax payable	539	464
Other taxation and Social Security	271	215
Interim dividend	-	980
Loan notes (note 27)	131	-
Hire purchase obligations	9	-
Deferred payment on acquisition	187	-
Miscellaneous	107	212
	7,538	7,793

OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY (continued)

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

Loan notes (note 27)	49	-
Deferred payment on acquisition (note 15)	88	-
Hire purchase obligations	2	-

27. LOAN NOTES

Under the terms of the offer to acquire the whole of the issued share capital of Homecover Insurance Services Limited, accepting shareholders could elect to receive Loan Notes in lieu of all or part of the cash consideration to which they would otherwise be entitled under the offer.

Loan Notes amounting to £130,657 were issued and they 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. Interest is payable in arrears on 30 June and 31 December in each year. The first payment of interest was made on 31 December 1995 and was in respect of the period from 28 September 1995 to 31 December 1995.

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 £65,000 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.

28. TRUST FUND

Gross claims outstanding at 31 December 1995 include £11,574,189 (December 1994: £17,706,045) in respect of losses occurring prior to 1 June 1993, the liability for which was assumed on the purchase of the business from Continental Management Services Limited (formerly Lombard Continental Insurance plc). Reinsurance recoveries include the same amount of £11,574,189 (December 1994: £17,706,045) due from Continental Management Services Limited under the Reinsurance Indemnity entered into as part of the acquisition of the business. This is secured by a Trust Fund established by Continental Management Services Limited in favour of Lombard General Insurance Company Ltd.

Continental Management Services Limited settled cash and investments in the Trust Fund equal to the original claims reserve at 31 May 1993 of £38,895,709. Continental Management Services Limited is entitled to all investment income and capital gains arising from the trust assets, but is obliged to maintain the value of the Trust Fund at any time at the amount of the original agreed claims reserve less claims payments made out of the trust under the reinsurance obligation up to that time. Any surplus that arises on the original Trust Fund liabilities being settled at an amount less than the original fund of £38,895,709 accrues to the benefit of the Company. Any such surplus is recognised as profit only as the Directors become satisfied that all related liabilities arising prior to 1 June 1993 have been adequately provided for. For the period to 31 December 1995, a surplus of £786,100 (six months December 1994 : £420,000) has been recognised within the technical account - general business.

TRUST FUND *(continued)*

Under certain circumstances the Company could require that the Trust Fund make a payment on account to it and such a payment of £2,100,000 was received in December 1994. This payment less associated expenses and the cumulative Trust Fund surplus amount of £1,206,100 recognised through the technical account to 31 December 1995, has been treated as deposits received from reinsurers in the balance sheet. The value of the assets attributable to the Company remaining in the Trust Fund as at 31 December 1995 was £12,199,866 (December 1994 : £18,434,227).

As of 31 May 1996, the remaining assets in the Trust Fund will be transferred to the Company. However, the reinsurance protection will remain in force should the original claims reserve at 31 May 1993 of £38,895,709 prove to have been insufficient to run off the claims.

29. PENSION COSTS

The Group operates a defined benefit non-contributory pension scheme (The Lombard Group Pension Scheme) covering substantially all of its 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 Group's contributions to the scheme are determined by independent professional actuaries on the basis of their valuation using the projected unit method. At the most recent actuarial valuation of the scheme made as at 30 June 1994, the assessed value of the scheme assets was £6,670,000 and was sufficient to cover 106% of the benefits that had accrued to members. The level of contributions to the scheme was 15% of relevant earnings and the valuation was based on the following assumptions: salary increases 8% pa, pension increases 5% pa and investment return 10% pa. Any surplus arising will be eliminated by making reduced employers' contributions into the funds over members' working lives.

30. CAPITAL COMMITMENTS

The Company had no outstanding contracts for capital expenditure committed as at 31 December 1995 (December 1994 : £Nil), neither was any capital expenditure authorised but not contracted for at that date (December 1994 : £Nil).

31. OPERATING LEASE COMMITMENTS

The Company has commitments under various operating leases to make payments totalling £1,022,555 (December 1994 : £680,728) in the period to 31 December 1995 as follows:

	Land & Buildings £000	Other Operating Leases £000	Total £000
Expiring:			
Within one year	-	-	-
Between one and five years	17	138	155
After five years	731	136	867
	748	274	1,022

32. ULTIMATE HOLDING COMPANY

Following the acquisition of the Company on 22 February 1995, 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 will be available from the Company Secretary, Lombard House, 182 High Street, Tonbridge, Kent TN9 1BY.

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

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Robin Westmore
Sales Manager – Personal

Mike Bridge
Sales Manager – Commercial

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Claims Manager

Tim Osborne ACII
Underwriting Manager – Commercial

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