CGU International Insurance plc
Annual report + accounts 2001

21487.

Directors' report

The directors submit their Report and Accounts for CGU International Insurance plc ("CGUII"), together with the consolidated accounts of the CGUII Group, for the year ended 31 December 2001.

Principal activities
CGUII is the holding company of the CGUII group of companies. The Company and the Group transact all classes of general insurance and life assurance (other than industrial life) through subsidiaries, associates and branches in the United Kingdom, continental Europe, North America, Asia and other countries throughout the world. The Group also invests in securities, properties, mortgages and loans and carries on the business of trading in property.

Ultimate holding company
At its Annual General Meeting held on 23 April 2002, the shareholders of CGNU plc, the ultimate holding company, approved the change of name of CGNU plc to AVIVA plc with effect from such date as the directors of CGNU plc shall resolve but being no later than 31 October 2002.

Going concern
After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Results
The Group results for the year are shown in the consolidated profit and loss account on pages 3 to 5.

Dividend
The directors do not recommend the payment of any dividend for the year *(2000: £600 million)*.

Share capital
Following its purchase of the 73.76% shareholding in Hibernian Group plc from General Accident plc ("GA") in December 2000, the Company increased its authorised ordinary share capital on 25 January 2001 from £219,574,325 to £225,348,337, by the creation of 23,096,047 ordinary shares of 25 pence each. On the same date, these shares were issued to GA for a consideration of £254 million.

The Company further increased its authorised ordinary share capital on 3 December 2001, from £225,348,337 to £1,175,348,337, by the creation of 3,800,000,000 ordinary shares of 25 pence each. On the same date, these shares were issued to GA for a consideration of £950 million.

In both instances, the Company increased its investment in subsidiary undertakings for the same consideration as shown in note 13(f) on page 25.

Directors
The current directors, and those in office during the year, are as follows:

Mike Biggs	(appointed 31 March 2001)
Peter Foster	(resigned 31 March 2001)
Richard Harvey	(appointed 24 April 2001)
Bob Scott	(resigned 24 April 2001)
Philip Scott	(appointed 24 April 2001)
Patrick Snowball	(appointed 24 April 2001)
Philip Twyman	
Tony Wyand	

There were no contracts of significance in existence during or at the end of the year in which a director of the Company was materially interested.

Directors' interests
The directors who held office at 31 December 2001 are also all directors of the Company's ultimate holding company, CGNU plc, and under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (S1 1985/802) are not required to disclose their share interests in CGNU plc in the Company's accounts. Their interests can be found in the Report and Accounts of CGNU plc. None of the directors who held office at 31 December 2001 had any interest in the Company's shares.

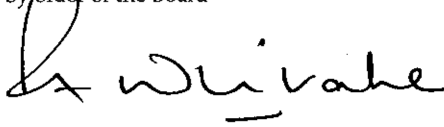
Creditor payment policy and practice
It is the Company's and the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant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

In respect of Group activities in the United Kingdom, the amounts due to trade creditors at 31 December 2001 represented approximately 19 days of average daily purchases through the year *(2000: 28 days)*.

European Monetary Union
The total costs, including systems preparation, incurred for the introduction of the euro into the CGNU European Union operation amount to £65 million, of which £8 million was incurred during 2001 *(2000: £17 million)*. On 1 January 2002, the Group's businesses in those countries within the European Union introducing the Euro successfully applied the currency transition within their businesses.

Auditors
In accordance with section 384 of the Companies Act 1985, a resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board



Richard Whitaker
Company Secretary

29 April 2002

Registered Office: St Helen's,
1 Undershaft, London EC3P 3DQ
Registered in England No. 21487

Statement of directors' responsibilities

The directors are required to ensure that accounts are prepared for each accounting period which comply with the relevant provisions of the Companies Act 1985, and which give a true and fair view of the state of affairs of the Company and the Group as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies have to be used and applied consistently in preparing accounts, using reasonable and prudent judgements and estimates on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

Applicable accounting and financial reporting standards also have to be followed, with any material departures being disclosed and explained.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Company and the Group and for ensuring that controls are in place for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of CGU International Insurance plc

We have audited the Group's accounts for the year ended 31 December 2001 which comprise the Accounting policies, the Consolidated profit and loss account, Reconciliation of Group operating profit to profit on ordinary activities before taxation, Consolidated statement of total recognised gains and losses, Reconciliation of movements in consolidated shareholders' funds, Consolidated Group balance sheet and Company balance sheet, and the related notes 1 to 42. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of directors' responsibilities above.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and the United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

Equalisation provision

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 2001 and the effect of the movement in the provision during the year on the general business technical result and profit on ordinary activities before tax, are disclosed in accounting policy T and note 32 to the accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

29 April 2002

Consolidated profit and loss account
Technical account – long-term business
For the year ended 31 December 2001

	2001 £m	2000 £m
Gross premiums written – continuing operations (6a)	**7,279**	5,418
Outward reinsurance premiums	**(136)**	(156)
Written and earned premiums, net of reinsurance (C & 6a)	**7,143**	5,262
Investment income (G & 7a)	**2,282**	2,612
Unrealised losses on investments (G & 7a)	**(1,472)**	(9)
Claims paid		
Gross amount	**(3,515)**	(3,155)
Reinsurers' share	**109**	111
	(3,406)	(3,044)
Change in the provision for claims		
Gross amount	**(259)**	(7)
Reinsurers' share	**1**	2
	(258)	(5)
Claims incurred, net of reinsurance (D)	**(3,664)**	(3,049)
Change in long-term business provision (Q)		
Gross amount	**(2,469)**	(2,085)
Reinsurers' share	**(40)**	26
	(2,509)	(2,059)
Change in technical provision for linked business, net of reinsurance (Q)	**(1,182)**	(1,564)
Changes in other technical provisions, net of reinsurance	**(3,691)**	(3,623)
Net operating expenses (9a)	**(826)**	(701)
Investment expenses and charges (7a)	**(107)**	(56)
Other technical charges (19a)	**(31)**	(20)
Tax attributable to long-term business (J & 12b)	**127**	(133)
Allocated investment return transferred from the non-technical account (G & 7b)	**10**	5
Transfers to/(from) the fund for future appropriations (S)	**515**	(82)
Other income/(charges)	**(312)**	(987)
Balance on the long-term business technical account – continuing operations (H)	**286**	206
Balance on the long-term business technical account	**286**	206
Tax credit attributable to balance on the long-term business technical account	**99**	119
Profit from long-term business operations before tax	**385**	325

The table below provides a reconciliation between the analysis on page 6 and the profit from long-term business operations above.

	2001 £m	2000 £m
Long-term business operating profit before amortisation of acquired additional value of in-force long-term business and exceptional items (3a)	**422**	352
Amortisation of acquired additional value of in-force long-term business (included within other technical charges) (19a)	**(37)**	(20)
Integration costs (9b)	**–**	(7)
Profit from long-term business operations before tax	**385**	325

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Consolidated profit and loss account
Technical account – general business
For the year ended 31 December 2001

	2001 £m	2000 £m
Gross premiums written – continuing operations (6a)	**6,889**	6,775
– discontinued operations (6a)	**1,187**	3,278
Gross premiums written (6a & 6b)	**8,076**	10,053
Outward reinsurance premiums	**(970)**	(727)
Net premiums written – continuing operations (6a)	**6,003**	6,242
– discontinued operations (6a)	**1,103**	3,084
Net premiums written (C)	**7,106**	9,326
Change in the provision for unearned premiums		
Gross amount	**212**	(45)
Reinsurers' share	**74**	28
	286	(17)
Earned premiums, net of reinsurance	**7,392**	9,309
Allocated investment return transferred from the non-technical account (G & 7b)	**1,029**	1,435
Claims paid		
Gross amount	**(6,723)**	(8,107)
Reinsurers' share	**907**	723
	(5,816)	(7,384)
Change in the provision for claims		
Gross amount	**(356)**	(715)
Reinsurers' share	**553**	(139)
	197	(854)
Claims incurred, net of reinsurance (D)	**(5,619)**	(8,238)
Changes in other technical provisions, net of reinsurance	**1**	(12)
Net operating expenses (9a)	**(2,122)**	(2,834)
Other charges	**(2,121)**	(2,846)
Change in the equalisation provision (T & 32)	**(47)**	(7)
Balance on the general business technical account	**634**	(347)

The table below provides a reconciliation between the analysis on page 6 and the balance on the general business technical account above.

	Underwriting result		Allocation of longer-term investment return		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Operating profit						
General insurance – continuing operations	**(145)**	(587)	**798**	855	**653**	268
Health – continuing operations	**(17)**	(22)	**79**	84	**62**	62
	(162)	(609)	**877**	939	**715**	330
General insurance – discontinued operations (2 & 3a)	**(173)**	(1,013)	**152**	472	**(21)**	(541)
Unwinding of discount on business no longer written (31c)	**–**	(24)	**–**	24	**–**	–
(Loss)/profit before exceptional items	**(335)**	(1,646)	**1,029**	1,435	**694**	(211)
Financial Services Compensation Scheme levy					**(13)**	–
Change in the equalisation provision					**(47)**	(7)
Integration costs (9b)					**–**	(129)
Balance on the general business technical account					**634**	(347)

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Consolidated profit and loss account
Non-technical account
For the year ended 31 December 2001

	2001 £m	2000 £m
Balance on long-term business technical account	**286**	206
Tax credit attributable to balance on the long-term business technical account (J)	**99**	119
Profit from long-term business operations before tax	**385**	325
Balance on general business technical account	**634**	(347)
Investment income (G & 7a)		
Share of result of associated undertakings	**4**	1
Other	**1,387**	2,069
	1,391	2,070
Unrealised losses on investments (7a)	**(1,041)**	(193)
Allocated investment return transferred to the long-term business technical account (G & 7b)	**(10)**	(5)
Investment expenses and charges (7a)	**(283)**	(320)
Allocated investment return transferred to the general business technical account (G & 7b)	**(1,029)**	(1,435)
Other income/(charges), including value adjustments		
Profit from fund management (3a)	**26**	28
Profit/(loss) from other operations	**10**	(15)
Other charges:		
– corporate costs (4)	**(57)**	(54)
– amortisation of goodwill (14)	**(50)**	(25)
Net profit/(loss) arising on the disposal of subsidiary undertakings (13c)	**86**	(1,124)
Loss on withdrawal from London Market operations	**–**	(425)
	15	(1,615)
Profit/(loss) on ordinary activities before tax	**62**	(1,520)
Tax on profit/(loss) on ordinary activities (J & 12a)	**(199)**	(17)
Loss on ordinary activities after tax (A)	**(137)**	(1,537)
Minorities	**(34)**	(18)
Loss for the financial year	**(171)**	(1,555)
Ordinary dividends	**–**	(600)
Retained loss transferred to reserves (27)	**(171)**	(2,155)

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Reconciliation of Group operating profit to profit on ordinary activities before tax
For the year ended 31 December 2001

	2001 £m	2000 £m
Operating profit before tax based on longer-term investment return before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items:		
Continuing operations		
Long-term business (3a)	**422**	352
Health (3a)	**62**	62
Fund management (3a)	**26**	28
General insurance (3a)	**653**	268
Other operations and associated undertakings	**14**	(13)
Corporate costs	**(34)**	(52)
Unallocated interest charges (7a)	**(206)**	(223)
Total continuing operations	**937**	422
Discontinued operations	**(21)**	(541)
	916	(119)
Amortisation of goodwill (14)	**(50)**	(25)
Amortisation of acquired additional value of in-force long-term business (19a)	**(37)**	(20)
Financial Services Compensation Scheme levy	**(13)**	–
Integration costs (9b)	**(23)**	(138)
Operating profit/(loss) before tax based on longer-term investment return after amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items (3b)	**793**	(302)
Short-term fluctuation in investment return		
– long-term business (7b)	**(10)**	(6)
– non-long-term business (7b)	**(760)**	344
	(770)	338
Change in the equalisation provision (32)	**(47)**	(7)
Net profit/(loss) arising on the disposal of subsidiary undertakings (13c)	**86**	(1,124)
Loss on withdrawal from London Market operations	**–**	(425)
Profit/(loss) on ordinary activities before tax	**62**	(1,520)

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Consolidated statement of total recognised gains and losses
For the year ended 31 December 2001

	2001 £m	2000 £m
Loss for the financial year	**(171)**	(1,555)
Movement in internally-generated additional value of in-force long-term business* (27)	**(126)**	315
Foreign exchange (losses)/gains (U & 27)	**(97)**	332
Total recognised gains and losses arising in the year	**(394)**	(908)

*Stated before the effect of foreign exchange movements which are reported within the foreign exchange (losses)/gains line.

Reconciliation of movements in consolidated shareholders' funds
For the year ended 31 December 2001

	2001 £m	2000 £m
Balance at 1 January	**7,318**	8,703
Total recognised gains and losses arising in the year	**(394)**	(908)
Dividends	**–**	(600)
Increase in share capital (26b)	**1,204**	–
Goodwill written back and other movements (K & 27)	**3**	123
Balance at 31 December	**8,131**	7,318

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Consolidated Group balance sheet
At 31 December 2001

Assets	Group 2001 £m	Group 2000 £m
Goodwill (K & 14)		
Positive goodwill	939	589
Negative goodwill	(37)	(49)
	902	540
Investments (L)		
Land and buildings (15)	2,353	2,382
Investments in Group undertakings and participating interests (16a)	447	394
Other financial investments (17a)	50,442	52,160
Less: Non-recourse funding (17a)	(930)	(348)
	49,512	51,812
Additional value of in-force long-term business (P & 19a)	2,048	2,183
Deposits with ceding undertakings	208	148
	54,568	56,919
Assets held to cover linked liabilities (20)	10,886	9,431
Reinsurers' share of technical provisions		
Provision for unearned premiums (C)	333	237
Long-term business provision (Q)	712	772
Claims outstanding (D)	2,502	2,822
Technical provision for linked liabilities (Q)	23	19
	3,570	3,850
Debtors		
Debtors arising out of direct insurance operations (21)	2,017	3,023
Debtors arising out of reinsurance operations	918	749
Loan to associated undertaking	32	32
Other debtors (22)	5,467	3,490
	8,434	7,294
Other assets		
Tangible assets (R)	108	146
Cash at bank and in hand	997	1,042
	1,105	1,188
Prepayments and accrued income		
Accrued interest and rent	865	834
Deferred acquisition costs (E & 23)	920	1,240
Other prepayments and accrued income (24)	253	437
	2,038	2,511
Total assets	81,503	81,733

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Liabilities	Group 2001 £m	Group 2000 £m
Capital and reserves		
Ordinary share capital (26)	**1,175**	219
Share premium account (26)	**2,622**	2,374
Revaluation reserve (A & 27)	**1,446**	1,661
Other reserves (27)	**150**	150
Profit and loss account (A & 27)	**2,738**	2,914
Shareholders' funds	**8,131**	7,318
Equity minority interests	**376**	255
Total capital and reserves	**8,507**	7,573
Other liabilities		
Fund for future appropriations (S)	**891**	1,715
Technical provisions		
Provision for unearned premiums (C)	**2,940**	4,203
Long-term business provision (Q & 30)	**37,697**	34,654
Claims outstanding (D)	**9,988**	14,297
Equalisation provision (T & 32)	**165**	118
Other technical provisions	**56**	27
	50,846	53,299
Technical provision for linked liabilities (Q)	**10,909**	9,450
Provisions for other risks and charges (33a)	**375**	1,569
Deposits received from reinsurers	**896**	643
Creditors		
Creditors arising out of direct insurance operations	**664**	839
Creditors arising out of reinsurance operations	**1,320**	1,446
Long-term business borrowings		
Debenture loans (34b)	**51**	16
General business and other borrowings		
Debenture loans (34b)	**395**	494
Amounts due to credit institutions (34c)	**110**	131
Commercial paper (34d)	**46**	48
Other creditors including tax and social security (35)	**6,011**	3,730
Loan from associated undertaking	**17**	17
	8,614	6,721
Accruals and deferred income (36)	**465**	763
Total other liabilities	**72,996**	74,160
Total liabilities	**81,503**	81,733

Approved by the Board on 29 April 2002

MN Biggs

Mike Biggs
Director

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Company balance sheet
At 31 December 2001

Assets	2001 £m	2000 £m
Investments (L)		
Land and buildings (15)	**66**	73
Subsidiary undertakings (N & 13e)	**8,381**	8,698
Investments in Group undertakings and participating interests (16a)	**88**	89
Other financial investments (17d)	**1,379**	885
Deposits with ceding undertakings	**–**	5
	9,914	9,750
Reinsurers' share of technical provisions		
Provision for unearned premiums (C)	**83**	26
Claims outstanding (D)	**1,372**	1,159
	1,455	1,185
Debtors		
Debtors arising out of direct insurance operations (21)	**237**	378
Debtors arising out of reinsurance operations	**613**	279
Loan to associated undertaking	**32**	32
Other debtors (22)	**272**	193
	1,154	882
Other assets		
Tangible assets (R)	**3**	2
Cash at bank and in hand	**4**	2
	7	4
Prepayments and accrued income		
Accrued interest and rent	**14**	–
Deferred acquisition costs (E & 23)	**165**	115
Other prepayments and accrued income (24)	**65**	15
	244	130
Total assets	**12,774**	11,951

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Liabilities	2001 £m	2000 £m
Capital and reserves		
Ordinary share capital (26)	**1,175**	219
Share premium account (26)	**2,622**	2,374
Revaluation reserve (A & 28)	**3,277**	4,222
Other reserves (28)	**150**	150
Profit and loss account (28)		
Distributable	**786**	40
Non-distributable	**121**	313
	907	353
Shareholders' funds	**8,131**	7,318
Other liabilities		
Technical provisions		
Provision for unearned premiums (C)	**677**	462
Claims outstanding (D)	**2,578**	2,405
Equalisation provision (T)	**15**	1
Other technical provisions	**–**	15
	3,270	2,883
Provisions for other risks and charges (33b)	**18**	56
Deposits received from reinsurers	**1**	2
Creditors		
Creditors arising out of direct insurance operations	**14**	51
Creditors arising out of reinsurance operations	**762**	945
General business and other borrowings		
Amounts due to credit institutions (34c)	**75**	60
Other creditors including taxation and social security (35)	**438**	599
Loan from associated undertaking	**17**	17
	1,306	1,672
Accruals and deferred income (36)	**48**	20
Total other liabilities	**4,643**	4,633
Total liabilities	**12,774**	11,951

Approved by the Board on 29 April 2002

MNBiggs

Mike Biggs
Director

The accounting policies (identified alphabetically) on pages 12 to 14 and notes (identified numerically) on pages 15 to 39 are an integral part of these accounts. The auditor's report is on page 2.

Accounting policies

A – Basis of accounts

The consolidated accounts have been prepared in accordance with section 255A of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP"). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2001, as considered appropriate for an insurance company.

The profit and loss account for the year reflects all income, expenditure, and investment gains and losses, except certain items which are taken directly to reserves after tax. The items taken directly to reserves include movements in the value of internally generated in-force long-term business and exchange gains and losses on the net investment in foreign enterprises (except for certain items dealt with in the fund for future appropriations).

The general business technical result is determined on an annual basis.

B – Future United Kingdom financial reporting developments

In November and December 2000, the Accounting Standards Board issued three new Financial Reporting Standards ("FRS"). These were FRS17 *Retirement Benefits*, FRS18 *Accounting Policies* and FRS19 *Deferred Tax*. The accounting provisions of FRS17 will not be mandatory for the Group until the year ended 31 December 2003. However, the FRS has an extended transitional period, during which certain disclosures are required in the notes to the accounts. The Group is required to make these phased transitional disclosures for the year ended 31 December 2001 and these are shown in note 37(d). FRS18 is effective for the year ended 31 December 2001 and has not had a material impact on the Group. FRS19 will be effective for the year ended 31 December 2002 and the full impact will be reflected in that year's accounts.

C – Premiums

General business premiums written reflect business incepted during the year. General business unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk after the balance sheet date. They are computed principally on either the daily or monthly pro rata basis. Long-term business premiums are accounted for when receivable, except for investment-linked premiums which are accounted for when liabilities are recognised.

D – Claims

General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the balance sheet date.

General business outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs, except for provisions for certain claims which are discounted using rates having regard to the returns generated by the assets supporting the liabilities. Any estimate represents a point within a range of possible outcomes. Further details of estimating techniques are given in note 31(a).

Long-term business claims reflect the cost of all claims arising during the year, as well as policyholder bonuses paid in anticipation of a bonus declaration.

E – Deferred acquisition costs

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. General business deferred acquisition costs are amortised over the period in which the related premiums are earned. Long-term business deferred acquisition costs are amortised over a period no longer than that in which they are expected to be recoverable out of margins in revenues from the related policies.

F – Unexpired risks

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions.

G – Investment income and unrealised investment gains or losses

Investment income consists of interest, dividends and rents receivable for the year, together with realised investment gains and losses. Interest includes the interest rate differential on forward foreign exchange contracts. Realised investment gains and losses represent the difference between the net sale proceeds and the cost of acquisition. Unrealised investment gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year.

Long-term business investment income and unrealised gains and losses are included in the long-term business technical account and, where applicable, a transfer is made to the non-technical account to ensure that the return remaining in the long-term technical account attributable to shareholders reflects the longer term investment return.

Non-long-term business investment income and unrealised gains and losses are taken to the non-technical account. The longer term return on the investments owned by general business operations is then transferred from the non-technical account to the general business technical account. Profits and losses arising on investment transactions with the long-term funds are included in realised investment gains.

H – Long-term business result and fund valuations

Transfers from the long-term business technical account to the non-technical account in respect of shareholders' profits are determined as a result of annual actuarial valuations, which are based on local practice, subject to transfers to or from the fund for future appropriations.

I – Pension costs

The Group operates defined-benefit pension schemes in a number of countries around the world, with contributions made on a going concern basis, as recommended by actuaries. There are also several money purchase pension plans. Where separate pension schemes exist, they are fully funded on a discontinuance actuarial valuation basis. The pension costs, which are included in expenses, are calculated using actuarial valuation methods which give a substantially even charge over the expected service lives of employees. The costs of other material post-retirement benefits, also included in expenses, are charged as they accrue. Information regarding the new accounting standard FRS17 is given in note 37 to the accounts.

J – Tax

The tax charge in the non-technical account is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves. In the long-term business technical account, the tax charge is based on the method of assessing tax for long-term funds applicable in the relevant country of operation. Any part of the balance on the long-term business technical account that is computed on an after tax basis is grossed up at the effective rate of tax in the non-technical account. Provision is only made for deferred tax where it is expected that a liability will crystallise in the foreseeable future. No provision is made for tax that might arise if profits retained by overseas subsidiary and associated undertakings were remitted to the United Kingdom. As explained in accounting policy B, the requirements of FRS19 will be reflected in the Company's 2002 accounts.

K – Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is carried on the balance sheet as a separate intangible asset. Goodwill arising on the acquisition of associated undertakings is included within the carrying value of associated undertakings. All goodwill is amortised on a straight-line basis over its useful economic life, and its carrying value is reviewed regularly for impairment. On subsequent disposal of the underlying investment, any goodwill not yet amortised will be taken to the profit and loss account when calculating the profit or loss on disposal.

Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill previously written off to reserves will be taken to the profit and loss account when calculating the profit or loss on any disposal of the underlying investment.

L – Investments

Investments are stated at their current values at the end of the year, with the exception of most non-linked long-term business debt securities and fixed income securities which are shown at amortised cost, as this basis more closely corresponds with the valuation of the relevant long-term liabilities. Current values, for this purpose, are: stock exchange mid-market values for listed securities; average trading prices for unlisted securities where a market exists; and directors' valuations for other unlisted securities, and for mortgages and loans.

All properties are valued annually by qualified external valuers or members of staff, at market value. No depreciation is provided on properties held for own use since such depreciation is immaterial. No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view.

M – Derivative instruments

The Group uses derivative instruments, including forward foreign exchange contracts, interest rate swaps, futures and options for hedging purposes. Derivative instruments are accounted for as follows:

- forward foreign exchange contracts. The interest rate differential is included in investment income, while the effect of the currency movements on these contracts is treated as an exchange difference;

- cross-currency swaps related to the Group's borrowings. These are valued at the year end rates and disclosed as part of borrowings;

- interest rate swaps. The interest payable and receivable is included within investment expenses or investment income as appropriate;

N – Consolidation of subsidiary undertakings

The results of all material subsidiary undertakings are consolidated using audited accounts prepared to 31 December, either from 1 January or the effective date of acquisition. A number of overseas subsidiary undertakings, which do not represent a material part of the Group's income or assets, have not been consolidated but have been treated as investments and included within other participating interests. In the Company balance sheet, subsidiary undertakings are stated at current value which, for this purpose, is net asset value.

O – Participating interests

Participating interests are investments in which the Group has a long-term equity holding of over 20% and not more than 50%. Where the interests are beneficial and significant influence is exercised, such interests are classified as associated undertakings. The appropriate proportion of the profit or loss on ordinary activities before tax of associated undertakings is shown separately in the non-technical account, except where associated undertakings are held by the long-term businesses, in which case the profit is included within investment income in the long-term technical account. The appropriate proportion of the shareholders' funds of associated undertakings is included in the consolidated balance sheet. A number of associated undertakings, which do not represent a material part of the Group's income or assets, have been treated as investments and are included within other participating interests.

P – Additional value of in-force long-term business

The valuation of long-term business included in the Group's balance sheet comprises two elements: the net assets of the long-term business operations, stated in accordance with United Kingdom accounting principles; and an additional asset, called the additional value of in-force long-term business, which is shown separately and represents the difference between the total embedded value of the long-term operations and their net assets included in these accounts. Movements in the additional value of internally-generated in-force long-term business are taken to the revaluation reserve.

The additional value of in-force long-term business arising on acquisitions is recognised in the balance sheet, and is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the in-force business acquired and the expected depletion in its value. The value of purchased in-force long-term business is reviewed annually for any diminution in value and any reductions are charged to the long-term business technical account.

The embedded value is carried at the directors' valuation, and is the total of the shareholders' net worth of the long-term operations and the present value, at risk discount rates, of the projected releases to shareholders arising from the business in force, less a deduction for the effect of meeting the statutory solvency requirements of the business. The shareholders' net worth comprises the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds determined on a statutory solvency basis and adjusted to add back any non-admissible assets. This effect of solvency requirements is the difference between the nominal value of required solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital.

Q – Long-term business provision and technical provision for linked liabilities

The long-term business provision is calculated separately for each life operation, mainly using the net premium method, based on local actuarial principles consistent with those applied in the United Kingdom. Each calculation represents a point within a range of possible outcomes, and the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are given in note 30.

Within the long-term business provision, explicit allowance is made for vested bonuses, including those added following the current valuation, but not generally for future reversionary or terminal bonuses. The provisions held for linked business and unitised with profits business are the unit liabilities together with certain non-unit provisions.

R – Tangible assets

Computer equipment, motor vehicles and other tangible assets are capitalised at cost and depreciation is charged to the profit and loss account, within expenses, over their estimated useful lives of between three and five years. Assets acquired under finance leases are capitalised and charged to the profit and loss account over the shorter of the term of the leases or their estimated useful lives, subject to a maximum of five years. All tangible assets are tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are included within the cumulative depreciation amounts disclosed.

S – Fund for future appropriations

The fund for future appropriations is used in conjunction with long-term business where the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held in the fund for future appropriations. Transfers between the fund for future appropriations and the long-term business technical account represent changes in the unallocated amounts between balance sheet dates.

T – Equalisation provision

Provision is made in the Group and Company accounts for the equalisation provisions established, where required, in the accounts of individual insurance companies in the United Kingdom and in a limited number of countries overseas. The provision is required by law even though no actual liability exists at the balance sheet date.

U – Exchange rates

The results of foreign enterprises are translated into sterling at average exchange rates while their assets and liabilities are translated at year end rates. The resulting exchange differences arising within long-term businesses are included within the business technical account and form part of the transfer to the fund for future appropriations, while those arising within other businesses are taken directly to reserves.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of transaction. Foreign currency assets and liabilities held at the year end are translated at year end rates of exchange. The resulting exchange gains or losses are included in the profit and loss account, for the year and through reserves respectively.

1 – Exchange rates

The principal rates of exchange used for translation are:

	Average rates		Closing rates	
	2001	2000	2001	2000
Canadian dollar	**2.23**	2.25	**2.32**	2.24
United States dollar	**1.43**	1.51	**1.46**	1.49

The 2001 profit and loss account and balance sheet figures have been translated into euros using the average rate of €1 = £0.62 *(2000: €1 = £0.61)* and the closing rate of €1 = £0.61 *(2000: €1 = £0.63)* respectively.

2 – Discontinued operations

"Discontinued operations" disclosures relate to the exit from London Market business in 2000 and the sale of the general insurance business in the Unites States, which completed on 1 June 2001. The results of all other operations are entitled "Continuing operations".

The Group's consolidated profit and loss account incorporates the following financial information in respect of the UK London Market and US general insurance businesses:

Abridged statement of operating and investment gains

	London Market		US general insurance business	
	2001 £m	2000 £m	2001 £m	2000 £m
Net premiums written	–	63	**1,103**	3,021
Change in the provision for unearned premiums	–	60	**102**	(14)
Earned premiums, net of reinsurance	–	123	**1,205**	3,007
Allocated investment return transferred from the non-technical account	–	55	**152**	417
Claims incurred, net of reinsurance	–	(131)	**(978)**	(3,025)
Other charges	–	(38)	**(400)**	(949)
Balance on the general business technical account				
Underwriting result	–	(46)	**(173)**	(967)
Longer-term investment return	–	55	**152**	417
	–	9	**(21)**	(550)
Unallocated interest charges*	–	–	**(21)**	(42)
Operating loss	–	9	**(42)**	(592)
Amortisation of goodwill	–	–	**(1)**	(3)
Short-term fluctuation in investment return	–	(10)	**13**	66
Loss on ordinary activities before tax	–	(1)	**(30)**	(529)
Tax on loss on ordinary activities	–	1	**(93)**	110
Loss for the financial year	–	–	**(123)**	(419)
Retranslation to closing rate	–	–	**(2)**	(4)
Retained loss	–	–	**(125)**	(423)

*Unallocated interest charges are eliminated on consolidation.

3 – Geographical segmental information

(a) Operating profit by business

(i) Operating profit in respect of long-term business before amortisation of acquired additional value of in-force long-term business and exceptional items

	2001 £m	2000 £m
United Kingdom	**–**	–
Europe (excluding UK)	**447**	341
International	**(25)**	11
	422	352

(ii) Operating (loss)/profit in respect of health business

	Underwriting result		Operating result	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**–**	–	**–**	–
Europe (excluding UK)	**(17)**	(22)	**62**	62
	(17)	(22)	**62**	62

(iii) Operating profit in respect of fund management before exceptional items

	Operating result	
	2001 £m	2000 £m
United Kingdom	**–**	–
Europe (excluding UK)	**22**	24
International	**4**	4
	26	28

(iv) Operating (loss)/profit in respect of general insurance business excluding health, before exceptional items

	Underwriting result		Operating result	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**(11)**	(217)	**366**	202
Europe (excluding UK)	**(62)**	(298)	**167**	(64)
International	**(72)**	(72)	**120**	130
Continuing operations	**(145)**	(587)	**653**	268
Discontinued operations				
United States	**(173)**	(967)	**(21)**	(550)
London Market	**–**	(46)	**–**	9
	(173)	(1,013)	**(21)**	(541)
Unwinding of discount on business no longer written (31c)	**–**	(24)	**–**	–
	(318)	(1,624)	**632**	(273)

(b) Operating profit/(loss) before tax

	2001 £m	2000 £m
United Kingdom	**299**	53
Europe (excluding UK)	**661**	320
International	**94**	141
Continuing operations	**1,054**	514
Discontinued operations	**(21)**	(541)
Corporate costs	**(34)**	(52)
Unallocated interest charges	**(206)**	(223)
Operating profit/(loss)	**793**	(302)

3 – Geographical segmental information continued

(c) Net assets by business and geographical segment

	Long-term business		General insurance and health business		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	–	–	**2,944**	2,107	**2,944**	2,107
Europe (excluding UK)	**2,032**	1,792	**1,328**	1,488	**3,360**	3,280
International	**199**	260	**950**	2,848	**1,149**	3,108
	2,231	2,052	**5,222**	6,443	**7,453**	8,495
Other assets and liabilities					**1,054**	(922)
Total					**8,507**	7,573

4 – Corporate costs

	2001 £m	2000 £m
Staff profit sharing scheme costs	**20**	21
Sundry corporate expenses	**14**	31
	34	52
Merger integration incentive plans (9b)	**21**	–
Merger integration costs (9b)	–	2
Costs of integrating acquired undertakings (9b)	**2**	–
	57	54

5 – New long-term savings business premiums

The analysis of life and savings business premiums written before reinsurance is:

	New business – single premiums		New business – regular premiums		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Life and pensions:						
United Kingdom	–	–	–	–	–	–
Europe (excluding UK)	**4,510**	3,029	**335**	427	**4,845**	3,456
International	**400**	227	**42**	27	**442**	254
Total life and pensions	**4,910**	3,256	**377**	454	**5,287**	3,710
Investment sales:						
United Kingdom	–	–	–	–	–	–
Europe (excluding UK)	**85**	1,025	–	–	**85**	1,025
Total investment sales	**85**	1,025	–	–	**85**	1,025
Total long-term savings	**4,995**	4,281	**377**	454	**5,372**	4,735

Single premiums are those relating to products issued by the Group, which provide for the payment of one premium only. Regular premiums are those where there is a contractual obligation to pay on an ongoing basis.

6 – Premiums written and sales of investment products

(a) *(i) Total premiums written and investment sales*

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
Long-term business premiums (ii)	**7,279**	5,418	**7,143**	5,262
Sales of investment products (5)	**85**	1,025	**85**	1,025
General insurance business premiums (iii)	**6,289**	6,292	**5,404**	5,759
Health premiums (iv)	**600**	483	**599**	483
	6,889	6,775	**6,003**	6,242
Total premiums written and investment sales – continuing operations	**14,253**	13,218	**13,231**	12,529
General insurance business premiums – discontinued operations (v)	**1,187**	3,278	**1,103**	3,084
	15,440	16,496	**14,334**	15,613

(ii) Long-term business premium income by geographical origin – continuing operations

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**–**	–	**–**	–
Europe (excluding UK)	**6,745**	5,064	**6,619**	4,926
International	**534**	354	**524**	336
Total Group long-term business premiums	**7,279**	5,418	**7,143**	5,262

(iii) General insurance business premium income by geographical origin – continuing operations

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**2,860**	2,696	**2,509**	2,478
Europe (excluding UK)	**2,053**	2,135	**1,805**	1,910
International	**1,376**	1,461	**1,090**	1,371
Total general insurance business premiums (excluding health)	**6,289**	6,292	**5,404**	5,759

(iv) Health premium income by geographical origin – continuing operations

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**–**	–	**–**	–
Europe (excluding UK)	**600**	483	**599**	483
Total health premiums	**600**	483	**599**	483

(v) Discontinued operations premium income

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
United States	**1,187**	3,131	**1,103**	3,021
London Market	**–**	147	**–**	63
Total discontinued operations	**1,187**	3,278	**1,103**	3,084

(vi) Premium income by destination does not differ materially from premium income by geographical origin, as most risks are located in the countries where the policies were written.

(b) The analysis of general insurance business premiums written before reinsurance is:

	2001 £m	2000 £m
Property	**2,236**	2,283
Motor	**2,491**	2,516
Liability	**768**	697
Other	**794**	792
General business premiums excluding health – continuing operations	**6,289**	6,288
Discontinued operations	**1,187**	3,278
General business premiums excluding health	**7,476**	9,566
Health	**600**	487
Total general business premiums	**8,076**	10,053

7 – Analysis of investment return

(a) The total investment return before tax comprises:

	Long-term business 2001 £m	Long-term business 2000 £m	Non-long-term business 2001 £m	Non-long-term business 2000 £m
Share of result of associated undertakings	–	–	**4**	1
Income from land and buildings	**111**	98	**41**	54
Income from other investments	**2,282**	2,174	**804**	1,035
Realised investment (losses)/gains	**(111)**	340	**542**	980
Investment income	**2,282**	2,612	**1,391**	2,070
Expenses and charges, including allocated interest charges	**(107)**	(55)	**(77)**	(97)
Unallocated interest charges:				
External	–	(1)	**(33)**	(35)
Intra-group	–	–	**(173)**	(188)
	–	(1)	**(206)**	(223)
	(107)	(56)	**(283)**	(320)
Investment return before unrealised gains	**2,175**	2,556	**1,108**	1,750
Unrealised investment losses	**(1,472)**	(9)	**(1,041)**	(193)
Total investment return before tax	**703**	2,547	**67**	1,557

(b) Longer-term investment return

(i) The longer-term investment return, net of expenses, allocated to the general business technical account and transferred to the long-term business technical account was £1,029 million *(2000: £1,435 million)* and £10 million *(2000: £5 million)* respectively.

(ii) The longer-term investment return and short-term fluctuation are as follows:

	Shareholders' interest in long-term business 2001 £m	Shareholders' interest in long-term business 2000 £m	Non-long-term business 2001 £m	Non-long-term business 2000 £m
Total investment return before tax	**(10)**	(5)	**67**	1,557
Less: share of result of associated undertakings	–	–	**(4)**	(1)
Add: unallocated interest charges	–	–	**206**	223
	(10)	(5)	**269**	1,779
Longer-term investment return	–	4	**1,029**	1,435
Short-term fluctuation in investment return	**(10)**	(9)	**(760)**	344
	(10)	(5)	**269**	1,779

(iii) The longer-term return is calculated separately for each principal general insurance business unit and certain long-term business operations. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return. The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the year.

(iv) The principal assumptions underlying the calculation of the longer-term investment return are:

	Longer term rates of return Equities 2001 %	Longer term rates of return Equities 2000 %	Longer term rates of return Properties 2001 %	Longer term rates of return Properties 2000 %
United Kingdom	**8.1**	8.1	**6.6**	6.6
France	**7.5**	7.5	**6.5**	6.5
Ireland	**8.7**	8.7	**6.7**	6.7
Netherlands	**8.4**	8.4	**6.5**	6.5
Canada	**9.3**	9.3	**7.3**	7.3
United States	**9.3**	9.3	**7.3**	7.3

The Group intends to retain the same longer-term rates of investment return for the 2002 financial year.

8 – Long-term business bonuses

	2001 £m	2000 £m
Policyholder bonuses allocated in anticipation of a bonus declaration included in claims paid	**68**	75
Reversionary and similar policyholder bonuses included in the movement in the long-term business provision	**1,445**	1,432
Bonuses included in the long-term business technical account	**1,513**	1,507

9 – Net operating expenses

(a) Net operating expenses in the technical accounts comprise:

	Long-term business		General business	
	2001 £m	2000 £m	2001 £m	2000 £m
Acquisition costs	**438**	479	**1,667**	2,063
Changes in deferred acquisition costs	**46**	4	**61**	(11)
Administrative expenses				
– integration costs (9b)	**–**	7	**–**	129
– Financial Services Compensation Scheme levy	**–**	–	**13**	–
– other	**368**	239	**480**	731
	852	729	**2,221**	2,912
Reinsurance commissions receivable	**(26)**	(28)	**(99)**	(78)
	826	701	**2,122**	2,834

In 2001, long-term business "other" expenses include costs of £5 million *(2000: £10 million)* and general business "other" expenses include costs of £3 million *(2000: £6 million)* relating to projects to prepare for the introduction of the euro.

(b) Integration costs have been charged to the consolidated profit and loss account as follows:

	Long-term business technical account		General business technical account		Non-technical account		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Merger integration costs:								
Charged to administrative expenses	–	7	–	129	–	–	–	136
Charged to corporate costs	–	–	–	–	–	2	–	2
	–	7	**–**	129	**–**	2	**–**	138
Integration incentive plans:								
Charged to corporate costs	**–**	–	**–**	–	**21**	–	**21**	–
Total merger integration costs	**–**	7	**–**	129	**21**	2	**21**	138
Costs of integrating acquired undertakings:								
Charged to corporate costs	**–**	–	**–**	–	**2**	–	**2**	–
Charged to profit on ordinary activities before tax	**–**	7	**–**	129	**23**	2	**23**	138
Tax							**(8)**	(14)
Charged to profit on ordinary activities after tax							**15**	124

Integration costs in 2001 include £21 million in respect of integration incentive plans relating to the integration of the former CGU and Norwich Union businesses, which are payable to staff of certain business units and to senior management and are conditional upon the performance of the Group against predefined targets. A charge of £2 million is also included in 2001 relating to the costs of integrating the acquired business of The Insurance Corporation of Singapore.

The items in 2000 comprise merger integration costs and reflect the costs of integrating and reorganising the businesses of the former CGU and Norwich Union operations.

10 – Directors' emoluments

All directors are remunerated by CGNU Employment Services Limited, a fellow subsidiary undertaking of the ultimate holding company, CGNU plc. The emoluments of these directors are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the CGNU Group and it is not practical to calculate the exact charge borne by the Company.

11 – Auditors' remuneration

On 27 July 2001, Ernst & Young LLP were appointed auditors of the Company in place of PricewaterhouseCoopers. The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, in respect of the audit of these accounts is shown below, together with fees paid to the auditors of the parent company and their associated firms in respect of other work.

	20001 E&Y £m	2000 PwC £m
Auditing these financial statements	**1.5**	2.6
Other audit work	**0.6**	1.4
Other work – United Kingdom	**1.5**	6.3
– non-United Kingdom	**1.8**	4.7
	5.4	15.0

The auditors' remuneration in respect of the parent company was £0.1 million *(2000: £0.3 million).*

Ernst & Young LLP's fees for other work in 2001 comprised:

	£m
Accounting and tax advice	**0.3**
Assurance services	**1.8**
Due diligence	**0.1**
Other	**1.1**
	3.3

The 2000 non-audit fees included work relating to merger activity and the integration of Norwich Union plc and CGU plc, the majority of which was subject to competitive tender.

12 – Tax

(a) Tax on profit/(loss) on ordinary activities

Tax charged in the non-technical account comprises:

	2001 £m	2000 £m
UK corporation tax	**75**	(18)
Advance corporation tax written back	**–**	(46)
Overseas tax	**83**	53
Deferred tax	**(55)**	(78)
Prior year adjustments	**(3)**	(13)
Tax attributable to balance on long-term business technical account	**99**	119
	199	17

(b) Long-term business

Tax (credited)/charged in the long-term business technical account comprises:

	2001 £m	2000 £m
Overseas tax	**(127)**	133

12 – Tax continued

(c) Balance sheet

(i) The provision for deferred tax, included within the provisions for other risks and charges in the consolidated balance sheet (note 33(a)), comprises:

				Group		Company
	Long-term business		Non-long-term business		Non-long-term business	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Unrealised gains on investments	**122**	27	**141**	189	**–**	34
Provisions and other timing differences	**22**	8	**(115)**	(122)	**–**	(34)
	144	35	**26**	67	**–**	–

(ii) The deferred tax asset, included within other prepayments and accrued income in the Company balance sheet (note 24), comprises:

	Non-long-term business	
	2001 £m	2000 £m
Unrealised gains on investments	**(28)**	–
Provisions and other timing differences	**61**	–
	33	–

(iii) The potential amount of tax not expected to become a liability/(asset) in the foreseeable future, for which provision has not been made, comprises:

				Group		Company
	Long-term business		Non-long-term business		Non-long-term business	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Unrealised gains on investments	**–**	–	**221**	536	**–**	67
Provisions and other timing differences	**–**	–	**(18)**	2	**(33)**	–
Losses	**–**	–	**–**	(67)	**–**	(38)
	–	–	**203**	471	**(33)**	29

13 – Subsidiary undertakings

(a) Acquisitions

During the year ended 31 December 2001, the Group acquired the following companies:

	Country of incorporation	Percentage acquired	Date of acquisition
ABN AMRO Magyar Elet es Nyugdijbiztosito Reszvenytarsasag	Hungary	100%	28 June 2001
Eurovita Italcasse Assicurazioni S.p.A	Italy	50.96%	11 July 2001
The Insurance Corporation of Singapore	Singapore	100%	21 August 2001
Unicorp Vida, Compania de Seguros y Reaseguros	Spain	50%	11 September 2001
Ahorro Andaluz, Entidad Gestora de Fondos de Penslones	Spain	50%	11 September 2001
Bia Galicia, Compania de Seguros y Reaseguros, S.A.	Spain	50%	24 September 2001
Bank Nagelmackers	Belgium	100%	30 November 2001
Caja España Vida, Compania de Seguros y Reaseguros	Spain	50%	26 December 2001
Risparmio Vita Assicurazioni S.p.A	Italy	100%	28 December 2001

(i) On 28 June 2001, the Group completed the acquisition of ABN AMRO Magyar Elet es Nyugdijbiztosito Reszvenytarsasag ("Mébit"), the sixth-largest life insurance business in Hungary, from ABN AMRO Bank N.V. for a cash consideration of £64 million, including transaction costs. The embedded value amounted to £11 million, giving rise to goodwill of £53 million.

(ii) In June 2001, as part of its bancassurance partnership with Banca Popolare di Lodi ("BPL"), the Group sold 50% of its wholly-owned subsidiary, Finoa S.r.l ("Finoa") to BPL. In July 2001, Finoa acquired 50.96% of the issued share capital of Eurovita Italcasse Assicurazioni S.p.A ("Eurovita") from BPL for a cash consideration of £33 million. Finoa's share of Eurovita's embedded value was £35 million. In December 2001, as part of its bancassurance partnership with UniCredito Italiano, the Group's 55%-owned subsidiary, Commercial Union Vita S.p.A, acquired all the issued share capital of Risparmio Vita Assicurazioni S.p.A for a cash consideration of £55 million. The embedded value acquired was £48 million. The aggregate goodwill on these transactions was £5 million.

(iii) On 21 August 2001, the Group entered into a bancassurance agreement with DBS Group Holdings Limited ("DBS"), the number one bank in Singapore and one of the largest in South East Asia, and acquired 100% of the issued equity share capital of The Insurance Corporation of Singapore ("ICS"), DBS's life and general insurance subsidiary, for a cash consideration of £152 million, including transaction costs, with further amounts payable if ICS achieves its performance targets. The net assets on acquisition of ICS were £90 million, giving rise to goodwill of £75 million after taking into account the estimated value of deferred consideration.

13 – Subsidiary undertakings continued

(a) Acquisitions continued

(iv) In September 2001, the Group entered into a new bancassurance partnership with Unicaja, the eighth largest savings bank in Spain. As part of this transaction, the Group acquired 50% of the issued equity share capital of Unicaja's life and pensions subsidiaries, Unicorp Vida and Ahorro Andaluz (together known as Unicorp Vida) for an initial consideration of £95 million including transaction costs, in the form of promissory notes redeemable in the period to December 2006, with further amounts payable if Unicorp Vida achieves certain performance targets. The Group's share of Unicorp Vida's embedded value amounted to £14 million. In addition, the Group also entered into a new bancassurance partnership with Caixa Galicia, Spain's fifth largest savings bank. As part of this transaction, the Group acquired 50% of the issued equity share capital of Caixa Galicia's life and pensions subsidiary, Bia Galicia, for an initial cash consideration of £93 million including transaction costs, with further amounts payable if Bia Galicia achieves certain performance targets. The Group's share of Bia Galicia's embedded value amounted to £6 million. In December 2001, the Group completed the bancassurance partnership with Caja España, the tenth largest savings bank in Spain. As part of this transaction, the Group acquired 50% of the issued equity share capital of Caja España's life and pension subsidiary, Caja España Vida, for an initial cash consideration of £88 million including transaction costs, with further amounts payable if Caja España Vida achieves certain performance targets. The Group's share of Caja España Vida's embedded value amounted to £12 million. The aggregate goodwill on these transactions was £244 million.

(v) In November 2001, the Group completed the acquisition of 100% of the share capital of Bank Nagelmackers in Belgium for a total consideration of £82 million, including transaction costs. Total net assets were £46 million, after fair value adjustments, giving rise to goodwill of £36 million.

(b) Goodwill on acquisitions

The identifiable assets and liabilities of the entities acquired, at the relevant date of acquisition, were as set out below.

	Book value £m	Fair value adjustments £m	Fair value £m
Assets			
Total investments	3,430	38	3,468
Additional value of in-force long-term business (19a)	25	93	118
Other assets	780	2	782
Total assets	4,235	133	4,368
Liabilities			
Technical provisions including linked liabilities	2,751	4	2,755
Other creditors and provisions	1,285	–	1,285
Total liabilities	4,036	4	4,040
Total shareholders' funds	199	129	328
Less: Minority interests			(66)
Shareholders' funds acquired			262
Goodwill arising on acquisition			413
Total consideration			675
The total consideration comprised:			
Cash (including contingent cash amounts)			668
Attributable acquisition costs			7
			675

The fair value adjustments arise from revaluations, mainly to incorporate the full embedded values in the long-term business companies acquired.

No individual acquisition was material enough to require separate disclosure.

In addition to the goodwill arising on the acquisition of these subsidiary undertakings, the Group acquired 43.7% of the minority interest in Commercial Union Sigorta AS, and made a number of smaller acquisitions in continental Europe. These gave rise to an additional amount of £23 million goodwill. Total positive goodwill arising in the year was £436 million (note 14).

13 – Subsidiary undertakings continued

(c) Disposals

The net profit/(loss) on the disposal of subsidiary undertakings comprises:

	2001 £m	2000 £m
Long-term savings businesses:		
Ireland (see (i) below)	**(74)**	–
Canada (see (ii) below)	**(8)**	–
General insurance businesses:		
Belgium (see (iii) below)	**46**	–
United States (see (iv) below)	**125**	(1,070)
Germany	**–**	(43)
South Africa	**–**	(11)
Other small operations	**(3)**	–
	86	(1,124)

(i) On 1 January 2001, the Group completed the transfer of the long-term business of Hibernian Life and Pensions to a fellow subsidiary of CGNU plc. The business was transferred for nil consideration, resulting in a loss of £74 million.

(ii) On 1 April 2001, the Group completed the disposal of its wholly-owned Canadian subsidiary, Commercial Union Life Holdings Limited, for a consideration of £61 million. Its embedded value at disposal amounted to £67 million and the loss on disposal, after transaction costs, was £8 million.

(iii) In July 2001, the Group completed the disposal of its principal general insurance business in Belgium, CGU SA, for a cash consideration of £72 million. The Group's share of net assets disposed of amounted to £24 million and the profit on disposal, after writing back £2 million of goodwill previously charged to reserves, was £46 million.

(iv) On 1 June 2001, the Group completed the disposal of its US general insurance operations for US$2,023 million (net of transaction costs of US$40 million), and settlement of an inter-company loan of US$1,100 million, in total being US$3,123 million (£2,200 million at 1 June 2001 exchange rates). The settlement comprised cash, the transfer of businesses and subordinated loan notes of US$260 million. The total proceeds for the disposal of the US general business were fixed by reference to the operation's net assets as at 31 August 2000 and were not adjusted to reflect the business' results in the period from 1 September 2000 to completion. In addition, the Group did not bear any continuing operating risk from 31 August 2000 nor provide any guarantees in respect of its claims reserves or balance sheet beyond that date. Prior to completion, US$200 million (£141 million) was injected into the business as a pre-closing adjustment.

Financial Reporting Standard 2 "Accounting for subsidiary undertakings" required the results of the US general business to be consolidated with those of the Group's continuing businesses until completion on 1 June. However, given that the Group retained no economic interest in the operations of this business beyond 31 August 2000, the US general business' post-tax operating loss and investment gains incorporated in the Group's consolidated profit and loss account from 1 September 2000 to completion on 1 June 2001 has been offset by a corresponding change to the loss on disposal calculated at 31 August 2000. The loss on disposal also reflects goodwill previously written off against reserves but which needs to be reinstated and charged to the profit and loss account.

The aggregate pre-tax loss on disposal recorded in the Group's consolidated profit and loss account reserves at 31 December 2001 is £996 million retranslated at the exchange rate prevailing at 1 June 2001, and is further analysed below.

(v) During the course of 2001, the Group entered into a binding agreement to dispose of its specialist non-comprehensive motor insurer, Sabre Insurance Company. This disposal was completed on 8 February 2002.

(d) Discontinued operation – United States general insurance

(i) The overall pre-tax loss on disposal, after retranslation to the exchange rate prevailing at 1 June 2001, was £996 million. This has been reported in the Group accounts as follows:

	Reported in profit and loss account		Reported within statement of total recognised gains and losses	Total loss on disposal
	2000 £m	2001 £m	Exchange rate movements £m	Total £m
Proceeds, net of transaction costs	2,092	**–**	108	2,200
Net assets to which proceeds apply, including capital injection	3,092	**(125)**	159	3,126
Goodwill write back	70	**–**	–	70
	3,162	**(125)**	159	3,196
Pre-tax (loss)/profit on disposal	(1,070)	**125**	(51)	(996)
Tax attributed to loss on disposal	81	**–**	4	85
Loss on disposal after tax and goodwill write back	(989)	**125**	(47)	(911)

During 2000 and 2001, the Group hedged its exposure to $1 billion of the sale proceeds through the purchase of foreign currency options and forward contracts. The closure of these reduced the exchange gain from £108 million disclosed above to £84 million.

13 – Subsidiary undertakings continued

(d) Discontinued operation – United States general insurance continued

(ii) An analysis of the disposal proceeds is as follows:

	US$m	£m
Comprising:		
Loan notes	260	183
Value of businesses and investments retained	630	443
Cash proceeds	2,233	1,574
Proceeds, net of transaction costs, including repayment of inter-company loan	3,123	2,200

The net cash received on completion by the Group was US$2,033 million (£1,433 million), comprising the cash proceeds identified above less the pre-closing capital injection of US$200 million (£141 million).

(e) Subsidiary undertakings appearing in the Company balance sheet comprise:

	2001 £m	2000 £m
Shares at net asset value	**9,069**	9,016
Amounts receivable (including dividends proposed)	**356**	918
	9,425	9,934
Amounts payable (after deducting dividends proposed)	**(1,044)**	(1,236)
	8,381	8,698

In the Company balance sheet, shares in subsidiary undertakings are valued at net asset value computed in accordance with the Company's accounting policies. The resulting gain over book value of £3,277 million *(2000: £4,222 million)* has been credited to the Company's revaluation reserve (note 28).

(f) Movements in the Company's shares in subsidiary undertakings are set out below:

	2001 £m
Cost	
At 1 January	4,794
Additions	1,206
Disposals	(208)
At 31 December	5,792
Unrealised gains	
At 1 January	4,222
Movement in the year (28)	(945)
At 31 December	3,277
Net asset value at 31 December 2001	**9,069**
Net asset value at 31 December 2000	9,016

During the year, the Company increased its shareholding in CGU Insurance plc by £1,204 million, as explained in the Director's report on page 1, and invested a further £2 million in CGU Asia Limited and CGU Underwriting Limited. The Company also disposed of its holdings in Retirex Limited and its life operations in Greece, and had part of its holding in Pitheavlis Limited returned, during that company's liquidation.

(g) Principal subsidiary undertakings at 31 December 2001 are listed on page 40.

14 – Goodwill

The carrying value of goodwill comprises:

	Positive goodwill £m	Negative goodwill £m	Total 2001 £m	Total 2000 £m
Cost:				
At 1 January	**639**	**(52)**	**587**	191
Additions (13b)	**436**	**–**	**436**	361
Disposals	**(36)**	**–**	**(36)**	–
Foreign exchange rate movements	**(7)**	**10**	**3**	14
Other movements	**–**	**–**	**–**	21
At 31 December	**1,032**	**(42)**	**990**	587
Amortisation:				
At 1 January	**50**	**(3)**	**47**	22
Charge in the year	**52**	**(2)**	**50**	25
Disposals	**(8)**	**–**	**(8)**	–
Foreign exchange rate movements	**(1)**	**–**	**(1)**	–
At 31 December	**93**	**(5)**	**88**	47
Carrying value at 31 December	**939**	**(37)**	**902**	540

Other movements in 2000 included adjustments to the fair value of acquisitions in 1999.

Goodwill is being amortised on a straight line basis over its useful economic life. Useful economic lives have been determined in respect of each acquisition to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets. No useful economic lives are in excess of 20 years. As explained in accounting policy K on page 13, goodwill arising in 1997 and prior years was charged directly to reserves.

15 – Land and buildings

The carrying value of land and buildings comprises:

	Long-term business		Non-long-term business		Group Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Freeholds	**1,463**	1,545	**740**	765	**2,203**	2,310
Long leaseholds – over 50 years	**40**	27	**21**	29	**61**	56
Short leaseholds – under 50 years	**15**	14	**74**	2	**89**	16
	1,518	1,586	**835**	796	**2,353**	2,382

	Company Non-long-term business	
	2001 £m	2000 £m
Freeholds	**60**	54
Long leaseholds – over 50 years	**4**	17
Short leaseholds – under 50 years	**2**	2
	66	73

The cost of land and buildings at 31 December 2001 was £1,948 million *(2000: £2,171 million)* for the Group and £31 million *(2000: £34 million)* for the Company. The carrying value of land and buildings occupied by the Group and the Company for its own activities was £388 million *(2000: £456 million)* and £63 million *(2000: £62 million)* respectively.

The valuation of properties has been undertaken by qualified external valuers or prepared or monitored by qualified members of staff reporting to the Head of Property of Morley Fund Management Limited, who is a Fellow of The Royal Institution of Chartered Surveyors, or by local qualified staff of the Group in overseas operations. All properties are valued at market value.

16 – Investments in Group undertakings and participating interests

(a) *Investments in participating interests included in the balance sheets comprise:*

						Group
	Long-term business £m	Non-long-term business £m	Total 2001 £m	Long-term business £m	Non-long-term business £m	Total 2000 £m
Investments in associated undertakings (16b)	**142**	**238**	**380**	127	233	360
Other participating interests	**20**	**47**	**67**	1	33	34
	162	**285**	**447**	128	266	394

The cost of the above investments was £270 million and £77 million respectively *(2000: £296 million and £40 million respectively).*

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

				Company
	Carrying value 2001 £m	Cost 2001 £m	Carrying value 2000 £m	Cost 2000 £m
Investments in associated undertakings	**55**	**14**	59	14
Other participating interests	**33**	**33**	30	28
	88	**47**	89	42

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

(b) Associated undertakings

(i) Movements in the Group's investments in associated undertakings comprise:

	Long-term business £m	Non-long-term business £m	Total £m
Share of result for the year after tax	–	4	4
Foreign exchange rate movements	(3)	(4)	(7)
Unrealised investment losses after tax	(5)	(2)	(7)
Dividends received	–	(4)	(4)
Additions	23	13	36
Disposals	–	(2)	(2)
Movements in investments in associated undertakings	15	5	20
Balance at 1 January	127	233	360
Balance at 31 December	**142**	**238**	**380**

(ii) The associated undertakings included above are:

Company	Class of share	Proportion held	Country of incorporation and operation
Global Aerospace Underwriting Managers Limited	Ordinary £1 shares	50.0%	England
Société Foncière Lyonnaise	Ordinary FF 50 shares	31.5%	France
The British Aviation Insurance Company Limited (31 December 2000)	Ordinary £1 shares	38.1%	England

All investments in associated undertakings are held by subsidiary undertakings and are included in the accounts using year ended 31 December 2001 figures, except where the relevant accounting date is shown in brackets. Société Foncière Lyonnaise ("SFL") is listed on a recognised investment exchange; all other associated undertakings are not listed. All associated undertakings transact insurance business, with the exception of SFL which is a property company.

The Group's shareholding in SFL would reduce to 26.4% if all convertible bonds previously issued by SFL are converted to ordinary shares.

On 6 June 2001, the Group disposed of its shareholding in its associated undertaking in Chile, Compania de Seguros La Republica SA.

(c) In France, the Group holds the majority interest in a number of specialised investment companies. These invest mainly in equities, bonds and properties, and distribute most of their income. The Group's interests in these companies are included in these accounts in *other financial investments* or *land and buildings* as appropriate.

17 – Other financial investments

(a) These financial investments comprise:

	Long-term business £m	Non-long-term business £m	Total 2001 £m	Long-term business £m	Non-long-term business £m	Total 2000 £m
Shares and other variable yield securities and units in unit trusts	**6,637**	**3,028**	**9,665**	5,855	4,717	10,572
Debt securities and other fixed income securities:						
At current value	**4,260**	**6,569**	**10,829**	192	10,853	11,045
At amortised cost	**22,636**	**–**	**22,636**	23,941	–	23,941
Participation in investment pools	**76**	**–**	**76**	101	3	104
Loans secured by mortgages:						
Own mortgages	**2,052**	**137**	**2,189**	1,879	119	1,998
Securitised mortgages (18)	**930**	**–**	**930**	348	–	348
Less: Non-recourse funding (18)	**(930)**	**–**	**(930)**	(348)	–	(348)
	–	**–**	**–**	–	–	–
Other loans:						
Loans secured on policies	**132**	**–**	**132**	801	–	801
Other loans	**2,569**	**97**	**2,666**	2,204	244	2,448
Deposits with credit institutions	**279**	**1,040**	**1,319**	394	509	903
	38,641	**10,871**	**49,512**	35,367	16,445	51,812

All investments above are shown at current value unless otherwise indicated. The cost of financial investments above was £47,288 million *(2000: £48,498 million)*.

(b) Listed investments included in the carrying value above are:

	2001 £m	2000 £m
Shares and other variable yield securities and units in unit trusts	**9,346**	10,167
Debt securities and other fixed income securities	**29,501**	34,039

(c) The long-term debt securities and other fixed income securities, which are shown at amortised cost, are analysed below:

	2001 £m	2000 £m
Cost	**22,144**	23,552
Cumulative amortisation	**492**	389
Amortised cost	**22,636**	23,941
Market value	**23,690**	24,506

The redemption value of investments held at the year end was £76 million less *(2000: £1,337 million greater)* than the amortised cost.

(d) *The Company's financial investments comprise:*

	2001 £m	2000 £m
Shares and other variable yield securities and units in unit trusts	**450**	614
Debt securities and other fixed income securities	**529**	122
Loans secured by mortgages	**1**	1
Other loans	**1**	–
Deposits with credit institutions	**398**	148
	1,379	885

All investments above are shown at current value. The cost of financial investments above was £1,334 million *(2000: £668 million)*.

17 – Other financial investments continued

(e) In addition to the investments in participating interests detailed in note 16, the Group holds investments exceeding 10% of a class of the equity capital in a number of other companies in the United Kingdom and elsewhere. These investments do not represent a material part of the assets or investment income of the Group. These include the Group's 7.8% *(2000: 9.3%)* shareholding in Delta Lloyd Investment Fund NV. As this company invests mainly in equities and all dividends received are passed on to the shareholders, the Group's interest has been shown in other financial investments in these accounts. The economic benefits of ownership of an additional holding of 16.6% *(2000: 12.1%)* belong to the Delta Lloyd Pension Fund.

(f) Included within other financial investments are shareholdings held on a long-term basis in the issued share capital of Société Générale, a banking company incorporated in France and Münchener Rückversicherungs-Gesellschaft, a reinsurance company incorporated in Germany. The market values of these holdings at 31 December 2001 were £939 million and £807 million respectively *(2000: £1,033 million and £1,253 million respectively)* and represented 5.7% and 2.5% *(2000: 5.9% and 2.9%)* of the respective issued share capitals of these companies. Of these holdings, the long-term business operations owned £292 million *(2000: £216 million)* of the Société Générale shares and £159 million *(2000: £nil)* of the Münchener Rückversicherungs-Gesellschaft shares.

In the Company balance sheet, ordinary shares include investments in Société Générale and Münchener Rückversicherungs-Gesellschaft with market values at 31 December 2001 of £74 million *(2000: £123 million)* and £1 million *(2000: £2 million)* respectively.

(g) The Group has entered into stocklending arrangements in the United Kingdom and overseas during the year in accordance with established market conventions. In the United Kingdom, investments are lent to locally-domiciled counter-parties and governed by agreements written under English law. Other investments are specifically deposited under local laws in various countries overseas as security to holders of policies issued there.

Included within other financial investments are £224 million *(2000: £191 million)* of debt securities and other fixed income securities which have been sold under stock repurchase arrangements. The obligations arising under these arrangements are included in other creditors (note 35).

18 – Securitised mortgages and related assets

Other financial investments include loans secured by mortgages, subject to non-recourse finance arrangements, in a Dutch subsidiary ("DL"). These balances are accounted for using a linked presentation in accordance with Financial Reporting Standard 5 "Reporting the substance of transactions". Details of the relevant transactions are as follows:

The principal benefits of two portfolios of mortgage loans in DL have been transferred to two special purpose securitisation companies, Arena 2000-1 BV and Arena 2001-1 BV ("the Arena companies"), which were funded primarily through the issue of fixed rate notes. No gains or losses were recognised on these transfers.

All the shares in the Arena companies are held by independent trustees, respectively Stichting Security Trustee Arena 2000-1 BV and Stichting Security Trustee Arena 2001-1 BV. DL does not own, directly or indirectly, any of the share capital of the Arena companies or their parent companies.

DL receives payments from the Arena companies in respect of fees for loan administration services, and also under the terms of interest rate swaps written between DL and the Arena companies to hedge their respective exposures to movements in interest rates arising from these transactions. In each case, the effect of the interest rate swaps is that the Arena companies swap all or part of the interest flows receivable from customers in respect of the securitised mortgage loans into fixed interest flows which are designed broadly to match the interest payable to the noteholders. DL has no right, nor any obligation, to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where DL is in breach of warranty.

DL has purchased £18 million of the fixed rate notes in Arena 2000-1 BV, which are repayable in 2062, and £21 million of the fixed rate notes in Arena 2001-1 BV, repayable in 2053. These are included in debt securities and other fixed income securities within other financial investments in the consolidated balance sheet at their market value of £41 million.

Included in investment income is £36 million *(2000: £nil)* relating to the securitisation of these mortgage loan portfolios.

In the above transactions, CGUII Group and its subsidiaries are not obliged to support any losses that may be suffered by the noteholders and do not intend to provide such support. Additionally, the notes were issued on the basis that noteholders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that noteholders have no recourse whatsoever to other companies in the CGUII Group.

19 – Additional value of in-force long-term business

(a) Movements in the additional value of in-force long-term business comprise:

	Internally generated £m	Acquired £m	Total £m
Balance at 1 January	1,719	464	2,183
Foreign exchange rate movements	(34)	(10)	(44)
In-force long-term business acquired in subsidiaries (13b)	–	118	118
In-force long-term business disposed of	(55)	(20)	(75)
Amortisation charge for the year	–	(31)	(31)
Other movements during the year			
Transfer to revaluation reserve (27)	(126)	–	(126)
Movement in minority interest on internally-generated in-force business (19b)	23	–	23
	(103)	–	(103)
Movements arising in the year	(192)	57	(135)
Balance at 31 December	**1,527**	**521**	**2,048**

The in-force long-term business disposed of comprises £26 million *(2000: £nil)* on disposals outside the CGUII Group and £49 million *(2000: £nil)* on the transfer to a fellow subsidiary of CGNU plc of the long-term business of Hibernian Life and Pensions (note 13c).

The amortisation charge for the year appears under the heading "Other technical charges" in the long-term business technical account on page 3. This is grossed up for attributable tax in the reconciliations on pages 3 and 6.

(b) The reserve arising from the additional value of in-force long-term business comprises:

	2001 £m	2000 £m	Movement in the year £m
Additional value of internally-generated in-force long-term business	**1,527**	1,719	(192)
Amount attributable to minority interests	**(81)**	(58)	(23)
Balance at 31 December	**1,446**	1,661	(215)

(c) The embedded value of the long-term operations comprises:

	2001 £m	2000 £m
Net assets of long-term operations (3c)	**2,231**	2,052
Additional value of in-force long-term business	**2,048**	2,183
	4,279	4,235

20 – Assets held to cover linked liabilities

(a) A reconciliation of assets to linked liabilities is as follows:

	2001 £m	2000 £m
Assets held to cover linked liabilities	**10,886**	9,431
Reinsurers' share of technical provision	**23**	19
Technical provision for linked liabilities	**10,909**	9,450

(b) The cost of assets held to cover linked liabilities is £10,370 million *(2000: £9,431 million)*.

21 – Debtors arising out of direct insurance operations

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts owed by policyholders	**1,110**	1,763	**94**	270
Amounts owed by intermediaries	**907**	1,260	**143**	108
Debtors arising out of direct insurance operations	**2,017**	3,023	**237**	378

22 – Other debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Banking and stockbroking assets (25a)	**3,359**	2,061	**–**	–
Amounts due by holding companies	**–**	311	**–**	–
Amounts due by fellow subsidiary undertakings	**730**	62	**–**	62
United Kingdom and overseas tax	**–**	–	**26**	–
Other	**1,378**	1,056	**246**	131
Other debtors	**5,467**	3,490	**272**	193

23 – Deferred acquisition costs

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Costs in respect of long-term business	**365**	391	**–**	–
Costs in respect of general business	**555**	849	**165**	115
	920	1,240	**165**	115

24 – Other prepayments and accrued income

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Deferred tax asset (12c)	**–**	–	**33**	–
Other	**253**	437	**32**	15
	253	437	**65**	15

25 – Banking and stockbroking activities

(a) Banking and stockbroking assets, excluding intra-group balances, comprise:

	2001 £m	2000 £m
Investments	**630**	454
Loans and advances to banks	**402**	275
Loans and advances to customers	**2,242**	1,216
	3,274	1,945
Short-term deposits and cash	**21**	2
Other banking and stockbroking assets	**64**	114
	3,359	2,061

(b) Banking and stockbroking liabilities, excluding intra-group balances, comprise:

	2001 £m	2000 £m
Deposits by banks	**229**	124
Bank customer accounts	**2,270**	1,269
Bank overdrafts	**41**	22
Other banking and stockbroking liabilities	**772**	433
	3,312	1,848

26 – Ordinary share capital

(a) The authorised share capital of the Company at 31 December 2001 was:

	2001 £m	2000 £m
4,705,626,947 *(2000: 882,530,900)* ordinary shares of 25 pence each	**1,176**	221

The allotted, called up and fully paid share capital of the Company at 31 December 2001 was:

	2001 £m	*2000* £m
4,701,393,348 *(2000: 878,297,301)* ordinary shares of 25 pence each	**1,175**	219

(b) During 2001, a total of 3,823,096,047 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	Share capital £m	Share premium £m
At 1 January	878,297,301	219	2,374
New shares issued	3,823,096,047	956	248
At 31 December	**4,701,393,348**	**1,175**	**2,622**

During the year, a total of 3,823,096,047 ordinary shares of 25 pence each, having an aggregate nominal value of £956 million, were allotted for a total consideration of £1,204 million as explained in the directors' report on page 1.

27 – Group reserves

	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2001	1,661	150	2,914	4,725
Transfer from non-technical account	–	–	(171)	(171)
Foreign exchange rate movements	(34)	–	(63)	(97)
Increase in value of in-force long-term business (P & 19a)	(126)	–	–	(126)
Goodwill on disposals, previously written off	–	–	3	3
Other movements	(55)	–	55	–
At 31 December 2001	**1,446**	**150**	**2,738**	**4,334**

As explained in accounting policy K on page 13, goodwill arising on acquisitions since 1 January 1998 is carried on the balance sheet and amortised over its useful economic life. The cumulative amounts of positive and negative goodwill charged or credited to the consolidated profit and loss account, attributable to subsidiary undertakings acquired from 1 January 1968 to 31 December 1997 and not subsequently sold, are £1,209 million and £15 million respectively. Similar information relating to subsidiary undertakings acquired before 1968 is not readily available.

The cumulative amount in the profit and loss account reserves relating to unrealised gains and losses is £1,005 million *(2000: £2,057 million).*

28 – Company reserves

Movements in the Company's reserves comprise:

	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Profit for the year attributable to equity shareholders, including dividends paid or proposed by subsidiary undertakings	–	–	556	556
Foreign exchange rate movements	–	–	(2)	(2)
Unrealised losses	(945)	–	–	(945)
Movements in the year	(945)	–	554	(391)
At 1 January 2001	4,222	150	353	4,725
At 31 December 2001	**3,277**	**150**	**907**	**4,334**

The cumulative amount in the profit and loss account includes non-distributable gains of £121 million *(2000: £313 million)*.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these accounts.

29 – Long-term business

(a) The Group underwrites long-term business in a number of countries as follows:

(i) In France, where the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.

(ii) In the Netherlands, where the balance of profits, after providing appropriate returns for policyholders, accrues for the benefit of the shareholders. The bases for determining returns for policyholders are complex, but are consistent with methods and criteria followed generally in the Netherlands. In addition, a substantial number of policies provide benefits which are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees.

(iii) In other overseas operations, using methods similar to those described above.

(b) The directors have been advised by the Group's reporting actuary that the assets of each of the long-term operations were at least sufficient to meet their respective liabilities at 31 December 2001.

30 – Long-term business provision

The long-term business provision is calculated separately for each life operation, mainly using the net premium method. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect United Kingdom statutory requirements. Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these.

The assumptions used to calculate the long-term business provision depend on the circumstances prevailing in each of the life operations. The principal assumptions for life funds in France and the Netherlands are:

	Interest %	Mortality tables used
France		
Life assurances:		
Up to eight years	3.5 to 4.5	TD 88/90
Eight years and over	2.5 to 3.5	TD 88/90
Annuities	2.5 to 4.5	TPRV (prospective table)
Netherlands		
Life assurance	3 to 4	GBM 61-65, 76-80, 80-85 and GBM/V 85-90, 90-95
Annuities in deferment and in payment	3 to 4	GBM/V 76-80, 80-85, 85-90, 90-95, Coll 1993 and DIL 98 plus further allowance for future mortality improvement

In all countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

31 – Provisions for outstanding claims

(a) The ultimate cost of general business outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average costs per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect public attitudes to claiming or varying levels of claims inflation. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

(b) Claims incurred in the general business technical account in 2000 included deficits amounting to £721 million arising on claims reported in previous years. These arose principally in relation to certain long-tail liability business which is no longer written. There were no material deficits in 2001.

(c) Claims on certain classes of business are discounted as follows:

		Rate		Mean term of liabilities	
	Class	2001	2000	2001	2000
Netherlands	Permanent health and injury	**3.5%**	4%	**12 years**	8 years
United States and London Market	Business no longer written	**–**	4.5%	**–**	9 years

Net of reinsurers' share, the outstanding claims provisions before discounting were £6,954 million *(2000: £11,712 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries. The unwinding of the discount in respect of the United States and London Market business no longer written was not material *(2000: £24 million)*.

32 – Equalisation provision

An equalisation provision has been established in the Group and Company accounts as explained in accounting policy T on page 14. This had the effect of reducing Group and Company shareholders' funds by £165 million at the year end *(2000: £118 million)*. The change in the Group equalisation provision during the year comprised a reduction of £47 million *(2000: £7 million)* in the balance on the general business technical account and the profit on ordinary activities before tax.

33 – Provisions for other risks and charges

(a) Movements in the Group's provisions for other risks and charges were:

	Pensions and similar obligations £m	Deferred taxation (note 12c) £m	Provision for integration costs £m	Other £m	Total £m
At 1 January 2001	159	102	79	1,229	1,569
Exchange rate movements on opening provisions	1	–	–	(4)	(3)
Movement during the year:					
Additional provisions made in the year			2	11	
Amounts utilised			(79)	(1,090)	
Amounts released unutilised			–	(10)	
Total movement	(93)	68	(77)	(1,089)	(1,191)
At 31 December 2001	**67**	**170**	**2**	**136**	**375**

The provision for integration costs includes amounts relating to staff reductions, vacant properties and integration of the businesses following the merger of Norwich Union plc and CGU plc. "Other" provisions comprise many small provisions throughout the Group for such obligations as costs of litigation and staff entitlements, while the opening balance also included the provision for loss on disposal of the US operations.

33 – Provisions for other risks and charges continued

(b) *Movements in the Company's provisions for other risks and charges were:*

	Pensions and similar obligations £m	Deferred taxation (note 12c) £m	Provision for integration costs £m	Other £m	Total £m
At 1 January 2001	1	–	35	20	56
Movement during the year:					
Additional provisions made in the year			1	5	
Amounts utilised			(36)	(7)	
Total movement	(1)	–	(35)	(2)	(38)
At 31 December 2001	–	–	–	**18**	**18**

34 – Debenture loans, amounts due to credit institutions and commercial paper

(a) The analysis by business segment is:

	Debenture loans		Amounts owed to credit institutions		Commercial paper		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Long-term business	**51**	16	–	–	–	–	**51**	16
General business	–	–	**11**	11	–	–	**11**	11
Other	**395**	494	**99**	120	**46**	48	**540**	662
Non-long-term business	**395**	494	**110**	131	**46**	48	**551**	673

"Other" comprises borrowings by holding companies within the Group which are not allocated to operating companies.

(b) Debenture loans comprise:

	Long-term business		Other	
	2001 £m	2000 £m	2001 £m	2000 £m
9.125% US$100 million subordinated debentures 2026	–	–	–	61
11.9% C$24 million mortgage 2005	–	–	**8**	9
1.5% FF2.8 billion exchangeable bonds 2003	–	–	**281**	304
2.5% subordinated perpetual loan notes	–	–	**106**	108
Institutional borrowings (average rate 5%)	**51**	16	–	–
Institutional borrowings 2000/2001 (average rate 3%)	–	–	–	12
	51	16	**395**	494
Repayable as follows:				
One year or less	**1**	1	–	73
Between one and two years	**6**	6	**281**	–
Between two and five years	**44**	9	**8**	313
After five years	–	–	**106**	108
	51	16	**395**	494
The interest charge for the year on the above loans was:	**2**	1	**16**	21

The 9.125% US$100 million subordinated debentures 2026 were issued by the Canadian General insurance Group Limited in 1996, and redeemed at the option of the company on 31 March 2001.

The 1.5% FF2.8 billion exchangeable bonds were issued by a French subsidiary undertaking. They are repayable in cash in 2003 and hence are included in borrowings falling due within one to two years. The holders may however exchange their bonds at any time up to 8 July 2003 into ordinary shares of Société Générale, which are already owned by the Group, although the issuer has the option to pay a cash equivalent. The carrying value of the bonds is adjusted to reflect the value of the Société Générale shares if this value exceeds the nominal bond exchange value of €58.12 (FF381.25). At 31 December 2001, the value of a Société Générale share was €62.85.

The 2.5% subordinated perpetual loan notes were issued by a Dutch subsidiary undertaking to finance the acquisition of NUTS OHRA Beheer BV. These loan notes have a face value of NLG 1,079 million and their fair value is estimated at NLG 379 million *(2000: NLG 380 million)* which is based on the future cash flows in perpetuity discounted back at a market rate of interest. The rate of interest paid on the notes will be gradually increased over the next nine years to a maximum of 2.76%. The loan notes are convertible into ordinary shares in Delta Lloyd Nuts Ohra NV, should there be a public offering of those shares.

The long-term institutional borrowings arise wholly in the Netherlands and are mainly in respect of segregated funds for external pension schemes. Other institutional borrowings also arise wholly in the Netherlands, their purpose being to provide working capital.

34 – Debenture loans, amounts due to credit institutions and commercial paper continued

(c) Amounts due to credit institutions comprise:

	Group				Company	
	General business		Other			
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	**11**	11	**99**	120	**75**	60
Other borrowings	**–**	–	**–**	–	**–**	–
	11	11	**99**	120	**75**	60
Repayable as follows:						
One year or less	**11**	11	**75**	87	**75**	60
Between one and two years	**–**	–	**–**	–	**–**	–
Between two and five years	**–**	–	**–**	–	**–**	–
After five years	**–**	–	**24**	33	**–**	–
	11	11	**99**	120	**75**	60
The interest charge for the year on the above was:	**1**	1	**8**	7	**5**	4

(d) Commercial paper comprises:

	Other	
	2001 £m	2000 £m
Average rate 4% (2000: 3%)	**46**	*48*
The interest charge for the year on the above borrowings was:	**6**	6

The commercial paper is all repayable within one year.

(e) Loans exclude intra-group borrowings, certain of which are guaranteed by third parties.

35 – Other creditors including tax and social security

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Banking and stockbroking liabilities (25b)	**3,312**	1,848	**–**	–
Amounts due to holding companies	**209**	–	**207**	509
Amounts due to fellow subsidiary undertakings	**–**	20	**–**	–
United Kingdom and overseas tax	**235**	242	**–**	19
Bank overdrafts	**672**	386	**29**	30
Other	**1,583**	1,234	**202**	41
Other creditors including tax and social security	**6,011**	3,730	**438**	599

Bank overdrafts arise substantially from unpresented cheques and amount to £542 million *(2000: £277 million)* in long-term business operations and £130 million *(2000: £109 million)* in general business and other operations. The"other"totals include the obligation to repay £224 million *(2000: £191 million)* received under stock repurchase arrangements entered into in the Netherlands.

36 – Accruals and deferred income

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Deferred reinsurance commissions	**34**	27	**24**	4
Other accruals and deferred income	**431**	736	**24**	16
Accruals and deferred income	**465**	763	**48**	20

37 – Pension and other post-retirement benefit costs

(a) The CGNU Group operates a large number of pension schemes around the world, whose members receive benefits on either a defined benefit basis or a defined contribution basis. The largest defined benefit schemes are in the United Kingdom, the Netherlands, Canada and Ireland, where the scheme assets comprise some 98% of the total defined benefit scheme assets throughout the CGNU Group. Of this total, the United Kingdom comprises some 80%. The assets of the main United Kingdom, Irish and Canadian schemes are held in separate trustee-administered funds and, in the Netherlands, the main scheme is held in a separate foundation which invests in the life funds of the Group. An actuarial report has been submitted for each of the defined benefit schemes within the last three years, using appropriate methods for the respective countries on local funding bases. There are no material deficiencies in any of the main schemes.

(b) The CGUII Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in section (c) below are those required by that accounting standard. FRS17 "Retirement Benefits" was issued in November 2000 and differs from SSAP24 in a number of ways. These are principally in the choice of assumptions, and that the difference between the market value of assets and liabilities is immediately recognised in the balance sheet under FRS17, whereas changes in assets and liabilities are recognised on a smoothed basis under SSAP24. Full compliance with FRS17 will not be mandatory for the CGNU Group until the year ended 31 December 2003 but phased transitional disclosures are required from 31 December 2001. These disclosures, to the extent not given in section (c), are set out in section (d) below.

(c) In the United Kingdom, the CGNU Group operated two main pension schemes until their merger on 31 December 2001. Both schemes were valued on a market value basis with the respective pension costs from each scheme's valuation being determined using the same financial assumptions, namely a pension increase rate of 2.8%, a salary increase rate of 4.5% and an interest rate of 6.0%. The CGU scheme was valued as at an effective date of 1 April 2000 and, being open to new entrants, was valued using the Projected Unit Method. The scheme had an asset value of £3,801 million and a funding level of 129%. The cost of future service benefits was 30% of pensionable salaries. The spreading of the scheme surplus over the average remaining cost of future service life had the effect that the net pension cost at the scheme anniversary was 2.9% of pensionable salaries. The defined benefit section of the Norwich Union Pension Plan was valued as at an effective date of 1 October 2000 using the Attained Age Method, as this section was generally closed to new employees. The scheme had an overall asset value of £1,447 million and a funding level of 122%. The cost of future service benefits in respect of defined benefit members was 26% of pensionable salaries which, after allowing for the interest on the surplus at the valuation date and the additional surplus since, led to a net pension cost at the scheme anniversary of 14.3% of pensionable salaries. The pension cost was then increased to allow for the amounts credited to members' accounts under the defined contribution section. These two United Kingdom pension schemes accounted for the substantial part of the CGNU Group's United Kingdom pension liabilities, and were merged with effect from 31 December 2001. New entrants now join the defined contribution section of the scheme as the defined benefit section is generally closed to new employees.

In the Netherlands, Canada and Ireland, regular actuarial valuations of the main schemes are made in accordance with local funding and/or accounting standards. Total pension costs for the schemes in these countries have been taken as equal to the locally determined accounting costs or contributions paid to the plans as, at a CGUII Group level, these are not considered to be materially different from charges calculated under a detailed application of SSAP24.

The CGUII Group also operates a variety of smaller pension arrangements in these and other countries, where costs have also been based on those calculated locally.

The 2001 pension costs of defined benefit and defined contribution schemes for the CGUII Group were £26 million *(2000: £58 million)*. There were no significant contributions outstanding or prepaid as at 31 December 2001.

(d) FRS17 Retirement Benefits

(i) UK schemes

The Company participates in the CGU Staff Pension Scheme, which is a separately-funded defined benefit pension scheme. As noted in (c) above, the most recent full actuarial valuation, and the one on which the current levels of funding contributions are based, was completed as at 1 April 2000 by a qualified actuary.

The Company is one of a number of UK companies being charged for CGNU Group employees participating in the CGU Staff Pension Scheme, and its contributions are affected by the financial position of the Scheme. As it is also unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the Company is accounting for its pension expense on a defined contribution basis in accordance with paragraph 9 of FRS17.

The Company's total contribution to the Scheme in the year was 12.5% of employees' salaries, which was a reduction from the previous level of 15.2% as a result of the surplus disclosed by the April 2000 valuation. This contribution adjustment is expected to remain stable until the results of the next valuation, to be completed in 2003, are available.

37 – Pension and other post-retirement benefit costs continued

(d) FRS17 Retirement Benefits continued

(ii) Non-UK schemes

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuations, updated to take account of the requirements of FRS17 in order to assess the liabilities of the major schemes at 31 December 2001. The updating was made by actuaries in each country, with overall co-ordination by external consultants, Watson Wyatt. The actuaries making the calculation were independent of the Group. Scheme assets are stated at their market values at 31 December 2001. The details for the main defined benefit schemes are shown below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

	Netherlands	Canada	Ireland
Date of most recent actuarial valuation	31.12.00	1.1.01	1.4.00
The main financial assumptions used to calculate scheme liabilities under FRS17 are:			
Inflation rate	2.5%	2.5%	3.0%
General salary increases	3.5%	3.0%	4.75%
Pension increases	2.5%	1.3%	2.5%
Deferred pension increases	2.5%	0%	2.5%
Discount rate	6.1%	6.6%	5.9%

(iii) The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2001 were:

	Netherlands £m	Canada £m	Ireland £m
Equities	169	69	230
Bonds	271	79	73
Property	–	–	28
Other	3	17	7
Total market value of assets	443	165	338
Present value of scheme liabilities	(430)	(145)	(229)
Surplus in the schemes	13	20	109
Surplus not possible to recognise	–	–	(17)
Recognised pension asset	13	20	92
Related deferred tax liability	(3)	(8)	(15)
Net pension asset	10	12	77

(iv) The effect on the Group net assets and retained profits at 31 December 2001, in respect of these business units, of substituting the above FRS17 figures for the corresponding SSAP24 balance sheet entries would be as follows:

	Net assets £m	Profit and loss account £m
Totals included in the Group accounts	8,507	2,738
Less: pension asset on SSAP24 basis	–	–
Totals excluding pension asset	8,507	2,738
Add: pension asset on FRS17 basis	99	99
Totals including pension asset	8,606	2,837

38 – Contingent liabilities

In the course of conducting insurance business, various companies within the CGUII Group receive general insurance liability claims, and become involved in actual or threatened litigation arising therefrom, including in respect of pollution and other environmental hazards. Amongst these are claims notified in respect of asbestos production and handling in various jurisdictions, including Canada and South Africa. *Given the significant delays that are experienced in the notification of these claims, the potential number of* incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, the Group's exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Group.

Note 30 gives details of the assumptions used in determining the long-term business provision which are designed to allow for prudence and the appropriate emergence of surpluses to pay future bonuses. Note 31 gives details of the estimation techniques used in determining the general business outstanding claims provision. Both are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed for long-term business, or assumptions over general business claims inflation may alter in the future, there is a contingent liability in respect of this uncertainty.

In addition, the Company has guaranteed the overdrafts and borrowings of certain subsidiary and associated undertakings. In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

39 – Capital commitments

In carrying on the business of investment, the Group has entered into future commitments, including property development, after 31 December 2001. These amounts are not reflected in the consolidated Group balance sheet on pages 8 and 9. The Group has in hand a number of property developments which, under contracts already signed, will require expenditure of £22 million *(2000: £31 million)* for general business and £26 million *(2000: £nil)* for long-term business operations.

40 – Related party transactions

As consolidated accounts for CGNU plc are publicly available, the Company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with related parties who are 90% or more owned within the same group.

41 – Cash flow statement

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

42 – Holding company details

The immediate holding company is General Accident plc.

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

CGU International Insurance group of companies

Parent Company
CGU International Insurance plc

Subsidiaries
The principal subsidiaries of the Company are listed below by country of incorporation. All are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, fund management or services in connection therewith, unless otherwise stated.

United Kingdom
CGU Bonus Limited
CGU Insurance plc
CGU Underwriting Limited
Morley Properties Limited
Northern Assurance Company Limited, The
Scottish General Insurance Company Limited

Belgium
Bank Nagelmackers *(Banking)*

Bermuda
Curepool Limited

Canada
CGU Holdings Canada Limited and its principal operating *subsidiaries:*
CGU Insurance Company of Canada Limited
Pilot Insurance Company

Czech Republic
Commercial Union zivotni pojist'ovna AS

France
CGU Participations SA and its principal subsidiaries:
Abeille assurances SA
Abeille vie SA
CGU Courtage SA (98.65%)
Eurofil SA (99.5%)
Norwich Union France SA
Société d'Epargne Viagère SA (75%)
Union Financière de France Banque (76.4%)

Germany
Berlinische Lebensversicherung Aktiengesellschaft (99.5%)
General Accident Lebensversicherung-Aktiengesellschaft

Hungary
ABN AMRO Magyar Elet es Nyugdijbiztosito Reszvenytarsasag

Ireland
Hibernian Group plc

Italy
CGNU Holding Italia SpA and its principal subsidiaries:
Commercial Union Assicurazioni SpA (50.0%)
Commercial Union Insurance SpA (99.0%)
Commercial Union Life SpA (50.0%
Commercial Union Previdenza SpA
Commercial Union Vita SpA (55.0%)
Eurovita Italcasse Assicurazioni SpA (25.5%)
Risparmio Vita Assicurazioni SpA (55.0%)
Commercial Union Italia SpA

Luxembourg
Commercial Union International Life SA

Malaysia
CGU Insurance Berhad (57.56%)

Netherlands
Commercial Union Finance BV
Delta Lloyd Nuts Ohra NV and principal subsidiaries:
Delta Lloyd Bank NV *(Banking)*
Delta Lloyd Levensverzekering NV
Delta Lloyd Schadeverzekering NV
NUTS OHRA Beheer B.V.

New Zealand
Belves Investments Limited and its principal operating subsidiary:
New Zealand Insurance Limited

Pakistan
Commercial Union Life Assurance Company (Pakistan) Limited (51%)

Poland
Commercial Union Polska Towarzystwo Ubezpieczen Ogolnych SA (95.0%)
Commercial Union Polska Towarzystwo Ubezpieczen na Zycie SA (90.0%)
Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK SA (80.0%)

Portugal
Eurovida BNC-CGU-Companhia de Seguros de Vida S.A. (50%)

Singapore
The Insurance Corporation of Singapore Limited

Spain
Ahorro Andaluz, Entidad Gestora de Fondos de Penslones (50.0%)
Aseguradora Valenciana, Compania Anomina de Seguros y Reaseguros (50.0%)
Bia Galicia, Compania de Seguros y Reaseguros, S.A. (50.0%)
Caja España Vida, Compania de Seguros y Reaseguros (50.0%)
Unicorp Vida, Compania de Seguros y Reaseguros (50.0%)

Thailand
CGU Insurance (Thai) Co. Ltd (49.0%)

Turkey
Commercial Union Hayat Sigorta AS
Commercial Union Sigorta AS (98.6%)

United States
CGNU Corporation and its principal operating subsidiary:
CGU Life Insurance Company of America

Principal associated undertakings are set out in note 16 on page 27.

CGU International Insurance plc
St Helen's, 1 Undershaft
London EC3P 3DQ