CGNU Life Assurance Limited

Report & Accounts 2002

NORWICH UNION

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
G N Withers

Secretary

P M White

Auditor

Ernst & Young LLP
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Fetter Lane
London
EC4A 1NH

Contents

Directors' report

The directors present their annual report and audited financial statements for CGNU Life Assurance Limited (the Company) for the year ended 31 December 2002.

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

	2002	2001	2000
	£m	£m	£m
New annual premiums (net of reinsurance)	**36**	26	21
New single premiums (net of reinsurance)	**1,205**	825	889
Balance on the long term business technical account	**33**	57	58

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

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

Ultimate holding company

On 1 July 2002, the ultimate holding company CGNU plc, changed its name to Aviva plc.

Dividends

An interim dividend for the year of £89m was paid on 21 February 2002 (2001: £57m). The directors do not recommend the payment of a final dividend (2001: £nil).

Directors

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

G N Withers was appointed as a director of the Company on 1 September 2002.

P R Hales, P E Hessey, M T Kirsch, J A Newman, 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 Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown on pages 5 to 7. All the disclosed interests are beneficial.

	At 1 January 2002 (or appointment if later)	At 31 December 2002
	Number	Number
P R Hales	23,202	23,734
P E Hessey	2,747	3,304
M T Kirsch	7,841	18,251
J A Newman	4,630	12,294
M N Urmston	9,790	11,522
G M Vance	16,835	19,397
G N Withers	1,051	1,051

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

Incentive plans

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

(i) **Share options**

	At 1 January 2002 (or appointment if later)	Options granted during year	Options exercised or lapsed during year	At 31 December 2002
	Number	Number	Number	Number
P R Hales				
Savings related options	825	-	-	825
Executive options	68,894	-	-	68,894
P E Hessey				
Savings related options	1,430	2,356	1,430	2,356
Executive options	33,145	-	-	33,145
M T Kirsch				
Savings related options	1,430	2,356	1,430	2,356
M N Urmston				
Savings related options	2,388	1,228	930	2,686
Executive options	113,953	-	-	113,953
G M Vance				
Savings related options	2,293	-	-	2,293
Executive options	62,619	-	-	62,619
Bonus Plan options	2,834	-	2,834	-
G N Withers				
Savings related options	2,492	-	2,492	-

(1) *"Savings related options"* are options granted under the Inland Revenue-approved SAYE Share Option Scheme. Options granted from 1994 to 2002 are normally exercisable during the six 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 Schemes, or predecessor schemes. Options, which have been granted on various dates from 1993 to 2002, 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 two directors exercised share options.

Directors' report

Incentive plans (continued)

(ii) Share awards

	At 1 January 2002 (or appointment if later)	Awards granted during year	Awards vested during year	Awards lapsed during year	At 31 December 2002
	Number	Number	Number	Number	Number
P R Hales					
CGNU Integration Incentive Plan	17,998	-	17,998	-	-
Aviva Long Term Incentive Plan	18,229	24,804	-	-	43,033
Aviva Deferred Bonus Plan	7,200	20,338	-	-	27,538
P E Hessey					
CGNU Integration Incentive Plan	16,969	-	16,969	-	-
Aviva Long Term Incentive Plan	17,187	22,715	-	-	39,902
Aviva Deferred Bonus Plan	6,358	9,086	-	-	15,444
M T Kirsch					
CGNU Integration Incentive Plan	16,455	-	16,455	-	-
Aviva Long Term Incentive Plan	19,339	24,151	-	-	43,490
Aviva Deferred Bonus Plan	14,666	19,804	-	-	34,470
J A Newman					
CGNU Integration Incentive Plan	12,084	-	12,084	-	-
Aviva Long Term Incentive Plan	8,895	24,151	-	-	33,046
Aviva Deferred Bonus Plan	7,832	19,320	-	-	27,152
M N Urmston					
CGNU Integration Incentive Plan	17,998	-	17,998	-	-
Aviva Long Term Incentive Plan	18,229	24,412	-	-	42,641
Aviva Deferred Bonus Plan	14,582	19,530	-	-	34,112
G M Vance					
CGNU Integration Incentive Plan	15,426	-	15,426	-	-
Aviva Long Term Incentive Plan	15,625	23,498	-	-	39,123
CGU Deferred Bonus Plan	2,834	-	-	-	2,834
Aviva Deferred Bonus Plan	11,718	18,328	-	-	30,046
G N Withers					
Aviva Long Term Incentive Plan	70,414	-	-	-	70,414
Aviva Deferred Bonus Plan	20,560	-	-	-	20,560
CGNU Restricted Share Plan	46,875	-	-	-	46,875

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

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

Directors' report

Incentive plans (continued)

(ii) Share awards (continued)

(3) *The CGU Deferred Bonus Plan* was approved by shareholders in 1999. Awards under this Plan were granted to participants in lieu of some or all of the cash bonuses earned under the Annual Cash Bonus Plan. This Plan, which operated in respect of bonuses awarded in 1999 and 2000, was replaced by the Aviva Deferred Bonus Plan referred to in (4) below. Awards vest on the third anniversary of their grant.

(4) *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 2002 and also the matching awards granted on a one for one basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

(5) *CGNU Restricted Share Plan* was a deferred bonus arrangement in which a small number of former Norwich Union senior managers participated.

Other than as disclosed above, none of the directors who held office at 31 December 2002 had any beneficial interest in the Company's shares or the shares of any other company within the Aviva plc Group.

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

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* *20 March 2003*

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 2002, 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* *20 March 2003*

Auditors' report

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 2002 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 30. These financial statements 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 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 2002 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 2003

Profit and loss account
for the year ended 31 December 2002

Technical account - long term business

	Note	2002 £m	Restated 2001 £m
Earned premiums, net of reinsurance			
Gross premiums written	3	**4,719**	5,543
Outward reinsurance premiums		**(3,084)**	(4,171)
		1,635	1,372
Investment income	4	**353**	536
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(1,582)**	(1,287)
Reinsurers' share		**753**	492
		(829)	(795)
Change in the provision for claims			
Gross amount		**(33)**	7
		(862)	(788)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount		**(396)**	(3,346)
Reinsurers' share		**345**	2,821
		(51)	(525)
Other technical provisions, net of reinsurance		**1**	7
		(50)	(518)
Net operating expenses	6	**(220)**	(193)
Investment expenses and charges	7	**(15)**	(14)
Unrealised losses on investments		**(1,374)**	(1,484)
Tax attributable to long term business	10(b)	**151**	121
Transfers from the fund for future appropriations		**415**	1,025
Balance on the technical account - long term business		**33**	57

Profit and loss account
for the year ended 31 December 2002

Non-technical account

	Note	2002 £m	2001 £m
Balance on the long term business technical account		**33**	57
Tax credit attributable to balance on the long term business technical account	10(a)	**14**	24
Operating profit on ordinary activities before tax	8	**47**	81
Tax on profit on ordinary activities	10(a)	**(14)**	(24)
Profit for the financial year after tax		**33**	57
Dividends paid and proposed	11	**(89)**	(57)
Retained loss for the financial year	20	**(56)**	-

A statement of movement in reserves can be found in note 20.

Statement of total recognised gains and losses

for the year ended 31 December 2002

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 2002

	2002 £m	2001 £m
Profit for the financial year	**33**	57
Dividends	**(89)**	(57)
Net reduction to shareholders' funds	**(56)**	-
Opening shareholders' funds	**89**	89
Closing shareholders' funds	33	89

Balance sheet
as at 31 December 2002

Assets

	Note	2002 £m	2001 £m
Investments			
Land and buildings	12	**1,203**	866
Investments in group undertakings and participating interests	13	**21**	10
Other financial investments	14	**8,785**	9,573
		10,009	10,449
Assets held to cover linked liabilities	15	**4**	5
Reinsurers' share of technical provisions			
Long term business provision		**6,606**	6,261
Claims outstanding		**1**	1
Technical provisions for unit-linked liabilities		**4,997**	4,204
		11,604	10,466
Debtors			
Debtors arising out of direct insurance operations	16	**86**	63
Debtors arising out of reinsurance operations	17	**35**	12
Other debtors	18	**325**	412
		446	487
Other assets			
Cash at bank and in hand		**162**	232
Prepayments and accrued income			
Accrued interest and rent		**71**	55
Deferred acquisition costs		**245**	312
Other prepayments and accrued income		**9**	20
		325	387
Total assets		**22,550**	22,026

Balance sheet
as at 31 December 2002

Liabilities

	Note	2002 £m	Restated 2001 £m
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account	20	33	89
Shareholders' funds attributable to equity interests		33	89
Fund for future appropriations		957	1,360
Technical provisions			
Long term business provision	30	16,128	15,732
Claims outstanding		104	71
		16,232	15,803
Technical provisions for linked liabilities		5,001	4,209
Provisions for other risks and charges	21	1	178
Creditors			
Creditors arising out of direct insurance operations		22	28
Creditors arising out of reinsurance operations	22	96	41
Other creditors including taxation and social security	23	170	285
		288	354
Accruals and deferred income		38	33
Total liabilities		22,550	22,026

The financial statements on pages 10 to 28 were approved by the Board on 20 March 2003 and were signed on its behalf by

J A Newman *Director*

Notes to the accounts

1 Accounting policies

Basis of accounts

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

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 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.

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.

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 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. This is a change in accounting policy to reflect the requirements of FRS19, the effects of which are detailed in note 2 on page 17.

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, 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 Company's professionally qualified internal valuers and by external valuers for a proportion of these properties.

1 Accounting policies (continued)

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 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 unitised 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 30.

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

Financial Reporting Standard 19 ("FRS19") Deferred Tax was published by the Accounting Standards Board in December 2000, and replaced the existing Statement of Standard Accounting Practice ("SSAP15") on deferred tax. FRS19 is effective for the year ended 31 December 2002. The principal impact of the change from the accounting policy applied under SSAP15 is to provide additional deferred tax on unrealised appreciation of investments. The additional deferred tax provision results in a reduction in the fund for future appropriations for with-profit life business. The Company has chosen to adopt the discounting option for its deferred tax balances, to reflect the time value of money.

2 Change in accounting policy (continued)

The effects of implementing FRS19 are as follows:

(i) The net impact on the retained profit for the financial year is £nil (2001: £nil).
(ii) The provision for deferred tax at 31 December 2002 is unaffected (2001: increased by £177m). The increase in provision has resulted in the following:

	2002 £m	2001 £m
With-profit business		
Reduction in fund for future appropriations	-	177
Increase in deferred tax provision	-	177

3 Premiums

Gross written premiums

	2002 £m	2001 £m
Individual premiums	4,115	5,315
Premiums under group contracts	348	225
	4,463	5,540
Periodic premiums	868	691
Single premiums	3,595	4,849
	4,463	5,540
Premiums from non-participating contracts	203	224
Premiums from participating contracts	2,486	3,981
Premiums from investment linked contracts	1,774	1,335
Gross premiums written which relate to direct insurance	4,463	5,540
Gross premiums written which relate to reinsurances accepted	256	3
	4,719	5,543

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

Annualised new business premiums

	Annualised periodic premiums		Single premiums	
	2002 £m	2001 £m	2002 £m	2001 £m
Gross	311	334	3,796	4,849
Reinsurance	(275)	(308)	(2,591)	(4,024)
Net	36	26	1,205	825

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.

Notes to the accounts

3 Premiums (continued)

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.

4 Investment income

	Technical account	
	2002 £m	2001 £m
Income from land and buildings	**72**	51
Income from other investments	**351**	334
Net (losses)/gains on the realisation of investments	**(70)**	151
	353	536

5 Long term business bonuses

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

	2002 £m	2001 £m
Terminal bonuses included in claims paid	**48**	115
Reversionary and similar policyholder bonuses, included in the movement in the long-term business provision	**298**	397
	346	512

6 Net operating expenses

Net operating expenses in the technical account comprise:

	2002 £m	2001 £m
Acquisition costs	**247**	358
Change in deferred acquisition costs	**67**	30
Administrative expenses	**38**	46
	352	434
Reinsurance commissions and profit participation	**(132)**	(241)
	220	193

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.

6 Net operating expenses (continued)

The amount of this recharge is £64m (2001: £59m).

Total commission paid to external agents included above is £220m (2001: £307m).

7 Investment expenses and charges

	Technical account	
	2002	2001
	£m	£m
Investment management expenses, including interest	**15**	14

8 Operating profit on ordinary activities before tax

	2002	2001
	£000	£000
Operating profit on ordinary activities before tax is stated after charging/(crediting):		
Remuneration of auditors		
Audit services	**82**	37
Other services	**145**	295
Interest from fellow group undertakings	**(5,985)**	(20,429)

9 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 of 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 financial statements of that company.

Employees

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

Notes to the accounts

10 Taxation

(a) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2002 £m	Restated 2001 £m
Current Tax		
Tax attributable to balance on the long term business technical account	**14**	24
Total tax charged in the non-technical account	**14**	24

(b) Long term business

Tax credited in the long term business technical account comprises:

	2002 £m	Restated 2001 £m
Current tax:		
UK corporation tax	**14**	10
Overseas tax	**5**	-
Prior year adjustments - UK	**6**	(16)
Total current tax	**25**	(6)
Deferred tax:		
Origination and reversal of timing differences	**(196)**	(121)
Decrease in discount	**20**	6
Total deferred tax	**(176)**	(115)
Total tax credited in the long term business in the technical account	**(151)**	(121)

(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.

	2002 £m	Restated 2001 £m
Profit on ordinary activities before tax:	**47**	81
Current tax charge at standard UK corporation tax rate of 30% *(2001: 30%)*	**14**	24
Current tax charge for the year (note 10(a))	**14**	24

Notes to the accounts

10 Taxation (continued)

(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:

	2002 £m	Restated 2001 £m
Unrealised losses on investments	**16**	-
Provisions and other timing differences	**34**	29
Losses	**78**	3
	128	32

(e) Balance sheet

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

	2002 £m	Restated 2001 £m
Unrealised gains on investments	-	197
Provisions and other timing differences	1	-
Undiscounted provision for deferred tax	1	197
Discount	-	(20)
Discounted provision for deferred tax	1	177

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

	2002 £m	Restated 2001 £m
Provision at 1 January	**177**	292
Amounts credited to the profit and loss account	**(176)**	(115)
Provision at 31 December	1	177

11 Dividends

	2002 £m	2001 £m
Interim dividend paid of £8,880 per share (2001: £5,740 per share)	**89**	57

12 Land and buildings

The carrying value of land and buildings comprises:

	2002	2001
	£m	£m
Freehold	**931**	701
Long leaseholds – over 50 years	**272**	163
Short leaseholds – under 50 years	**-**	2
	1,203	866

The cost of land and buildings at 31 December 2002 was £1,041m (2001: £714m). The carrying value of land and buildings occupied by the Group was £18m (2001: £19m).

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

13 Investments in group undertakings and participating interests

	Shares in group undertakings £m
At 1 January 2002	**10**
Revaluations	**11**
At 31 December 2002	**21**

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

On 6 November 2002, General Accident Life Developments Limited, a subsidiary undertaking, ceased to trade following the transfer of its investment property portfolio to the Company. At the effective date of transfer, the property was transferred at market value of £59m.

14 Other financial investments

	Carrying value		Cost	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Shares and other variable-yield securities and units in unit trusts	**3,838**	6,078	**3,932**	4,789
Debt securities and other fixed income securities	**4,865**	3,480	**4,871**	3,469
	8,703	9,558	**8,803**	8,258
Loans secured by insurance policies	**14**	13	**13**	13
Deposits with credit institutions	**68**	2	**68**	2
	8,785	9,573	**8,884**	8,273

Listed investments

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

	2002	2001
	£m	£m
Shares and other variable-yield securities and units in unit trusts	**3,535**	5,912
Debt securities and other fixed income securities	**4,079**	3,428
	7,614	9,340

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:

	2002	2001
	£m	£m
Cost	**4,019**	3,363
Cumulative amortisation	**(14)**	(17)
Amortised cost	**4,005**	3,346
Market value	**4,170**	3,362

The redemption value of the above investments is £379m (2001: £222m) less than the amortised cost.

15 Assets held to cover linked liabilities

	2002	2001
	£m	£m
Carrying value	**4**	5
Purchase price	**4**	5

16 Debtors arising out of direct insurance operations

	2002	2001
	£m	£m
Amounts owed by policyholders	**86**	63

17 Debtors arising out of reinsurance operations

	2002 £m	2001 £m
Amounts owed by group undertakings	29	6
Other	6	6
	35	12

18 Other debtors

	2002 £m	2001 £m
Amounts owed by group undertakings	196	277
Tax recoverable	24	59
Other debtors	105	76
	325	412

19 Share capital

	2002 £m	2001 £m
Authorised:		
10,000 Ordinary shares of £100 each	1	1
Allotted, called up and 25% paid:		
10,000 Ordinary shares of £100 each	-	-

20 Reserves

	Profit and loss account £m
Balance at 1 January 2002	89
Retained loss for the financial year	(56)
Balance at 31 December 2002	33

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, £33m is not regarded as realised profit available to pay dividends.

21 Provisions for other risks and charges

	Deferred tax £m	Other £m	Total £m
Balance at 1 January 2002 (restated)	177	1	178
Amounts credited to the profit and loss account	(176)	(1)	(177)
Balance at 31 December 2002	1	-	1

22 Creditors arising out of reinsurance operations

	2002 £m	2001 £m
Amounts owed to group undertakings	**89**	32
Other	**7**	9
	96	41

23 Other creditors including taxation and social security

	2002 £m	2001 £m
Corporation tax payable	**3**	-
Other tax payable	**35**	21
Amounts owed to group undertakings	**63**	46
Other creditors	**69**	218
	170	285

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 has largely been completed. The long term business technical provision includes an amount of £2m (2001: £6m) 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. It continues to be the Company's view that there will be no material effect either on the Company'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.

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. An expense provision of £50m (2001: £10m) has been made in a fellow group undertaking to meet potential mis-selling costs and the associated expenses of investigating complaints which includes amounts relating to the Company's customers. It continues to be the Company's view that there will be no material effect either on the Company's ability to meet the expectations of policyholders or on shareholders.

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. Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable 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 material related party transactions.

28 Long term fund

At 31 December 2002, 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 £22,086m (restated 2001: £21,301m).

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 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:

Rates of interest	**2002** %	2001 %
Assurances		
Life with profit	**3.20**	2.25
Life unitised with profit	**3.80**	2.25
Life without profit	**3.20**	3.25
Pensions with profit	**4.50**	3.00
Pensions unitised with profit	**4.50**	3.00
Pensions without profit	**4.00**	4.00
Deferred annuities		
With profit – in deferment	**4.50**	3.00
With profit – in payment	**4.00**	4.00
Without profit - in deferment	**4.50**	4.00
Without profit - in payment	**4.00**	4.00
Vested annuities		
Without profit	**5.20**	5.00
With profit*	**0.75**	0.75

- With allowance for any anticipated growth rate.

30 Technical provisions assumptions (continued)

Mortality tables

	2002	2001
Assurances		
Whole life/endowment/ attaching decreasing term	**AM92 & AF92 ultimate with adjustments for smoker status**	AM80 & AF80 ultimate with adjustments for smoker status
Term	**75% TM92 & 75% TF92 ultimate non smoker** **150% TM92 & 180% TF92 ultimate smoker**	AM80 & AF80 ultimate with adjustments for smoker status
Mortgage protection	**80% TM92 & 85% TF92 ultimate smoker** **165% TM92 & 190% TF92 ultimate smoker**	AM80 & AF80 ultimate with adjustments for smoker status
Deferred annuities		
In deferment		
Retirement annuities	**50% AM92 & 50% AF92 ultimate**	50% AM80 & 50% AF80 ultimate
Group	**50% AM92 & 50% AF92 ultimate**	50% AM80 & 50% AF80 ultimate
In possession		
Retirement annuities	**75% PMA80 adj & 90% PFA80 adj**	RMV92 & RFV92 ultimate (C=2020) rated down 3 years
Group	**75% PMA80 adj & 90% PFA80 adj**	PMA92 & PFA92 (C=2020) rated down 2 years
Vested annuities		
Retirement annuities	**75% PMA80adj & 90% PFA80adj ultimate**	RMV92 & RFV92 ultimate (C=2010) rated down 2 years
Group	**75% PMA80adj & 90% PFA80adj ultimate**	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.

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.