

**NORWICH UNION
INSURANCE LIMITED
2002**



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Norwich Union Insurance Limited

Report and Accounts 2002

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Norwich Union Insurance Limited

Directors and Officer

Directors:

P J R Snowball (Chairman)
M S Hodges
B F McIntyre

Officer:

Company Secretary:
Aviva Company Secretarial Services Limited

Auditors:

Ernst & Young LLP
Registered Auditor
Rolls House
7 Rolls Buildings
Fetter Lane
London
EC4A 1NH

Registered Office:

8 Surrey Street
Norwich
NR1 3NG

Registered in England: No. 99122

Members of the General Insurance Standards Council, the Association of British Insurers and the Financial Ombudsman Service.

Norwich Union Insurance Limited

Directors' Report

for the year ended 31 December 2002

The directors present their annual report and audited accounts for Norwich Union Insurance Limited (the Company) for the year ended 31 December 2002.

Principal activity and future developments

The principal activity of the Company is the transaction of general insurance business in the United Kingdom. The directors consider that this will continue unchanged into the foreseeable future. The Company has ceased its business in overseas branches although claims remain in run-off in certain locations.

Salient features

	Gross premiums written 2002 £m	Net earned premiums 2002 £m	Balance on technical account	
			2002 £m	2001 £m
United Kingdom	2,775	1,250	-	(58)
European Union (excluding UK)	-	-	1	-
	<u>2,775</u>	<u>1,250</u>	<u>1</u>	<u>(58)</u>
			2002 £m	2001 £m
(Loss) / profit on ordinary activities before tax			(15)	24
Tax on (loss) / profit on ordinary activities			<u>(25)</u>	<u>(17)</u>
(Loss) / profit for the financial year			<u>(40)</u>	<u>7</u>
			2002 £m	2001 restated £m
Balance sheet total assets			<u>6,078</u>	<u>4,959</u>
Shareholder's funds			<u>934</u>	<u>984</u>

Full details are set out on pages 12 to 16.

Norwich Union Insurance Limited

Directors' Report (continued)

for the year ended 31 December 2002

Ultimate parent undertaking

On 1 July 2002, the ultimate parent undertaking, CGNU plc, changed its name to Aviva plc.

Major events

During November and December 2002, certain subsidiary companies held by intermediate holding companies were transferred to the Company as part of a reorganisation that will facilitate winding up of subsidiaries that have ceased trading or are dormant.

Details of the main transactions are:

On 29 November 2002 the Company acquired the entire legal and beneficial holding of 7,468,704 Ordinary shares of £1 each in the issued share capital of Security Insurance Group Limited from SPIG Limited for a consideration of £10,430,670.

On 18 December 2002 the Company acquired the entire legal and beneficial holding of 7,405,000 Ordinary shares of £1 each in the issued share capital of Security Insurance Limited from Security Insurance Group Limited for a consideration of £8,820,670.

On 18 December 2002 the Company acquired the entire legal and beneficial holding of 240,000,000 Ordinary shares of £1 each in the issued share capital of London & Edinburgh Insurance Company Limited from London and Edinburgh Insurance Group Limited for a consideration of £295,813,679.

On 19 December 2002 the Company acquired the entire legal and beneficial holding of 120,000 common shares of US\$1 each in the issued share capital of London and Edinburgh (Bermuda) Limited from London and Edinburgh Insurance Group Limited for a consideration of £10,641,021.

Other companies that were transferred to direct ownership of the Company are Security Assurance Limited, Security Assurance Services Limited, London and Edinburgh Services Limited, and Macalister & Dundas Limited.

On 22 November 2002 the Company subscribed for 150,000 Ordinary shares of £1 each at par in Worldwide Assistance Limited.

On 9 December 2002 the Company subscribed for 35,000 Ordinary shares of £1 each at par in Macalister & Dundas Limited.

At an Extraordinary General Meeting on 30 December 2002 the authorised share capital of the Company was increased to £750,000,000 by the creation of 100,000,000 Ordinary shares of £1 each.

On 30 December 2002 the Company allotted 100,000,000 Ordinary shares of £1 each to Norwich Union Holdings Limited.

Norwich Union Insurance Limited

Directors' Report (continued)

for the year ended 31 December 2002

Dividends

Interim dividends for the year of £60 million were paid on 20 December 2002 (2001 - £60 million). The directors do not recommend the payment of a final dividend (2001 - nil).

Payment policy

It is the Company'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.

The amounts due to trade creditors at 31 December 2002 represented approximately 29 days of average daily purchases through the year (2001 - 19 days).

Employees

All employees are employed by a fellow subsidiary undertaking, Aviva Employment Services Limited. Disclosures relating to employees may be found in the Group consolidated accounts of Aviva plc.

Resolutions

On 25 June 2001, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of directors' reports, accounts and auditors' reports before the members in general meetings and the obligation to appoint auditors annually.

Norwich Union Insurance Limited

Directors' Report (continued)

for the year ended 31 December 2002

Directors' interests

The names of the present directors of the Company appear on page 1.

M S Hodges, B F McIntyre and P J R Snowball served as directors of the Company throughout the year.

The table below shows the interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown below and on page 6. All the disclosed interests are beneficial.

	At 1 January 2002 Number	At 31 December 2002 Number
M S Hodges	5,992	14,295
B F McIntyre	9,165	1,028

P J R Snowball is a director of the Company's ultimate parent undertaking, Aviva plc, and details of his interests are given in that company's accounts.

Incentive plans

Details of the directors who held office at the end of the financial year, and hold or held options to subscribe for ordinary shares of Aviva plc or hold or held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans, are set out below.

(i) Share options

	At 1 January 2002 Number	Options granted during the year Number	Options cancelled during the year Number	At 31 December 2002 Number
M S Hodges				
Savings related options	2,492	2,356	2,492	2,356
B F McIntyre				
Savings related options	2,707	2,356	2,707	2,356

(i) "Savings related options" are options granted under the Inland Revenue approved SAYE Share Option Scheme. Options granted from 1994 to 2002 are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the relevant savings contract.

(ii) During the year neither director exercised any share options and therefore no gains on such were made.

Norwich Union Insurance Limited

Directors' Report (continued)

for the year ended 31 December 2002

Directors' interests (continued)

(ii) Share awards

	At 1 January 2002	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	At 31 December 2002
	Number	Number	Number	Number	Number
M S Hodges					
CGNU Integration Incentive Plan	12,855	-	12,855	-	-
Aviva Long Term Incentive Plan	11,871	23,498	-	-	35,369
Aviva Deferred Bonus Plan	7,552	19,126	-	-	26,678
B F McIntyre					
CGNU Integration Incentive Plan	17,483	-	17,483	-	-
Aviva Long Term Incentive Plan	33,134	23,612	-	-	56,746
Aviva Deferred Bonus Plan	13,280	18,748	-	-	32,028
CGNU Restricted Share Plan	10,174	-	4,323	5,851	-

(i) CGNU Integration Incentive Plan; awards were granted to directors in September 2000 subject to the condition that shareholders' approval was obtained. The performance conditions under the Plan have been met and the awards vested in March 2002. The Plan then closed.

(ii) Aviva Long Term Incentive Plan; awards under the Plan are made on an annual basis and the 2002 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.

(iii) Aviva Deferred Bonus Plan; awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under Aviva plc's Annual Bonus in 2002 and also the matching awards granted on a one for one basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

(iv) CGNU Restricted Share Plan was a deferred bonus arrangement in which a small number of former Norwich Union senior managers participated. Awards were granted which vested in March 2002. The Plan then closed.

Norwich Union Insurance Limited

Directors' Report (continued)

for the year ended 31 December 2002

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the result of the Company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

On behalf of the Board



Director
26 March 2003

Norwich Union Insurance Limited

Independent Auditors' Report

To the members of Norwich Union Insurance Limited

We have audited the Company's accounts for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 30. These accounts have been prepared on the basis of the accounting policies set out on pages 9 to 11.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities in the Directors' Report the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and 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 Company is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 Company's circumstances, consistently applied and adequately disclosed.

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

Equalisation Reserve

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2002 and the effect of the movement in those reserves during the year on the technical result and profit before tax are disclosed in note 20.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its loss 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

27 March 2003

Norwich Union Insurance Limited

Statement of Accounting Policies

(a) Basis of accounts

The accounts have been prepared on the basis of the accounting policies set out below. They have been prepared in accordance with section 255 of, and Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business 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 2002, as considered appropriate for an insurance company.

The Company is exempt from preparing group accounts by virtue of section 228 of the Companies Act 1985, as it is a subsidiary of an EU parent (see note 30). The accounts present information about the Company as an individual undertaking and not about the group.

The results of the business are principally determined on an annual basis.

The profit and loss account for the year reflects all income, expenditure, and investment gains and losses, except for certain items which are taken directly to the revaluation reserve. The items taken to the revaluation reserve consist of unrealised appreciation on investments in Group undertakings, after adjusting for goodwill.

FRS 19 Deferred Taxation became effective for the year ended 31 December 2002. Accordingly, the Company's accounting policy for taxation has been amended to comply with FRS 19.

Comparative figures in note 1, segmental information, and note 3, net operating expenses, have been restated to be consistent with amounts for 2002. There is no impact on the reported profits or net assets for 2001.

(b) Premiums

Premiums are accounted for in the year in which the risk commences. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses.

(c) Claims

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 claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date.

(d) Technical provisions

- (i) Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a daily pro-rata basis.
- (ii) 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. Any estimate represents a point within a range of possible outcomes. Further details of estimating techniques are given in note 19.
- (iii) Provision is made for unexpired risks when, after taking account of an element of attributable investment income, it is anticipated that the unearned premiums will be insufficient to cover future claims and expenses on existing contracts. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.
- (iv) Certain balances brought forward in the statutory accounts differ from balances carried forward from the previous year's statutory accounts. This arises as a result of a quota share arrangement between the Company and a fellow Group undertaking, CGU International Insurance plc, under which a percentage of the opening balances on unearned premium provisions and deferred acquisition costs were transferred to the reinsurer.

Any differences between the provisions at the balance sheet date and settlements and provisions in the following year are included in the technical account for that year.

Norwich Union Insurance Limited

Statement of Accounting Policies (continued)

(e) Equalisation provision

Equalisation provisions are established in accordance with the requirements of the Financial Services and Markets Act 2000. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A of the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date.

(f) 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. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

Reinsurers' share of deferred acquisition costs are included in "Accruals and deferred income" in the balance sheet. In 2001 deferred acquisition costs were stated net of reinsurers' share of deferred acquisition costs. The 2001 balance sheet has been restated accordingly.

(g) Investment income and unrealised investment gains and losses

Investment income consists of interest, dividends and rents receivable for the year together with realised investment gains. Income from listed stocks and shares is included in the accounts when the security becomes ex-dividend, except for income from certain overseas stocks and shares which is accounted for when received. Income is credited to the profit and loss account at the amount receivable, with no associated tax credit for income from the United Kingdom. Interest and rents receivable are accounted for on an accruals basis.

Net realised gains on investments are calculated as the difference between net sales proceeds and the cost of acquisition.

Unrealised gains and losses on investments 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. Net movements in the year are taken to the profit and loss account and disclosed either as net unrealised gains or net unrealised losses.

(h) Investment expenses and charges

Investment expenses and charges include net realised losses on the disposal of investments. These are calculated as the difference between net sales proceeds and the cost of acquisition.

(i) Taxation

The tax charge 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 as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material timing differences including revaluation gains and losses on investments recognised in the profit and loss account. Deferred taxation is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and pattern of expected realisation of investments.

The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on Government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. This is a change in accounting policy to reflect the requirements of FRS 19. There is no effect of this change on these accounts.

Norwich Union Insurance Limited

Statement of Accounting Policies (continued)

(j) Rates of exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the 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.

(k) Licence costs

Certain expenditure incurred on licence costs in respect of computer systems and software, and which is considered to have an economic benefit lasting several years into the future and is substantial in amount, is deferred and amortised over a maximum period of five years.

(l) Goodwill

Goodwill arising on the purchase of group undertakings represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. With effect from 1 January 1998 goodwill is included as an intangible asset in the balance sheet and amortised over its estimated useful life comprising periods which typically vary from five to twenty years. Goodwill arising on acquisitions prior to 1 January 1998 was written off to reserves. At 31 December 2002 this represented £38.3 million written off against the revaluation reserve.

Goodwill previously written off to reserves will be taken to the profit and loss account when calculating the profit and loss on any disposal of the underlying investment.

The period of amortisation depends upon the nature of the business concerned, the stability of the industry in which the acquired business operates, the typical lifespans of the products to which the goodwill attaches, and the expected future impact of competition on the business. The carrying value of goodwill is reviewed regularly for impairment. Goodwill amortised during the period is charged to 'other charges' in the non-technical account.

(m) Valuation of investments

Investments are shown in the balance sheet as follows:

- (i) Listed securities at middle market value less accrued interest where applicable.
- (ii) Unlisted securities at market value estimated by the directors.
- (iii) Group undertakings at net asset value.
- (iv) Deposits at cost

(n) Revaluation reserve

The revaluation reserve in the accounts of the Company consists of unrealised appreciation on investments in Group undertakings, after adjusting for goodwill arising in accordance with accounting policy (l).

When the net asset value of a subsidiary undertaking is below cost the impairment is charged to the profit and loss account.

Norwich Union Insurance Limited

Profit and Loss Account - Technical Account for the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Gross premiums written - continuing operations	1	2,775	2,555
Outward reinsurance premiums		(1,459)	(717)
Net premiums written		1,316	1,838
Change in the provision for unearned premiums			
- gross amount		(164)	(282)
- reinsurers' share		98	64
Earned premiums - net of reinsurance		1,250	1,620
Claims paid			
- gross amount		1,606	1,462
- reinsurers' share		(566)	(210)
		1,040	1,252
Change in the provision for claims			
- gross amount		282	203
- reinsurers' share		(391)	(189)
		(109)	14
Claims incurred - net of reinsurance	2	931	1,266
Net operating expenses	3	311	402
Change in the equalisation provision		7	10
		1,249	1,678
Balance on the technical account from *			
- continuing operations		-	(58)
- discontinued operations	29	1	-
		1	(58)

* The balance on the technical account is otherwise referred to as the underwriting result

The accounting policies on pages 9 to 11 and the notes on pages 17 to 28 form an integral part of these accounts

Norwich Union Insurance Limited

Profit and Loss Account - Non-technical Account for the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Balance on the technical account		1	(58)
Investment income (including net realised gains on investments)	6	164	174
		<u>165</u>	<u>116</u>
Investment expenses and charges	7	6	11
Unrealised losses on investments	8	149	35
Other charges	9	25	46
		<u>180</u>	<u>92</u>
(Loss) / profit on ordinary activities before tax		(15)	24
Tax on (loss) / profit on ordinary activities	10	(25)	(17)
(Loss) / profit for the financial year		(40)	7
Dividends paid		(60)	(60)
Retained loss for the year	18	(100)	(53)

The accounting policies on pages 9 to 11 and the notes on pages 17 to 28 form an integral part of these accounts

Norwich Union Insurance Limited

Statement of Total Recognised Gains and Losses for the year ended 31 December 2002

	2002 £m	2001 £m
Retained loss for the year	(100)	(53)
Movement in revaluation reserve	(50)	(133)
Total recognised net losses relating to the year	<u>(150)</u>	<u>(186)</u>

There is no deferred tax on movements through the statement of total recognised gains and losses.

Norwich Union Insurance Limited

Balance Sheet

at 31 December 2002

	Notes	2002 £m	2001 restated £m
ASSETS			
Intangible assets	11	<u>120</u>	<u>128</u>
Investments			
Investments in Group undertakings	12	1,637	1,441
Other financial investments	12	<u>1,435</u>	<u>1,464</u>
		<u>3,072</u>	<u>2,905</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		702	316
Claims outstanding	19	<u>616</u>	<u>225</u>
		<u>1,318</u>	<u>541</u>
Debtors			
Debtors arising out of direct insurance operations	14	823	728
Debtors arising out of reinsurance operations	15	17	18
Other debtors	16	<u>388</u>	<u>336</u>
		<u>1,228</u>	<u>1,082</u>
Other assets			
Cash at bank and in hand		<u>39</u>	<u>32</u>
Prepayments and accrued income			
Accrued interest and rent		23	20
Deferred acquisition costs		251	244
Other prepayments and accrued income		<u>27</u>	<u>7</u>
		<u>301</u>	<u>271</u>
Total assets		<u>6,078</u>	<u>4,959</u>

The accounting policies on pages 9 to 11 and the notes on pages 17 to 28 form an integral part of these accounts

Norwich Union Insurance Limited

Balance Sheet (continued)

at 31 December 2002

	Notes	2002 £m	2001 restated £m
LIABILITIES			
Capital and reserves			
Called up share capital	17	711	611
Share premium account	18	148	148
Revaluation reserve	18	60	110
Profit and loss account	18	15	115
Shareholder's funds attributable to equity interests	18	934	984
Technical provisions			
Provision for unearned premiums - gross amount		1,348	1,184
Claims outstanding - gross amount	19	1,999	1,717
Equalisation provision	20	32	25
		3,379	2,926
Provisions for other risks and charges	21	26	11
Creditors			
Creditors arising out of direct insurance operations	22	66	73
Creditors arising out of reinsurance operations	23	779	475
Other creditors including taxation and social security	24	661	385
		1,506	933
Accruals and deferred income		233	105
Total liabilities		6,078	4,959

The accounting policies on pages 9 to 11 and the notes on pages 17 to 28 form an integral part of these accounts

Approved by the Board and signed on its behalf by:



Director
26 March 2003

Norwich Union Insurance Limited

Notes to the Accounts

1 Segmental information

(i) For the purposes of Statement of Standard Accounting Practice 25, "Segmental Reporting", the directors consider that the Company operates in only one geographical segment, that of the United Kingdom. The Company has ceased business in overseas branches although claims remain in run-off in certain locations.

(ii) The directors consider that turnover on the destination basis is not materially different from turnover on an origin basis.

(iii)

	2002 £m	2001 Restated £m
(a) Gross premiums written		
Accident and Health	400	343
Motor (third party liability)	784	793
Motor (other classes)	892	790
Marine, Aviation and Transport	-	1
Fire and other damage to property	634	544
Third Party Liability	8	10
Miscellaneous	57	74
	<u>2,775</u>	<u>2,555</u>
(b) Gross premiums earned		
Accident and Health	340	319
Motor (third party liability)	753	685
Motor (other classes)	861	682
Marine, Aviation and Transport	-	1
Fire and other damage to property	579	502
Third Party Liability	9	23
Miscellaneous	69	61
	<u>2,611</u>	<u>2,273</u>
(c) Gross claims incurred, including claims equalisation		
Accident and Health	218	197
Motor (third party liability)	637	513
Motor (other classes)	699	511
Fire and other damage to property	360	367
Third Party Liability	(5)	53
Miscellaneous	(14)	34
	<u>1,895</u>	<u>1,675</u>
(d) Gross operating expenses		
Accident and Health	111	122
Motor (third party liability)	161	124
Motor (other classes)	183	123
Fire and other damage to property	164	140
Third Party Liability	2	5
Miscellaneous	34	56
	<u>655</u>	<u>570</u>

Norwich Union Insurance Limited

Notes to the Accounts (continued)

1 Segmental information (continued)

	2002 £m	2001 Restated £m
(e) Reinsurance balance		
Accident and Health	22	8
Motor (third party liability)	11	30
Motor (other classes)	5	31
Marine, Aviation and Transport	-	-
Fire and other damage to property	1	24
Third Party Liability	4	9
Miscellaneous	17	(16)
	<u>60</u>	<u>86</u>
(f) Net underwriting result		
Accident and Health	(11)	(8)
Motor (third party liability)	(56)	18
Motor (other classes)	(26)	17
Marine, Aviation and Transport	-	1
Fire and other damage to property	54	(29)
Third Party Liability	8	(44)
Miscellaneous	32	(13)
	<u>1</u>	<u>(58)</u>
(g) Net technical provisions		
Accident and Health	118	133
Motor (third party liability)	700	780
Motor (other classes)	775	778
Marine, Aviation and Transport	-	-
Fire and other damage to property	316	429
Third Party Liability	120	188
Miscellaneous	32	77
	<u>2,061</u>	<u>2,385</u>
(h) Geographical analysis		
(Loss) / profit on ordinary activities before tax		
United Kingdom	(16)	23
European Union (excluding UK)	1	1
	<u>(15)</u>	<u>24</u>
Net assets		
United Kingdom	920	971
European Union (excluding UK)	14	13
	<u>934</u>	<u>984</u>

Norwich Union Insurance Limited

Notes to the Accounts (continued)

2 Prior years' claims provisions

Material over / (under) provisions in respect of prior years' claims provisions are as follows:

	2002 £m	2001 £m
Accident and Health	6	-
Motor	(85)	(22)
Property	62	(19)
Third Party Liability	20	(39)
Miscellaneous	29	(8)
	<hr/>	<hr/>

3 Net operating expenses

	2002 £m	2001 Restated £m
Written commissions	368	312
Other acquisition costs	109	156
Change in deferred acquisition costs	(4)	(38)
Administrative expenses	50	86
Reinsurance commissions and profit participation	(212)	(114)
	<hr/>	<hr/>
	311	402

4 Auditors' remuneration

	2002 £000	2001 £000
For auditing Companies Act accounts	445	379
For other services provided by Ernst & Young LLP	572	250
	<hr/>	<hr/>
	1,017	629

Norwich Union Insurance Limited

Notes to the Accounts (continued)

5 Directors' emoluments

- (i) P J R Snowball is a director of Aviva plc, and details of his remuneration are given in the accounts of that company.
- (ii) Details of the aggregate emoluments of the directors of the Company, as paid by Aviva Employment Services Limited, excluding those referred to in (i) above, comprised:

	2002 £000	2001 £000
Fees and benefits	765	462

- (iii) The highest paid director was also a director of Aviva plc and his emoluments are disclosed in the accounts of Aviva plc.

6 Investment income

	2002 £m	2001 £m
Income from other investments	130	170
Net realised gains on investments	34	4
	164	174

Income includes £2 million in respect of dividends from subsidiary undertakings (2001 - £51 million).

7 Investment expenses and charges

	2002 £m	2001 £m
Interest payable - bank loans and overdrafts	5	10
Investment management expenses	1	1
	6	11

8 Unrealised losses on investments

	2002 £m	2001 £m
Unrealised losses on subsidiary undertakings (refer accounting policy (n))	94	-
Other unrealised losses	55	35
	149	35

Norwich Union Insurance Limited

Notes to the Accounts (continued)

9 Other charges

	2002 £m	2001 £m
Integration costs on the merger of Norwich Union plc with CGU plc	-	16
Corporate costs	17	21
Amortisation of intangible assets	8	9
	<u>25</u>	<u>46</u>

10 Taxation

(a) Profit and loss account:

Taxation charged in the non-technical account is as follows:

	2002 £m	2001 £m
Current tax:		
UK corporation tax charge / (credit)	11	(16)
Prior year adjustments	(1)	22
Total current tax	<u>10</u>	<u>6</u>
Deferred tax:		
Origination and reversal of timing differences	13	32
Prior year adjustments	2	(21)
Total deferred tax	<u>15</u>	<u>11</u>
Total tax charge in the non-technical account	<u>25</u>	<u>17</u>

(b) Factors affecting current tax charge for the year:

The tax assessed in the non-technical account is higher (2001 - lower) than the standard UK corporation tax rate because of the following factors:

	2002 £m	2001 £m
(Loss) / profit on ordinary activities before tax	<u>(15)</u>	<u>24</u>
Current tax (credit) / charge at standard UK corporation tax rate of 30% (2001: 30%)	(5)	8
Adjustment to tax charge in respect of prior years	(1)	22
Non-taxable dividends	(2)	(17)
Non taxable amortisation of goodwill	2	2
Other disallowable expenses	1	3
Deferred tax credit arising from movement in unrealised gains and losses	-	7
Other deferred tax movements	(13)	-
Deferred tax assets not recognised	29	(4)
Other items	(1)	(15)
Current tax charge for the year	<u>10</u>	<u>6</u>

Norwich Union Insurance Limited

Notes to the Accounts (continued)

10 Taxation (continued)

(c) Factors that may affect future tax charges:

The deferred tax assets, which have not been recognised due to the uncertainty of their recoverability in the foreseeable future, comprise:

	2002 £m	2001 £m
Deferred tax assets not provided:		
Unrealised losses on investments	(28)	-
Accelerated capital allowances	(15)	(9)
Provisions and other timing differences	-	(2)
Total deferred tax asset not provided	(43)	(11)

(d) Balance sheet:

(i) The discounted provision for deferred tax, included within "Provisions for other risks and charges" (see note 21), comprises:

	2002 £m	2001 £m
Unrealised gains on investments	26	31
Losses	-	(20)
	<u>26</u>	<u>11</u>
Undiscounted provision for deferred tax	26	11
Discount	-	-
Discounted provision for deferred tax	<u>26</u>	<u>11</u>

(ii) Movements in the deferred tax balances are analysed as follows:

	2002 £m	2001 £m
Provision at 1 January	11	-
Amounts charged to the profit and loss account	15	11
Provision at 31 December	26	11

Norwich Union Insurance Limited

Notes to the Accounts (continued)

11 Intangible assets

	Licences £m	Goodwill £m	Total £m
Cost			
- at 1 January 2002	5	154	159
- at 31 December 2002	5	154	159
Amortisation			
- at 1 January 2002	5	26	31
- charge for the year	-	8	8
- at 31 December 2002	5	34	39
Net book value at 31 December 2002	-	120	120
Net book value at 31 December 2001	-	128	128

12 Investments

	2002		2001	
	Carrying value £m	Cost £m	Carrying value £m	Cost £m
(a) Investments in Group undertakings:				
Shares - at net asset value	1,139	1,324	956	997
Loans	498	498	485	485
	<u>1,637</u>	<u>1,822</u>	<u>1,441</u>	<u>1,482</u>
(b) Other financial investments:				
Shares and other variable yield securities and units in unit trusts				
- listed	111	87	129	24
- unlisted	-	4	-	3
Debt and fixed income securities at market value				
- listed	1,172	1,151	1,203	1,209
- unlisted	67	67	-	-
Deposits with credit institutions	85	85	132	132
	<u>1,435</u>	<u>1,394</u>	<u>1,464</u>	<u>1,368</u>

Carrying value is market value unless otherwise indicated.

Norwich Union Insurance Limited

Notes to the Accounts (continued)

12 Investments (continued)

(c) Stock lending :

The Company has entered into stock lending arrangements in the United Kingdom during the year in accordance with established market conventions. Investments are lent to locally-domiciled counterparties and governed by agreements written under English law.

13 Group undertakings

During November and December 2002, certain subsidiary companies held by intermediate holding companies were transferred to the Company as part of a reorganisation that will facilitate winding up of subsidiaries that have ceased trading, or are dormant. Details of the main transactions are set out in the directors' report.

Particulars of Group undertakings at 31 December 2002 are given below. Those undertakings which have been omitted do not materially affect the amount of the result or assets shown in the accounts. The undertakings have share capital comprising shares of one class only and are incorporated in Great Britain.

	Percentage of allotted share capital held
Haven Insurance Policies Limited (General business insurance)	100
Hill House Hammond Limited (Insurance intermediaries)	100
London and Edinburgh Insurance Company Limited (General business insurance)	100
London & Edinburgh Insurance Group Limited (ceased trading)	100
NUI Investments Limited (Investment management company)	100
Norwich Union Mortgages (General) Limited (Mortgage management company)	100
Norwich Union Consumer Products Limited (formerly Norwich Union Personal Accident Management Services Limited) (Insurance intermediaries)	100
SPIG Limited (ceased trading)	100

14 Debtors arising out of direct insurance operations

	2002 £m	2001 £m
Amounts due from policyholders	357	310
Amounts due from intermediaries		
- fellow Group undertakings	76	53
- third parties	390	365
	<u>823</u>	<u>728</u>

Norwich Union Insurance Limited

Notes to the Accounts (continued)

15 Debtors arising out of reinsurance operations

	2002 £m	2001 £m
Amounts due from fellow Group undertakings	-	1
Amounts due from third parties	17	17
	<u>17</u>	<u>18</u>

16 Other debtors

	2002 £m	2001 £m
Amounts due from fellow Group undertakings	363	303
UK corporation tax	1	19
Other debtors	24	14
	<u>388</u>	<u>336</u>

17 Share capital

	2002 £m	2001 £m
Authorised:		
750,000,000 (2001: 650,000,000) Ordinary shares of £1 each	<u>750</u>	<u>650</u>
Allotted, called up and fully paid:		
711,050,000 (2001: 611,050,000) Ordinary shares of £1 each	<u>711</u>	<u>611</u>

On 30 December 2002 the Company's authorised share capital was increased by 100 million Ordinary shares to 750 million Ordinary shares of £1 each. On this same date 100 million Ordinary shares were allotted to the Company's parent undertaking for consideration of £100 million.

Norwich Union Insurance Limited

Notes to the Accounts (continued)

18 Reconciliation of movements in shareholder's funds

	Share capital	Share premium account	Revaluation reserve	Profit and loss account	Total shareholder's funds	
	2002 £m	2002 £m	2002 £m	2002 £m	2002 £m	2001 £m
Balance at 1 January	611	148	110	115	984	970
Issue of share capital	100	-	-	-	100	200
Retained loss for the year	-	-	-	(100)	(100)	(53)
Change in value of Group undertakings	-	-	(50)	-	(50)	(133)
Balance at 31 December	711	148	60	15	934	984

19 Provisions for outstanding claims

The ultimate cost of 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 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.

20 Equalisation provision

An equalisation provision, which is in addition to the provision required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that it does not represent liabilities at the year end. This has had the effect of reducing net assets at 31 December 2002 by £32 million (2001 - £25 million). The movement in the provision during the year resulted in a decrease in the underwriting profit and an increase in the loss before tax of £7 million (2001 - an increase in the underwriting loss and a decrease in the profit before tax of £10 million).

Norwich Union Insurance Limited

Notes to the Accounts (continued)

21 Provisions for other risks and charges

	2002 £m	2001 £m
Deferred tax (see note 10(d) for further details)	26	11

22 Creditors arising out of direct insurance operations

	2002 £m	2001 £m
Amounts due to fellow Group undertakings	10	13
Amounts due to third parties	56	60
	<u>66</u>	<u>73</u>

23 Creditors arising out of reinsurance operations

	2002 £m	2001 £m
Amounts due to fellow Group undertakings	770	471
Amounts due to third parties	9	4
	<u>779</u>	<u>475</u>

24 Other creditors including taxation and social security

	2002 £m	2001 £m
Bank overdrafts	79	100
Amounts due to fellow Group undertakings	364	13
Other creditors	218	272
	<u>661</u>	<u>385</u>

Bank overdrafts arise substantially from unpresented cheques. "Other creditors" includes the obligation to repay £112 million received under stock repurchase arrangements (2001 - £112 million).

Norwich Union Insurance Limited

Notes to the Accounts (continued)

25 Capital commitments

There was no capital expenditure, excluding investments, contracted for at 31 December 2002 for which no provision had been made (2001 - nil).

26 Contingent liabilities

As a result of an order made under Section 148 of the Financial Services and Markets Act 2000, the Company, London and Edinburgh Insurance Company Limited, Aviva Insurance (formerly Scottish Union and National Insurance Company), Haven Insurance Policies Limited and Security Insurance Limited have been granted a concession to deposit consolidated annual returns with the Financial Services Authority. As a condition of this concession, the Company, London and Edinburgh Insurance Company Limited and Haven Insurance Policies Limited have mutually guaranteed respective liabilities in a manner approved by the Financial Services Authority. They also guarantee the liabilities of Aviva Insurance and Security Insurance Limited. Furthermore, they continue to guarantee the liabilities of a former Group undertaking, Maritime Insurance Company Limited, which was included under the concession until 31 December 1992. This guarantee only extends to liabilities arising prior to 1 January 1998.

27 Related party transactions

As permitted under Financial Reporting Standard 8, Related Party Disclosures, transactions with entities which are a part of the Aviva plc group of companies have not been disclosed.

28 Cash flow statement

The Company is exempt under Financial Reporting Standard 1 (revised) from the requirement to prepare a cash flow statement as it is 100% owned within the Aviva plc Group. The consolidated cash flow statement which includes the Company, can be found in the Group consolidated accounts of Aviva plc.

29 Discontinued operations

Claims arising from the Company's share of stop loss protection arrangements with Norwich Winterthur Reinsurance Corporation Limited and Stronghold Insurance Company Limited have been treated as discontinued operations in the general business technical account. Those claims arising from the run-off of overseas branches business are also treated as discontinued. In addition, certain marine and aviation reinsurance arrangements are also included in discontinued operations.

30 Parent undertaking

The Company is a member of the Aviva plc group of companies (the Group).

The ultimate parent undertaking is Aviva plc, registered in England. The accounts of the ultimate parent undertaking are available from the Registered Office, St Helen's, 1 Undershaft, London EC3P 3DQ.

The Company's immediate parent undertaking is Norwich Union Holdings Limited, registered in England.