

# CGNU Life Assurance Limited

Report & Accounts 2001



**NORWICH  
UNION**

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## **CGNU Life Assurance Limited**

Registered in England No 226742

Registered Office: 2 Rougier Street, York, England, YO90 1UU

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### **Directors and Officers**

#### **Directors**

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

#### **Secretary**

P M White

#### **Auditor**

Ernst & Young LLP  
Registered Auditor

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## Directors' report

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The directors present their annual report and audited financial statements for CGNU Life Assurance Limited (the Company) for the year ended 31 December 2001.

### Principal activity

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

### Operations and new business

	2001 £m	2000 £m	1999 £m
New annual premiums	26	21	22
New single premiums	825	889	593
Balance on the long term business technical account	57	58	51

Further details of the results are given in the profit and loss account on pages 10 and 11.

The annual valuation of the assets and liabilities of the Company is made as at 31 December 2001 and further details of the valuation and distribution of profits will be provided in due course in the returns to the Financial Services Authority.

### Major events

#### *Changes to Regulatory Framework*

The new regulatory regime created under the Financial Services and Markets Act 2000 became effective in the United Kingdom on 1 December 2001 (N2). The new regulator, the Financial Services Authority ("FSA"), absorbed the regulatory responsibilities of IMRO, HM Treasury, and PIA as well as for the Listing Rules. The FSA's objectives are to maintain confidence in the United Kingdom financial markets, to promote public awareness, to protect consumers and to reduce financial crime.

#### *Raising Standards*

On 16 October 2001 Norwich Union was one of the first companies to attain accreditation under the Raising Standards quality mark scheme – the new symbol of quality, clarity and service for the life insurance industry.

The new scheme is designed to instil greater consumer confidence in the life insurance industry and deliver tangible benefits to consumers by ensuring that they have a better and clearer understanding of the products purchased and quality of service.

### Dividends

An interim dividend of £57m was paid on 22 February 2001 (2000: interim dividend of £51m). The directors recommend that no further dividend be paid in respect of the financial year (2000: £Nil).

## Directors' report

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### European Monetary Union

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

### Directors

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

P T Johnson resigned as a director of the Company on 30 June 2001.

C A Anderson resigned as a director of the Company on 27 September 2001.

N A Courtenay-Smith resigned as a director of the Company on 31 December 2001.

J A Newman was appointed as a director of the Company on 22 November 2001.

P R Hales, P E Hessey, M T Kirsch, P G Scott, M N Urmston and G M Vance 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 CGNU plc. Details of any options and awards held through CGNU plc's share schemes and incentive plans are shown on pages 5 to 7. All the disclosed interests are beneficial.

	At 1 January 2001 (or appointment if later)	At 31 December 2001
	Number	Number
N A Courtenay-Smith	17,584	17,598
P R Hales	12,589	23,202
P E Hessey	1,939	2,747
M T Kirsch	6,599	7,841
J A Newman	4,204	4,630
M N Urmston	6,057	9,790
G M Vance	8,633	16,835

P G Scott is a director of the Company's ultimate parent undertaking, CGNU plc, and details of his interests (including share options and share awards) are given in that company's financial statements.

## 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 CGNU plc or hold or held awards over shares in CGNU plc, pursuant to CGNU plc's share based incentive plans, are set out below.

#### (i) Share options

	At 1 January 2001 (or appointment if later) Number	Options granted during year Number	Options exercised or lapsed during year Number	At 31 December 2001 Number
N A Courtenay-Smith				
Savings related options	1,082	-	-	1,082
P R Hales				
Savings related options	1,395	-	570	825
Executive options	92,657	-	23,763	68,894
P E Hessey				
Savings related options	1,222	1,430	1,222	1,430
Executive options	33,145	-	-	33,145
M T Kirsch				
Savings related options	1,242	1,430	1,242	1,430
M N Urmston				
Savings related options	2,388	-	-	2,388
Executive options	113,953	-	-	113,953
G M Vance				
Savings related options	2,931	996	1,634	2,293
Executive options	62,619	-	-	62,619
Bonus Plan options	2,834	-	-	2,834

- (1) "*Savings related options*" are options granted under the Inland Revenue-approved CGNU SAYE Share Option Scheme. Options granted from 1994 to 2001 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 to the former CGU directors under what was the CGU Executive Share Option Scheme, or predecessor schemes. Options, which have been granted on various dates from 1993 to 2001, 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.

## Directors' report

### (ii) Share awards

	At 1 January 2001 (or appointment if later) Number	Awards granted during year Number	Awards vested during year Number	Awards lapsed during year Number	At 31 December 2001 Number
<b>N A Courtenay-Smith</b>					
CGNU Integration Incentive Plan	20,569	-	-	-	20,569
CGNU Long Term Incentive Plan	18,769	20,833	-	-	39,602
CGNU Deferred Bonus Plan	-	14,582	-	-	14,582
NU Restricted Share Plan	11,530	-	-	-	11,530
<b>P R Hales</b>					
CGNU Integration Incentive Plan	33,246	-	15,248	-	17,998
CGNU Long Term Incentive Plan	-	18,229	-	-	18,229
CGNU Deferred Bonus Plan	-	7,200	-	-	7,200
<b>P E Hessey</b>					
CGNU Integration Incentive Plan	16,969	-	-	-	16,969
CGNU Long Term Incentive Plan	-	17,187	-	-	17,187
CGNU Deferred Bonus Plan	-	6,358	-	-	6,358
<b>M T Kirsch</b>					
CGNU Integration Incentive Plan	16,455	-	-	-	16,455
CGNU Long Term Incentive Plan	2,673	16,666	-	-	19,339
CGNU Deferred Bonus Plan	-	14,666	-	-	14,666
<b>J A Newman</b>					
CGNU Integration Incentive Plan	12,084	-	-	-	12,084
CGNU Long Term Incentive Plan	2,776	6,119	-	-	8,895
CGNU Deferred Bonus Plan	-	7,832	-	-	7,832
<b>M N Urmston</b>					
CGNU Integration Incentive Plan	32,682	-	14,684	-	17,998
CGNU Long Term Incentive Plan	-	18,229	-	-	18,229
CGNU Deferred Bonus Plan	-	14,582	-	-	14,582
<b>G M Vance</b>					
CGNU Integration Incentive Plan	25,026	-	9,600	-	15,426
CGNU Long Term Incentive Plan	-	15,625	-	-	15,625
CGU Deferred Bonus Plan	2,834	-	-	-	2,834
CGNU Deferred Bonus Plan	-	11,718	-	-	11,718

- (1) *The CGNU Integration Incentive Plan*, which related to the merger of CGU plc and Norwich Union plc, was approved by CGNU plc shareholders at last year's Annual General Meeting. 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 will vest in March 2002. The Plan will then close.
- (2) *The CGNU Long Term Incentive Plan* was approved by CGNU plc shareholders at last year's Annual General Meeting and awards were granted to directors in September 2000. Awards are subject to the attainment of performance conditions over a three year period.

## Directors' report

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### (ii) Share awards (continued)

- (3) *The CGU Deferred Bonus Plan* was approved by CGU plc shareholders in 1999. Awards under this Plan were granted to participants in lieu of some or all of the cash bonuses earned under CGU plc's Annual Cash Bonus Plan. This Plan, which operated in respect of bonuses awarded in 1999 and 2000, was replaced by the CGNU Deferred Bonus Plan referred to in (4) below. Awards are not subject to performance conditions and vest on the third anniversary of their grant.
- (4) *The CGNU Deferred Bonus Plan* was approved by CGNU plc shareholders at last year's Annual General Meeting and replaced the CGU Deferred Bonus Plan referred to in (3) above. The awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under CGNU plc's Annual Bonus in 2001 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.
- (5) *NU Restricted Share Plan* was a deferred bonus arrangement in which a small number of former Norwich Union senior managers participated. Awards were granted which vest after three years, subject to the attainment of a performance measure based on Total Shareholder Return (TSR).

Other than as disclosed above, none of the directors who held office at 31 December 2001 had any beneficial interest in the Company's shares or of any other company within the CGNU plc Group.

### Review of past sales of personal pensions

The Company has a relatively low exposure in respect of potential compensation payments arising from the review, required by UK regulatory bodies, of certain past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes. All Financial Services Authority completion targets to date have been met by the specialist pensions review team. The work of the team has been subject to review by independent external consultants. The Company has made good progress with Phase 2 of the review and is confident of achieving the final regulatory deadline of 30 June 2002.

### Creditor payment policy and practice

Under a management agreement, Norwich Union Life Services Limited, a fellow group undertaking, supplies and makes a charge for the provision of all goods and services to the Company. Accordingly, the relevant disclosures in relation to creditor payment policy and practice are included in the directors' report of Norwich Union Life Services Limited.

### United Kingdom employees

Details of UK employees who provide services to the Company are included in the financial statements of Norwich Union Life Services Limited.

### 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, financial statements and auditors' reports before the members in general meeting and the obligation to appoint auditors annually.



## Directors' report

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### Auditors

At an Extraordinary General Meeting on 22 May 2001, Ernst & Young was appointed as auditor to the Company. PricewaterhouseCoopers, which had previously been auditor to the Company, did not seek reappointment at that meeting.

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. Ernst & Young LLP will be re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under section 386 Companies Act 1985.

### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements 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 financial statements, 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 financial statements;
- prepare the financial statements 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 financial statements 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*

21 February 2002

### Actuary's certificate

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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 2001, 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*

21 February 2002

## Auditors' report

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

We have audited the Company's financial statements for the year ended 31 December 2001 which comprise the profit and loss account, balance sheet, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds, and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

### 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 financial statements in accordance with applicable United Kingdom law and accounting standards.

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

We report to you our opinion as to whether the financial statements 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 financial statements, 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2001 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

21 February 2002

**Profit and loss account**

for the year ended 31 December 2001

**Technical account - long term business**

	Note	2001 £m	2000 £m
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	5,543	4,100
Outward reinsurance premiums		(4,171)	(2,814)
		<u>1,372</u>	<u>1,286</u>
<b>Investment income</b>	3	536	861
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(1,287)	(1,519)
Reinsurers' share		492	313
		<u>(795)</u>	<u>(1,206)</u>
<b>Change in the provision for claims</b>			
Gross amount		7	6
Reinsurers' share		-	(31)
		<u>7</u>	<u>(25)</u>
		<u>(788)</u>	<u>(1,231)</u>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
Gross amount		(3,346)	(3,566)
Reinsurers' share		2,821	2,324
		<u>(525)</u>	<u>(1,242)</u>
Other technical provisions, net of reinsurance		<u>7</u>	<u>457</u>
		<u>(518)</u>	<u>(785)</u>
<b>Net operating expenses</b>	5	(193)	(216)
<b>Investment expenses and charges</b>	6	(14)	(23)
<b>Unrealised losses on investments</b>		(1,484)	(833)
<b>Tax attributable to long term business</b>	9	6	(70)
<b>Transfers from the fund for future appropriations</b>		1,140	1,069
<b>Balance on the technical account - long term business</b>		<u>57</u>	<u>58</u>

**Profit and loss account**

for the year ended 31 December 2001

**Non-technical account**

	Note	2001 £m	2000 £m
<b>Balance on the long term business technical account</b>		<b>57</b>	<b>58</b>
Tax credit attributable to balance on the long term business technical account	9	<u>24</u>	<u>25</u>
		<b>81</b>	<b>83</b>
Unrealised losses on investments		-	(2)
<b>Profit on ordinary activities before tax</b>	7	<u><b>81</b></u>	<u>81</u>
Tax on profit on ordinary activities	9	<u>(24)</u>	<u>(25)</u>
<b>Profit for the financial year</b>		<u><b>57</b></u>	<u><b>56</b></u>
Dividends paid and proposed	10	(57)	(51)
<b>Retained profit for the financial year</b>	19	<u><b>-</b></u>	<u><b>5</b></u>

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

A statement of movement in reserves can be found in note 19.

**Statement of total recognised gains and losses**

for the year ended 31 December 2001

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 2001

	2001 £m	2000 £m
<b>Profit for the financial year</b>	<b>57</b>	<b>56</b>
Dividends	(57)	(51)
Net addition to shareholders' funds	-	5
Opening shareholders' funds	89	84
<b>Closing shareholders' funds</b>	<b>89</b>	<b>89</b>

**Balance sheet**

as at 31 December 2001

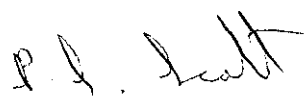
**Assets**

	Note	2001 £m	2000 £m
<b>Investments</b>			
Land and buildings	11	866	864
Investments in group undertakings and participating interests			
Shares in group undertakings	12	10	12
Other financial investments	13	9,573	10,241
		<u>10,449</u>	<u>11,117</u>
<b>Assets held to cover linked liabilities</b>	14	5	12
<b>Reinsurers' share of technical provisions</b>			
Long term business provision		6,261	3,440
Claims outstanding		1	1
Technical provisions for unit-linked liabilities		4,204	3,482
		<u>10,466</u>	<u>6,923</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	15	63	54
Debtors arising out of reinsurance operations	16	12	23
Other debtors	17	412	293
		<u>487</u>	<u>370</u>
<b>Other assets</b>			
Cash at bank and in hand		232	145
<b>Prepayments and accrued income</b>			
Accrued interest and rent		55	55
Deferred acquisition costs		312	342
Other prepayments and accrued income		20	13
		<u>387</u>	<u>410</u>
<b>Total assets</b>		<u>22,026</u>	<u>18,977</u>

**Balance sheet**  
 as at 31 December 2001
**Liabilities**

	Note	2001 £m	2000 £m
<b>Capital and reserves</b>			
Called up share capital	18	-	-
Profit and loss account	19	89	89
<b>Shareholders' funds attributable to equity interests</b>		<b>89</b>	<b>89</b>
<b>Fund for future appropriations</b>		<b>1,537</b>	<b>2,680</b>
<b>Technical provisions</b>			
Long term business provision	28	15,732	12,386
Claims outstanding		71	64
		<b>15,803</b>	<b>12,450</b>
<b>Technical provisions for linked liabilities</b>		<b>4,209</b>	<b>3,494</b>
<b>Provisions for other risks and charges</b>	20	<b>1</b>	<b>1</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		28	23
Creditors arising out of reinsurance operations	21	41	19
Other creditors including taxation and social security	22	285	207
		<b>354</b>	<b>249</b>
<b>Accruals and deferred income</b>		<b>33</b>	<b>14</b>
<b>Total liabilities</b>		<b>22,026</b>	<b>18,977</b>

The financial statements on pages 10 to 26 were approved by the Board on 21 February 2002 and were signed on its behalf by



**P G Scott** *Director*

## Notes to the accounts

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### 1 Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and comply with the revised Statement of Recommended Practice ('SORP') on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

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 financial statements present information about the Company as an individual undertaking and not as a group.

#### Premiums

Premiums, including reinsurance premiums, are accounted for when due for payment, except for unit-linked premiums, which are accounted for when the liability is established.

#### 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 the amortisation of differences between cost and maturity value of investments carried at amortised cost, 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 without any attributable tax credit.

Net realised gains and losses represent the difference between the net sale proceeds of an investment and the purchase price or amortised cost. 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.

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.



## Notes to the accounts

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### 1 Accounting policies (continued)

#### 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 which 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.

#### Taxation and deferred taxation

The taxation charge in the technical account is based on the method of assessing taxation for long term funds applicable in the relevant country of operation. Any part of the balance on the technical account that is computed on an after tax basis is grossed up at the effective rate of taxation in the non-technical account.

The taxation charge in the non-technical account is based on the taxable profits for the year. Taxation, including taxation relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves.

Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

#### Investments

Investments are stated at their current values at the end of the year, with the exception of certain non-linked debt securities and fixed income securities. These are shown at market value or amortised cost, as appropriate to the particular investment portfolio. 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.

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 Group's professionally qualified internal valuers and by external valuers for a proportion of these properties. No depreciation is provided on investment properties as the directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view.

#### 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

The long term business provision is calculated having due regard to the requirements of the Financial Services and Markets Act 2000. The valuation uses a net premium method in respect of the majority of the company's non-linked business. The provisions held for linked business and unitheld with profits business are the unit liabilities together with certain non-unit provisions. Each calculation represents a point within a range of possible outcomes, and the assumptions used in the calculations depend on the circumstances prevailing. Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. The principal assumptions are given in note 28.

## Notes to the accounts

### 1 Accounting policies (continued)

#### Fund for future appropriations

The fund for future appropriations represents all funds, the allocation of which between policyholders and shareholders has not been determined by the end of the financial year. Transfers between the fund for future appropriations and the long term business technical account represent the changes in the unallocated amounts between balance sheet dates.

#### Foreign currencies

Transactions denominated in currencies other than sterling are translated at the exchange rate at the date of transaction. Assets and liabilities in currencies other than sterling are translated at the year end rate of exchange. The resulting exchange gains and losses are dealt with in the profit and loss account.

The results of branches which trade in currencies other than sterling are translated at average exchange rates while their assets and liabilities are translated at year end rates. The resulting exchange differences are taken to the fund for future appropriations.

### 2 Premiums

#### Gross premiums written

	2001 £m	2000 £m
Individual premiums	5,315	3,903
Premiums under group contracts	225	194
	<b>5,540</b>	<b>4,097</b>
Periodic premiums	691	548
Single premiums	4,849	3,549
	<b>5,540</b>	<b>4,097</b>
Premiums from non-participating contracts	224	210
Premiums from participating contracts	3,981	3,102
Premiums from investment linked contracts	1,335	785
Gross premiums written which relate to direct insurance	<b>5,540</b>	<b>4,097</b>
Gross premiums written which relate to reinsurances accepted	3	3
	<b>5,543</b>	<b>4,100</b>

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

## Notes to the accounts

### 2 Premiums (continued)

#### Annualised new business premiums

	Annualised periodic premiums		Single premiums	
	2001	2000	2001	2000
	£m	£m	£m	£m
Gross	334	139	4,849	3,547
Reinsurance	(308)	(118)	(4,024)	(2,658)
Net	26	21	825	889

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

Recurrent single premium contracts, including rebates from the Department of Social Security, 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 financial statements 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.

### 3 Investment income

	2001	2000
	£m	£m
Income from land and buildings	51	56
Income from other investments	334	314
Net gains on the realisation of investments	151	491
	536	861

### 4 Total bonuses

Total bonuses included in claims and the change in other technical provisions, net of reinsurance were £512m (2000: £519m).

## Notes to the accounts

### 5 Net operating expenses

	2001 £m	2000 £m
Acquisition costs	358	369
Change in deferred acquisition costs	30	(76)
Administrative expenses	46	42
Reinsurance commissions and profit participation	(241)	(119)
	<u>193</u>	<u>216</u>

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 in respect of acquisition costs and administrative expenses.

Total commission paid to external agents included above is £307m (2000: £285m).

Net operating expenses include £Nil (2000: £6m) in respect of the costs of integrating and reorganising the businesses of the former CGU plc and Norwich Union plc operations.

### 6 Investment expenses and charges

	2001 £m	2000 £m
Investment management expenses, including interest	<u>14</u>	<u>23</u>

### 7 Profit on ordinary activities before tax

	2001 £'000	2000 £'000
Profit on ordinary activities before tax is stated after charging/(crediting):		
Remuneration of auditors		
Audit services	37	76
Other services	295	125
Interest from fellow group undertakings	<u>(20,429)</u>	<u>(11,149)</u>

## Notes to the accounts

### 8 Directors and employees

#### Directors' emoluments

As detailed in note 5, 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. Aggregate fees and emoluments of directors in respect of qualifying services to the Company for the year were £299,000 (2000: £187,000). Eligible directors also participate in CGNU 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 financial statements of that company.

#### Employees

As stated in note 5, a management charge in respect of staff costs has been made by Norwich Union Life Services Limited. Details of UK employees who provide services to the Company are included in the financial statements of that company.

In addition the Company employed staff in its branches. The average number of such employees was nil (2000: 8). Employment costs of these employees were:

	2001 £m	2000 £m
Wages and salaries	-	1
Social security costs	-	-
	-	1

### 9 Taxation

	Technical account		Non-technical account	
	2001 £m	2000 £m	2001 £m	2000 £m
UK corporation tax	10	69	-	-
Double tax relief	(4)	(2)	-	-
Overseas taxation	4	3	-	-
	10	70	-	-
Adjustments in respect of prior years	(16)	-	-	-
	(6)	70	-	-
Tax attributable to shareholders' profits on long term business	-	-	24	25
	(6)	70	24	25
Deferred taxation	-	-	-	-
	(6)	70	24	25

Corporation tax in the technical account has been calculated at rates between 20% and 30% (2000: between 20% and 30%) in accordance with the rates applicable to life insurance companies.

## Notes to the accounts

### 10 Dividends

	2001 £m	2000 £m
Interim dividend paid of £5,740 per share (2000: £5,139 per share)	57	51

### 11 Land and buildings

	2001 £m	2000 £m
Freehold	701	629
Long leasehold	163	233
Short leasehold	2	2
	<b>866</b>	<b>864</b>
Of which occupied by the Company for its own activities	19	19
Purchase price of land and buildings	714	655

The land and buildings above were valued at 31 December 2001 on an open market basis by independent external valuers or by qualified valuers overseen by the Head of Morley Properties Limited, a fellow group undertaking, who is a fellow of The Royal Institution of Chartered Surveyors.

### 12 Investments in group undertakings

	Shares in group undertakings £m
At 1 January 2001	12
Revaluations	(2)
<b>At 31 December 2001</b>	<b>10</b>

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
General Accident Life Developments Limited	Property development	100	England
Quarryvale One Limited	Holding company	100	England

## Notes to the accounts

### 13 Other financial investments

	Carrying value		Cost	
	2001	2000	2001	2000
	£m	£m	£m	£m
Shares and other variable-yield securities and units in unit trusts	6,078	7,664	4,789	4,959
Debt securities and other fixed income securities	3,480	2,529	3,469	2,550
	9,558	10,193	8,258	7,509
Loans secured by insurance policies	13	14	13	14
Deposits with credit institutions	2	34	2	34
	9,573	10,241	8,273	7,557

#### Listed investments

Included in the carrying values above are listed investments as follows:

	2001	2000
	£m	£m
Shares and other variable-yield securities and units in unit trusts	5,912	7,533
Debt securities and other fixed income securities	3,428	2,290
	9,340	9,823

#### Debt securities and other fixed income securities

Included in the carrying values above are debt securities and other fixed income securities shown at amortised cost as follows:

	2001	2000
	£m	£m
Cost	3,363	2,367
Cumulative amortisation	(17)	(20)
Amortised cost	3,346	2,347
Market value	3,362	2,441

The redemption value of the above investments was £222m (2000: £341m) less than the amortised cost.

### 14 Assets held to cover linked liabilities

	2001	2000
	£m	£m
Carrying value	5	12
Purchase price	5	8

## Notes to the accounts

### 15 Debtors arising out of direct insurance operations

	2001 £m	2000 £m
Amounts owed by policyholders	63	54

### 16 Debtors arising out of reinsurance operations

	2001 £m	2000 £m
Amounts owed by group undertakings	6	14
Other	6	9
	12	23

### 17 Other debtors

	2001 £m	2000 £m
Amounts owed by group undertakings	277	198
Tax recoverable	59	44
Other debtors	76	51
	412	293

### 18 Share capital

	2001 £'000	2000 £'000
<i>Authorised and allotted:</i> 10,000 ordinary shares of £100 each	1,000	1,000
<i>Called up and 25% paid:</i> 10,000 ordinary shares of £100 each	250	250

### 19 Reserves

	Profit and loss account £m
At 1 January 2001	89
Retained profit for the financial year	-
At 31 December 2001	89

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 account balance £57m is not regarded as realised profits available to pay dividends.



## Notes to the accounts

### 20 Provisions for other risks and charges

	<u>£m</u>
<b>Balance at 1 January 2001 and 31 December 2001</b>	<b><u>1</u></b>

The provision represents obligations under leases on vacant properties. This provision was initially identified as a result of the merger of General Accident plc with Commercial Union plc. This provision will be fully utilised when the related leases expire.

The amounts provided and unprovided for deferred taxation are analysed below:

	<b>2001</b>		<b>2000</b>	
	<b>Provided</b>	<b>Unprovided</b>	<b>Provided</b>	<b>Unprovided</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
On revaluation of investments	-	197	-	351
Deferred acquisition costs	-	-	-	(107)
Other timing differences	-	(5)	-	(3)
	<b>-</b>	<b>192</b>	<b>-</b>	<b>241</b>

The unprovided amount relating to the revaluation of investments has been taken into account in the calculation of technical provisions.

### 21 Creditors arising out of reinsurance operations

	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
Amounts owed to group undertakings	32	12
Other creditors	9	7
	<b>41</b>	<b>19</b>

### 22 Other creditors including taxation and social security

	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
Corporation tax payable	-	44
Other taxation payable	21	13
Amounts owed to group undertakings	46	10
Other creditors	218	140
	<b>285</b>	<b>207</b>

### 23 Pension transfer and opt-out provision

The long term business technical provision includes an amount in respect of potential compensation payments to certain of the Company's policyholders arising from the Company's review, required by the Financial Services Authority, of certain past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes. The regulators have extended the initial scope of the review so that further sales are to be reviewed within a second phase which began in 1999. The Company has made good progress with the second phase and is confident of achieving the final regulatory deadline of 30 June 2002. Provision has also been made for the costs associated with the review.

## Notes to the accounts

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### 23 Pension transfer and opt-out provision (continued)

In addition to the Company's own costs, the long term business technical provision includes an amount, based on industry projections, for expected future Financial Services Compensation Scheme (FSCS) levies in relation to sales by IFA's which form part of the industry review.

The ultimate cost of these levies, however, is contingent upon the quantification of the IFA sector's need for support from the FSCS in meeting its compensation and associated costs.

The total amount provided by the Company is £6m (2000: £17m). Because of the complexity of the review, it is not possible to determine with certainty the ultimate cost to the Company. However, the directors remain of the opinion that suitable provision has been made and that there will be no material effect either on the Company's ability to meet the expectations of policyholders or on shareholders.

### 24 Cash flow statements

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

### 25 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 CGNU plc is given in the group consolidated accounts; for the other directors, there were no material related party transactions.

### 26 Long term fund

At 31 December 2001 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 £21,478m (2000: £18,560m).

### 27 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 CGNU plc, a company registered in England. Its group accounts are available on application to the Group Company Secretary, CGNU plc, St. Helen's, 1 Undershaft, London EC3P 3DQ. No other group accounts include the results of the Company.

## Notes to the accounts

### 28 Technical provisions assumptions

The long term business provision has been calculated, in accordance with the accounting policy in note 1 and on the basis of the following principal assumptions:

<b>Rates of interest</b>	<b>2001</b>	<b>2000</b>
	<b>%</b>	<b>%</b>
<b>Assurances</b>		
Life with profit	2.25	2.25
Life without profit	3.25	3.25
Pensions with profit	3.00	3.00
Pensions without profit	4.00	4.00
<b>Deferred annuities</b>		
With profit – in deferment	3.00	3.00
With profit – in payment	4.00	4.00
Without profit	4.00	4.00
<b>Vested annuities</b>		
Without profit	5.00	4.50
With profit*	0.75	0.75

\* With allowance for any anticipated growth rate.

### Mortality tables

	<b>2001</b>	<b>2000</b>
<b>Assurances</b>	<b>AM80 &amp; AF80 ultimate with adjustments for smoker status</b>	<b>AM80 &amp; AF80 ultimate with adjustments for smoker status</b>
<b>Deferred annuities</b>		
In deferment		
Retirement annuities	50% AM80 & 50% AF80 ultimate	50% AM80 & 50% AF80 ultimate
Group	50% AM80 & 50% AF80 ultimate	50% AM80 & 50% AF80 ultimate
In possession		
Retirement annuities	RMV92 & RFV92 ultimate (C=2020) rated down 3 years	RMV92 & RFV92 ultimate (C=2020) rated down 3 years
Group	PMA92 & PFA92 (C=2020) rated down 2 years	PMA92 & PFA92 (C=2020) rated down 2 years
<b>Vested annuities</b>		
Retirement annuities	RMV92 & RFV92 ultimate (C=2010) rated down 2 years	RMV92 & RFV92 ultimate (C=2010) rated down 2 years
Group	PMA92 & PFA92 (C=2010) rated down 1 year	PMA92 & PFA92 (C=2010) rated down 1 year

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.