CGNU Life Assurance Limited

Report & Accounts 2003

NORWICH UNION
an AVIVA company

Directors and Officers

Directors

P R Hales
P E Hessey
M T Kirsch
J A Newman
M N Urmston
G M Vance
G N Withers

Secretary

P M White

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

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Directors' report

The directors present their annual report and audited accounts for CGNU Life Assurance Limited (the Company) for the year ended 31 December 2003.

Principal activity

The principal activity of the Company is the transaction of long term insurance business. The directors consider that this will continue unchanged into the foreseeable future.

Operations and new business

	2003 **£m**	2002 £m	2001 £m
New annual premiums (net of reinsurance)	**22**	36	26
New single premiums (net of reinsurance)	**443**	1,205	825
Balance on the long term business technical account	**27**	33	57

Further details of the results are given in the profit and loss account on pages 8 and 9.

Further details of the annual valuation and distribution of profits will be provided in due course in the returns to the Financial Services Authority.

Dividends

No interim dividend was paid for the year (2002: £89m). The directors do not recommend the payment of a final dividend (2002: £nil).

Directors

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

P G Scott resigned as a director of the Company on 1 July 2003.

P R Hales, P E Hessey, M T Kirsch, J A Newman, M N Urmston, G M Vance and G N Withers served as directors of the Company throughout the year.

Directors' interests

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 on pages 4 and 5. All the disclosed interests are beneficial.

	At 1 January 2003 (or appointment if later) Number	At 31 December 2003 Number
P R Hales	23,734	24,686
P E Hessey	3,304	3,630
M T Kirsch	18,251	19,499
J A Newman	12,294	13,122
M N Urmston	11,522	2,637
G M Vance	19,397	20,669
G N Withers	1,051	30,342

Directors' report

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 2003 (or appointment if later)	Options granted during year	Options exercised or lapsed during year	At 31 December 2003
	Number	Number	Number	Number
P R Hales				
Savings related options	825	-	284	541
Executive options	68,894	-	16,189	52,705
P E Hessey				
Savings related options	2,356	-	-	2,356
Executive options	33,145	-	15,297	17,848
M T Kirsch				
Savings related options	2,356	-	-	2,356
M N Urmston				
Savings related options	2,686	2,732	-	5,418
Executive options	113,953	-	16,189	97,764
G M Vance				
Savings related options	2,293	3,903	996	5,200
Executive options	62,619	-	13,907	48,712
Bonus Plan options	2,834	-	-	2,834
G N Withers				
Savings related options	4,096	-	-	4,096

(1) "*Savings related options*" are options granted under the Inland Revenue-approved SAYE Share Option Scheme. Options granted from 1998 to 2003 are normally exercisable during the six months period following either the third, fifth or seventh anniversary of the relevant savings contract.

(2) "*Executive options*" are those granted under the Aviva Executive Share Option Scheme, or predecessor schemes. Options, which have been granted on various dates from 1995 to 2000, are normally exercisable between the third and tenth anniversaries of their date of grant. Options granted after 1997 are only exercisable if certain performance conditions are met.

(3) "*Bonus Plan options*" are the options granted in 1999 and 2000 under the CGU Deferred Bonus Plan. Participants, who deferred their annual cash bonuses and received an award of shares, also received an award over an equivalent number of options. The options, which are not subject to performance conditions, are normally exercisable between the third and tenth anniversary of their grant.

During the year no directors exercised share options.

Incentive plans (continued)

(ii) Share awards

	At 1 January 2003 (or appointment if later)	Awards granted during year	Awards vested during year	Awards lapsed during year	At 31 December 2003
	Number	Number	Number	Number	Number
P R Hales					
Aviva Long Term Incentive Plan	43,033	50,000	-	-	93,033
Aviva Deferred Bonus Plan	27,538	18,000	-	-	45,538
P E Hessey					
Aviva Long Term Incentive Plan	39,902	45,500	-	-	85,402
Aviva Deferred Bonus Plan	15,444	15,924	-	-	31,368
M T Kirsch					
Aviva Long Term Incentive Plan	43,490	48,250	-	-	91,740
Aviva Deferred Bonus Plan	34,470	25,330	-	-	59,800
J A Newman					
Aviva Long Term Incentive Plan	33,046	48,250	-	-	81,296
Aviva Deferred Bonus Plan	27,152	17,370	-	-	44,522
M N Urmston					
Aviva Long Term Incentive Plan	42,641	49,250	-	-	91,891
Aviva Deferred Bonus Plan	34,112	35,460	-	-	69,572
G M Vance					
Aviva Long Term Incentive Plan	39,123	47,000	-	-	86,123
Aviva Deferred Bonus Plan	30,046	29,610	-	-	59,656
G N Withers					
Aviva Long Term Incentive Plan	70,414	85,000	-	-	155,414
Aviva Deferred Bonus Plan	20,560	60,350	-	-	80,910
CGNU Restricted Share Plan	46,875	-	46,875	-	-

(1) *The Aviva Long Term Incentive Plan*, awards under the Plan are made on an annual basis and the 2003 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.

(2) *The 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 2003 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.

(3) *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 2003 and July 2003. The Plan then closed.

Other than as disclosed above, none of the directors who held office at 31 December 2003 had any beneficial interests in the Company's shares or the shares of any other company within Aviva plc Group.

Directors' report

Resolutions

On 27 May 1999, 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 meeting and the obligation to appoint auditors annually.

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 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 to 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.

By order of the Board

P M White *Secretary* *22 March 2004*

Actuary's certificate

I certify that in my opinion the aggregate amount of the actuarial liabilities of the Company in relation to its long term business at 31 December 2003, being the amount of the long term business provision and the technical provisions for linked liabilities, are as shown in the balance sheet.

M N Urmston *Actuary* *22 March 2004*

Auditors' report

Independent auditors' report to the members of CGNU Life Assurance Limited

We have audited the Company's accounts for the year ended 31 December 2003 which comprise profit and loss account, statement of total recognised gains and losses, reconciliation of movement in shareholders' funds, balance sheet and the related notes 1 to 31. These accounts have been prepared on the basis of the accounting policies set out therein.

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 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.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its profit 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

25 March 2004

Profit and loss account

for the year ended 31 December 2003

Technical account - long term business

	Note	2003 £m	Restated 2002 £m
Earned premiums, net of reinsurance			
Gross premiums written	3	3,677	4,719
Outward reinsurance premiums		(2,869)	(3,084)
		808	1,635
Investment income	4	498	353
Unrealised gains on investments		800	-
		2,106	1,988
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(1,825)	(1,582)
Reinsurers' share		946	753
		(879)	(829)
Change in the provision for claims			
Gross amount		(21)	(33)
		(900)	(862)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount		(212)	(396)
Reinsurers' share		407	345
		195	(51)
Other technical provisions, net of reinsurance		3	1
		198	(50)
Net operating expenses	6	(170)	(220)
Investment expenses and charges	7	(17)	(15)
Unrealised losses on investments		-	(1,225)
Tax attributable to long term business	11(b)	(61)	130
Transfers (to)/from the fund for future appropriations		(1,129)	287
Balance on the technical account - long term business		27	33

The notes on pages 13 to 27 are an integral part of these accounts. The auditors' report is on page 7.

Profit and loss account

for the year ended 31 December 2003

Non-technical account

	Note	2003 £m	2002 £m
Balance on the long term business technical account		**27**	33
Tax credit attributable to balance on the long term business technical account	11(a)	**12**	14
		39	47
Investment income		**1**	-
Operating profit on ordinary activities before tax	9	**40**	47
Tax on profit on ordinary activities	11(a)	**(12)**	(14)
Profit for the financial year after tax		**28**	33
Dividends paid and proposed	12	**-**	(89)
Retained profit/(loss) for the financial year	21	**28**	(56)

Acquisitions or discontinued operations during the current and prior financial year had no significant impact on the results above.

A statement of movement in reserves can be found in note 21.

The notes on pages 13 to 27 are an integral part of these accounts. The auditors' report is on page 7.

Statement of total recognised gains and losses
for the year ended 31 December 2003

The Company has no recognised gains or losses other than those included in the results above. Accordingly, a statement of total recognised gains and losses is not given.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year	28	33
Dividends	-	(89)
Net addition/(reduction) to shareholders' funds	28	(56)
Opening shareholders' funds	33	89
Closing shareholders' funds	61	33

The notes on pages 13 to 27 are an integral part of these accounts. The auditors' report is on page 7.

Balance sheet
as at 31 December 2003

Assets

	Note	2003 £m	Restated 2002 £m
Investments			
Land and buildings	13	**1,280**	1,203
Investments in group undertakings and participating interests	14	**100**	21
Other financial investments	15	**9,855**	8,950
		11,235	10,174
Assets held to cover linked liabilities	16	**1**	4
Reinsurers' share of technical provisions			
Long term business provision		**7,013**	6,606
Claims outstanding		**1**	1
Technical provisions for unit-linked liabilities		**7,429**	4,997
		14,443	11,604
Debtors			
Debtors arising out of direct insurance operations	17	**77**	86
Debtors arising out of reinsurance operations	18	**49**	35
Other debtors	19	**354**	325
		480	446
Other assets			
Cash at bank and in hand		**97**	162
Prepayments and accrued income			
Accrued interest and rent		**68**	71
Deferred acquisition costs		**205**	245
Other prepayments and accrued income		**14**	9
		287	325
Total assets		**26,543**	22,715

The notes on pages 13 to 27 are an integral part of these accounts. The auditors' report is on page 7.

Balance sheet
as at 31 December 2003

Liabilities

	Note	2003 £m	Restated 2002 £m
Capital and reserves			
Called up share capital	20	-	-
Profit and loss account	21	**61**	33
Shareholders' funds attributable to equity interests		**61**	33
Fund for future appropriations		**2,252**	1,099
Technical provisions			
Long term business provision	31	**16,340**	16,128
Claims outstanding		**125**	104
		16,465	16,232
Technical provisions for linked liabilities		**7,430**	5,001
Provisions for other risks and charges	11(e)	**29**	1
Creditors			
Creditors arising out of direct insurance operations		**25**	22
Creditors arising out of reinsurance operations	22	**21**	96
Other creditors including taxation and social security	23	**235**	193
		281	311
Accruals and deferred income		**25**	38
Total liabilities		**26,543**	22,715

The accounts on pages 8 to 27 were approved by the Board on 22 March 2004 and were signed on its behalf by

J A Newman *Director*

The notes on pages 13 to 27 are an integral part of these accounts. The auditors' report is on page 7.

Notes to the accounts

1 Accounting policies

Basis of accounts

The accounts have been prepared in accordance with section 255 of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the ABI SORP) in November 2003. The practices recommended by the ABI SORP are applicable for accounting periods ending after 1 January 2004, but the Company has chosen to adopt such practices early. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2003, as considered appropriate for an insurance company.

The Company has adopted the modified statutory solvency basis of accounting for long term insurance business.

The Company is exempt under section 228 of the Companies Act 1985, from the requirement to prepare group accounts, as it is a wholly owned subsidiary undertaking whose immediate parent undertaking is established under the law of a member state of the European Union. Accordingly, the accounts present information about the Company as an individual undertaking and not as a group.

Premiums

Long term business premiums are accounted for when receivable, except for investment-linked premiums which are accounted for when liabilities are recognised.

Claims

Claims arising from death or maturity are included in the technical account for long term business when the insured event is notified or becomes due. Surrenders are charged in the period when payment is made and annuities are charged in the period in which each payment becomes due.

Claims payable are stated gross of any related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

Bonuses

Reversionary bonuses are recognised in the technical account for long term business when they are declared and terminal bonuses are recognised when the bonus is paid.

Investment return

Investment return comprises investment income, including realised investment gains and losses, and movements in unrealised investment gains and losses, net of investment expenses and charges. Investment return on investments attributable to the long term business is reported in the technical account for long term business. Investment return on assets not directly attributable to the long term business is included in the non-technical account.

Investment income is recognised on an accruals basis. Dividend income is recognised when the related investment is declared ex-dividend, at the amount receivable.

Net realised gains and losses represent the difference between the net sale proceeds of an investment and the purchase price. Net realised gains and losses are included within the technical account for long term business if these are attributable to assets in the long term business fund. All other net realised gains and losses are included in the non-technical account.

Notes to the accounts

1 *Accounting policies (continued)*

Investment return (continued)

The movement in net unrealised gains and losses represents the difference between the valuation of investments at the balance sheet date and the valuation at the last balance sheet date, or purchase price if purchased during the year, after adjustment for any previously recognised unrealised gains and losses on investments disposed of in the year.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the writing of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies that are incurred during a financial year but are to be recovered out of a subsequent financial year. An explicit deferred acquisition cost asset has been established in the balance sheet.

The 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.

Tax

The shareholder 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 as appropriate.

In the long term business technical account, the charge is based on the method of assessing tax for long term funds applicable in the relevant country of operation. Different tax rules apply under UK law and for some overseas jurisdictions, depending upon whether the business is basic life and annuity business or other long term business, such as pensions or overseas life assurance. Tax on life and annuity business is based on investment return less expenses attributable to that business, whilst tax on other long term business is based on the shareholders' attributable profits or losses. The shareholders' portion of the long term business profit is taxed at the shareholders' rate, whilst the remaining portion is taxed at rates applicable to the policyholders.

The balance on the long term business technical account is computed net of the total tax attributable to that business. In order to present the profit on long term business operations on a pre-tax basis, this net figure is grossed up at the long term effective rate of tax borne by shareholders in respect of the underlying business. This shareholder tax add-back is included in the tax charge on the profit on ordinary activities in the non-technical account.

Provision is made for deferred tax liabilities, 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.

No provision is made for tax that might arise if profits retained by overseas subsidiary and associated undertakings were remitted to the United Kingdom, unless a binding agreement exists for the relevant undertaking to distribute those earnings in future.

Investments

Investments are stated at their current values at the end of the year. Current values, for this purpose, are: stock exchange mid-market values for listed securities; bid price for unit trusts and OEICS; average trading prices for unlisted securities where a market exists; and directors' valuations for other unlisted securities and for mortgages and loans.

1 Accounting policies (continued)

Investments (continued)

Properties are revalued annually at open market value in accordance with the guidance note on the valuation of assets issued by the Royal Institution of Chartered Surveyors, as determined by the Company's professionally qualified internal valuers and by external valuers for a proportion of these properties.

In accordance with SSAP 19, no depreciation is provided in respect of investment properties. The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP 19 in order to give a true and fair view. If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Subsidiary undertakings

Shares in subsidiary undertakings are included at current value.

Unrealised gains and losses in the value of subsidiary undertakings owned by policyholder funds are recognised in the technical account. Unrealised gains and losses in the value of subsidiary undertakings owned by shareholder funds are taken directly to the revaluation reserve. To the extent that any losses exceed the previously recognised gains in the revaluation reserve, they are taken directly to the non-technical account.

Long-term business provision and technical provision for linked liabilities

The long-term business provision is calculated separately for each life operation, based on local actuarial principles consistent with those 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. Further details of the methodology and the principal assumptions used are given in note 31.

Within the long-term business provision, explicit allowance is made for vested bonuses, including those added following the most recent fund valuation. The allowance for future bonuses depends on the methodology and is explained in note 31. The provisions held for linked business and unitised with profits business are the unit liabilities together with certain non-unit provisions.

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.

Foreign currencies

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.

2 Change in accounting policy

Debt securities and other fixed income securities have been valued at current value. Previously they were included at amortised cost. This change has become necessary as the investments have become more regularly traded and current value has become more appropriate for asset and liability matching. The impact of the change has been to increase the value of investments on the balance sheet by £77m (2002: £165m) and the fund for future appropriations by £66m (2002: £142m). In the technical account, the investment return recognised has been decreased by £88m (2002: increase of £149m) decreasing the tax charge by £12m (2002: increase of £21m). Thus the transfer to the fund for future appropriations has reduced by £76m (2002: increased by £128m).

3 Premiums

Gross written premiums

	2003 £m	2002 £m
Individual premiums	3,271	4,115
Premiums under group contracts	230	348
	3,501	4,463
Periodic premiums	1,073	868
Single premiums	2,428	3,595
	3,501	4,463
Premiums from non-participating contracts	205	203
Premiums from participating contracts	901	2,486
Premiums from investment linked contracts	2,395	1,774
Gross premiums written which relate to direct insurance	3,501	4,463
Gross premiums written which relate to reinsurances accepted	176	256
	3,677	4,719

Gross premiums are derived principally from contracts written in the United Kingdom.

Annualised new business premiums

	Annualised periodic premiums		Single premiums	
	2003 £m	2002 £m	2003 £m	2002 £m
Gross	250	311	2,610	3,796
Reinsurance	(228)	(275)	(2,167)	(2,591)
Net	22	36	443	1,205

In classifying new business premiums, the following basis of recognition has been adopted.

Recurrent single premium contracts, including rebates from the Department of Work and Pensions, are classified as new single premiums. Incremental increases on existing policies are classified as new business premiums.

Funds at retirement under individual pension contracts left with the Company and transfers from group to individual contracts are classified as new business single premiums and are included in the accounts as both claims incurred and as single premiums within gross premiums written.

Increments under existing group pension schemes are classified as new business premiums.

Where periodic premiums are received other than annually, such premiums are included on an annualised basis. Gross premiums written by destination are not materially different from gross premiums written by source.

4 Investment income

	2003 £m	2002 £m
Income from land and buildings	99	72
Income from other investments	407	351
Net losses on the realisation of investments	(8)	(70)
	498	353

5 Long-term business bonuses

The following amounts have been included in the long term business technical account in respect of policyholder bonuses:

	2003 £m	2002 £m
Bonuses included in claims paid	7	48
Reversionary and similar policyholder bonuses, included in the movement in the long-term business provision	247	298
	254	346

6 Net operating expenses

Net operating expenses in the technical account comprise:

	2003 £m	2002 £m
Acquisition costs	186	247
Change in deferred acquisition costs	40	67
Administrative expenses	61	38
	287	352
Reinsurance commissions and profit participation	(117)	(132)
	170	220

Under a management agreement Norwich Union Life Services Limited, a fellow group undertaking, supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable to Norwich Union Life Services Limited in respect of acquisition costs and administrative expenses.

The amount of this recharge is £52m (2002: £64m).

Total commission paid to external agents included above is £189m (2002: £220m).

7 Investment expenses and charges

	2003 £m	2002 £m
Investment management expenses, including interest	17	15

Notes to the accounts

8 Auditors' remuneration

The total remuneration payable by the Company, including VAT, to its principal auditor Ernst & Young LLP, in respect of the audit of these accounts is shown below, together with fees payable in respect of other work.

	2003 £'000	2002 £'000
Audit services		
Statutory audit	93	61
Audit-related regulatory reporting (FSA)	31	21
	124	82
Other services	115	145
	239	227

Audit fees are included in the management charge from Norwich Union Life Services Limited.

9 Operating profit on ordinary activities before tax

	2003 £'000	2002 £'000
Operating profit on ordinary activities before tax is stated after crediting:		
Interest receivable from fellow group undertakings	5,480	5,985

10 Directors and employees

Directors' emoluments

As stated in note 6, a management charge in respect of administration services has been made by Norwich Union Life Services Limited, which includes an element in respect of directors' time spent in managing the Company.

P G Scott is a director of the Company's ultimate holding company, Aviva plc, and details of his remuneration are given in the accounts for that company.

P R Hales, P E Hessey, M T Kirsch, J A Newman, M N Urmston, G M Vance and G N Withers are directors of Norwich Union Life Services Limited and details of their remuneration are given in the accounts of that company.

In respect of these directors, it is not possible to determine the proportion of their remuneration, which relates to the Company.

Eligible directors also participate in Aviva group share option schemes and group retirement benefit schemes.

Emoluments and retirement benefits accruing in respect of the directors, who are also directors of Norwich Union Life Services Limited, are provided in the accounts of that company.

Employees

Details of the regulated sales force who provide services to the Company are included in the accounts of Norwich Union Life Services Limited. Details of all other UK employees are included in the accounts of Aviva Employment Services Limited.

11 Tax

(a) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2003 £m	2002 £m
Current tax		
Tax credit attributable to balance on the long term business technical account	12	14
Total tax charged in the non-technical account	12	14

(b) Long-term business

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

	2003 £m	Restated 2002 £m
Current tax		
UK corporation tax	15	35
Overseas tax	4	5
Prior year adjustments - UK	14	6
Total current tax	33	46
Deferred tax		
Origination and reversal of timing differences	35	(196)
(Increase)/decrease in discount	(7)	20
Total deferred tax	28	(176)
Total tax charged/(credited) in the long-term business in the technical account	61	(130)

(c) Factors affecting current tax charge for the year

The tax assessed in the non-technical account is charged at the standard UK corporation tax rate.

	2003 £m	2002 £m
Profit on ordinary activities before tax	40	47
Current tax charge at standard UK corporation tax rate of 30% (*2002: 30%*)	12	14
Current tax charge for the year (note 11(a))	12	14

(d) 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:

	2003 £m	2002 £m
Unrealised losses on investments	-	16
Provisions and other timing differences	-	34
Losses	1	78
	1	128

11 Tax (continued)

(e) Balance sheet

(i) The discounted provision for deferred tax, included within the provision for other risks and charges, comprises:

	2003 £m	2002 £m
Unrealised gains on investments	**80**	-
Provisions and other timing differences	**(44)**	1
Undiscounted provision for deferred tax	**36**	1
Discount	**(7)**	-
Discounted provision for deferred tax	**29**	1

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

	2003 £m	2002 £m
Provision at 1 January	**1**	177
Amounts charged/(credited) to the profit and loss account	**28**	(176)
Provision at 31 December	**29**	1

12 Dividends

	2003 £m	2002 £m
Interim dividend paid of £nil per share (2002: £8,880 per share)	**-**	89

13 Land and buildings

The carrying value of land and buildings comprises:

	2003 £m	2002 £m
Freeholds	**1,021**	931
Long leaseholds – over 50 years	**259**	272
Short leaseholds – under 50 years	**-**	-
	1,280	1,203

The cost of land and buildings at 31 December 2003 was £1,094m (2002: £1,041m). The carrying value of land and buildings occupied by the Group was £23m (2002: £18m).

The valuation of properties has been undertaken by qualified external valuers or prepared or monitored by qualified members of staff reporting to the Managing Director of Morley Properties Limited, who is a Fellow of the Royal Institution of Chartered Surveyors. All properties are treated as "investment properties" and are valued at market price.

14 Investments in group undertakings and participating interests

	Shares in group undertakings £m
At 1 January 2003	21
Revaluations	79
At 31 December 2003	**100**

The Company's principal subsidiaries are shown below.

	Principal *activity*	Percentage of *ordinary* share capital held	Incorporated *in*
The Lancashire and Yorkshire Reversionary Interest Company Limited	Investment in reversions and life interests	100	England
Quarryvale One Limited	Holding company	100	England

15 Other financial investments

	Carrying value		Cost	
	2003 £m	Restated 2002 £m	**2003 £m**	2002 £m
Shares and other variable-yield securities and units in unit trusts	**5,514**	3,838	**4,850**	3,932
Debt securities and other fixed income securities	**4,286**	5,028	**4,219**	4,869
Other	**40**	2	**40**	2
	9,840	8,868	**9,109**	8,803
Loans secured by insurance policies	**13**	14	**13**	13
Deposits with credit institutions	**2**	68	**2**	68
	9,855	8,950	**9,124**	8,884

Listed investments

	2003 £m	Restated 2002 £m
Included in the carrying values above are listed investments as follows:		
Shares and other variable-yield securities and units in unit trusts	**5,135**	3,535
Debt securities and other fixed income securities	**3,995**	4,244
	9,130	7,779

Notes to the accounts

16 Assets held to cover linked liabilities

	2003 £m	2002 £m
Carrying value	1	4
Purchase price	1	4

17 Debtors arising out of direct insurance operations

	2003 £m	2002 £m
Amounts owed by policyholders	77	86

18 Debtors arising out of reinsurance operations

	2003 £m	2002 £m
Amounts owed by group undertakings	49	29
Other	-	6
	49	35

19 Other debtors

	2003 £m	2002 £m
Amounts owed by group undertakings	252	196
Tax recoverable	3	24
Other	99	105
	354	325

20 Share capital

	2003 £m	2002 £m
Authorised:		
10,000 Ordinary shares of £100 each	1	1
Allotted, called up and 25% paid:		
10,000 Ordinary shares of £100 each	-	-

21 Reserves

	Profit and loss account £m
Balance at 1 January 2003	33
Retained profit for the financial year	28
Balance at 31 December 2003	**61**

The amounts available for distribution are restricted by the Financial Services and Markets Act 2000 in respect of long term business. In addition, unrealised gains and losses reported in the non-technical account are not considered to be distributable. Of the profit and loss reserve balance, £30m is not regarded as realised profit available to pay dividends.

22 Creditors arising out of reinsurance operations

	2003 £m	2002 £m
Amounts owed to group undertakings	17	89
Other	4	7
	21	96

23 Other creditors including taxation and social security

	2003 £m	Restated 2002 £m
Corporation tax payable	25	26
Other tax payable	18	35
Amounts owed to group undertakings	68	63
Other creditors	124	69
	235	193

24 Pensions and endowment reviews

The Pensions Review of past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Financial Services Authority ("FSA"), has largely been completed. A provision of some £3m (2002: £2m) remains to meet the outstanding costs of the few remaining cases, the anticipated cost of any guarantees provided, and potential levies payable to the Financial Services Compensation Scheme ('FSCS'). The provision reflects the significant increases in levies expected over the next two to three years, as advised by the FSCS. It continues to be the Company's view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages. A key conclusion was that, on average, holders of mortgage endowments had enjoyed returns such that they had fared at least as well as they would have done without an endowment. Nevertheless, following the FSA review, all of the Company's UK mortgage endowment policyholders received policy-specific letters advising them whether their investment was on track to cover their mortgage.

24 Pensions and endowment reviews (continued)

In May 2002, in accordance with FSA requirements, the Company commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The Company will continue to send these update statements annually to all mortgage endowment holders, in accordance with FSA requirements. The Group has made provision totalling £80 million (2002: £50m) to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the directors' view that there will be no material effect either on the Company's ability to meet the expectations of policyholders or on shareholders.

A provision of £29m is included in these accounts in respect of endowment reviews.

25 Guarantees on long-term savings products

In common with other pension and life policy providers, the Company wrote individual and group pension policies in the 1970s and 1980s with a guaranteed annuity rate option ("GAO"). Since 1993, such policies have become more valuable to policyholders, and more costly for insurers, as current annuity rates have fallen in line with interest rates and improving life expectancy. Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable Life case in 2000 which effectively required full reserving by all companies. Prior to the ruling, consistent with the Company's ordinary reserving practice in respect of such obligations, full reserves for GAOs had already been established. No adjustment was made, or was necessary, to the Company's reserving practice as a result of the ruling. The directors continue to believe that the existing provisions are sufficient.

26 Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement, as it is a wholly owned subsidiary undertaking of Aviva plc whose consolidated accounts are publicly available.

27 Related party transactions

Advantage has been taken of the exemption available not to disclose intra-group related party transactions in respect of 90% subsidiaries.

Disclosure of transactions with directors who are also directors of Aviva plc is given in the group consolidated accounts; for the other directors, there were no related party transactions.

28 Long-term fund

At 31 December 2003, the total amount of assets representing the long term fund of the Company valued in accordance with Schedule 9A to the Companies Act 1985 was £26,022m (restated 2002: £22,228m).

29 Parent undertaking

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

The Company's ultimate parent undertaking is Aviva plc, registered in England. Its group accounts are available on application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ. No other group accounts include the results of the Company.

30 Long-term business

(a) The Company underwrites long-term business in the United Kingdom as follows:
"with-profit" fund of CGNU Life Assurance Limited, where the with-profits policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance.

(b) The directors have been advised by the Company'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 2003.

31 Long-term business provision

(a) Methodology

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency. Explicit provision is made for vested bonuses (including those vesting following the most recent fund valuation), but no such provision is made for future regular or terminal bonuses. However, this method makes implicit allowance for future regular or terminal bonuses already earned, by margins in the valuation discount rate used.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience. Explicit provision is made for vested bonuses, but not terminal bonuses.

(b) Company practice

The long-term business provision is calculated separately for each of the Company's life operations.

Material judgement is required in calculating the provision and is exercised particularly through the choice of assumptions where there is discretion over these. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates.

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

The principal assumptions are:

For all material classes of business, the provisions are valued using the gross premium method. A prudent assumption for persistency is used and, for consistency with the discount rates, no future regular bonuses are assumed to be added to conventional with-profits business. In respect of non-profit and conventional with-profit business, no policy is assumed to voluntarily terminate early.

For unitised with-profit business, the provisions are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units. This result is then compared with a prospective valuation and the higher result is taken. The prospective valuation projects future benefits on the assumption that future premiums cease and regular bonuses are decreased to the guaranteed rate or nil, at a rate consistent with policyholder reasonable expectations. Allowance for persistency is based on actual experience and takes into account the likelihood of a significantly greater lapse experience on those occasions on which the life company guarantees not to apply a Market Value Reduction charge.

31 **Long-term business provision (continued)**

(b) **Company practice (continued)**

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits based on historical default experience of each asset class. A further margin for risk of 2.5% is then deducted for all asset classes, consistent with FSA requirements.

Rates of interest	**2003**	2002
	%	%
Assurances		
Life with profit	**3.70**	3.20
Life unitised with profit	**3.70**	3.80
Life without profit	**3.30**	3.20
Pensions with profit	**4.30**	4.50
Pensions unitised with profit	**4.30**	4.50
Pensions without profit	**4.20**	4.00
Deferred annuities		
With profit – in deferment	**4.30**	4.50
With profit – in payment	**4.30**	4.00
Without profit - in deferment	**4.30**	4.50
Without profit - in payment	**4.20**	4.00
Vested annuities		
Without profit	**5.20**	5.20
With profit	**1.50**	0.75

31 Long-term business provision (continued)

Company practice (continued)

Mortality tables

	2003	2002
Assurances		
Whole life/endowment/ attaching decreasing term	**AM92 & AF92 ultimate with adjustments for smoker status**	AM92 & AF92 ultimate with adjustments for smoker status
Term	**75% TM92 & 75% TF92 ultimate non smoker** **150% TM92 & 180% TF92 ultimate smoker**	75% TM92 & 75% TF92 ultimate non smoker 150% TM92 & 180% TF92 ultimate smoker
Mortgage protection	**80% TM92 & 85% TF92 ultimate smoker** **165% TM92 & 190% TF92 ultimate smoker**	80% TM92 & 85% TF92 ultimate smoker 165% TM92 & 190% TF92 ultimate smoker
Deferred annuities		
In deferment		
Retirement annuities	**50% AM92 & 50% AF92 ultimate**	50% AM92 & 50% AF92 ultimate
Group	**50% AM92 & 50% AF92 ultimate**	50% AM92 & 50% AF92 ultimate
In possession		
Retirement annuities	**78% PMA80 adj & 94% PFA80 adj**	75% PMA80 adj & 90% PFA80 adj
Group	**78% PMA80 adj & 94% PFA80 adj**	75% PMA80 adj & 90% PFA80 adj
Vested annuities		
Retirement annuities without profit	**78% PMA80adj & 94% PFA80adj ultimate**	75% PMA80adj & 90% PFA80adj ultimate
Retirement annuities with profit	**75% PMA80adj & 90% PFA80adj ultimate**	75% PMA80adj & 90% PFA80adj ultimate
Group	**78% PMA80adj & 94% PFA80adj ultimate**	75% PMA80adj & 90% PFA80adj ultimate

Published standard mortality tables are used for different categories of business as appropriate. These tables are based on relevant experience and show mortality rates, by age, for specific groupings of people. Adjustments are made to the standard table where appropriate on the basis of the past experience of the Company.

The annuity mortality tables are based on published CMI mortality tables adjusted to reflect Norwich Union mortality experience and allow for a cohort projection of future mortality improvements.

There were significant changes to valuation methodology during 2003. These include the following changes due to the Tiner waivers:

1. Move to use of Gross Premium Valuation to calculate reserves for conventional with-profit business.
2. Increase in Valuation interest rate as a result of an increase in the maximum reinvestment rate in respect of With Profit policies.
3. Prudent allowance for persistency on unitised with-profit business.
4. For conventional with-profit business there is no allowance for future regular or final bonus.
5. For unitised with profit business, the prospective valuation projects future benefits on the assumption that premiums cease immediately.

Within the long-term business provision, regular bonuses are decreased to the guaranteed rate or nil, at a rate consistent with policyholder reasonable expectations.