CGNU

Leadership in financial services

Annual report + accounts 2001

25 million customers worldwide
7th largest insurer worldwide
Top 5 in Europe, No 1 in the UK
£28 billion premium income and investment sales from continuing operations
£209 billion assets under management
64,000 employees worldwide

Worldwide business mix*

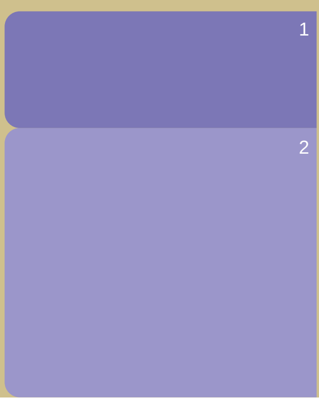
Worldwide business mix by sector

1 – General insurance

30%

2 – Long-term savings**

70%



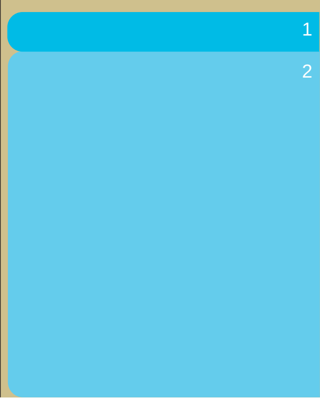
Worldwide business mix by geography

1 – Rest of world

10%

2 – Europe

90%



*With reference to premium income.
**Including health premium income.

£2,004 million
operating profit before tax from continuing operations*

£15 billion
worldwide long-term savings new business sales

38 pence
full year dividend

£11.9 billion
shareholders' funds

£945 million
operating profit before tax from general insurance continuing operations

*Including life achieved operating profit before amortisation of goodwill and exceptional items.

We have strengthened our position as a leading European-based financial services group, and continue to grow the business with a clear strategic focus on the long-term savings market.

We have successfully completed the merger of CGU and Norwich Union to create the UK's leading insurance and financial services group. Annualised cost savings of £317 million have been achieved, which exceeded our target, and we are now together as one company.

In pursuing our strategy, we have withdrawn from markets where we would not create superior shareholder value. We completed the sale of our US general insurance operations in June last year and exited the London Market. Consequently, our exposure to the atrocious attack on America on 11 September was limited.

The whole world was shaken by those tragic events, and we feel deep sympathy for the victims and their families. Thankfully, none of our employees lost their lives.

Markets were seriously disturbed as a consequence of the disaster. Solvency ratios around the world were already deteriorating, and the fall in equity prices, then and since, has significantly reduced shareholders' funds.

Our determination to grow faster than the average for the financial services market has met with considerable success. Our targets have been achieved by a combination of strong organic growth, new bancassurance arrangements and balanced acquisitions.

Our joint venture in the UK with the Royal Bank of Scotland has good growth potential. Our new arrangements with DBS put us in a strong position in South East Asia. In Spain we have, in less than two years, become a leading player through agreements with four of the country's leading savings banks. We have also expanded our bancassurance partnerships in the fast-growing Italian market.

In France, the Netherlands and Poland we continue to hold leading positions through CGU France, Delta Lloyd and Commercial Union Polska.

In line with our strategy, we are growing our long-term savings business aggressively. It now accounts for approximately 70% of our annual premiums. Our general insurance operations are managed for balanced growth, sustainable profitability, and good returns which provide cash flow to support our long-term savings growth.

We are making progress towards the development of a world-class fund management business, and encourage sustainable development in our investment activities. We believe it is important to invest in companies that uphold sound ethical policies.

We propose a final dividend of 23.75 pence, which brings the total for the year to 38 pence.

Since the new group was formed, we have seen our life and savings business grow by over 30% in only 18 months. To sustain the scale and pace of profitable growth, our long-term savings operations require continuous investment of both cash and capital. The view of the Board is that it is not possible to maintain the current level of the Group's dividend whilst pursuing this strategy.

As a result, the Board proposes a re-basing of the 2002 full year dividend to 23 pence *(2001: 38 pence)*. Given our outlook for the business, this strikes the appropriate balance between dividend payments and the retention of capital to take advantage of profitable growth opportunities. From this new base, we expect to adopt a progressive policy of growing dividends by approximately 5% per annum, whilst looking to sustain a target cover in a range of 1.5 to 2.0 times operating earnings after tax, measured on a modified statutory solvency basis.

Richard Harvey has a high-calibre executive team, with a combination of wide experience and vigour. Under his management, we have performed to high standards under demanding conditions.

Our employees worldwide have shown resilience, courage and tenacity, and deserve much of the credit for the encouraging progress that we have made this year. They deserve to have the best possible training and assistance in their personal development. Only through investing in them can we reach our ambitious targets and aspire to being a world-class, customer-driven service company, creating superior shareholder value.

In February last year the European Financial Services Round Table (EFR) was founded, and I have the privilege of being its chairman. Its purpose is to help create a single market for financial services in the European Union (EU). Such an open market exists, of course, for goods, capital and people – all of which has brought benefits for consumers. But customers are not free to buy financial services products wherever they choose in the EU, because the market is closed and fragmented. Pensions are not portable owing to differences in national tax systems. Costs can be high and consumer protection differs.

The European Council of Ministers has agreed an action plan to create an open and transparent market, but there is a long way to go. The EFR will help in getting there. For the first time, heads of Europe's leading banks and insurance companies have agreed to work together to create a transparent, competitive market. We will work with national governments and the European Commission to build the single market in a practical and consumer-friendly way.

Looking to the prospects for CGNU, I believe they show great promise. We shall certainly encounter unexpected developments in the world while seeing the continued consolidation of financial services groups. We shall have to be prepared to seize attractive opportunities.

Thus, as we streamline our business, pursue growth and undergo continuous training, we also have to be flexible enough to master step changes in our ambition to build an ever-stronger company.

Group strategy

To grow long-term savings business aggressively and profitably.

To build a world-class fund management business.

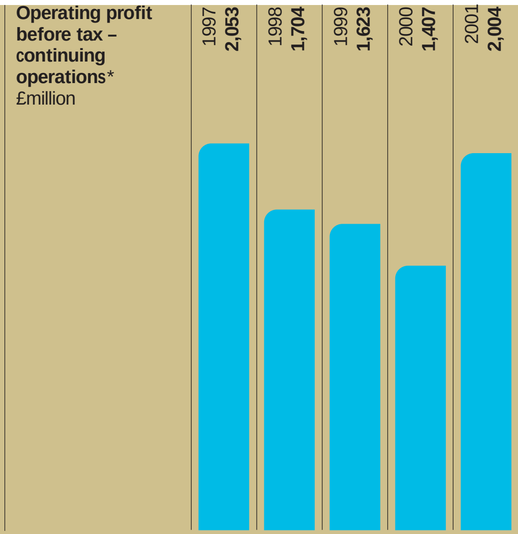
To take a focused approach to general insurance with disciplined underwriting and efficient claims handling.

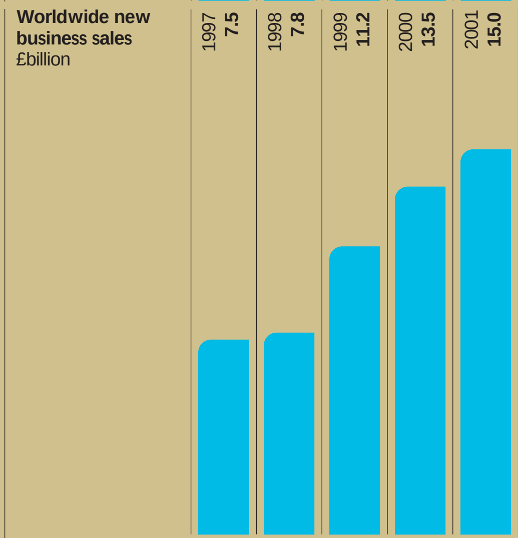
To build top-five positions in key markets.

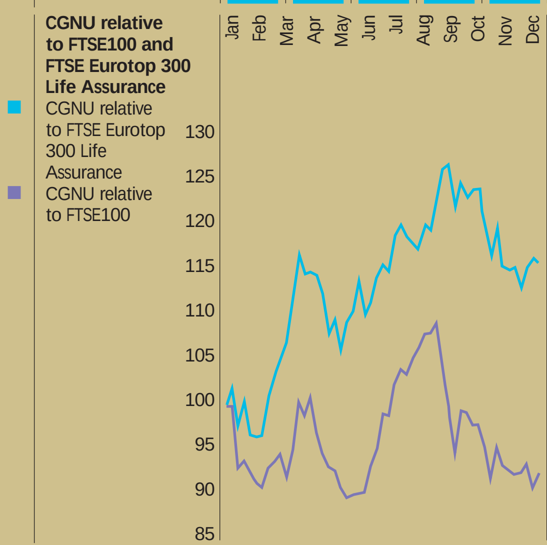
To withdraw from lines of business or markets which do not offer the potential for market-leading positions or superior returns.

“We continue to grow the business with a clear strategic focus on the long-term savings market”

Chairman’s statement







*Including life achieved operating profit before amortisation of goodwill and exceptional items.

Pehr G Gyllenhammar, Chairman

Group at a glance

Key markets for CGNU

Long-term savings

Number one market positions:
UK

Top-five market positions:
Ireland, Netherlands, Poland, Spain, Turkey, Singapore

Other significant operations:
Australia, France, Italy

Fund management

2nd largest UK-based fund manager and one of the top 10 in Europe

Other significant operations:
France, Australia (Navigator), Netherlands

General insurance

Number one market positions:
UK, Ireland

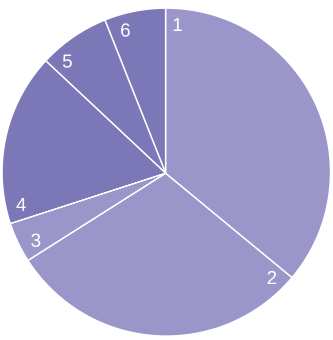
Top-five market positions:
Australia, Canada, France, Netherlands, New Zealand, Singapore

Geographical breakdown of worldwide business mix*

Long-term savings
1 – UK 36%
2 – Continental Europe 30%
3 – Rest of world 4%

General insurance
4 – UK 17%
5 – Continental Europe 7%
6 – Rest of world 6%

*With reference to premium income.



Developments in 2001

– Outperformance in all major markets

– Number one provider in the UK with increased market share of over 11% and around 75% of this business from the IFA market

– New and extended bancassurance partnerships in Spain, Italy and the UK increase new business sales to £2.1 billion

– New ventures and developments in central and eastern Europe and South East Asia

– Capitalised on pension reforms in Europe and leading provider of stakeholder pensions in the UK, capturing over 20% of the total market

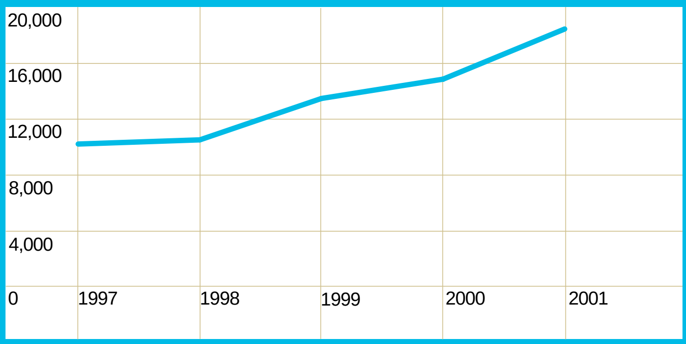
– Strong growth in France and the Netherlands

– Enhanced wealth management offering through norwichunion.com

Performance in 2001

New business sales £13,479 million
Net written premiums* £18,431 million
Life achieved operating profit before tax £1,674 million

Life and pensions net written premiums from continuing operations £million



*Including share of associates' premiums and health premiums of £841 million.

– Continued strengthening of Morley's position in the UK institutional fund management market

– 70% of Victoire Asset Management's funds ranked in top quartile for investment performance in France

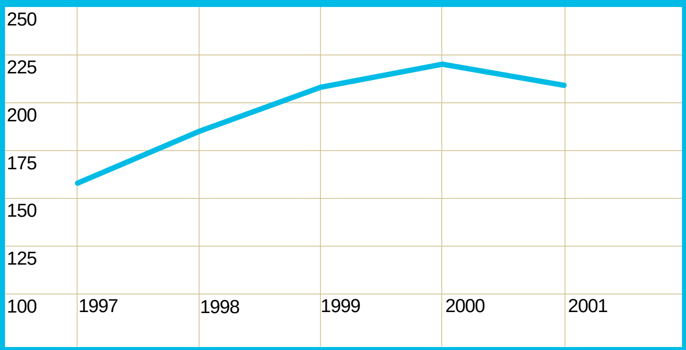
– Further success for award-winning Navigator fund administration business in Australia, being adapted for the Singaporean market

– Third-party mandates secured in the UK and the Netherlands increased to £3.5 billion

– Hibernian now ranked among top five fund managers in Ireland

Assets under management £209 billion
Investment sales £1,475 million
Operating profit before tax £29 million

Funds under management £billion



– Building a business capable of sustaining combined operating ratio of 102% through the underwriting cycle

– Repositioned global business by withdrawing from the US and other markets unlikely to produce superior returns

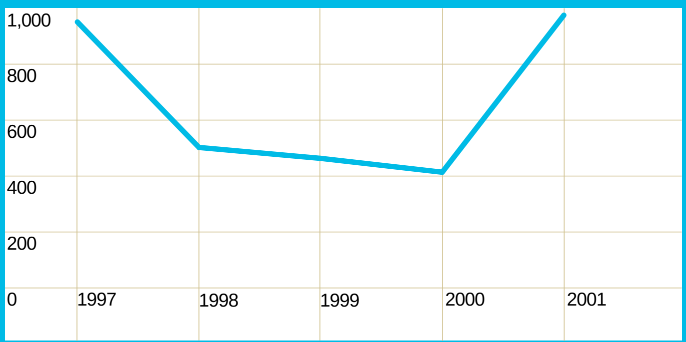
– Focused on personal lines and small to medium business cover, applying rigorous risk selection and strong rating action across the portfolio

– Consolidated 19% market share and number one position in the UK

– Acquisition of Fortis reinforced top-five ranking in Australia

Net written premiums – continuing operations £8,433 million
Combined Operating Ratio (COR) 102%
Operating profit before tax – continuing operations £945 million

Operating profit before tax from continuing operations £million



£317 million integration savings

"We have reshaped the business and built a strong base for profitable growth"

Group Chief Executive's review

Overview

Introduction During my first year as group chief executive of CGNU we have taken further important steps forward in line with our strategic objectives. Significant progress has been made in repositioning and strengthening the group as one of the world's major insurers while, at the same time, achieving increased operating profit and record long-term savings new business sales.

Our focus is on our three core businesses – long-term savings, fund management and general insurance. Some 70% of our premiums come from long-term savings, with the remaining 30% from general insurance *(2000: 67%-33%).* Ninety per cent of our total business comes from Europe, which makes CGNU's presence in Europe the largest of any UK-based insurer *(2000: 89%).*

Long-term savings business in Europe is a market that we expect to develop strongly as the responsibility for providing financial support for ageing populations increasingly shifts from the state to the private individual. In addition, we believe customers will continue to seek the reassurance of trusted brands providing high-quality products and services.

Building for the future The group now holds top-five positions in many key markets, a good position from which to build. This growth is being achieved through the organic development of existing businesses and through acquisitions, partnerships and new ventures that extend our distribution capabilities.

Effective and flexible methods of distribution, tailored for individual markets, are important because we believe they will help us achieve our ambitious growth targets. For example, while financial advisers generate around 75% of our long-term savings business in the UK, bancassurance accounted for nearly 90% of our combined new business sales in Spain and Italy in 2001.

A significant achievement last year was the further strengthening of our bancassurance partnerships in Spain, Italy and Singapore, and continuing development in the UK. These distribution arrangements give the group access to more than 20 million potential customers worldwide.

Strategic acquisitions were made, at the right price, to increase shareholder value. For example, our acquisition of Fortis Australia in July consolidated our top-five position in the Australian general insurance market.

We also made a number of smaller acquisitions in strategic and emerging markets. Our Dutch company, Delta Lloyd, bought Bank Nagelmackers, an important step in developing the Delta Lloyd savings and investment business in Belgium.

The acquisition of Mébit, the sixth-largest life insurance business in Hungary, strengthens our position in the long-term savings markets of central and eastern Europe. We continue to develop our operations in these newer, dynamic markets, including Poland and Turkey (where we already hold top-five positions), Romania and Lithuania.

In addition to our acquisitions and new ventures, we have withdrawn, as planned, from businesses and markets that do not offer the potential for market-leading positions or superior returns.

In line with our strategic objective, we have repositioned our global general insurance portfolio into a more focused, efficient and profitable business with leadership positions in key markets. Part of this turnaround has been achieved through disposals.

The sale of our US general insurance business in June 2001, together with our exit from the London Market and global risks business in 2000, were the major elements in this repositioning. Although these exits cost £1.3 billion after tax (accounted for in 2000), we can already see the benefit in transforming the quality of group earnings.

We further realigned our general insurance portfolio by completing the sale of State Insurance, one of our two general insurance businesses in New Zealand, and by announcing the sale of small general insurance operations in Belgium and Brazil. We also announced our intention to sell CGU Courtage, our broker-based general insurance business in France.

In the life sector, we sold our Canadian businesses, where we lacked the scale and platform to achieve our objective of a top-five market position. Other disposals included the stockbroking business Quilter Holdings in the UK, and our small life operation in Greece.

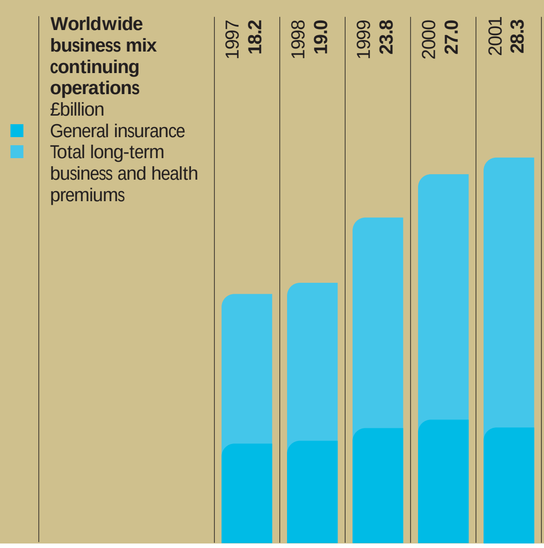
The total consideration for our significant acquisitions in 2001 was £799 million. Total proceeds from the sale of businesses was £2,619 million (£419 million excluding the sale of our US general insurance operation).

As our life business continues to grow, we need capital to support it. The group's capital position was enhanced in November 2001 when we raised £1.2 billion of subordinated debt to support future growth opportunities.

Integration I am pleased to report the successful integration of the operations of CGU and Norwich Union by the end of December 2001. We have brought together two major companies and 64,000 people worldwide with great speed and a clear focus.

Integration was an immense and challenging undertaking. For example, during 2001 in the UK we converted about two million general insurance policies to the Norwich Union brand and reduced 300 products to a new set of 70. Our achievement is a credit to the staff involved across the group, notably in the UK, Ireland, France, Spain and Italy.

Operational cost savings have been achieved through conversion to a single core brand and product set in each market, and the integration of our fund management operations. We have restructured our support operations, reduced duplication, increased efficiency and shared knowledge across the group.



As a result of this activity, we have achieved £317 million of annualised cost savings, which exceeded our target of £275 million. This was accomplished within the integration cost budget of £425 million charged against the 2000 results.

Euro conversion All CGNU businesses involved in conversion to the euro single currency made the transition successfully, on time and on budget, by the end of 2001. Our teams in the Netherlands, France, Italy, Spain, Portugal, Ireland, Greece and Luxembourg worked very hard for nearly five years to complete this extremely complex task. The cross-business teamwork and goodwill generated will be of long-term benefit to the group.

Group results We have been reshaping the business and building a strong base for future profitable growth, despite a slowdown in the world economy and volatility in investment markets.

In this context, our focus on managing the day-to-day business effectively helped us to achieve pre-tax operating profit from continuing operations, including life achieved operating profit, of £2,004 million, an increase of 41% *(2000: £1,407 million)*. Our long-term savings business grew significantly, with record sales of new business up 10% to £15 billion, and life achieved operating profit increased 5% to £1,674 million. Operating profit from the general insurance business rose 133% to £945 million.

Though the group enjoyed a successful trading period, the fall in worldwide investment markets saw a reduction in shareholders' funds at 31 December 2001 to £11.9 billion *(2000: £13.6 billion)*.

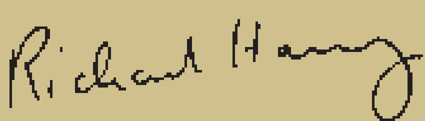
All growth rates are stated at constant rates of exchange.

Creating competitive advantage As the world's seventh-largest insurance group, and the largest based in the UK, we believe that the actions we have taken have positioned us well to meet the challenge of increased customer demand in low-margin environments. We are developing competitive advantages from economies of scale, the range of our products, services and distribution capabilities, and the quality of our people.

The group is a major force in the long-term savings markets in Europe, through our leadership position in the UK and a growing presence in other key European countries. We have achieved improved results from our general insurance operation, while reshaping the business to improve the quality of future earnings through a focus on personal and small commercial lines business.

Our management team has a record of delivering results and managing change but the backbone of the organisation is our highly professional and dedicated employees around the world. I would like to thank each of them for their outstanding contribution during the past year. Their resilience and dedication in successfully driving the business forward during the integration period has been remarkable.

We are confident that the foundations we have laid over the past 18 months will help us continue to build competitive advantage. Having successfully completed the merger process, we now have a new company. This is an exciting prospect as we enter 2002 with new stature in the international business arena and a good deal of confidence. Our clear strategy, financial strength, powerful, trusted brands and expanding distribution channels give us the capability to outperform. And, on behalf of our shareholders, this is our intention.



Richard Harvey, Group Chief Executive

£15 billion
record worldwide new business sales
access to over 20 million customers via bancassurance

Growing long-term savings business aggressively and profitably

Market position The long-term savings business is the focus of CGNU and its principal source of growth, accounting for 70% of the group's annual premium income. The business grew vigorously in 2001, meeting the increasing demand for pensions, savings and healthcare products as governments encourage individuals to take more responsibility for their own retirement and welfare provision and reduce the pressure of ageing populations on state schemes.

These conditions create significant opportunities in European long-term savings markets, with pension reforms taking place in many countries. We have built a strong operational platform in Europe which, with cost-efficient businesses, a wide range of products and rapidly developing channels of distribution, contributed 93% of our worldwide new business sales in 2001.

Our biggest long-term savings operation is Norwich Union in the UK, which produced 54% of our worldwide new business in 2001. Record sales helped to enhance our position as the UK's leading life company, with an increased market share of over 11%. This growth demonstrated the excellent performance of the business and the strength of the Norwich Union brand, in a market that continues to experience a flight to quality as customers seek the reassurance of a trusted provider with financial strength.

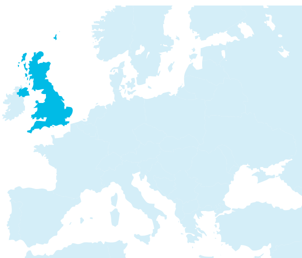
In France, our second-largest long-term savings business, we outperformed the market through the strength of our product range and multi-distribution capability. Continued organic growth consolidated our top-five market positions in the Netherlands and Ireland. In the developing savings markets of Spain and Italy, where bancassurance is the principal method of distribution, new agreements have enhanced our market position. In Spain we now have the fourth-largest bank distribution network, and in Italy we are a top-10 long-term savings provider. We also continue to increase our presence in the developing markets of central and eastern Europe.

We have well-established businesses in Australia and the US, and our new bancassurance agreements with DBS in Singapore and Hong Kong have the added benefit of giving us a launching pad into the attractive long-term savings markets of South East Asia.

The Chinese regulator agreed in September 2001 that we can begin the preparatory work for setting up a life and pensions joint venture in China. We have also launched a new joint venture to develop a life business in India with Dabur Group. These markets have large populations and offer excellent long-term potential for the group.

Performance and products We achieved record worldwide long-term savings new business sales in 2001, up 10% to £15 billion *(2000: £13.5 billion)*. Our businesses delivered this excellent growth despite the challenging economic environment.

Life and pensions new business sales grew significantly by 21% to £13.5 billion *(2000: £11 billion)*, including major contributions from the UK, up 10% to £7.3 billion, and continental Europe, up 39% to £5.5 billion.



←UK
Record new business sales as the leading UK life company, with increased market share of over 11%.

Total UK new business sales (including investment sales) rose 8% to £8.1 billion. In France, total sales rose to £1,998 million *(2000: £1,861 million)* in a market that we estimate contracted by 8%. Delta Lloyd reported a 34% increase in sales in the Netherlands to £777 million *(2000: £569 million)*, and Hibernian in Ireland increased total new business premiums by 21% to £523 million *(2000: £424 million)*.

Our bancassurance agreements in Spain and Italy produced strong combined new business sales of £1.7 billion *(2000: £0.4 billion)*, driving total sales in those two countries to £1.9 billion. Spain achieved growth of 155% in total new business premiums to £932 million *(2000: £359 million)*, and Italy recorded excellent total sales growth of 291% to £958 million *(2000: £241 million)*.

Our United States business contributed total new business premiums 62% higher at £371 million *(2000: £218 million)* as a result of continuing strong fixed annuity sales. In Australia, total life and pension sales were down to £244 million *(2000: £255 million)*.

Worldwide retail investment sales at £1,475 million *(2000: £2,501 million)* reflected the lack of consumer confidence in equity-related products.

Life achieved operating profit rose 5% to £1,674 million, benefiting from the growth in long-term savings new business.

Pensions Pensions business continues to provide us with strong growth, contributing 30% of our total new business sales in 2001 as we capitalise on market reforms and increasing awareness across Europe of the need for greater private pension provision.

Total pension sales in the UK grew 39% to £2,469 million *(2000: £1,777 million)*, supported by the strength of the Norwich Union brand and stimulated by the high-profile advertising for our stakeholder products. We established a leading position in the stakeholder pensions market, with a one-third share of the important independent financial adviser (IFA) channel and over 20% of the total market.

No1
UK stakeholder pensions and bonds
£1,674 million
life achieved operating profit

Another encouraging performance was reported in the Netherlands, where Delta Lloyd is a top-four pensions provider. Total pension sales rose by 49% to £516 million in 2001 *(2000: £341 million)*. Public attitudes to pension planning are changing, and Delta Lloyd's successful Financieel Vrijheidsplan has been developed to help people provide for a range of retirement options.

Ireland recorded excellent pension sales growth of 81% to £174 million *(2000: £95 million)*. Towards the end of the year in Italy, a market with excellent long-term potential, we introduced individual pension products designed to capitalise on new tax incentives for retirement savings.

In Poland, where we have a 29% share of the pensions market and funds under management of £2.2 billion, sales were limited by difficult economic conditions and a competitive market. However, Poland's proposed entry into the European Union in 2004 means we have a leading position in a dynamic and progressive country with prospects for future growth.

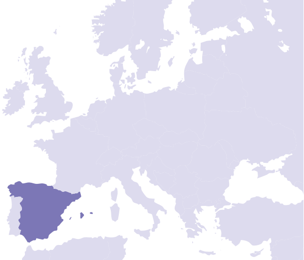
Strong individual pension sales of £31 million in Germany contributed to a 19% increase in total new business premiums to £117 million *(2000: £97 million)*. The launch of new funds and use of the Delta Lloyd brand will enable us to benefit from German pension reforms, which are likely to increase demand for mutual funds and equity-linked savings products.

Savings Savings products such as fixed income, equity-related or with-profit bonds are a major source of revenue for CGNU, particularly for the UK, Ireland, France, Spain and Italy. Total UK single premium bond sales in 2001 were £3,697 million. The strength of this product portfolio means that we can offer alternative forms of savings to our customers when stock market conditions are volatile. In a market that increasingly looks for quality and financial strength, our with-profit record and strong UK life funds are important advantages. The strength of the with-profit funds is underpinned by our UK "orphan" assets, which amount to about £5 billion and are used to support strong business development that benefits policyholders and shareholders alike. The orphan estate is estimated on the basis of realistic assumptions, as distinct from statutory free reserves which are calculated on a more prudent statutory solvency basis. We believe there will continue to be a demand for with-profit products in the current economic climate.

An example of our success was in France, where Abeille vie outperformed a contracting market during 2001, achieving growth in life new business sales and launching a number of new products. One of Abeille vie's strengths is the sale of AFER savings products. AFER is the largest retirement savings organisation in France, with more than half a million members. Our sales of AFER products rose by 10% to £1,135 million *(2000: £1,012 million)*, reflecting the popularity of the AFER brand and its fixed interest savings account offering.

Sales of the single premium with-profit Celebration Bond in Ireland continued to grow strongly to £255 million *(2000: £155 million)*, reflecting the continued popularity of this form of saving against a background of volatile investment markets and low interest rates.

Retail investment The poor performance of worldwide equity markets resulted in a sharp fall in the group's retail investment sales. This was particularly evident in the Netherlands, where our record level of sales in 2000 was not repeated as investment sales fell to £85 million *(£2000: £1,025 million)*.



➔Spain
Bancassurance partnerships extend access to 8 million potential customers in Spain, where CGNU has the fourth-largest bank distribution network.

➔Singapore
New partnership with the DBS, one of the largest banks in South East Asia, gives CGNU a platform for future growth in this highly attractive market.

←Turkey
A number of new developments have strengthened CGNU's position in the emerging markets of central Eastern Europe.

←Italy
Strong new business growth arising from expanded bancassurance reach.

70%
long-term savings proportion of group

In the UK, Norwich Union achieved a 3.3% share, up from 2.4% in 2000, and a top-10 ranking in the retail investment market. This increase in our market share reflects brand strength, breadth of distribution and performance in European equities, fixed income and property investment, plus our position as a leading provider of individual savings accounts (Isas). During 2001, we held top-five positions for gross Isa sales, Isa funds under management, corporate bond Isa sales and for Cat-standard Isa business.

In Ireland, where we have an 11% retail investment market share, Hibernian launched a new unit-linked product in June 2001, with access to more than 80 funds and 15 international fund management groups. This launch benefited from shared expertise with the group's Dublin-based offshore investment specialists, Norwich Union International. Hibernian also benefited from £14 million of sales following the introduction of the government's tax-advantaged special savings investment account (SSIA) in May.

Unit trust sales in Australia were 18% higher at £347 million *(2000: £295 million)* following strong inflows during the fourth quarter.

Multi-distribution capability Pursuit of our aggressive growth targets requires that we maximise our use of a range of distribution methods, tailored to suit individual markets. Total sales of new business are 51% through financial advisers, 35% direct and tied agents, and 14% via bancassurance, where our newer partnerships are set to deliver growth in 2002.

Advice channels remain very important to CGNU, particularly in mature markets where an array of complex choices can face the customer. Some of the key benefits we provide for financial advisers include a broad, high-quality product range, strong brand recognition, financial strength, and effective use of technology. In the UK, where Norwich Union receives around 75% of its business from independent financial advisers, we welcome proposed changes in the regulatory system and support the underlying intention to create greater customer access to financial services. Advisers also produce significant business for Hibernian in Ireland, Delta Lloyd in the Netherlands and Abeille vie in France.

Bancassurance is an increasingly important mechanism for profitable growth. Perhaps our most significant move in 2001 was in Spain, where we formed new bancassurance partnerships with Unicaja, Caixa Galicia and Caja España to further enhance our strong market position. The group's existing arrangement with Bancaja had already helped to make CGNU the fourth-largest bank distribution network in the Spanish market, where bancassurance is the dominant form of distribution, generating over 80% of life new business. These agreements together provide access to eight million potential customers through more than 3,000 branches.

A new partnership with UniCredito Italiano, together with increased distribution through Banca Popolare di Lodi and an existing arrangement with Banca delle Marche, extended our bancassurance reach in Italy through more than 2,000 branches. Bancassurance accounts for over 70% of new business sales in Italy.

In August 2001 we agreed a partnership with DBS, one of the largest banks in south-east Asia and the leading bank in Singapore. The 10-year agreement gives CGNU exclusive access to about four million DBS customers in Singapore for the distribution of life and general insurance products. We also acquired The Insurance Corporation of Singapore, the life and general insurance subsidiary of DBS, as part of the transaction. The partnership made an encouraging start, with total sales of £63 million in the first four months. Our presence in this highly attractive long-term savings market will be further enhanced during 2002 by the introduction of Navigator, our successful master trust investment service from Australia, and changes to the regulatory framework that will favour low-cost providers over traditional higher-cost tied agents.

In February 2002 we agreed a second bancassurance partnership with DBS, giving CGNU exclusive access to one million DBS customers in Hong Kong, a market where bancassurance accounts for some 30% of sales.

New business sales from our partnership with The Royal Bank of Scotland Group in the UK began to build momentum during 2001, following the introduction of new products based on the Norwich Union portfolio. Total sales, of which we have a 50% share, were £480 million. Further product development is planned in 2002.

In addition to these major distribution partnerships, we continue to use technology to help customers who choose to deal directly with us.

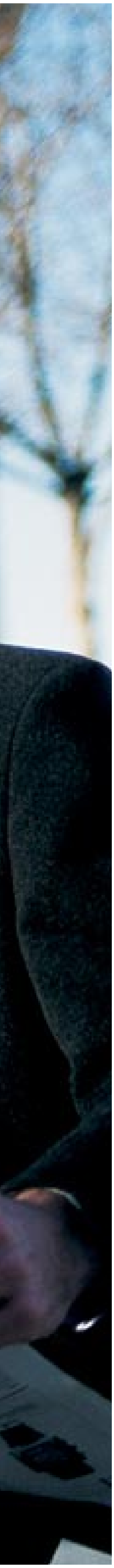
Our new UK online wealth management service at www.norwichunion.com offers a range of free interactive financial planning tools and impartial guides to help people manage their money. It also offers an online fund supermarket Isa and share dealing service. A range of banking products will be introduced during 2002. Since its launch in May 2001, the service has attracted nearly one million unique site visitors and more than 90,000 customer registrations, of whom about 70% are new to the group. It also earned two online finance awards from *Investor's Week* for innovation of the year and online provider of the year. During 2002 we will continue to develop the service as part of the core UK long-term savings business.

During 2001 we also launched the world's first fully transactional insurance and investment service on interactive digital television (iDTV). The new service enables UK customers to buy savings and insurance products via satellite and cable TV. Our presence on Sky Active and Telewest enables us to reach an audience of 19 million people in more than eight million UK households.

Customer service Our UK business has been accredited with the prestigious Raising Standards accolade, the new symbol of quality, clarity and service for the UK life insurance industry. Raising Standards is designed to instill greater consumer confidence in the industry and ensure people have a clearer understanding of the products they are buying, investment performance and charges.

Our customer service standards in the UK were put under significant pressure during 2001, partly because of strong sales arising from demand for stakeholder pension products. In *Financial Adviser*'s annual IFA service awards in November 2001, Norwich Union received a three-star rating for life and pensions business, compared with a five-star rating the previous year. We were disappointed, but have already taken action to restore the high standards that our customers expect.

£209 billion
worldwide assets under management
+20%
Navigator new business



Building a world-class fund management business

Market position Growing and protecting people's personal wealth over the longer term is fundamental to our business. We need a world-class fund management operation to enable us to provide a premier investment service to our customers and generate superior returns. This business will underpin our long-term savings products with excellent investment returns for our own funds, while attracting more funds from institutions and other third parties.

The fund management business invests policyholders' funds, provides investment management for institutional pension fund mandates, and manages a range of retail investment fund products. Clients include CGNU group businesses and strategic partners, third-party organisations, investment professionals, independent financial advisers and private investors.

Our main fund management operations are in the UK, France, the Netherlands and Australia. With some £209 billion of assets under management at 31 December 2001, we are one of the largest UK-based fund managers and among the top 10 in Europe.

During the year we completed the integration of our UK fund management operations, which was achieved on target for costs and ahead of schedule. This was a significant achievement, given that we also remained focused on "business as usual" activities.

Morley Fund Management is now one of the largest fund management businesses in the UK, managing over £100 billion of assets from its offices in London, Tokyo, Singapore and Boston. Clients have access to the full resources of the Morley team, with more than 170 investment professionals, including fund managers, analysts, economists and strategists.

As we develop our global operations, Morley will be established as the key platform for CGNU to build a world-class fund management business. Morley will seek opportunities to enhance our long-term savings business and create value by managing third-party assets in fast-growing and profitable markets.

Performance and products The past year has seen a difficult investment environment, with lower equity markets and volatility caused by uncertainty over economic conditions around the world.

Despite these challenges, Morley continued to build its position in the institutional market, particularly for European equities, fixed income and socially responsible investment (SRI) propositions. It secured £3.0 billion of new mandates during 2001 *(2000: £495 million)*, an increase of 500%, which places Morley in the top three for actively managed UK institutional mandates for external new business.

Morley was rated best UK insurance fund manager in the Standard & Poor's awards in March 2001. Two of our corporate analysts received top ratings, one in the Reuters UK Larger Companies Survey and one in the Reuters UK Smaller Companies Survey. Morley also came seventh overall in the Reuters UK Larger Companies top asset management groups survey, leaving it well placed as a member of the leading group of UK asset managers.

←France
Victoire Asset Management was chosen as the best asset management team in the French insurance industry for 2001.

Morley's specialist SRI team, one of only a few in this field, undertook a number of initiatives during 2001, including the launch of a range of pooled pension funds. These funds focus on companies that make a direct link between sustainable development and long-term returns.

Morley launched two new retail funds for UK private investors in 2001. It is the first time Morley has created products under its own name for the retail market. Another development was the launch of Morley Absolute Growth Investment Company (Magic), which incorporates a hedge fund element with the objective of delivering high income while maintaining capital value. This was fully subscribed and raised £226 million of new funds.

The launch of these new products adds to the comprehensive range of investment funds offered by Morley to the institutional and retail markets.

Morley also has particular expertise in property. It manages the second-largest property portfolio in the UK, which is valued at about £9 billion and covers commercial and residential markets and property development.

Victoire Asset Management returned an excellent level of investment results in France in 2001, with 70% of its funds ranked in the top quartile for investment performance over three years. Victoire was chosen by monthly financial magazine *Mieux Vivre Votre Argent* as best asset management team in the insurance industry for 2001, an award it had previously won in 1999.

In the Netherlands, where Delta Lloyd and Ohra are among the leading fund managers, 2001 was a difficult year. We launched a new mutual fund product for institutional investors, and our fixed income mutual funds portfolio was also successful. Total assets under management grew during 2001 to £29 billion. We are taking advantage of this expertise by launching mutual funds into Germany and Belgium.

2nd largest in UK
Morley property portfolio
500%
increase in new UK institutional mandates

Hibernian reinforced its position as a leading player in the Irish investment market. Success in attracting third-party mandates, and the launch of a number of new funds backed by the expertise of Morley, saw funds under management rise 10% to £4.3 billion.

Morley Singapore was awarded enhanced fund manager status by the monetary authority of Singapore in November, which will help achieve our goal of establishing Morley as one of the top five fund management brands in the Asia Pacific market.

Fund administration We continue to develop our distribution and service capability for the important and growing mass affluent market by providing customers with a choice of fund managers within a single product.

The Navigator retail fund administration business in Australia continues to be highly successful. It enables customers to build tailored investment portfolios by drawing from a wide range of fund managers, and is supported by pioneering new technology. New business sales increased by 20% to £930 million *(2000: £824 million)*. With £2.8 billion of funds under administration at 31 December 2001, Navigator ranks second in the Australian market based on new funds under administration.

Along with its business-leading technology, Navigator is being adapted for introduction to the Singapore market during the first quarter of 2002, when significant financial reforms will pave the way for growth through the fledgling financial adviser market. This represents an important move as CGNU broadens its worldwide investment management capabilities.

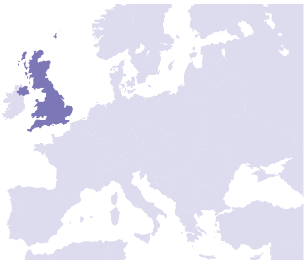
Global strategy Despite the market downturn during 2001, opportunities exist to build our global fund management operations in a way that will not only support the growth of our long-term savings business but also create value by managing third-party assets.

The longer-term prospects are good because of the growing need for privately funded pension schemes, stable economic policies encouraging a switch away from traditional cash deposits into equity-linked investments, and a demand for higher-performing assets from increasingly sophisticated investors.

We have undertaken a global operating review of our fund management business and have concluded that there will be a benefit to CGNU in bringing our operations closer together. Plans are currently being developed to put in place this increased level of co-operation.

We will be focused on those products and markets around the world where we can be most successful. The needs of our clients will be addressed through a clear investment philosophy and a superior range of funds, products and service. We will retain our strong retail focus to support local businesses while continuing to strengthen our institutional business, using one consistent investment process across all our funds. We remain committed to active fund management and achieving robust and repeatable returns for our clients.

➔Netherlands
Delta Lloyd and Ohra are among the leading fund managers in the Netherlands and are now expanding into Germany and Belgium.



➔UK
Morley Fund Management has a Socially Responsible Investment team, one of only a few in this field, making a direct link between sustainable development and long-term returns.

Focused approach to general insurance

➔Australia
The acquisition of Fortis Australia will improve our cost ratio and consolidates CGNU's top five position.

Market position Our strategy is to create a general insurance business with strong and focused market positions, capable of generating high-quality earnings and a healthy return on capital. Achieving this goal will provide us with a complementary flow of profits to support the more capital-intensive long-term savings business. We are operating in those markets where we have scale, presence and expertise which, along with our rigorous approach to accepting risks, produces more stable and sustainable profits.

CGNU is the leading general insurer in the UK and Ireland, and we have top-five positions in the Netherlands, Canada, Singapore, New Zealand and Australia (reinforced by the acquisition of Fortis Australia). Our strategy in these markets is to concentrate on leadership in personal lines – mainly home and motor cover – and small to medium business cover, using disciplined underwriting and efficient claims handling. Our size enables us to invest in technology and apply appropriate pricing to meet claims inflation.

We have reduced volatility and improved the quality of earnings in our portfolio by moving away from larger commercial risks, and by disposing of general insurance operations in the United States, our London Market and global risks business, and other businesses where we did not expect to achieve a market-leading position or superior returns.

CGNU's exposure to life and general insurance claims relating to the terrorist attacks in the United States on 11 September 2001 is no more than £35 million, after taking into account reinsurance arrangements. The sale of our US business earlier in the year and our exit from the London Market helped to limit our exposure.

Performance The general insurance business reported an impressive turnaround in performance during a year of reshaping the type of business we write, restructuring the global portfolio and integration activity.

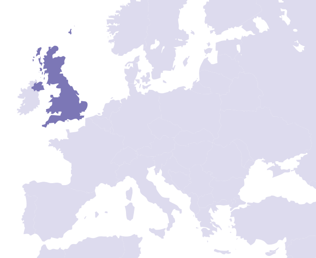
The benefits of strong rating action, disciplined underwriting and lower weather-related claims, were reflected in an improved underlying underwriting loss for 2001 of £224 million *(2000: £821 million loss)* and an operating profit up 133% to £945 million *(2000: £412 million).* These results exclude the disposal of US general insurance and London Market operations.

Through continuing rigorous risk selection and premium rating action we achieved our target combined operating ratio of 102% by the end of 2001. We now have a business capable of sustaining this operating ratio through the underwriting cycle.

General insurance net premiums written decreased to £8,433 million *(2000: £8,990 million)* as we reduced our worldwide portfolio and aimed for profit rather than volume.

More than half (57%) of CGNU's general insurance business is written in the UK, where operating under the Norwich Union brand, we have a market share of some 19%. Operating profit in 2001 was up 99% to £590 million. UK net written premiums decreased during 2001 as we reduced our portfolio, mainly through the planned withdrawal from large commercial risks. This refocusing of the business has contributed to a change in distribution mix, with reduced sales through intermediaries but an impressive 28% growth in retail direct sales.

102%
combined operating ratio
6 million customers
supported by total incident management



←UK
More than half of CGNU's general insurance business is written in the UK, where Norwich Union is the leading insurer and has a market share of 19%.

←Ireland
Hibernian in Ireland gives CGNU the No 1 position in this market.

£945 million
operating profit
19%
UK market share
No1
in Ireland

France recorded a strong recovery in its general insurance result to £58 million in 2001, through rate increases, improved underwriting and lower weather-related costs. Net premiums written rose by 8%.

Operating profit from our other European businesses improved to £108 million *(2000: £37 million)* reflecting the benefits of our strategic focus, disciplined underwriting and rating actions.

Our Australian and New Zealand businesses reported lower operating profit of £69 million *(2000: £82 million)*, primarily reflecting the sale of State Insurance in New Zealand, which contributed £10 million to the 2000 result. Canada achieved an operating profit of £72 million *(2000: £78 million)* after an increase in the level of prior year bodily injury claims. Our other international businesses returned an increase in operating profit at £48 million *(2000: £34 million).*

Underwriting and pricing In each market the integration process saw us move business written on to single operating platforms for personal and commercial lines business. A restructured and re-rated product portfolio reflected our groupwide focus on personal lines and small to medium business exposure.

In the UK, our underwriting strategy is clear – we have strict control on risk selection. We have further developed our underwriting policies and procedures to ensure we provide for the insurance needs of small to medium businesses while moving away from big commercial risks. This approach, coupled with the creation of an underwriting academy in the UK to develop the professional skills of our key people, is realigning our business to deliver consistent performance and sustainable long-term advantage.

The launch of a common pricing platform for our UK motor business in July 2001, using over seven million policyholder records, is helping us to ensure fairer quotes for everyone. This uses Norwich Union's huge insurance database (40% larger than that of our nearest competitor) to enable more accurate selection and pricing of risk, and is a significant move towards tailored pricing for individual customers. A similar arrangement for household insurance will begin during 2002.

In view of the frequency and cost of severe weather across the UK, the issue of flooding remains high on the agenda for Norwich Union. We are taking a market-leading stance with a campaign aimed at placing the onus on government and industry bodies to ensure adequate flood defences, funding and planning controls. Over time, this should mean better protection against flooding and reduced claims for the insurance industry to meet.

We have commissioned the production of detailed relief maps of the UK, indicating land heights above sea level. This data will enable us to develop a flood model for incorporation into our new pricing platform for homeowner and commercial property business. This unique information will ensure that Norwich Union can price even more accurately for each individual case.

In the Netherlands, Delta Lloyd recovered from a small loss in 2000 to profit in 2001 as a result of underwriting action and pricing adjustments across all business lines, and a more critical approach to larger risks. Motor rates were increased and stricter underwriting criteria introduced, with certain classes of business no longer covered.

Efficiency Norwich Union Insurance's expense ratio – which broadly measures expenses before commission over premiums – was 10.5% at the end of 2001, one of the lowest among the large UK insurers. This is after investment in our market-leading technology and processes on a scale that only companies of our size can achieve, and reflects how integration of the business has driven down costs.

We have established a combined infrastructure for claims management to obtain the greatest overall benefits from our size, and continue to develop a culture around Total Incident Management (TIM). We recognise the stress that often accompanies a claim, and so aim to get things back to normal for the customer as soon as possible. Extending TIM to around six million policyholders who would benefit in the event of a claim has generated greater value for money for Norwich Union. Through agreements with approved suppliers, we settled over half of the claims in 2001 with repairs or appropriate replacement items at lower cost than by issuing a cheque to the customer. Following this advance, our challenge is to export the TIM culture, sharing learning and processes with other parts of our general insurance business worldwide.

We aim to use new technology for as many processes and transactions as practicable in the interests of improving service levels and reducing operating costs. This has resulted in Norwich Union in the UK becoming the leading user of remote image inspection technology in Europe. Our engineers use digital video cameras to assess damage to vehicles, which enables us to handle motor insurance claims more quickly and accurately without the need to visit locations.

Similar initiatives are under way in our other general insurance operations. For example, Delta Lloyd in the Netherlands is testing a process for assessing motor claims by accepting digital pictures sent by customers via the internet.

We have piloted a web-enabled policy administration system and a new website for intermediaries, which are being developed in the UK as part of our partner self-service (PaSS) programme. This programme will connect intermediaries and corporate partners directly into Norwich Union's systems through web-based technology and will create a market-leading platform for delivering improved service to our business partners.

Driving innovation is a key part of our long-term strategy. With this in mind, the group is investing in new motor vehicle technology to help change the way motor insurance is bought by our customers in the future. Pay As You Drive insurance uses a black box installed in the vehicle and linked to satellite tracking technology to provide accurate data about vehicle use. We have talked extensively to customers, vehicle manufacturers and technology providers, and intend to begin a long-term study using this in-car technology to provide a more tailored Pay As You Drive premium charge to our policyholders. This research and development project will put us at the forefront of European insurance offers.

Multi-distribution capability We believe that a successful distribution strategy is one that allows the customer to choose which method of doing business they prefer, an approach reflected in our principal general insurance businesses.

In the UK we have a leading position across the broker, corporate partnership and retail direct distribution channels. We worked with our business partners throughout the integration process and retained key corporate and broker accounts. We have also built a growing presence in e-commerce, with quotes via the internet and other digital channels rising 60% to over one million during 2001.

In France, our motor, health and property insurance business is sold through agents of Abeille assurances, brokers and a direct operation, Eurofil. In Ireland, Hibernian uses call centre technology to supplement the traditional agent and broker channel, as well as the growing direct business. Most of Delta Lloyd's business in the Netherlands is introduced by intermediaries, with direct sales an area for growth under the strong brand name of Ohra.

In Canada, products are distributed primarily through 2,500 independent broker partners, who are able to handle policy administration over the internet via a leading-edge web application. Our Australian business uses a range of distribution methods, with business from brokers, agents and direct sales lines, and an increasing e-commerce capability.

Customer service The scale and pace of integration activity during 2001 created pressure on our customer service standards, although we worked hard to maintain our performance in key areas. For example, about one million claims benefited from our TIM service in the UK during the year. We acknowledge that continuous improvement to deliver high-quality service is the hallmark of a leading insurer, and we further increased our focus on service improvements as integration was completed.

Norwich Union Insurance in the UK has strongly supported the UK General Insurance Standards Council (GISC) from the outset, because we believe that it offers good safeguards for customers. We will therefore continue to adhere to GISC rules until the Financial Services Authority assumes responsibility for regulating the sale of UK general insurance products at the beginning of 2004.

Following the World Trade Center tragedy on 11 September 2001, we helped people caught up in those terrible events by overlooking standard exclusions on travel policies. We also provided free travel insurance for relatives and others who needed to travel to the US in the aftermath of the tragedy.

Corporate social responsibility

CGNU's environmental programmes continue to be developed and adopted across the group. This progress has won external recognition in a number of ways.

In September 2001 we became the first UK insurer to be included in the Dow Jones Sustainability World Index – the first global investment index to track the performance of the world's leading sustainability-driven companies. In addition, CGNU is included in the FTSE4Good indices, which promote investment in companies with good records of corporate social responsibility. We have also been included in a variety of specialist funds that seek evidence of environmental and social responsibility.

In the Business in the Environment (BiE) index of corporate environmental engagement, CGNU was placed sixth in the financial services sector and 23rd in the index of FTSE 100 companies. These are lower rankings than last year, reflecting the fact that the newly merged group was unable to provide relevant data for the pre-merger companies in order to demonstrate improving performance over a longer period. We are, however, pleased with our continued performance and play an active part in the development of BiE initiatives.

Over the past year our focus on environmental management and reporting has broadened to include related areas of corporate performance, such as the community, employees, human rights, health and safety, suppliers, customers and standards of business conduct. Together, these areas are commonly termed corporate social responsibility (CSR).

After thorough consultations with various interest groups, both internally and externally, we have developed a corporate social responsibility policy, comprising commitments in each of the areas mentioned above.

The CSR policy will go a long way towards demonstrating compliance with guidelines issued in October 2001 by the Association of British Insurers in the UK. The scrutiny of our own performance is an established practice at CGNU board and executive level, which will continue to be developed in the future.

Our commitment to playing a leading role in the development of worldwide thinking and practice in this area resulted in our signing the United Nations' Global Compact initiative, launched by UN secretary-general Kofi Annan.

CGNU has also been asked to lead a group of UK insurers and banks in the development of initial guidelines on CSR for the financial services industry. These will form part of the UK contribution to the world summit on sustainable development in Johannesburg later this year.

Integration of CSR into our core business activities can be achieved in different ways. A leading example within the CGNU group is Morley Fund Management, which recognises that successful companies need to manage the environmental, social and ethical issues that affect their business. To maximise returns, Morley has adopted a socially responsible investment (SRI) strategy which uses shareholder engagement to ensure it has a good working knowledge of the companies in which it invests. As a responsible shareholder, Morley encourages companies to adopt best practice when managing the social and environmental impacts of their business, and has integrated these requirements into the exercise of its shareholder voting rights at annual general meetings.

CGNU invested a total of £16 million worldwide in sponsorships in 2001, including over £5 million spent on community activities and charitable causes as measured using the Business in the Community benchmarking template.

Community involvement plays an increasingly important part in the group's corporate life. For instance, we continue to provide support for crime prevention measures, including Neighbourhood Watch initiatives in the UK, Canada and Australia.

The group's charitable giving covers a wide range of sectors and organisations, including many aspects of medical research, social welfare, the young, the elderly and the arts. One such initiative is the UK staff charity of the year. In 2001, including matching funds from the group, staff raised over £180,000 for CLIC (Cancer and Leukaemia in Childhood).

CGNU has published its first CSR report, which can be found on our internet website at www.cgnu-group.com/csr.

Supporting communities
CGNU invested a total of £16 million worldwide in sponsorships in 2001, with over £5 million spent on community activities and charitable causes. Norwich Union extended its commitment to UK Athletics with a new sponsorship worth £20 million over four years, including development schemes for youngsters. The UK staff charity of the year raised over £180,000 for CLIC (Cancer and Leukaemia in Childhood).

CGNU operates under strong corporate governance principles, supported by core disciplines in the areas of performance management and capital management. Performance management focuses upon delivering high quality financial returns for our shareholders. Capital management optimises these returns through the efficient deployment of shareholder funds, while protecting the interests of debtholders and policyholders.

During 2001 the industry has seen significant turmoil, including the terrorist attacks of 11 September and the falls in worldwide equity markets. Our financial disciplines have helped us through these events and delivered strong growth while protecting solvency and improving the quality of our earnings.

Performance management

Basis of preparation The financial statements have been prepared on the modified statutory solvency basis, with supplementary information using the achieved profits basis. The main difference between the two methods is that the achieved profits basis recognises a prudent element of profit on insurance contracts at the point of sale, whereas the modified statutory solvency basis defers more of the contract profit until later in the policy term.

The directors believe that the achieved profits basis provides a more accurate presentation of the activity and results of the Group, and the business is managed accordingly. Supplementary information on this basis is provided on pages 92 to 98.

Operating profit before tax, including life achieved profit, is a primary measure used by the group to assess its financial performance. It is based upon longer-term investment returns and it excludes the amortisation of goodwill and exceptional items.

All growth rates in the financial review are quoted at constant rates of exchange.

2001 overview

Operating profit

Year ended 31 December	2001 £m	2000 £m	%
Pre-tax operating profit, including life achieved profit, before amortisation of goodwill and exceptional items			
Life achieved profit	**1,674**	1,569	5
Health	**70**	68	1
Fund management	**29**	61	(53)
General insurance	**945**	412	133
Non-insurance	**(2)**	(24)	92
Corporate costs	**(187)**	(185)	(1)
Unallocated interest	**(426)**	(361)	(18)
	2,103	1,540	36
Wealth management	**(99)**	(133)	26
Continuing operations	**2,004**	1,407	41
Taxation, minorities and preference dividend	**(741)**	(516)	
Operating profit before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders	**1,263**	891	
Operating earnings per share	**56.1p**	39.7p	
Operating earnings per share on a modified statutory basis[1]	**43.2p**	28.3p	

1. After tax and before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, attributable to equity shareholders.

"Our financial disciplines have delivered strong growth and improved the quality of our earnings"

The group's operating profit before tax from continuing operations, including life achieved profit, increased to £2,004 million *(2000: £1,407 million)*. On a modified statutory basis operating profit before tax from continuing operations was £1,533 million *(2000: £1,028 million)*.

The increase in operating profit was driven by returns on our expanding European life operations and improved underwriting performance from the general insurance business together with lower weather-related claims in 2001. The fund management operations suffered from reduced fee income, especially in the third quarter, as equity markets fell significantly, and as we have continued to invest in growing our retail operations.

During the year we have completed the sale of our US general insurance operation, and announced our intention to dispose CGU Courtage, the broker-based French general insurance operation, while expanding significantly in Spain, Italy, Singapore and other overseas life markets. This represents a significant focus on our core operations, and places us in a strong position for 2002.

Financial highlights

Year ended 31 December	2001 £m	2000 £m
Profit/(loss) before tax:		
– achieved profit basis	**(546)**	(1,312)
– modified statutory basis	**514**	(1,406)
Earnings per share based on profit/(loss) for the financial year:		
– achieved profit basis	**(33.1)p**	(73.8)p
– modified statutory basis	**0.7p**	(77.0)p
Dividends per share	**38.0p**	38.0p

Profit before tax on a modified statutory basis of £514 million was depressed by a £1 billion shortfall in the actual investment return compared to the group's longer-term assumptions. This reflects unrealised losses on equities held by the group's non-life operations, particularly in the UK and Europe where the major markets fell between 16% and 22%.

On an achieved profit basis, the loss before tax of £546 million includes a further investment return shortfall of £1.6 billion, reflecting the impact of these market falls on the group's life embedded value. Over £1 billion of this shortfall arose in the UK.

The 2000 results were severely depressed by the cost of withdrawal from our London Market and US general insurance operations.

The taxation charge of £102 million *(2000: £263 million)* on an achieved profit basis, includes £631 million *(2000: £437 million)* in respect of operating profit from continuing operations, equivalent to an effective rate of 31.5% *(2000: 31.1%)*.

Long-term savings On an annual premium equivalent basis (the sum of new regular premiums and one tenth of new single premiums) new business has increased by 12% in 2001 to £2,475 million. This includes substantial contributions from our expanding European bancassurance operations in Spain and Italy together with considerable organic growth in our other businesses. The life and pensions products contributed £2,319 million, a growth of some 20% over last year, while investment business declined to £156 million *(2000: £267 million)* reflecting reduced consumer appetite for equity-related products.

The UK Life new business has been influenced by our very strong position in the emerging stakeholder pension market, where we have achieved first position in the influential IFA market since the products were launched in April. The alliance with The Royal Bank of Scotland Group plc has provided £228 million of single premium sales for the first time this year.

The decline in equity-related business contributed to a sales slowdown in Ireland and the Netherlands, the latter seeing investment production fall from £1,025 million last year to £85 million in 2001.

Long-term savings: new business contribution[1]

Year ended 31 December	2001 £m	2000[2] £m
UK	**327**	280
France	**79**	57
Ireland	**29**	19
Italy	**28**	20
Netherlands (including Belgium and Luxembourg)	**38**	9
Poland	**11**	39
Spain	**63**	22
Other Europe	**–**	2
International	**16**	6
Total	**591**	454

1. Excludes retail investment sales and is stated before the effect of solvency margin.
2. Stated using 2001 assumptions.

New business contribution was up 30%, at £591 million for the year with strong growth in all of our major businesses.

In the UK, in spite of a particularly competitive market, an increasing proportion of which comprises products with a 1% charging structure, we have been able to increase our new business contribution as a result of excellent sales growth.

Long-term savings: new business margin[1,2]

Year ended 31 December	2001 %	2000[3] %
UK	**25.8**	28.6
France	**33.9**	25.7
Ireland	**28.5**	24.0
Italy	**22.2**	34.3
Netherlands (including Belgium and Luxembourg)	**22.3**	6.9
Poland	**18.4**	21.4
Spain	**46.5**	38.9
Other Europe	**–**	2.1
International	**12.1**	6.0
Total	**25.5**	23.9

1. The ratio of long-term savings new business contribution to sales measured on an annual premium equivalent basis.
2. Excludes retail investment sales and is stated before the effects of solvency margin.
3. Stated using 2001 assumptions.

The new business margins in Spain continue to strengthen, as we expand the business and secure incremental economies of scale. This market is likely to continue to prove profitable as we consolidate our position, with continued competitive advantage provided by our efficient administration platform.

Our UK operation has seen a change of mix, towards products with a much tighter pricing structure, most notably in the pensions sector. As a more developed marketplace, we cannot expect returns on capital in the UK to match the growing markets elsewhere in Europe.

Long-term savings[1]*: life achieved operating profit*

Year ended 31 December	2001 £m	2000 £m
New business contribution	**479**	392
Profit from existing business		
Expected return	**848**	839
Experience variances	**(18)**	10
Operating assumption changes	**17**	(7)
Development costs	**–**	(20)
Expected return on shareholders' net worth	**339**	319
	1,665	1,533
Other life and savings activities	**9**	36
Life achieved operating profit	**1,674**	1,569

1. Excludes retail investment business.

The increase in life achieved operating profit is largely attributable to higher new business volumes, with expected returns on existing business and shareholders net worth broadly unchanged.

The most significant element of the operating assumption change is the £78 million adverse impact of improved life expectancy on our UK annuity portfolio. This has been offset by the favourable effect of higher management fees and profit attribution in the Netherlands and Germany respectively. In addition, reduction in the risk margins in Poland and the Netherlands has contributed a profit of £45 million.

On a modified statutory basis, the profit from long-term business operations before tax was £1,126 million *(2000: £1,053 million)*.

+30%
new business contribution
+5%
life achieved operating profit

General insurance: operating result

Year ended 31 December	2001 £m	2000 £m	%
UK	**590**	296	99
France	**58**	(115)	(150)
Ireland	**48**	21	129
Netherlands (including Belgium and Luxembourg)	**19**	(4)	(575)
Other Europe	**41**	20	128
Australia and New Zealand	**69**	82	(12)
Canada	**72**	78	(9)
Other international	**48**	34	45
Total	**945**	412	133

The operating profit reflects the improvement in the underwriting performance to £224 million loss from £821 million loss, together with the normalised investment return of £1,169 million *(2000: £1,233 million).*

Normalised investment returns have declined slightly during 2001, as a result of general insurance disposals over the last two years and changes to the asset mix.

General insurance Worldwide general insurance net premium income, from continuing operations, decreased to £8,433 million *(2000: £8,990 million)* reflecting a rigorous approach to pricing and the consequent impact on policy volumes.

In the UK we have secured average, annualised rating increases for personal motor and homeowner of 13% and 6% respectively, and for commercial motor and property of 18% and 11% respectively. The total net written premium has remained broadly stable, but the number of policies has declined as we pursue our focused underwriting strategy.

We withdrew from a number of operations during the year, and announced our intention to sell the CGU Courtage operation in October 2001. We are committed to our strategy of taking a focused approach to general insurance operations, and acquired the Australian business of Fortis in the second half of the year. Together with our existing Australian operations, we now have a leading position in key motor dealer and financial institution distribution channels.

General insurance: combined operating ratio[1]

Year ended 31 December	2001 %	2000 %
UK	**102**	108
France	**104**	133
Netherlands (including Belgium and Luxembourg)	**104**	108
Other Europe	**103**	108
Australia and New Zealand	**99**	101
Canada	**107**	106
Other international	**102**	103
Group – ongoing business	**102**	109

1. Combined Operating Ratio (COR) – expresses the extent to which expenses and claims cover insurance premiums. It is the sum of expenses, including commissions, as a percentage of net written premiums, and claims as a percentage of net earned premiums.

It was our aim to achieve a COR of 102% by the end of this year across our businesses, and it is satisfying to see this delivered. Improvements have been made in all segments, with particular success in France where the ratio has fallen from 133% to 104%, due to the absence of large storm losses in 2001.

A key medium-term objective for our general insurance business is to deliver a COR at this level across the underwriting cycle. Although market conditions are favourable, the achievement of 102% this year is an excellent result.

In the UK, we have sacrificed some volume to achieve the improvement in product ratings, which are contributing significantly to the COR as the increases earn through. The result in Canada, at 107%, was disappointing and, in line with the market, reflects claims deterioration on the older years in the liability account.

Asset management The CGNU asset management businesses had a mixed year, with good performance in France tempered by falling market values leading to depressed fund management fees.

In the UK, Morley continued to invest in the developing retail funds business, with some £32 million spent during the year *(2000: £21 million).* In spite of poor market conditions, and the sale of Quilters, the group finished the year with over £209 billion assets under management (*2000: £220 billion).*

Integration We have met our challenging objective for completing integration by the end of 2001, and have exceeded our annualised cost savings target of £275 million.

The group-wide annualised cost base has benefited by £317 million, of which £225 million was reflected in the results of the year.

Integration savings

Year ended 31 December	Life £m	General Business £m	UK Fund Management £m	Corporate £m	Total £m
Annualised					
– target	91	116	27	41	275
– realised	96	144	31	46	317
Included in 2001 results	76	76	28	45	225

Some of these savings are being invested in business growth, new IT platforms, UK general insurance claim process improvements and a global finance change programme.

Capital management

Shareholders' funds have declined by 13% to £11,872 million, largely reflecting an 18% fall in European equity markets. During the year, we disposed of the US general insurance operation, crystallising the after tax loss of £1 billion, provided in 2000, and invested £0.8 billion in new ventures *(2000: £1.2 billion)*. The group raised £1.2 billion of fresh capital to strengthen further its financial position.

Capital employed Our focused approach to corporate activity, closely aligned to the business strategy, has resulted in a shift in the mix of capital away from general insurance and health. The majority of the assets released from discontinued operations has been applied to reduce borrowings. The remainder, together with the proceeds of the subordinated debt issue, is available to shareholders and has been shown as corporate.

Capital employed by segment

At 31 December	2001 £m	2000 £m	%
Long-term savings	**11,321**	11,455	(1)
General insurance and health	**4,921**	5,425	(9)
Other business	**310**	272	14
Corporate	**3,063**	2,009	52
Total continuing operations	**19,615**	19,161	2
Discontinued operations	**–**	1,757	na
Total capital employed	**19,615**	20,918	(6)

Deployment of equity shareholders' funds

At 31 December	Equities £m	Fixed income securities £m	Other investments £m	Other assets £m	2001 Total £m	2000 £m
Assets	**4,947**	**5,063**	**2,242**	**120**	**12,372**	11,552
Goodwill					**1,385**	1,004
Additional value of in-force long-term business					**5,858**	6,605
Assets backing capital employed in continuing operations					**19,615**	19,161
External debt					**(2,651)**	(2,581)
Internal debt					**(3,284)**	(4,120)
Subordinated debt					**(1,157)**	–
					12,523	12,460
Minority interests					**(651)**	(584)
Preference capital					**(200)**	(200)
Total continuing operations					**11,672**	11,676
Discontinued operations					**–**	1,757
Equity shareholders' funds					**11,672**	13,433

Return on capital employed Rates of return have been depressed this year by assets supporting the US general insurance operation, upon which we received no return for the first five months. We remain focused on achieving our ambitions of a 10% net real return in the medium term, without sacrificing quality of earnings.

Return on capital employed[1]

At 31 December	2001 Normalised after-tax return £m	2001 Opening equity capital £m	2001 Return on capital %	2000 Return on capital %
Long-term savings	**1,160**	**11,455**	**10.1**	10.3
General insurance and health	**640**	**5,425**	**11.8**	6.4
Other business	**(70)**	**272**	**(25.7)**	(47.5)
Corporate	**(59)**	**2,009**	**(2.9)**	(2.0)
	1,671	**19,161**	**8.7**	6.7
Borrowings	**(298)**	**(6,701)**	**4.4**	5.1
	1,373	**12,460**	**11.0**	7.2
Minority interest	**(93)**	**(584)**	**15.9**	10.3
Preference capital	**(17)**	**(200)**	**8.5**	8.5
Total continuing operations[2]	**1,263**	**11,676**	**10.8**	7.1

1. The normalised after tax return on opening equity capital, based on operating profit from continuing operations, including life achieved profit, before amortisation of goodwill and exceptional items.

2. The return on capital employed, including discontinued operations, was 9.4% (2000: 5.8%).

Capital Structure The group maintains an efficient structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with the group's risk profile and the regulatory and market requirements of our business.

The group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is some £5.9 billion (2000: £6.7 billion) greater than the capital provided by its shareholders and its subordinated debtholders. As a result, the group is able to enhance the returns earned on its equity capital.

The return on capital for continuing operations of 10.8% (2000: 7.1%) considerably exceeds the 8.7% return on the capital employed in our businesses (2000: 6.7%), enhancing value for our shareholders.

External funding is provided from both the banking and the debt capital markets. In November 2001, the company issued £1.2 billion of subordinated debt. This provides cost-effective funding and is treated as equity for both regulatory and rating agency purposes.

In addition to its external funding sources, the group has a number of internal debt arrangements in place. These have allowed the investment of assets supporting technical liabilities into the pool of central capital for use across the group. They have also enabled the shareholders to deploy cash from some parts of the business to others in order to fund growth. Although intra group loans in nature, they are counted as part of the capital base for the purpose of capital management. All internal loans have been negotiated at a market rate and are appropriately serviced.

The group's principal insurance operating subsidiaries have been assigned financial strength ratings of AA, "very strong security", from Standard & Poor's.

Borrowings and interest cover The net proceeds of the disposal of the US general insurance operation in June this year were used to reduce the group's borrowings and to finance the acquisitions made during the year and other operational requirements.

In November the group raised £1.2 billion of subordinated debt to fund anticipated organic and inorganic growth. This has been treated as equity for the purposes of calculating the group's gearing and interest cover, to reflect the characteristics of this form of capital.

At the end of 2001, the group's total external borrowings amounted to £3.8 billion, including the subordinated debt. Around half of these borrowings are on a fixed rate basis with maturity terms between two and 34 years, with the balance being represented by commercial paper and floating rate bank borrowings.

£11.7 billion
equity shareholders' funds
530p
net asset value per ordinary share

(based on equity shareholders' funds, adding back the equalisation provision)

Borrowings

At 31 December	2001 £m	2000 £m
External debt	**2,651**	2,581
Internal debt	**3,284**	4,120
	5,935	6,701
Subordinated debt	**1,157**	–
Total	**7,092**	6,701

The ratio of the group's external debt to shareholders' funds was 19%. Interest cover, which measures the extent to which external interest costs are covered by achieved operating profit, was 12 times.

Management of financial risks

The group recognises the critical importance of efficient and effective risk management systems. Close attention is paid to asset and liability management. This is particularly important for our life businesses, given the long-term nature of the liabilities involved.

General insurance funds are invested in fixed income securities to match broadly our insurance liabilities, the balance of the portfolio invested largely in equities.

Derivatives Derivative instruments are only used to a limited extent, within guidelines established by the Board. Derivatives are used for efficient portfolio management, debt-hedging purposes, or to structure specific retail savings products. Speculative activity is prohibited and all derivative transactions are covered fully, either by cash or by corresponding assets and liabilities.

Exchange fluctuation As a result of the international diversity of its operations, approximately half of the group's premium income arises in currencies other than sterling. Similarly, its net assets are denominated in a variety of currencies, of which the largest are the euro (56%) and sterling (32%).

In managing our foreign currency exposures we do not hedge revenues as these are substantially retained locally to support the growth of our business and to meet local regulatory and market requirements.

The group's net assets and, to a more limited extent its solvency, are exposed to movements in exchange rates. The group hedges part of this exposure through local currency borrowings and derivatives.

Reinsurance Reinsurance is a key tool in managing our catastrophe exposure. In designing our reinsurance programmes we take account of our risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and reduced volatility, and the cost of reinsurance protection.

To complement the reinsurance protection bought by individual businesses, the group has an additional cover in place above £100 million that provides protection from a single event or an aggregation of events.

Mike Biggs, Group Finance Director

Board of Directors

From Left
Pehr Gyllenhammar
Richard Harvey

From Left
Mike Biggs
Philip Twyman
Tony Wyand
Patrick Snowball
Philip Scott

From Left
Wim Dik
George Paul
Derek Stevens
Sir Michael Partridge

From Left
André Villeneuve
Elizabeth Vallance
Guillermo de la Dehesa

Pehr Gyllenhammar (66) Chairman and non-executive director
Appointed to the Board in 1997, becoming Chairman in 1998. Former Executive Chairman of AB Volvo. Currently a Managing Director of Lazard Freres & Co. LLC, Chairman of the Trustees of Reuters Founders Share Company Limited and of Swedish Ships Mortgage Bank and a member of the Supervisory Board of Lagardère SCA. *Chairman of the Nomination Committee.*

George Paul DL (62) Deputy Chairman and non-executive director
Appointed to the Board in May 2000 as Deputy Chairman. Joined the Norwich Union Board as a non-executive director in 1990, becoming Chairman in 1994. Non-executive Chairman of Agricola Group Limited and of Fleming Overseas Investment Trust plc and a non-executive director of Notcutts Limited. A former Chairman and Chief Executive Officer of Harrisons & Crosfield plc. *Senior non-executive director*. *Chairman of the Remuneration Committee and member of the Audit Committee.*

Richard Harvey FIA (51) Group Chief Executive
Appointed Group Chief Executive in April 2001 having been previously appointed to the Board as Deputy Group Chief Executive in May 2000. Joined Norwich Union in 1992, holding senior positions in New Zealand and the United Kingdom before joining the Norwich Union Board in 1995 and becoming Group Chief Executive in 1998. *Member of the Nomination Committee.*

Mike Biggs ACA (49) Executive director
Appointed Group Finance Director in March 2001 having been previously appointed to the Board in May 2000 as executive director responsible for the Group's general insurance operations in the UK. Joined Norwich Union in 1991 and the Norwich Union Board in 1996. Held a number of executive appointments in Norwich Union, becoming Finance Director in 1997.

Guillermo de la Dehesa (60) Non-executive director
Appointed to the Board in May 2000. Joined the Board of Norwich Union as a non-executive director in 1999. Former Chief Executive of Banco Pastor and currently a director. A former Deputy General Manager of the Bank of Spain (1980-1983) and Secretary of State of Commerce (1983-1986) and Finance (1986-1988) in Spain. Currently Chairman of Plus Ultra, non-executive Vice-Chairman of Goldman Sachs Europe and a director of Campofrio, Unión Eléctrica Fenosa and Telepizza. *Member of the Audit and Nomination Committees.*

Wim Dik (63) Non-executive director
Appointed to the Board in 1999, having served as a Chairman of Nuts Ohra, a Dutch insurer acquired by the Group in 1999. A former Chairman of Nederlandse Unilever Bedrijven BV and former Chairman and Chief Executive Officer of KPN, Royal Dutch Telecom. Currently a member of the Supervisory Board of ABN AMRO Bank and TNT Post Group, an advisory member of the Boards of Unilever and a non-executive director of CMG plc. Professor of ICT Management at Delft University. *Member of the Remuneration Committee.*

Sir Michael Partridge KCB (66) Non-executive director
Appointed to the Board in May 2000. Joined the Board of Norwich Union as a non-executive director in 1996. Former Permanent Secretary, Department of Social Security, Chairman of Middlesex University and non-executive director of The Stationery Office. Currently non-executive director of Methodist Ministers Pension Trust Limited, Epworth Investment Management Limited and Harefield Research Foundation. *Member of the Audit Committee.*

Philip Scott FIA (48) Executive director
Appointed to the Board in May 2000. Joined Norwich Union in 1973 and the Board of Norwich Union in 1993. Held a number of senior positions in Norwich Union, becoming Chief Executive UK life and long-term savings in March 1999. Currently executive director with responsibility for the Group's UK life and long-term savings operations.

Patrick Snowball (51) Executive director
Appointed to the Board in March 2001 as executive director with responsibility for the Group's general insurance operations in the UK. He was previously a director of Norwich Union, appointed in October 1999, having joined that company in 1989.

Derek Stevens (63) Non-executive director
Appointed to the Board in 1995. A former director and Chief Financial Officer of British Airways Plc and a former Finance Director of TSB Group plc. Currently Chairman of the Trustees of British Airways Pension Scheme. *Chairman of the Audit Committee and Chairman of the CGNU Staff Pension Scheme.*

Philip Twyman FIA (57) Executive director
Appointed to the Board in June 1998. Joined the Board of General Accident in 1996 as executive director responsible for finance, life and investment operations. Currently executive director with responsibility for the Group's international and fund management operations.

Elizabeth Vallance (56) Non-executive director
Appointed to the Board in May 2000. Joined the Board of Norwich Union as a non-executive director in 1995. Currently Chairman of the NHS Advisory Committee on Distinction Awards, Fellow of Queen Mary and Westfield College, University of London and Chairman of Council of the Institute of Education, University of London, non-executive director of Charter European Trust plc and a former non-executive director of HMV Group Limited. *Member of the Remuneration and Nomination Committees.*

André Villeneuve (57) Non-executive director
Appointed to the Board in 1996. Chairman of Instinet Corporation and a non-executive director of United Technologies Corporation. A former executive director of Reuters plc. *Member of the Remuneration Committee.*

Tony Wyand (58) Executive director
Appointed to the Board in 1987. Joined Commercial Union in 1971 and worked for the Group in the UK, the United States and France. Currently responsible for the Group's operations in continental Europe and Ireland. A non-executive director of Société Générale, UniCredito Italiano and Grosvenor Group Holdings Limited.

Financial statements

Directors' report

The directors submit their Report and Accounts for CGNU plc, together with the consolidated accounts of the CGNU group of companies, for the year ended 31 December 2001.

Annual General Meeting A separate document accompanying the Report and Accounts contains an explanation of the business to be conducted at, and the Notice convening, the Annual General Meeting of the Company, to be held on 23 April 2002 at 11.00am at The Barbican Centre, Silk Street, London EC2Y 8DS.

Principal activities CGNU plc is the holding company of the CGNU group of companies, which transacts life assurance (other than industrial life) and long-term savings business, fund management, and all classes of general insurance through its subsidiaries, associates and branches in the United Kingdom, continental Europe and Ireland, North America, Asia, Australia and other countries throughout the world. The Group also invests in securities, properties, mortgages and loans and carries on the business of trading in property.

Review of operations, current position and future prospects Details of the Group's operations for the accounting period, its current position and future prospects are contained in the Chairman's statement, Group Chief Executive's review and business operating and financial reviews set out on pages 2 to 29.

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

Results The Group results for the year are shown in the consolidated profit and loss account on pages 47 to 49.

Dividend The directors are recommending a final dividend of 23.75 pence *(2000: 23.75 pence)* per share which, together with the interim dividend of 14.25 pence *(2000: 14.25 pence)* per share, produces a total dividend for the year of 38.00 pence *(2000: 38.00 pence)* per share. The total cost of dividends for 2001, including preference dividends, will amount to £874 million *(2000: £872 million)*, requiring £841 million to be transferred from reserves *(2000: £2,585 million from reserves)*.

The final dividend for 2001 will be paid on 17 May 2002 to all holders of ordinary shares on the Register of Members at the close of business on 2 April 2002. The Company's Dividend Reinvestment Plan will be available to shareholders in respect of the payment of the final dividend. Further details of the Plan can be found within the shareholder information on page 100.

Share capital Details of the share capital and shares under option as at 31 December 2001, and shares issued during the year which ended on that date, are given in note 30 on pages 77 to 79.

Directors The names of the present members of the Board and biographical notes appear on pages 30 and 31.

Peter Foster who was Group Finance Director at the beginning of the year, retired from the Board on 31 March 2001 and was succeeded by Mike Biggs who was already a Group executive director. Patrick Snowball was appointed a Group executive director on 31 March 2001 and, in accordance with the Company's articles of association, his appointment was approved at last year's Annual General Meeting.

Lyndon Bolton and Bob Scott, who were directors at the beginning of the year, retired from the Board at the conclusion of the 2001 Annual General Meeting held on 24 April 2001. Richard Harvey succeeded Bob Scott as Group Chief Executive upon his retirement.

The directors retiring by rotation in accordance with the articles of association at the forthcoming Annual General Meeting and, being eligible, offering themselves for reappointment are Wim Dik, Derek Stevens, Philip Twyman, André Villeneuve and Tony Wyand. Philip Twyman and Tony Wyand each have a service contract with a Group company, details of which can be found on page 38.

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

Directors' interests The 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 the Company, as recorded in the register maintained by the Company in accordance with the provisions of section 325 of the Companies Act 1985. Details of any options and awards held through the Company's share schemes and incentive plans are shown on pages 40 to 42. All the disclosed interests are beneficial.

	At 1 January 2001 (or appointment if later) Number	At 31 December 2001 Number
Mike Biggs	20,673	**20,703**
Guillermo de la Dehesa	144	**144**
Wim Dik	–	**–**
Pehr Gyllenhammar	16,756	**16,756**
Richard Harvey	21,171	**21,205**
Sir Michael Partridge	2,260	**2,297**
George Paul	20,397	**25,464**
Philip Scott	26,772	**26,772**
Patrick Snowball	2,275	**290**
Derek Stevens	1,965	**1,991**
Philip Twyman	11,668	**17,131**
Elizabeth Vallance	830	**830**
André Villeneuve	640	**640**
Tony Wyand	13,156	**13,964**

The following changes to directors' interests during the period 1 January 2002 to 26 February 2002, have been reported to the Company. They relate to shares acquired through market purchases and the reinvestment of dividends in Personal Equity Plans and/or Individual Savings Accounts.

	Number of shares
Mike Biggs	14
Wim Dik	200
Richard Harvey	15
Sir Michael Partridge	12
George Paul	32
Tony Wyand	64

Substantial shareholdings As at 26 February 2002, the Company's register of substantial shareholdings maintained in accordance with the provisions of section 211 of the Companies Act 1985 showed that the only holding exceeding the 3% disclosure threshold was that of Legal & General Investment Management Limited which held 69,418,493 ordinary shares, representing an interest of 3.08% of the issued ordinary share capital of the Company.

United Kingdom employees The Group continues to place emphasis on communication and dialogue with employees. News about the Group is provided through a variety of channels, including the intranet, circulars, in-house magazines, video presentations, "live" Group-wide television broadcasts and face-to-face briefings.

Employees are encouraged to have their say on how they view the Company and their employment through confidential staff opinion surveys. Results are fed back to staff and, where appropriate, action plans are put in place to address key issues. Through their participation, staff can help to shape future employment developments. In addition, regular discussions take place with the staff representative bodies.

The Company is also supportive of employee development. This support includes the building of relevant competencies, encouraging staff to gain appropriate professional qualifications and assistance with wider personal development.

The Group's operations in the United Kingdom have established employee career and recognition frameworks, which draw together the formal competencies, target setting and review systems and links them to appropriate rewards and benefits.

At the 2001 Annual General Meeting, shareholders approved the establishment of an All Employee Share Ownership Plan as a way for employees to participate further in the Group's fortunes through share ownership. The Group operates two elements of the plan. The partnership element allows employees to purchase CGNU shares at the prevailing market price from their pre-tax income. The free share element will enable eligible staff to receive free shares, at the Board's discretion, in April 2002. The Group also operates a savings related share option scheme which provides employees with an opportunity to save over a fixed period and acquire share options at a discount to the prevailing market price.

Group companies are committed to providing equal opportunities to all employees irrespective of sex, sexual orientation, marital status, creed, colour, race, ethnic origin or disability. The commitment extends to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

The health and safety of staff is a priority, with both internal reviews and external reports on the health and safety provision being received at regular intervals. Each business unit has an appointed health and safety representative whose role is to bring to the attention of senior management any areas of concern that should be addressed within the health and safety programme. Information on health and safety matters is communicated to staff through the normal communication channels.

Charitable and political donations CGNU has continued to support community initiatives and charitable causes worldwide, and the total Group commitment during the year was £5.1 million.

During the year, community investment in the United Kingdom totalled £3.3 million, using the Business in the Community's benchmarking template, of which £1.3 million *(2000: £1.1 million)* were charitable donations.

No political donations were made in the United Kingdom during the year *(2000: £nil)*. It is not the Company's policy to make donations to political organisations or for political causes and has no intention of changing this policy. However, the Political Parties, Elections and Referendums Act (PPER) came into effect during 2001 and introduced a very broad definition of EU political expenditure in the European Union, such that some of the activities which the Group has to date considered to be normal business activities could now fall within that definition, for example paid leave for staff taking part in trade union or work council activities. The PPER requires companies to obtain shareholders' approval for such expenditure and, therefore, at the forthcoming Annual General Meeting the Board will be seeking authority to make political expenditure, as defined by the PPER, up to £100,000 so as to avoid inadvertent infringements of that legislation. Further clarification on this issue can be found in the Notice of Meeting for the Annual General Meeting which accompanies this report.

Corporate Social Responsibility Policy In response to changes both at European and United Kingdom level, CGNU's environmental programme is now being reported together with progress in related areas of corporate performance such as community and human resources under the heading of Corporate Social Responsibility (CSR). A separate CSR report has been prepared which contains full details of progress achieved within the environmental programme during the year, as well as an explanation of how CGNU proposes to tackle the challenge of management and reporting on CSR. A copy of the printed summary CSR report is available from the Group Company Secretary or the full report may be viewed on www.cgnu-group.com/csr.

Standards of Business Conduct The Group recognises its responsibilities to all those with whom its business brings it into contact, including customers, employees, shareholders, suppliers and the community. It therefore operates a Standards of Business Conduct Policy which provides guidance for every employee, Group-wide, to act with integrity in all business relationships.

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

The Company has no trade creditors. In respect of Group activities in the United Kingdom, the amounts due to trade creditors at 31 December 2001 represented approximately 27 days of average daily purchases through the year *(2000: 32 days)*.

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

Auditors At the Annual General Meeting on 24 April 2001, Ernst & Young was appointed as sole auditor to the Company. PricewaterhouseCoopers, which had previously been joint auditor, did not seek reappointment.

On 28 June 2001, Ernst & Young 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.

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company.

By order of the Board.

Richard Whitaker
Group Company Secretary

26 February 2002

Registered Office: St. Helen's
1 Undershaft, London EC3P 3DQ
Registered in England No. 2468686

Corporate governance

Application of the Combined Code The Financial Services Authority requires listed companies to disclose, in relation to section 1 of the Combined Code produced by the Committee on Corporate Governance in June 1998 (the Combined Code), how they have applied its principles and whether they have complied with its provisions throughout the accounting year.

The Board of Directors The Board has eight scheduled meetings each year and meets more frequently as required. It currently comprises eight non-executive directors, including the Chairman, and six executive directors. Each non-executive director serves for a fixed term of three years, which may be renewed by mutual agreement, and there is no limit to the number of terms a director may serve. The Company's articles of association require that, following appointment by the Board, directors must submit themselves for election by shareholders at the following Annual General Meeting. The articles also provide that one-third of directors must retire by rotation each year, but are eligible to submit themselves for re-election by shareholders, and that all directors are obliged to retire at least every three years.

The Board has a formal performance review process to assess how well it is performing and how it might improve. To ensure that directors are able to exercise an independence of judgement, the Nomination Committee undertakes an annual review of directors' interests in which all potential or perceived conflicts and issues relevant to their "independence" are considered. Based on the December 2001 review, the Board considers that all of the current non-executive directors are independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The directors bring to the Board a wide range of experience and skills and participate fully in decisions on the key issues facing the Group. Directors receive appropriate training when joining the Board and are required to commit to continue their personal development through attendance and participation on courses, seminars, workshops and lectures on issues relevant to the Group's business.

The duties of the Board and its committees are set out clearly in formal terms of reference, which are reviewed annually, stating the items specifically reserved for decision by the Board, including the approval of the Group's strategy and business plans, acquisitions and disposals outside delegated limits, significant financial decisions and approval of key business policies. The said terms of reference contain a procedure whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense if considered appropriate. Directors are fully briefed in advance of Board meetings on all matters to be discussed and at the Board meetings directors receive regular reports on the Group's financial position, key areas of the Group's business operations and other material issues.

The Group Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to his advice and services.

The Board has established a number of committees, including Remuneration, Audit, Nomination, Chairman's and Information Technology Strategy Committees. Each operates within defined terms of reference and the minutes of their meetings are circulated to the Board.

Remuneration Committee The Remuneration Committee comprises the following non-executive directors, appointed by the Board:

George Paul (Chairman)
Wim Dik
Elizabeth Vallance
André Villeneuve

The Committee has four scheduled meetings each year to consider all aspects of remuneration paid to senior executives, including executive directors, and to make recommendations to the Board on the remuneration policy, strategy and framework for this group of employees. The Committee reports regularly to the Board.

Within the framework of the remuneration policy approved by the Board, the contents of the remuneration package and the level of benefits paid to each executive director are determined by the Committee, which seeks independent professional advice to ensure that they are appropriate to support both the Company's short-term and long-term business objectives, and that performance-based remuneration is measured against challenging criteria. The Board itself determines the level of fees paid to the non-executive directors following a recommendation from the executive directors.

The Committee also exercises discretion on behalf of the Board in relation to the operation of the Group's various share schemes and incentive plans.

The Board's Remuneration Report is contained on pages 37 and 38.

Audit Committee The Audit Committee comprises the following non-executive directors, appointed by the Board:

Derek Stevens (Chairman)
Guillermo de la Dehesa
George Paul
Sir Michael Partridge

The Committee meets four times each year to assist the Board in discharging its responsibilities for the Company's financial announcements, business risk management, internal control issues and regulatory compliance, as well as to oversee the objectivity and effectiveness of the internal and external auditors. The Committee receives reports of significant issues raised to the audit committees which have been established in the Group's principal businesses. The Committee meets regularly with the external auditors, in the absence of management, and reports regularly to the Board.

Nomination Committee The Nomination Committee comprises the following directors, appointed by the Board:

Pehr Gyllenhammar (Chairman)
Guillermo de la Dehesa
Richard Harvey
Elizabeth Vallance

The Committee deals with appointments and reappointments to the Board, monitors potential conflicts of interests and reviews annually the independence of the non-executive directors. The Committee makes recommendations to the Board as appropriate.

Chairman's Committee The Chairman's Committee comprises the following non-executive directors, appointed by the Board:

Pehr Gyllenhammar (Chairman)
George Paul
Derek Stevens
Elizabeth Vallance

The main duties of this Committee are to review the performance of the Group Chief Executive and the other executive directors, and the succession planning for this group of management. The Committee makes recommendations to the Board as appropriate.

Information Technology Strategy Committee This Committee comprises the following members appointed by the Board:

André Villeneuve (Chairman)
Wim Dik
Pehr Gyllenhammar
Richard Harvey
Sven Skarendahl*
Philip Twyman

*Sven Skarendahl is an independent consultant. He is not a director of the Company but has been appointed by the Board to this committee due to his broad experience in technology and internet-based companies.

The Committee advises the Board on the Group's IT and e-commerce strategies.

Relations with shareholders The Company places considerable importance on communications with shareholders and responds to them on a wide range of issues. It has an ongoing programme of dialogue and meetings between the executive directors and its major institutional shareholders, where a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of the information already known to the market. The Company also seeks the views of major investors, particularly on remuneration issues, both directly and through consultation with the Association of British Insurers.

At its Annual General Meeting, the Company complies with the Combined Code as it relates to the disclosure of proxy voting, the separation of resolutions and the attendance of committee chairmen. The Notice of the Annual General Meeting is sent out at least 20 business days before the meeting, to ensure that shareholders have sufficient time in which to consider the items of business. Details of the proxy voting by shareholders are available on request and on the Company's website.

Both the Company's Annual report and Annual review are designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement, Group Chief Executive's review and business operating and financial reviews on pages 2 to 29 provide an assessment of the Group's affairs and position and will be supported by a presentation to be made at the Annual General Meeting.

Institutional investor As a major investor, the Group monitors the governance of the companies in which it invests. Morley Fund Management Limited, the Group's asset management company, has regular meetings with senior management of companies where it will raise all relevant matters which may affect the future performance of those companies.

Morley operates a Corporate Governance and Voting Policy in respect of the voting rights it holds in UK companies. The policy also extends to cover social, environmental and ethical issues. Details of how voting discretion has been used on any particular issue are available to clients upon request. In addition, Morley engages with the management of the companies in which it invests on contentious matters, and its policy is applied flexibly after careful consideration of all relevant information.

Internal controls The Board has ultimate responsibility for the systems of internal control maintained by the Group and for reviewing their effectiveness. The systems are intended to provide reasonable assurance, but not an absolute guarantee, against material financial misstatement or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

During the year, the Audit Committee, on behalf of the Board, has reviewed the effectiveness of the framework of the Group's systems of internal control, the principal features of which are as follows:

Control environment The key features of the control environment include the terms of reference for the Board and each of its committees; a clear organisational structure, with documented delegation of authority from the Board to executive management; a Group policy framework, which establishes a governance structure for the Group that effectively oversees operations world-wide and assists the Group in achieving its ambitions; and defined procedures for the approval of major transactions and capital allocation.

Risk identification and assessment The Group's systems of internal control provide a framework to support the ongoing identification, evaluation and management of risks significant to the achievement of its business objectives. This includes risks arising from the Group's financial, regulatory and operational activities as well as social, ethical and environmental risks. The Board has in place a system of business risk management, which has been integrated throughout the Group into the business planning and monitoring process. The results are reviewed by a Risk Committee under the chairmanship of the Group Finance Director. The overall risk management process and results are reviewed formally by the Audit Committee and annually by the Board.

Control procedures and monitoring systems The Group has a well-developed system of planning and monitoring, which incorporates Board approval of a rolling three year Group Plan. Performance against the Plan is subsequently monitored and monthly reports are presented to the Board. Performance is also reported formally through the publication of Group results and accounting policies applied consistently throughout the Group. Operational management report frequently to the executive directors and the Board receives regular representations from management responsible for each principal business operation.

The Group has well-established internal audit, risk management and compliance functions. There are formal procedures in place for both internal and external auditors to report independently conclusions and recommendations to management and to the Audit Committee.

Financial Services Authority The Financial Services Authority became the single, integrated regulator for the financial services industry in the United Kingdom from 1 December 2001. In preparation for the new regulatory regime, the Group completed, ahead of that date, a detailed review of its governance procedures including the roles and accountabilities of those senior executives who were required to be accredited with the Authority as 'Approved Persons'.

Compliance with the Combined Code The Company has complied fully throughout the accounting period with the provisions set down in section 1 of the Combined Code save that, for the reasons given in the Remuneration Report on page 38, two executive directors have service contracts with notice periods in excess of 12 months.

The Auditor's report on page 43 covers their review of the Company's compliance with the relevant provisions of the Combined Code.

Remuneration report

This report sets out the remuneration policy for the Company's senior executives, including the executive directors, and outlines the various elements of their remuneration.

This report should be read in conjunction with the details of the remuneration paid to the directors in 2001 contained on pages 39 to 42.

Remuneration Policy The Company's remuneration policy seeks to provide remuneration packages appropriate for each particular market in which the Company operates, which attract and retain high calibre employees and encourage and reward superior performance in a manner which is consistent with the interests of shareholders. The policy is aimed at ensuring senior executives, are rewarded fairly for their respective individual contributions to the Company's performance.

Against this broad policy, the Remuneration Committee (the Committee) has set the content of the senior executives' total remuneration package by reference to a variety of factors, including market practices for companies of similar size, type and standing, current economic conditions, prevailing operating conditions within both the Group and the financial services industry generally, the earnings of the Group's employees and the skills and management capabilities which the Group must secure in order to attain its strategic objectives. Also, in considering the various elements which constitute senior executives' remuneration, the Committee seeks to produce a balance between long/short-term and fixed/variable rewards.

The Committee regularly reviews the remuneration package to ensure that it remains appropriate within the market and for the achievement of its objectives. It is assisted by independent consultants who specialise in reward strategies for senior executives of large international organisations.

The remuneration package for the Company's senior executives comprises a basic salary, performance-related incentives, a non-contributory defined benefit pension entitlement and certain benefits, including a company car allowance and private medical insurance. The Company believes that a proportion of a senior executive's total remuneration should be "at risk" and attained through incentive plans which link rewards directly with performance. The performance-related incentives consist of a short-term incentive plan, giving participants the potential to earn an annual cash bonus; and a long-term incentive plan which makes annual grants of shares or options over shares.

Details of the various elements of the remuneration package are as follows:

Basic salaries Each year the Committee gathers data from a number of independent sources concerning the level of salaries paid to senior executives performing comparable functions within the financial services sector and industry generally, for similar sized companies. The level of competence of each senior executive is measured, taking into account the executive's experience, performance and objectives achieved. Those who display superior performance over a substantial period are assessed as being fully competent in their roles and their salaries are targeted towards the upper quartile for comparable positions. Salaries for those who have not yet achieved full competence in their roles are targeted towards an appropriate level for comparable positions.

Short-term incentives Senior executives participate in a discretionary Annual Bonus Plan that provides for the payment of cash bonuses. For executive directors, the bonus for on target performance is 35% of basic salary, with a maximum payment of 50%. Seventy per cent of the potential payment under the plan is dependent upon the achievement of financial targets based on the Group's and/or Business Unit's business plan as appropriate for each director. The remaining 30% of the bonus is based upon the attainment of measurable personal objectives.

A fundamental part of the Annual Bonus Plan, which is also designed as a retention and long-term incentive, is the requirement that a stated proportion of any cash bonus awarded under the Plan each year be deferred through the Company's Deferred Bonus Plan. Executive directors are required to defer 50%, and may request to defer up to 100%, of their cash bonus. Participants are granted an award of shares of equal value to the amount of cash bonus deferred and this is matched on a "one for one basis" with a further award of shares. Both awards of shares are held in trust and vest after three years. The vesting of the shares is not subject to any performance conditions as the cash bonuses which are deferred, and upon which the awards of shares are based, are only made if the demanding performance conditions of the Annual Bonus Plan have been met. The Committee believes that imposing additional conditions would discourage participants from requesting deferral of the non-compulsory deferred proportion of their bonus, thereby reducing the retention incentive and the alignment with shareholders' interests. If a participant leaves service during the vesting period for reasons of ill-health, retirement, redundancy etc, the shares are released in full at the end of the vesting period. In all other cases, the matching shares lapse.

The Deferred Bonus Plan was introduced in respect of the financial year 2000 with the first deferral of bonuses taking place in March 2001. In respect of these awards, the Company acquired shares in the market and it is its intention to do so in respect of awards granted in 2002.

Senior executives in the United Kingdom are entitled to participate in the Free Share element of the Group's All-Employee Share Ownership Plan (AESOP). Under this plan, eligible employees can receive up to a maximum of £3,000 pa from the profits of the Company, free of tax, subject to a retention period.

Long-term incentives Under the Company's Long Term Incentive Plan, senior executives are eligible to receive an award of deferred shares each year up to a maximum value of one times basic salary. The shares vest after three years, but only if predetermined performance conditions have been met.

The performance conditions compare the total shareholder return (TSR) produced by the Company against those of a chosen comparator group. Achievement of median performance within this group triggers the vesting of 20% of awards, which rises to 70% if the Company's performance is in the upper decile of the comparator group. Recognising the Company's position as the United Kingdom's largest international insurance group, the comparator group for the TSR part of the plan comprises 19 financial services companies, including 12 major European insurers.

The other 30% of the awards vest if the Company achieves a given return, in excess of inflation, on the capital employed within the Company (ROCE) over the three year performance period. Awards under this performance condition will begin to vest if the ROCE over the performance period is 24%, with the full 30% vesting if the ROCE is 30% or higher.

If the performance conditions are not met over three years, they will be retested on the fifth anniversary of the grant, the ROCE performance condition being adjusted accordingly, ie the ROCE would need to be at least 40% in excess of inflation over the extended performance period for any awards under that part of the plan to vest.

The Company currently operates an Executive Share Option Plan, which is subject to the same performance conditions as the Long Term Incentive Plan. Grants of options under the Executive Share Option Plan are awarded to those members of Group-wide management who have been identified as "key" or possessing high potential. The maximum value of options granted to a participant in any one year is the equivalent of 150% of his/her basic salary, although the average award in 2001 was a little over 50% of basic salary. No senior executives participate in both the Long Term Incentive Plan and the Executive Share Option Plan in the same financial year.

Shares acquired in the market are held in trust for use in connection with these incentive plans.

During the year, the Committee amended the eligibility rules of the Long Term Incentive Plan, Executive Share Option Plan and Deferred Bonus Plan to permit participants who were within two years of their retirement date to be eligible to receive awards under these plans. As performance-related pay constitutes a significant part of a senior executive's total remuneration, it was considered necessary to amend this provision as, otherwise, the Company would lose the opportunity of being able to incentivise executives approaching retirement who would see a substantial fall in their potential earnings. This point has been recognised by the Association of British Insurers, which recently changed its guidelines to allow the granting of awards to participants within two years of their retirement, subject to certain requirements. The amendments made to the Company's plans are consistent with the revised Association of British Insurers' guidelines and, in particular, provide for the prorating of any awards vesting by reference to the period actually served.

Executive directors in the United Kingdom are entitled to purchase shares through Inland Revenue-approved all-employee share schemes on the same basis as other eligible employees.

The Savings Related Share Option Scheme allows eligible employees to acquire options over the Company's shares at a discount of up to 20% to their market value at the date of grant. In order to exercise the options, participants must have saved the consideration through either a three, five or seven year approved savings contract, subject to a maximum savings limit of £250 per month. The AESOP allows participants to invest up to £125 per month out of their gross salary in the Company's shares.

Pension arrangements The remuneration package for senior executives in the United Kingdom includes Company contributions into the Group's pension scheme. All executive directors are members on a non-contributory basis of the defined benefit section of the CGNU Staff Pension Scheme (the Scheme) which was created from the merger on 31 December 2001 of the CGU Staff Pension Scheme, the Norwich Union Group Pensions and Life Insurance Non-Contributory Plan (1971) and the London & Edinburgh Retirement and Death Benefits Plan.

Under the Scheme, executive directors have a normal retirement age of 60 and accrue pensionable service at a rate of one-thirtieth of their final pensionable salary for each year of service since they became a senior executive, subject to a maximum pension of two-thirds of their final pensionable salary. No pension benefits are accrued on bonuses or other benefits. The Scheme provides a lump sum death-in-service benefit of four times the member's basic salary at the date of death and a spouse's pension equal to two-thirds of a member's actual and prospective pension. Post-retirement pensions are reviewed annually and increases are guaranteed at a rate equivalent to the annual increase in the Retail Prices Index up to a maximum of 10% per annum.

The benefits paid from the Scheme are subject to Inland Revenue limits. There is in place an unfunded pension top-up arrangement to ensure that senior executives receive the benefits promised by the Scheme notwithstanding an Inland Revenue limit relating to their level of earnings, which in some cases cap the amount of pension that can be paid from a tax-approved scheme. Where this limit applies, benefits are topped-up from the unfunded arrangement. Mike Biggs, Richard Harvey and Philip Twyman are affected by this limit and therefore will, at retirement, have some of their pension benefits from the Scheme topped-up from this arrangement.

Other benefits In addition to the benefits described above, senior executives are entitled to the benefit of a company car allowance and private medical insurance.

Service contracts Service contracts agreed with each executive director incorporate their terms and conditions of employment and can be terminated by the Company giving the director 12 months' written notice. For Philip Twyman and Tony Wyand, who have retained the terms they were granted when they first became directors, the notice period is 24 months. In practice however, the notice period for Tony Wyand is currently 21 months as he is approaching his normal retirement age when the contract will terminate. Philip Twyman is within 25 months of his normal retirement age. The Company does not consider it to be in shareholders' interests to renegotiate the contracts for these directors.

Non-executive directors The Company's articles of association provide that the total remuneration paid to directors shall be determined by the Board within the limits set by shareholders – which is presently £750,000 per annum. At the Company's forthcoming Annual General Meeting, shareholders will be asked to consider increasing this limit to £1 million so as to allow the Board flexibility in making additional non-executive appointments, if thought appropriate, and to keep the fees paid to individual directors competitive. Executive directors receive no fees for acting as directors.

The emoluments paid to the Chairman and Deputy Chairman take into account their duties and the amounts paid by competitors and similar-sized companies. In addition to fees, the Chairman receives a company car allowance.

Non-executive directors receive a basic annual fee in respect of their Board and Board Committee duties, with a further fee being paid to those directors (other than the Chairman and Deputy Chairman) who have the additional responsibility of chairing the meetings of the Board Committees. These fees are reviewed, but not necessarily increased, annually and are set by the Board to attract individuals with a broad range of skills and experience appropriate for a major international company. In determining the level of non-executive directors' fees, including the Chairman's and Deputy Chairman's fees, the recommendation of executive directors is considered, taking into account the time commitment expended in preparing for and attending meetings as well as market practice. Non-executive directors receive no benefits other than their fees and do not have service contracts with the Company.

Directors' remuneration

The remuneration report, which includes the Company's remuneration policy for its senior executives including executive directors, is presented on pages 37 and 38. The remuneration policy sets out the benefits to which the Company's senior executives are currently entitled. However, as a result of the mergers which have created the Company, there are still a number of options and awards outstanding under legacy arrangements. These are explained in the following tables and notes. The aggregate amount of emoluments, including compensation payments, paid to directors in 2001 was £6.5 million *(2000: £5.2 million)*.

Executive directors The remuneration payable to executive directors who held office for any part of the financial year, including amounts paid to them as directors of subsidiary undertakings, was:

	Basic salary		Bonus (note 2)		Benefits (note 3)		Compensation for loss of office (note 4)		Total	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Mike Biggs	**402**	351	**183**	145	**17**	21	**–**	–	**602**	517
Peter Foster (note 1)	**305**	358	**71**	84	**12**	28	**633**	–	**1,021**	470
Richard Harvey	**636**	556	**287**	248	**55**	34	**–**	–	**978**	838
Bob Scott (note 1)	**275**	626	**118**	155	**6**	34	**444**	–	**843**	815
Philip Scott	**396**	355	**175**	174	**124**	7	**–**	–	**695**	536
Patrick Snowball (note 1)	**263**	–	**109**	–	**123**	–	**–**	–	**495**	–
Philip Twyman	**423**	375	**140**	112	**16**	22	**–**	–	**579**	509
Tony Wyand	**451**	415	**208**	107	**22**	29	**–**	–	**681**	551

In addition to the above, each of the directors accrued pension benefits under the Group's pension scheme for UK employees, as follows:

	Increase in pension (note 5)		Value of increase (note 5)		Pension accumulated (note 5)	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Mike Biggs	**27**	67	**310**	845	**95**	67
Peter Foster (note 1)	**13**	48	**215**	826	**253**	238
Richard Harvey	**65**	73	**822**	985	**342**	259
Bob Scott (note 1)	**22**	66	**419**	1,405	**444**	419
Philip Scott	**33**	31	**367**	388	**201**	165
Patrick Snowball (note 1)	**26**	–	**330**	–	**97**	–
Philip Twyman	**21**	17	**398**	338	**72**	50
Tony Wyand	**41**	59	**779**	1,126	**301**	255

Notes

(1) Peter Foster and Bob Scott retired as directors on 31 March 2001 and 24 April 2001 respectively, and both retired from service on 31 May 2001. Patrick Snowball was appointed a director of the Company on 31 March 2001 and the amounts disclosed are those paid since that date.

(2) "Bonus" refers to amounts paid in 2002, but relating to 2001, under the Annual Bonus Plan (including amounts deferred under the Deferred Bonus Plan) and the value of shares granted in 2001 under the Inland Revenue-approved profit sharing scheme.

(3) "Benefits" relate to the provision of a company car allowance and private medical insurance. As a result of the merger of CGU and Norwich Union, Philip Scott and Patrick Snowball found it necessary to acquire accommodation in London to perform better their Group executive duties, as distinct from their operational duties which are based in York and Norwich respectively. Accordingly both received a lump sum payment from the Company of £108,250 to put towards their accommodation requirements in London. This amount has been included under "Benefits".

(4) Peter Foster and Bob Scott left service early as a consequence of the merger of CGU with Norwich Union. Peter Foster was aged 54 at the date he left service and had a 24 months' service contract. A severance payment based on his contract of £633,333 was paid and in addition he received a bonus of £63,333, being a proportion of his annual cash bonus in respect of his five months' service in 2001. In accordance with the Company's redundancy terms, Peter Foster received an immediate pension on a non-discounted basis, the cost of which was £1,087,000. Peter Foster remains, until 31 May 2002, the Chairman of Curepool Limited, the Group's internal reinsurance company for which he receives a fee of £147,000 pa.

Bob Scott was 59 when he left service. Upon leaving, he received a severance payment of £444,000 based on the eight months remaining under his service contract and in addition he received a bonus of £110,000, being a proportion of his annual cash bonus in respect of his five months' service in 2001. In accordance with the Company's redundancy terms, Bob Scott received an immediate pension on a non-discounted basis, the cost of which was £236,000.

(5) Disclosed for each director is the "increase in pensions" entitlement over the year (in excess of an allowance for inflation) and the corresponding transfer value of that increase. The "transfer value of increase" represents an obligation on the pension fund (where funded), or the Company (where unfunded). They are not sums paid or due to the director. Also disclosed is the "pension accumulated", being the amount of pension to which the director would be entitled on leaving service.

(6) No past directors received any increase in retirement benefits in excess of the amount to which they were entitled on the later of the date when the benefits first became payable and 26 February 2002.

Incentive plans Details of the directors who held executive office for any part of the financial year, and hold or held options to subscribe for ordinary shares of the Company or hold or held awards over shares in the Company, pursuant to the Company's share-based incentive plans, are set out below.

(i) Share options

	At 1 January 2001 Number	At 31 December 2001 Number	Weighted average price p
Mike Biggs			
– Savings related options	3,185	**3,185**	541.6
Peter Foster			
– Executive options	132,966	**132,966***	858.2
– Savings related options	1,740	**1,740***	790.2
– Bonus Plan options	3,824	**3,824***	966.5
Richard Harvey			
– Savings related options	3,185	**3,185**	541.6
Bob Scott			
– Executive options	256,510	**256,510***	732.4
– Savings related options	3,694	**3,694***	466.7
– Bonus Plan options	6,518	**6,518***	966.5
Philip Scott			
– Savings related options	3,185	**3,185**	541.6
Patrick Snowball			
– Savings related options	3,185	**3,185**	541.6
Philip Twyman			
– Executive options	190,990	**190,990**	810.3
– Savings related options	2,162	**2,162**	797.6
– Bonus Plan options	8,083	**8,083**	918.0
Tony Wyand			
– Executive options	236,676	**236,676**	762.0
– Savings related options	2,162	**2,162**	797.6
– Bonus Plan options	4,593	**4,593**	966.5

*At date of ceasing to be a director.

Notes

(1) *"Savings related options"* are options granted under the Inland Revenue-approved SAYE Share Option Schemes. 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 the CGU Executive Share Option Scheme, or predecessor schemes. Options, which have been granted on various dates from 1993 to 2000, are normally exercisable between the third and tenth anniversaries of their date of grant. No options have been granted to executive directors under these schemes since 2000.

Options granted after 1997 are only exercisable if certain performance conditions are met. During the year, the three year performance period attaching to options granted in December 1998, at an exercise price of 853 pence per share, expired. In order for participants to exercise these options, the Company's Total Shareholder Return (TSR), when compared with the TSR of 15 financial services companies, including seven major European insurers, would need to at least match median performance. At median performance, 40% of the options become exercisable and, at upper quartile performance 100% of the options become exercisable. Between median and upper quartile, the number of options vesting is determined on a straight-line basis. At the end of the performance period, the Company was ranked 5th out of the ten companies remaining in the comparator group and accordingly 50.9% of the options have become exercisable. Under the rules of the scheme, the performance conditions will be retested at each anniversary of the grant in respect of the options which have not vested.

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

(4) During the year, no directors exercised any share options and therefore no gains on such were made. No new options were granted to directors nor did any options lapse.

(5) The mid-market price of an ordinary share in the Company on 31 December 2001 was 845 pence, and the mid-market prices during the year ranged from 650 pence to 1112 pence.

(ii) Share awards

Details of the performance conditions relating to these awards are set out in the notes below.

	At 1 January 2001 Number	Awards granted during year Number	Awards vesting during year Number	Awards lapsing during year Number	At 31 December 2001 Number
Mike Biggs					
CGNU Integration Incentive Plan	37,333	–	–	–	**37,333**
CGNU Long Term Incentive Plan	34,453	43,229	–	–	**77,682**
CGNU Deferred Bonus Plan	–	29,492	–	–	**29,492**
Peter Foster					
CU Long Term Incentive Plan	5,332	–	2,483	–	**2,849***
CGU Integration Incentive Plan	34,789	–	34,789	–	**–**
CGU Deferred Bonus Plan	3,824	–	–	–	**3,824***
CGNU Integration Incentive Plan	39,081	–	–	–	**39,081***
Richard Harvey					
CGNU Integration Incentive Plan	59,393	–	–	–	**59,393**
CGNU Long Term Incentive Plan	107,988	69,270	–	–	**177,258**
CGNU Deferred Bonus Plan	–	50,530	–	–	**50,530**
Bob Scott					
CGU Integration Incentive Plan	59,299	–	59,299	–	**–**
CGU Deferred Bonus Plan	6,518	–	–	–	**6,518***
CGNU Integration Incentive Plan	68,495	–	–	–	**68,495***
Philip Scott					
CGNU Integration Incentive Plan	38,052	–	–	–	**38,052**
CGNU Long Term Incentive Plan	34,453	38,541	–	–	**72,994**
CGNU Deferred Bonus Plan	–	35,458	–	–	**35,458**
Patrick Snowball					
CGNU Integration Incentive Plan	28,282	–	–	–	**28,282**
CGNU Long Term Incentive Plan	24,682	36,458	–	–	**61,140**
CGNU Deferred Bonus Plan	–	16,888	–	–	**16,888**
CGNU Restricted Share Plan	13,141	–	–	–	**13,141**
Philip Twyman					
CGU Integration Incentive Plan	34,789	–	34,789	–	**–**
CGU Deferred Bonus Plan	8,083	–	–	–	**8,083**
CGNU Integration Incentive Plan	41,138	–	–	–	**41,138**
CGNU Long Term Incentive Plan	–	41,666	–	–	**41,666**
CGNU Deferred Bonus Plan	–	21,666	–	–	**21,666**
Tony Wyand					
CU Long Term Incentive Plan	6,563	–	3,506	–	**3,057**
CGU Integration Incentive Plan	41,792	–	41,792	–	**–**
CGU Deferred Bonus Plan	4,593	–	–	–	**4,593**
CGNU Integration Incentive Plan	44,429	–	–	–	**44,429**
CGNU Long Term Incentive Plan	–	45,000	–	–	**45,000**
CGNU Deferred Bonus Plan	–	20,700	–	–	**20,700**

*At date of ceasing to be a director.

Notes

(1) *The CU Long Term Incentive Plan* is the Commercial Union plan approved by shareholders in 1997. Awards were granted that year but, as a result of the merger with General Accident in 1998, no further awards were made under the plan. The awards vested at the end of their relevant performance periods (1999 and 2000) and, in accordance with the terms of the plan, half of the vesting shares were transferred to the participants immediately with the balance transferred two years later. The awards referred to in the above table are the remaining half of the awards which vested in 1999 and which were transferred to the participant during the year. Those shown at 31 December 2001 are the balance of the awards vesting in 2000 which will be released to the participants in February 2002. Once the shares have been transferred, the plan will close.

(2) *The CGU Integration Incentive Plan* was approved by shareholders in 1998 in relation to the merger of Commercial Union and General Accident. As described below, the performance condition under the plan has been met and the awards vested in February 2001. This Plan has now closed.

(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 Company'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 note 6 below. Awards vest on the third anniversary of their grant.

(4) *The CGNU Integration Incentive Plan*, which relates to the merger of CGU and Norwich Union, was approved by 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. As described below, the performance conditions under the plan have been met and the awards will vest in March 2002. The plan will then close.

(5) *The CGNU Long Term Incentive Plan* was approved by shareholders at last year's Annual General Meeting and awards were granted to directors in September 2000, subject to the condition that shareholders' approval was obtained. Awards under the plan are made on an annual basis and the 2001 award was made in May. Awards are subject to the attainment of performance conditions over a three year performance period.

(6) *The CGNU Deferred Bonus Plan* was approved by shareholders at last year's Annual General Meeting and replaced the CGU Deferred Bonus Plan referred to in note 3 above. The awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under the Company's Annual Bonus Plan 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.

(ii) Share Awards continued

(7) *CGNU Restricted Share Plan.* Norwich Union had a deferred bonus arrangement in which a small number of 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). To vest, Norwich Union's ranking against the TSR of the FTSE 100 companies would have to be better than median, when 25% of the awards would vest, rising to 100% of the awards vesting if the Company ranked 20th or above. This plan lapsed in 2000 upon the merger of CGU and Norwich Union. However, a one-off arrangement based on 'phantom shares' was introduced at that time to replicate the plan but only in respect of the three year performance period which commenced in 1999. Based on the TSR over the performance period (subject to appropriate weighted adjustments being made to recognise that the Company, for the purpose of the calculation, was Norwich Union plc up to 30 May 2000), the Company was ranked 43rd against the FTSE 100 and therefore a cash award, based on 42.5% of the number of 'phantom shares' awarded and the market value of an ordinary share, will be paid to the five participants in the plan. Mr Snowball is the only executive director to participate in this phantom plan as it was not extended to those former Norwich Union executives who became directors of CGNU at the time of the merger. In respect of these directors, the Remuneration Committee reserved the right to approve a discretionary cash payment and, in this regard, the Committee has agreed to award a cash bonus to these directors based on the number of shares (ranging from 5,584 to 11,170) and the Company's share price at the end of February 2002. This plan will now close.

(8) *Cost of the Plans.* During the year, awards over a total of 1.4 million shares were granted to 113 participants in the CGNU Long Term Incentive Plan and 1.16 million shares to 532 participants where some or all of their annual cash bonus was deferred under the CGNU Deferred Bonus Plan. The awards were made on 4 May 2001. It is the Company's practice to request the trustee of the CGNU Share Trust to acquire sufficient shares in the market to cover the vesting of 100% of awards granted under the Deferred Bonus Plan and to cover the vesting of 40% of the awards granted under the Long Term Incentive Plan, as the vesting of these awards is subject to the attainment of performance conditions.

(iii) Integration incentive plans As referred to in notes 2 and 4 above, shareholders approved an incentive plan in 1999 in relation to the merger of Commercial Union and General Accident (CGU Integration Incentive Plan) and in 2001 in relation to the merger of CGU and Norwich Union (CGNU Integration Incentive Plan). Both plans have two parts – a share award aimed at incentivising management to exceed the estimated annualised cost savings to result from integrating the businesses, and a cash-based award aimed at focusing management on the operating performance of the Group or Business Unit as appropriate during the integration process. The performance conditions relating to both plans have been achieved. Details are as follows

CGU Integration Incentive Plan
Share award – The performance condition attaching to this part of the plan was to exceed the estimated annualised cost savings of £270 million, which was announced to the market in August 1998, by at least 10%. The actual annualised cost savings achieved was £370 million, whilst the additional one-off cost which arose from generating the increased annualised cost savings was deemed to be proportionate to the original target. The performance condition having been met, the shares referred to in the share awards table vested on 27 February 2001. The mid-market value of a share on that date was 1000 pence per share.

Cash bonus – The bonuses attaching to this part of the plan were paid in March 2000.

CGNU Integration Incentive Plan
Share award – The performance condition attaching to this part of the plan was to exceed the estimated annualised cost savings of £275 million, which was announced to the market in August 2000, by at least 10%. The actual annualised cost savings achieved was £317 million whilst the additional one-off cost which arose from generating the increased annualised cost savings was within the target. As a result of the performance condition being met, the shares referred to in the above table will vest in March 2002.

Cash bonus – Under this part of the plan, executive directors would receive a cash bonus of up to 50% of their basic salary if appropriate performance conditions were met. Half of the bonus would be achieved if either the Group or Business Unit, as appropriate, met their integration savings targets, and the other half would be achieved if the Group or Business Unit met their trading performance targets during 2000 and 2001. The integration targets were met in full but some of the Group and Business Unit trading targets were not fully achieved. As a consequence, the executive directors will become eligible to receive cash bonuses ranging from 32% to 50% of their salaries in March 2002.

In addition to focusing senior executives on the achievement of both trading performance and integration savings, the integration incentive plans achieved the objective of retaining key employees throughout the integration periods.

Non-executive directors The emoluments paid to the non-executive directors during the year were:

	2001 £'000	2000 £'000
Pehr Gyllenhammar (note 1)	**268**	246
Lyndon Bolton (note 2)	**11**	44
Guillermo de la Dehesa	**36**	35
Wim Dik	**36**	35
Sir Michael Partridge	**36**	35
George Paul (note 1)	**160**	172
Derek Stevens (note 1)	**54**	50
Dr Elizabeth Vallance	**36**	35
André Villeneuve	**36**	35

Notes

(1) The fee disclosed for Pehr Gyllenhammar includes the benefit of a car allowance. The fee for George Paul reflects his duties as Deputy Chairman, which includes chairing the Remuneration Committee and acting as the senior non-executive director. The fee for Derek Stevens includes an additional amount for acting as Chairman of the Board's Audit Committee and of the CGNU Staff Pension Scheme.

(2) Lyndon Bolton retired as a director on 24 April 2001.

(3) No non-executive director accrued benefits under a defined benefit or defined contribution pension scheme during the year.

Statement of directors' responsibilities

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

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

Independent auditor's report to the members of CGNU plc

We have audited the Group's accounts for the year ended 31 December 2001 which comprise the Accounting policies, the Consolidated profit and loss account, Reconciliation of Group operating profit to profit on ordinary activities before taxation, Consolidated statement of total recognised gains and losses, Reconciliation of movements in consolidated shareholders' funds, Consolidated Group balance sheet, Consolidated cash flow statement and Company balance sheet, and the related notes 1 to 47. These accounts have been prepared on the basis of the accounting policies set out therein.

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

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Chairman's statement, Group at a glance, Group Chief Executive's review, Operating review, Financial review, Directors' report, Corporate governance statement and Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Equalisation provision Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 2001 and the effect of the movement in the provision during the year on the general business technical result and profit on ordinary activities before tax, are disclosed in accounting policy note U and note 38 to the accounts.

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

Ernst & Young LLP
Registered Auditor
London

26 February 2002

Accounting policies

A – Basis of accounts

The consolidated accounts have been prepared in accordance with section 255A of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP"). The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2001, as considered appropriate for an insurance company. The balance sheet of the Company has been prepared in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985.

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

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

B – Future United Kingdom financial reporting developments

In November and December 2000, the Accounting Standards Board issued three new Financial Reporting Standards ("FRS"). These were FRS17 Retirement Benefits, FRS18 Accounting Policies and FRS19 Deferred Tax. The accounting provisions of FRS17 will not be mandatory for the Group until the year ended 31 December 2003. However, the FRS has an extended transitional period, during which certain disclosures are required in the notes to the accounts. The Group is required to make these phased transitional disclosures for the year ended 31 December 2001 and these are shown in note 43(d). FRS18 is effective for the year ended 31 December 2001 and has not had a material impact on the Group. FRS19 will be effective for the year ended 31 December 2002 and the full impact will be reflected in that year's accounts.

C – Premiums

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

D – Claims

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

General business outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs, except for provisions for certain claims which are discounted using rates having regard to the returns generated by the assets supporting the liabilities. Any estimate represents a point within a range of possible outcomes. Further details of estimating techniques are given in note 37(a).

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

E – Deferred acquisition costs

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

F – Unexpired risks

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

G – Investment income and unrealised investment gains or losses

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

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

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

H – Long-term business result and fund valuations

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

I – Pension costs

The Group operates defined-benefit pension schemes in a number of countries around the world, with contributions made on a going concern basis, as recommended by actuaries. There are also several money purchase pension plans. Where separate pension schemes exist, they are fully funded on a discontinuance actuarial valuation basis. The pension costs, which are included in expenses, are calculated using actuarial valuation methods which give a substantially even charge over the expected service lives of employees. The costs of other material post-retirement benefits, also included in expenses, are charged as they accrue. Information regarding the new accounting standard FRS17 is given in note 43 to the accounts.

J – Tax

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

K – Goodwill

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

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

L – Investments

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

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

M – Derivative instruments

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

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

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

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

• futures contracts and purchased options. These are included at market value and shown under the category of investments to which the contracts relate. No adjustment is made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

N – Consolidation of subsidiary undertakings

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

O – Participating interests

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

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

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

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

The embedded value is carried at the directors' valuation, and is audited by the Group's auditors. Further detail of the methodology and assumptions is included as supplementary information on pages 96 to 98. The embedded value is the total of the shareholders' net worth of the long-term operations and the present value, at risk discount rates, of the projected releases to shareholders arising from the business in force, less a deduction for the effect of meeting the statutory solvency requirements of the business. The shareholders' net worth comprises the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds determined on a statutory solvency basis and adjusted to add back any non-admissible assets. This effect of solvency requirements is the difference between the nominal value of required solvency capital and the present value, at risk discount rates, of the projected release of this capital and investment earnings on the capital.

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

The long-term business provision is calculated separately for each life operation, mainly using the net premium method, based on local actuarial principles consistent with those applied in the United Kingdom. Each calculation represents a point within a range of possible outcomes, and the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are given in note 36.

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

R – Tangible assets

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

S – Subordinated debt and debenture loans

Subordinated debt and borrowings issued at a discount are included in the balance sheets at their proceeds, net of other expenses, together with amortised discount to the balance sheet date. The discount, amortised on a compound basis, and expenses are charged to loan interest in the profit and loss account over the term of the instrument.

T – 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.

U – Equalisation provision

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

V – Exchange rates

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

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

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

2001 €m		2001 £m	2000 £m
28,329	Gross premiums written – continuing operations (6a)	**17,564**	15,190
(540)	Outward reinsurance premiums	**(335)**	(342)
27,789	**Written and earned premiums, net of reinsurance** (C & 6a)	**17,229**	14,848
11,042	**Investment income** (G & 7a)	**6,846**	10,643
(17,936)	**Unrealised losses on investments** (G & 7a)	**(11,120)**	(6,708)
	Claims paid		
(17,552)	Gross amount	**(10,332)**	(9,950)
1,323	Reinsurers' share	**270**	197
(16,229)		**(10,062)**	(9,753)
	Change in the provision for claims		
(494)	Gross amount	**(306)**	(36)
(45)	Reinsurers' share	**(28)**	1
(539)		**(334)**	(35)
(16,768)	**Claims incurred, net of reinsurance** (D)	**(10,396)**	(9,788)
	Change in long-term business provision (Q)		
(8,818)	Gross amount	**(5,467)**	(8,791)
16	Reinsurers' share	**10**	202
(8,802)		**(5,457)**	(8,589)
(1,172)	Change in technical provision for linked business, net of reinsurance (Q)	**(727)**	(2,002)
(9,974)	**Changes in other technical provisions, net of reinsurance**	**(6,184)**	(10,591)
(3,580)	Net operating expenses (9a)	**(2,220)**	(1,918)
(387)	Investment expenses and charges (7a)	**(240)**	(182)
(79)	Other technical charges (22a)	**(49)**	(23)
27	Tax attributable to long-term business (J & 13b)	**17**	(611)
58	Allocated investment return transferred from/(to) the non-technical account (G & 7b)	**36**	(2)
11,050	Transfers from the fund for future appropriations (T)	**6,851**	5,011
7,089	**Other income/(charges)**	**4,395**	2,275
1,242	**Balance on the long-term business technical account – continuing operations** (H)	**770**	679
1,242	**Balance on the long-term business technical account**	**770**	679
574	Tax credit attributable to balance on the long-term business technical account	**356**	374
1,816	**Profit from long-term business operations before tax**	**1,126**	1,053

The table below provides a reconciliation between the analysis used in the narrative sections of this Report and the profit from long-term business operations above.

2001 €m		2001 £m	2000 £m
1,940	Long-term business operating profit before amortisation of acquired additional value of in-force long-term business, amortisation of goodwill on associated undertakings and exceptional items (3a)	**1,203**	1,190
(103)	Amortisation of acquired additional value of in-force long-term business (included within other technical charges) (22a)	**(64)**	(29)
(21)	Amortisation of goodwill on associated undertakings	**(13)**	–
–	Integration costs (9b)	**–**	(108)
1,816	**Profit from long-term business operations before tax**	**1,126**	1,053

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

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

2001 €m		2001 £m	2000 £m
16,773	Gross premiums written – continuing operations (6a)	**10,399**	10,430
1,914	– discontinued operations (6a)	**1,187**	3,442
18,687	**Gross premiums written** (6a & 6b)	**11,586**	13,872
(1,950)	Outward reinsurance premiums	**(1,209)**	(982)
14,958	Net premiums written – continuing operations (6a)	**9,274**	9,677
1,779	– discontinued operations (6a)	**1,103**	3,213
16,737	**Net premiums written** (C)	**10,377**	12,890
	Change in the provision for unearned premiums		
92	Gross amount	**57**	(323)
92	Reinsurers' share	**57**	55
184		**114**	(268)
16,921	**Earned premiums, net of reinsurance**	**10,491**	12,622
2,265	**Allocated investment return transferred from the non-technical account** (G & 7b)	**1,404**	1,817
	Claims paid		
(14,831)	Gross amount	**(9,195)**	(10,679)
1,812	Reinsurers' share	**1,123**	856
(13,019)		**(8,072)**	(9,823)
	Change in the provision for claims		
(487)	Gross amount	**(302)**	(821)
951	Reinsurers' share	**590**	(52)
464		**288**	(873)
(12,555)	**Claims incurred, net of reinsurance** (D)	**(7,784)**	(10,696)
2	Changes in other technical provisions, net of reinsurance	**1**	(13)
(5,080)	Net operating expenses (9a)	**(3,149)**	(4,015)
(5,078)	**Other charges**	**(3,148)**	(4,028)
(90)	Change in the equalisation provision (U & 38)	**(56)**	(27)
1,463	**Balance on the general business technical account**	**907**	(312)

The table below provides a reconciliation between the analysis used in the narrative sections of this Report and the balance on the general business technical account above.

	Underwriting result		Allocation of longer-term investment return		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Operating profit						
General insurance – continuing operations	**(224)**	(821)	**1,169**	1,233	**945**	412
Health – continuing operations	**(13)**	(20)	**83**	88	**70**	68
	(237)	(841)	**1,252**	1,321	**1,015**	480
General insurance – discontinued operations (2 & 3a)	**(173)**	(1,026)	**152**	472	**(21)**	(554)
Unwinding of discount on business no longer written (37c)	**–**	(24)	**–**	24	**–**	–
(Loss)/profit before exceptional items	**(410)**	(1,891)	**1,404**	1,817	**994**	(74)
Financial Services Compensation Scheme levy					**(31)**	–
Change in the equalisation provision					**(56)**	(27)
Integration costs (9b)					**–**	(211)
Balance on the general business technical account					**907**	(312)

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

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

2001 €m		2001 £m	2000 £m
1,242	Balance on long-term business technical account	**770**	679
	Tax credit attributable to balance on the long-term business		
574	technical account (J)	**356**	374
1,816	**Profit from long-term business operations before tax**	**1,126**	1,053
1,463	**Balance on general business technical account**	**907**	(312)
	Investment income (G & 7a)		
6	Share of result of associated undertakings, net of goodwill amortisation	**4**	1
2,790	Other	**1,730**	2,439
2,796		**1,734**	2,440
(1,924)	Unrealised losses on investments (7a)	**(1,193)**	(240)
	Allocated investment return transferred (to)/from the long-term business		
(58)	technical account (G & 7b)	**(36)**	2
(824)	Investment expenses and charges (7a)	**(511)**	(487)
	Allocated investment return transferred to the general business		
(2,265)	technical account (G & 7b)	**(1,404)**	(1,817)
	Other income/(charges), including value adjustments		
47	Profit from fund management (3a)	**29**	5
(160)	Loss on wealth management	**(99)**	(133)
(10)	Loss from other operations	**(6)**	(25)
	Other charges:		
(396)	– corporate costs (4)	**(246)**	(235)
(119)	– amortisation of goodwill (17)	**(74)**	(92)
463	Net profit/(loss) arising on the disposal of subsidiary undertakings (16c)	**287**	(1,058)
–	Loss on withdrawal from London Market operations	**–**	(448)
–	Merger transaction costs	**–**	(59)
(175)		**(109)**	(2,045)
829	**Profit/(loss) on ordinary activities before tax**	**514**	(1,406)
(684)	**Tax on profit/(loss) on ordinary activities** (J & 13a)	**(424)**	(255)
145	**Profit/(loss) on ordinary activities after tax** (A)	**90**	(1,661)
(58)	Minorities – equity	**(36)**	(31)
(34)	– non-equity	**(21)**	(21)
(92)		**(57)**	(52)
53	**Profit/(loss) for the financial year**	**33**	(1,713)
(27)	Preference dividends	**(17)**	(17)
26	**Profit/(loss) for the financial year attributable to equity shareholders**	**16**	(1,730)
(1,382)	Ordinary dividends (14)	**(857)**	(855)
(1,356)	**Retained loss transferred to reserves** (32)	**(841)**	(2,585)

	Earnings per share attributable to equity shareholders		
	Operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax,		
70.0c	in respect of continuing operations (15a)	**43.2p**	28.3p
1.0c	Profit/(loss) for the financial year (15a)	**0.7p**	(77.0)p
1.0c	Profit/(loss) for the financial year – diluted (15b)	**0.7p**	(76.9)p

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

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

2001 €m		2001 £m	2000 £m
	Operating profit before tax based on longer-term investment return before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items:		
	Continuing operations		
1,941	Modified statutory life profit (3a)	**1,203**	1,190
113	Health (3a)	**70**	68
47	Fund management (3a)	**29**	61
1,524	General insurance (3a)	**945**	412
(3)	Other operations and associated undertakings	**(2)**	(24)
(302)	Corporate costs (4)	**(187)**	(185)
(687)	Unallocated interest charges (7a)	**(426)**	(361)
(160)	Wealth management	**(99)**	(133)
2,473	Total continuing operations	**1,533**	1,028
(34)	Discontinued operations	**(21)**	(554)
2,439		**1,512**	474
	Amortisation of goodwill		
(21)	– long-term business (7a & 19c)	**(13)**	–
(119)	– non-long-term business (17)	**(74)**	(92)
(140)		**(87)**	(92)
(104)	Amortisation of acquired additional value of in-force long-term business (22a)	**(64)**	(29)
(50)	Financial Services Compensation Scheme levy	**(31)**	–
(95)	Integration costs (9b)	**(59)**	(425)
2,050	Operating profit/(loss) before tax based on longer-term investment return after amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items (3b)	**1,271**	(72)
	Short-term fluctuation in investment return		
(58)	– long-term business (7b)	**(36)**	2
(1,536)	– non-long-term business (7b)	**(952)**	256
(1,594)		**(988)**	258
(90)	Change in the equalisation provision (38)	**(56)**	(27)
463	Net profit/(loss) arising on the disposal of subsidiary undertakings (16c)	**287**	(1,058)
–	Loss on withdrawal from London Market operations	**–**	(448)
–	Merger transaction costs	**–**	(59)
829	**Profit/(loss) on ordinary activities before tax**	**514**	(1,406)

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

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

2001 €m		2001 £m	2000 £m
53	Profit/(loss)for the financial year	**33**	(1,713)
	Movement in internally-generated additional value		
(1,225)	of in-force long-term business* (32)	**(761)**	73
210	Foreign exchange (losses)/gains (V & 32)	**(191)**	303
(962)	**Total recognised gains and losses arising in the year**	**(919)**	(1,337)

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

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

2001 €m		2001 £m	2000 £m
	Balance at 1 January		
	As previously reported – CGU plc		9,567
	– Norwich Union plc		6,039
	Merger adjustments arising from alignment of accounting policies		67
21,640	Shareholders' funds at 1 January (2000 restated)	**13,633**	15,673
(962)	Total recognised gains and losses arising in the year	**(919)**	(1,337)
(1,410)	Dividends	**(874)**	(872)
133	Increase in share capital (30c)	**29**	54
–	Merger reserve arising in the year (32)	**–**	5
5	Goodwill written back and other movements (K & 32)	**3**	110
19,406	**Balance at 31 December**	**11,872**	13,633

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

Consolidated Group balance sheet
At 31 December 2001

2001 €m	Assets	2001 £m	2000 £m
	Goodwill (K & 17)		
1,925	Positive goodwill	**1,178**	796
(60)	Negative goodwill	**(37)**	(49)
1,865		**1,141**	747
	Investments (L)		
14,778	Land and buildings (18)	**9,041**	8,826
1,760	Investments in Group undertakings and participating interests (19a)	**1,077**	992
197,734	Other financial investments (20a)	**120,974**	126,778
(1,878)	Less: Non-recourse funding (20a)	**(1,149)**	(348)
195,856		**119,825**	126,430
9,575	Additional value of in-force long-term business (P & 22a)	**5,858**	6,605
340	Deposits with ceding undertakings	**208**	147
222,309		**136,009**	143,000
46,917	**Assets held to cover linked liabilities** (23)	**28,704**	27,255
	Reinsurers' share of technical provisions		
649	Provision for unearned premiums (C)	**397**	186
2,156	Long-term business provision (Q)	**1,319**	1,311
5,176	Claims outstanding (D)	**3,167**	3,571
878	Technical provision for linked liabilities (Q)	**537**	703
8,859		**5,420**	5,771
	Debtors		
5,677	Debtors arising out of direct insurance operations (24)	**3,473**	4,274
1,028	Debtors arising out of reinsurance operations	**629**	797
52	Loan to associated undertaking	**32**	32
9,212	Other debtors (25)	**5,636**	4,046
15,969		**9,770**	9,149
	Other assets		
502	Tangible assets (R & 26)	**307**	356
3,474	Cash at bank and in hand	**2,125**	1,948
16	Own shares (27)	**10**	10
3,992		**2,442**	2,314
	Prepayments and accrued income		
2,341	Accrued interest and rent	**1,432**	1,424
4,255	Deferred acquisition costs (E & 28)	**2,603**	2,856
1,165	Other prepayments and accrued income	**713**	802
7,761		**4,748**	5,082
307,672	**Total assets**	**188,234**	193,318

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

2001 €m	Liabilities	2001 £m	2000 £m
	Capital and reserves		
922	Ordinary share capital (30c)	**564**	563
327	Preference share capital (31a)	**200**	200
1,249	Called up share capital	**764**	763
1,770	Share premium account (30c)	**1,083**	1,055
8,464	Revaluation reserve (A & 32)	**5,178**	5,999
4,863	Merger reserve (32)	**2,975**	3,049
3,060	Profit and loss account (A & 32)	**1,872**	2,767
19,406	**Shareholders' funds**	**11,872**	13,633
640	Minority interests – equity	**393**	326
422	– non-equity (40j)	**258**	258
1,062		**651**	584
	Total capital and reserves:		
19,719	Equity	**12,065**	13,759
749	Non-equity	**458**	458
20,468		**12,523**	14,217
	Subordinated debt		
1,891	Subordinated notes (S & 34)	**1,157**	–
22,359	**Total capital, reserves and subordinated debt**	**13,680**	14,217
	Other liabilities		
11,837	**Fund for future appropriations** (T)	**7,242**	14,354
	Technical provisions		
7,648	Provision for unearned premiums (C)	**4,679**	6,078
168,282	Long-term business provision (Q & 36)	**102,955**	97,022
22,342	Claims outstanding (D)	**13,669**	18,005
443	Equalisation provision (U & 38)	**272**	216
89	Other technical provisions	**54**	27
198,804		**121,629**	121,348
47,795	**Technical provision for linked liabilities** (Q)	**29,241**	27,958
1,008	**Provisions for other risks and charges** (39)	**617**	2,086
1,491	**Deposits received from reinsurers**	**912**	613
	Creditors		
1,829	Creditors arising out of direct insurance operations	**1,119**	1,212
2,442	Creditors arising out of reinsurance operations	**1,494**	1,584
	Long-term business borrowings		
83	Debenture loans (S & 40b)	**51**	16
	General business and other borrowings		
1,283	Debenture loans (S & 40b)	**785**	893
312	Amounts due to credit institutions (40c)	**191**	395
2,756	Commercial paper (40d)	**1,686**	1,304
14,006	Other creditors including tax and social security (41)	**8,567**	6,066
28	Loans from associated undertakings	**17**	28
22,739		**13,910**	11,498
1,639	**Accruals and deferred income** (42)	**1,003**	1,244
285,313	**Total other liabilities**	**174,554**	179,101
307,672	**Total liabilities**	**188,234**	193,318

Approved by the Board on 26 February 2002

Mike Biggs
Director

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

Consolidated cash flow statement
For the year ended 31 December 2001

	2001 £m	2000 £m
Operating activities		
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs (45a)	**418**	738
Exceptional items and merger transaction costs paid	**(208)**	(251)
	210	487
Returns on investments and servicing of finance		
Interest paid on borrowings	**(197)**	(205)
Interest paid on subordinated debt	**(10)**	–
Preference dividends paid	**(17)**	(17)
Dividends paid to minorities	**(22)**	(35)
Net cash outflow from servicing of finance	**(246)**	(257)
Tax		
Corporation tax paid	**(39)**	(210)
Capital expenditure		
Purchases of tangible fixed assets	**(131)**	(143)
Sales of tangible fixed assets	**17**	24
Net purchases of tangible fixed assets	**(114)**	(119)
Acquisitions and disposals		
Net acquisitions of subsidiary and associated undertakings (45b)	**853**	(277)
Equity dividends		
Equity dividends paid	**(856)**	(816)
Financing activities		
Issue of share capital (45c)	**29**	54
Net drawdown of loans	**94**	439
Proceeds from issue of subordinated debt (34)	**1,157**	–
Net cash inflow from financing activities	**1,280**	493
Net cash flows	**1,088**	(699)
Cash flows were invested as follows:		
(Decrease)/increase in cash holdings (45d)	**(69)**	119
Net portfolio investment		
Purchases of investments	**16,255**	12,824
Sales of investments	**(15,032)**	(14,365)
Net purchases/(sales) of investments (45f)	**1,223**	(1,541)
Non-trading cash (inflow from)/outflow to long-term business operations	**(66)**	723
Net investment of cash flows	**1,088**	(699)

The cash flows presented in this statement relate to non-long-term business transactions only.

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

Company balance sheet
At 31 December 2001

	2001 £m	2000 £m
Fixed assets		
Shares in subsidiary undertakings (N & 16e)	**13,699**	13,655
Current assets		
Amounts owed by subsidiary undertakings	**3,467**	3,426
Other assets	**355**	76
Own shares (27)	**10**	10
	3,832	3,512
Creditors: Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**(1,799)**	(1,434)
Loans (40e)	**(1,741)**	(1,043)
Proposed ordinary dividend	**(536)**	(535)
Other creditors	**(29)**	(25)
Net current (liabilities)/assets	**(273)**	475
Total assets less current liabilities	**13,426**	14,130
Creditors: Amounts falling due after more than one year		
Loans (40e)	**(397)**	(497)
Subordinated notes (S & 34)	**(1,157)**	–
Net assets	**11,872**	13,633
Represented by:		
Capital and reserves		
Ordinary share capital (30)	**564**	563
Preference share capital (31)	**200**	200
Called up share capital	**764**	763
Share premium account (30c)	**1,083**	1,055
Revaluation reserve (33)	**3,199**	4,393
Merger reserve (33)	**227**	227
Profit and loss account: (33)		
Distributable	**864**	1,460
Non-distributable	**5,735**	5,735
	6,599	7,195
Shareholders' funds	**11,872**	13,633
Analysed between:		
Equity	**11,672**	13,433
Non-equity	**200**	200
	11,872	13,633

Approved by the Board on 26 February 2002

Mike Biggs
Director

The accounting policies (identified alphabetically) on pages 44 to 46 and notes (identified numerically) on pages 56 to 90 are an integral part of these accounts. The auditor's report is on page 43.

1 – Exchange rates

The principal rates of exchange used for translation are:

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

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

2 – Discontinued operations

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

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

Abridged statement of operating and investment gains

	London Market		US general insurance business	
	2001 £m	2000 £m	2001 £m	2000 £m
Net premiums written	–	192	**1,103**	3,021
Change in the provision for unearned premiums	–	(16)	**102**	(14)
Earned premiums, net of reinsurance	–	176	**1,205**	3,007
Allocated investment return transferred from the non-technical account	–	55	**152**	417
Claims incurred, net of reinsurance	–	(173)	**(978)**	(3,025)
Other charges	–	(62)	**(400)**	(949)
Balance on the general business technical account				
Underwriting result	–	(59)	**(173)**	(967)
Longer-term investment return	–	55	**152**	417
	–	(4)	**(21)**	(550)
Unallocated interest charges*	–	–	**(21)**	(42)
Operating loss	–	(4)	**(42)**	(592)
Amortisation of goodwill	–	–	**(1)**	(3)
Short-term fluctuation in investment return	–	(10)	**13**	66
Loss on ordinary activities before tax	–	(14)	**(30)**	(529)
Tax on loss on ordinary activities	–	1	**(93)**	110
Loss for the financial year	–	(13)	**(123)**	(419)
Retranslation to closing rate	–	–	**(2)**	(4)
Retained loss	–	(13)	**(125)**	(423)

*Unallocated interest charges are eliminated on consolidation.

3 – Geographical segmental information

(a) Operating profit by business

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

	2001 £m	2000 £m
United Kingdom	**698**	772
Europe (excluding UK)		
France	**160**	143
Ireland	**49**	45
Italy	**26**	21
Netherlands (including Belgium and Luxembourg)	**214**	162
Poland – life and pensions	**46**	22
Spain	**36**	14
Other Europe	**(21)**	(25)
International	**(5)**	36
	1,203	1,190

(ii) Operating profit in respect of health business

	Underwriting result		Operating result	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**4**	2	**8**	6
Europe (excluding UK)				
France	**(2)**	–	**9**	12
Netherlands	**(15)**	(22)	**53**	50
	(13)	(20)	**70**	68

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

	Operating result	
	2001 £m	2000 £m
United Kingdom	**(4)**	16
Europe (excluding UK)		
France	**12**	9
Netherlands	**8**	13
Other Europe	**2**	2
International		
Australia and New Zealand	**7**	16
Other International	**4**	5
	29	61

3 – Geographical segmental information continued

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

	Underwriting result		Operating result	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**(81)**	(387)	**590**	296
Europe (excluding UK)				
France	**(33)**	(208)	**58**	(115)
Ireland	**(7)**	(30)	**48**	21
Netherlands	**(14)**	(40)	**19**	(4)
Other Europe	**(25)**	(55)	**41**	20
International				
Australia and New Zealand	**(1)**	(7)	**69**	82
Canada	**(56)**	(53)	**72**	78
Other International	**(7)**	(41)	**48**	34
Continuing operations	**(224)**	(821)	**945**	412
Discontinued operations:				
United States	**(173)**	(967)	**(21)**	(550)
London Market	**–**	(59)	**–**	(4)
	(173)	(1,026)	**(21)**	(554)
Unwinding of discount on business no longer written (37c)	**–**	(24)	**–**	–
	(397)	(1,871)	**924**	(142)

(b) Operating profit/(loss) before tax

	2001 £m	2000 £m
United Kingdom	**1,015**	525
Europe (excluding UK)	**710**	312
International	**180**	191
Continuing operations	**1,905**	1,028
Discontinued operations	**(21)**	(554)
Corporate costs	**(187)**	(185)
Unallocated interest charges	**(426)**	(361)
Operating profit/(loss)	**1,271**	(72)

(c) Net assets by business and geographical segment

	Long-term business		General insurance and health business		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**2,763**	2,299	**2,058**	2,159	**4,821**	4,458
Europe (excluding UK)	**2,336**	2,123	**1,540**	1,791	**3,876**	3,914
International	**364**	428	**1,323**	1,359	**1,687**	1,787
	5,463	4,850	**4,921**	5,309	**10,384**	10,159
Other business					**310**	510
Additional value of in-force long-term business					**5,858**	6,605
Corporate and other holding company assets					**3,063**	1,887
					19,615	19,161
External borrowings					**(2,651)**	(2,581)
Internal borrowings					**(3,284)**	(4,120)
Subordinated debt					**(1,157)**	–
Discontinued operations					**–**	1,757
Total					**12,523**	14,217

3 – Geographical segmental information continued

(d) Net assets by principal currency

	2001 £m	2000 £m
Sterling	**3,402**	5,301
Euro	**6,913**	6,810
Canadian dollar	**567**	651
United States dollar	**451**	752
Other	**1,190**	703
Total	**12,523**	14,217

Net assets are stated after taking account of the effect of currency swaps and forward foreign exchange contracts.

4 – Corporate costs

	2001 £m	2000 £m
Staff profit sharing scheme costs	**78**	57
Sundry corporate expenses	**109**	128
	187	185
Merger integration incentive plans (9b)	**49**	–
Merger integration costs (9b)	**–**	50
Costs of integrating acquired undertakings (9b)	**10**	–
	246	235

5 – New long-term savings business premiums

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

	New business – single premiums		New business – regular premiums		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Life and pensions:						
United Kingdom – Group companies	**6,434**	6,254	**591**	354	**7,025**	6,608
– associates*	**228**	–	**12**	–	**240**	–
	6,662	6,254	**603**	354	**7,265**	6,608
Europe (excluding UK)						
France	**1,961**	1,821	**37**	40	**1,998**	1,861
Ireland	**468**	383	**55**	41	**523**	424
Italy	**924**	203	**34**	38	**958**	241
Netherlands						
(including Belgium and Luxembourg)	**674**	487	**103**	82	**777**	569
Poland – life	**17**	10	**34**	42	**51**	52
– pensions	**2**	–	**24**	139	**26**	139
Spain	**885**	336	**47**	23	**932**	359
Other Europe	**188**	172	**72**	78	**260**	250
	5,119	3,412	**406**	483	**5,525**	3,895
International	**619**	467	**70**	53	**689**	520
Total life and pensions	**12,400**	10,133	**1,079**	890	**13,479**	11,023
Investment sales:						
United Kingdom	**808**	877	**8**	20	**816**	897
Europe (excluding UK)						
Netherlands	**85**	1,025	**–**	–	**85**	1,025
Other Europe	**227**	284	**–**	–	**227**	284
International	**347**	295	**–**	–	**347**	295
Total investment sales	**1,467**	2,481	**8**	20	**1,475**	2,501
Total long-term savings	**13,867**	12,614	**1,087**	910	**14,954**	13,524

*The figures for associates comprise the Group's share of the associated partnership in RBS Life Investment Limited.

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

6 – Premiums written and sales of investment products

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

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
Long-term business premiums (ii)	**17,939**	15,190	**17,590**	14,848
Sales of investment products (5)	**1,475**	2,501	**1,475**	2,501
General insurance business premiums (iii)	**9,557**	9,743	**8,433**	8,990
Health premiums (iv)	**842**	687	**841**	687
	10,399	10,430	**9,274**	9,677
Total premiums written and investment sales – continuing operations	**29,813**	28,121	**28,339**	27,026
General insurance business premiums – discontinued operations (v)	**1,187**	3,442	**1,103**	3,213
	31,000	31,563	**29,442**	30,239

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

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**9,448**	8,806	**9,274**	8,548
Europe (excluding UK)				
France	**2,234**	2,167	**2,185**	2,124
Ireland	**676**	571	**658**	539
Italy	**1,126**	391	**1,116**	378
Netherlands (including Belgium and Luxembourg)	**1,356**	1,141	**1,290**	1,078
Poland – life	**296**	248	**295**	247
– pensions	**433**	371	**433**	371
Spain	**1,043**	433	**1,034**	428
Other Europe	**494**	364	**492**	464
International	**833**	698	**813**	671
Total long-term business premiums, including share of associates	**17,939**	15,190	**17,590**	14,848
Less: Share of associates' premiums (UK)*	**(375)**	–	**(361)**	–
Total Group long-term business premiums	**17,564**	15,190	**17,229**	14,848

*The figures for associates comprise the Group's share of the associated partnership in RBS Life Investments Limited.

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

	Premiums before reinsurance		Premiums after reinsurance	
	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**5,256**	5,274	**4,777**	4,937
Europe (excluding UK)				
France	**793**	713	**700**	640
Ireland	**525**	434	**456**	382
Netherlands	**408**	497	**387**	465
Other Europe	**591**	721	**499**	625
International				
Australia and New Zealand	**665**	707	**583**	634
Canada	**1,013**	978	**878**	940
Other International	**306**	419	**153**	367
Total general insurance business premiums (excluding health)	**9,557**	9,743	**8,433**	8,990

6 – Premiums written and sales of investment products continued

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

	Premiums before reinsurance 2001 £m	Premiums before reinsurance 2000 £m	Premiums after reinsurance 2001 £m	Premiums after reinsurance 2000 £m
United Kingdom	**242**	204	**242**	204
Europe (excluding UK)				
France	**100**	92	**100**	92
Netherlands	**500**	391	**499**	391
Total health premiums	**842**	687	**841**	687

(v) Discontinued operations premium income

	Premiums before reinsurance 2001 £m	Premiums before reinsurance 2000 £m	Premiums after reinsurance 2001 £m	Premiums after reinsurance 2000 £m
United States	**1,187**	3,131	**1,103**	3,021
London Market	**–**	311	**–**	192
Total discontinued operations	**1,187**	3,442	**1,103**	3,213

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

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

	2001 £m	2000 £m
Property	**3,124**	3,401
Motor	**4,120**	4,108
Liability	**1,331**	1,208
Other	**982**	1,026
General business premiums excluding health – continuing operations	**9,557**	9,743
Discontinued operations	**1,187**	3,442
General business premiums excluding health	**10,744**	13,185
Health	**842**	687
Total general business premiums	**11,586**	13,872

7 – Analysis of investment return

(a) The total investment return before tax comprises:

	Long-term business 2001 £m	Long-term business 2000 £m	Non-long-term business 2001 £m	Non-long-term business 2000 £m
Share of result of associated undertakings	**10**	–	**4**	1
Amortisation of goodwill on associated undertakings (19b)	**(13)**	–	**–**	–
	(3)	–	**4**	1
Income from land and buildings	**521**	542	**45**	57
Income from other investments	**5,653**	5,277	**1,113**	1,364
Realised investment gains	**675**	4,824	**572**	1,018
Investment income	**6,846**	10,643	**1,734**	2,440
Expenses and charges, including allocated interest charges	**(240)**	(182)	**(85)**	(126)
Unallocated interest charges:				
External – subordinated debt	**–**	–	**(10)**	–
– other borrowings	**–**	–	**(169)**	(151)
Intra-group	**–**	–	**(247)**	(210)
	–	–	**(426)**	(361)
	(240)	(182)	**(511)**	(487)
Investment return before unrealised gains	**6,606**	10,461	**1,223**	1,953
Unrealised investment losses	**(11,120)**	(6,708)	**(1,193)**	(240)
Total investment return before tax	**(4,514)**	3,753	**30**	1,713

7 – Analysis of investment return continued

(b) Longer-term investment return

(i) The longer-term investment return, net of expenses, allocated to the general business technical account and transferred to the long-term business technical account was £1,404 million *(2000: £1,817 million)* and £36 million *(2000: £2 million transferred from)* respectively.

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

	Shareholders' interest in long-term business		Non-long-term business	
	2001 £m	2000 £m	2001 £m	2000 £m
Total investment return before tax	**76**	146	**30**	1,713
Less: share of result of associated undertakings	**–**	–	**(4)**	(1)
Add: unallocated interest charges	**–**	–	**426**	361
	76	146	**452**	2,073
Longer-term investment return	**112**	144	**1,404**	1,817
Short-term fluctuation in investment return	**(36)**	2	**(952)**	256
	76	146	**452**	2,073

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

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

	Longer term rates of return Equities		Longer term rates of return Properties	
	2001 %	2000 %	2001 %	2000 %
United Kingdom	**8.1**	8.1	**6.6**	6.6
France	**7.5**	7.5	**6.5**	6.5
Ireland	**8.7**	8.7	**6.7**	6.7
Netherlands	**8.4**	8.4	**6.5**	6.5
Australia and New Zealand	**10.0**	10.0	**8.0**	8.0
Canada	**9.3**	9.3	**7.3**	7.3
United States	**9.3**	9.3	**7.3**	7.3

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

(c) The actual return on investments, before deducting investment management expenses and charges, is compared below with the aggregate longer-term return over a four year period.

	1998-2001 £m	1997-2000 £m
Actual return attributable to shareholders:		
Long-term business*	**553**	642
Non-long-term business	**6,693**	9,001
	7,246	9,643
Longer-term return credited to operating results:		
Long-term business*	**539**	564
Non-long-term business	**6,405**	6,717
	6,944	7,281
Excess of actual returns over longer-term returns	**302**	2,362

*Figures are given for non-with-profits business only, where a longer-term rate of return is used.

Four year periods have been chosen as comparable information is not available for Norwich Union prior to 1997.

(d) The table below shows the sensitivity to changes in the longer-term rates of return:

Movement in investment return	By	Change in	By
Equities	1% higher/lower	Group operating result	£49m
Properties	1% higher/lower	Group operating result	£8m

8 – Long-term business bonuses

	2001 £m	2000 £m
Policyholder bonuses allocated in anticipation of a bonus declaration included in claims paid	**758**	977
Reversionary and similar policyholder bonuses included in the movement in the long-term business provision	**1,143**	2,585
Bonuses included in the long-term business technical account	**1,901**	3,562

9 – Net operating expenses

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

	Long-term business		General business	
	2001 £m	2000 £m	2001 £m	2000 £m
Acquisition costs	**1,609**	1,429	**2,644**	3,125
Changes in deferred acquisition costs	**(42)**	(96)	**28**	(82)
Administrative expenses – integration costs (9b)	**–**	140	**–**	211
– Financial Services Compensation Scheme levy	**–**	–	**31**	–
– other	**697**	482	**590**	886
	2,264	1,955	**3,293**	4,140
Reinsurance commissions receivable	**(44)**	(37)	**(144)**	(125)
	2,220	1,918	**3,149**	4,015

In 2001, long-term business "other" expenses include costs of £5 million *(2000: £11 million)* and general business "other" expenses include costs of £3 million *(2000: £6 million)* relating to projects to prepare for the introduction of the euro.

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

	Long-term business technical account		General business technical account		Non-technical account		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Merger integration costs:								
Charged to administrative expenses	**–**	140	**–**	211	**–**	–	**–**	351
Charged to profit from fund management	**–**	–	**–**	–	**–**	56	**–**	56
Charged to corporate costs	**–**	–	**–**	–	**–**	50	**–**	50
Less: Net transfer to fund for future appropriations	**–**	(32)	**–**	–	**–**	–	**–**	(32)
	–	108	**–**	211	**–**	106	**–**	425
Integration incentive plans:								
Charged to corporate costs	**–**	–	**–**	–	**49**	–	**49**	–
Total merger integration costs	**–**	108	**–**	211	**49**	106	**49**	425
Costs of integrating acquired undertakings:								
Charged to corporate costs	**–**	–	**–**	–	**10**	–	**10**	–
Charged to profit on ordinary activities before tax	**–**	108	**–**	211	**59**	106	**59**	425
Tax							**(8)**	(73)
Charged to profit on ordinary activities after tax							**51**	352

Integration costs in 2001 include £49 million in respect of integration incentive plans relating to the integration of the former CGU and Norwich Union businesses, which are payable to staff of certain business units and to senior management and are conditional upon the performance of the Group against predefined targets. A charge of £10 million is also included in 2001 relating to the costs of integrating the acquired businesses of Fortis Australia Limited and The Insurance Corporation of Singapore.

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

10 – Employee information

The average number of persons employed by the Group during the year was:

	2001 Number	2000 Number
United Kingdom	**36,091**	35,641
Europe (excluding UK)	**18,520**	17,671
International	**13,496**	19,437
	68,107	72,749

The analysis of total staff costs was:

	2001 £m	2000 £m
Wages and salaries	**1,794**	1,865
Social security costs	**208**	199
Pension costs	**89**	88
	2,091	2,152

11 – Directors

Information concerning individual directors' emoluments, interests and transactions is given on pages 39 to 42.

12 – Auditors' remuneration

On 24 April 2001, Ernst & Young were appointed sole auditors of the Company having previously been joint auditors with PricewaterhouseCoopers. The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, in respect of the audit of these accounts is shown below, together with fees paid to the auditors of the parent company and their associated firms in respect of other work.

	2001 E&Y £m	2000 E&Y £m	2000 PwC £m	2000 Total £m
Auditing these financial statements	**3.0**	1.4	3.5	4.9
Other audit work	**2.4**	0.5	1.3	1.8
Other work – United Kingdom	**6.1**	3.6	33.2	36.8
– non-United Kingdom	**1.8**	1.1	5.1	6.2
	13.3	6.6	43.1	49.7

The auditors' remuneration in respect of the parent company was £10,000 *(2000: £3,000)*.

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

	£m
Accounting and tax advice	**1.7**
Assurance services	**4.2**
Due diligence	**0.7**
Other	**1.3**
	7.9

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

13 – Tax

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

Tax charged in the non-technical account comprises:

	2001 £m	2000 £m
UK corporation tax	**19**	(65)
Advance corporation tax written back	**–**	(46)
Overseas tax	**87**	46
Associated undertakings	**–**	3
Deferred tax	**(40)**	(70)
Prior year adjustments	**2**	13
Tax attributable to balance on long-term business technical account	**356**	374
	424	255

(b) Long-term business

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

	2001 £m	2000 £m
UK corporation tax	**128**	500
Overseas tax	**91**	144
Deferred tax	**(203)**	(30)
Prior year adjustments	**(33)**	(3)
	(17)	611

(c) Balance sheet

The provision for deferred tax, included within the provisions for other risks and charges, comprises:

	Long-term business		Non-long-term business	
	2001 £m	2000 £m	2001 £m	2000 £m
Unrealised gains on investments	**237**	187	**190**	210
Provisions and other timing differences	**58**	114	**34**	40
Losses	**–**	–	**(155)**	(122)
	295	301	**69**	128

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

	Long-term business		Non-long-term business	
	2001 £m	2000 £m	2001 £m	2000 £m
Unrealised gains on investments	**811**	1,525	**352**	615
Provisions and other timing differences	**(20)**	(177)	**(97)**	(45)
Losses	**(131)**	(77)	**(43)**	(96)
	660	1,271	**212**	474

14 – Ordinary dividends

Ordinary dividends in the profit and loss account comprise:

	2001 £m	2000 £m
Interim – 14.25 pence *(2000: 14.25 pence)*	**321**	320
Final – 23.75 pence *(2000: 23.75 pence)*	**536**	535
	857	855

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 27 February 2002.

15 – Earnings per share

(a) Basic earnings per share

	2001			2000		
	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p	Before tax £m	Net of tax, minorities and preference dividends £m	Per share p
Operating profit – continuing operations before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	**1,533**	**973**	**43.2**	1,028	636	28.3
Adjusted for the following items:						
Operating loss on discontinued operations	**(21)**	**(14)**	**(0.6)**	(554)	(423)	(18.8)
Amortisation of goodwill	**(87)**	**(87)**	**(3.9)**	(92)	(92)	(4.1)
Amortisation of acquired additional value of in-force long-term business	**(64)**	**(49)**	**(2.2)**	(29)	(22)	(1.0)
Financial Services Compensation Scheme levy	**(31)**	**(22)**	**(1.0)**	–	–	–
Integration costs	**(59)**	**(51)**	**(2.3)**	(425)	(352)	(15.7)
Short-term fluctuation in investment returns	**(988)**	**(980)**	**(43.5)**	258	(117)	(5.2)
Change in the equalisation provision	**(56)**	**(39)**	**(1.7)**	(27)	(19)	(0.8)
Net profit/(loss) arising on the disposal of subsidiary undertakings	**287**	**285**	**12.7**	(1,058)	(977)	(43.5)
Loss on withdrawal from London Market operations	**–**	**–**	**–**	(448)	(314)	(14.0)
Merger transaction costs	**–**	**–**	**–**	(59)	(50)	(2.2)
Profit/(loss) attributable to equity shareholders	**514**	**16**	**0.7**	(1,406)	(1,730)	(77.0)

Earnings per share has been calculated based on the operating profit from continuing operations before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax attributable to equity shareholders, as well as on the profit attributable to equity shareholders, as the directors believe the former earnings per share figure provides a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,250 million *(2000: 2,247 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts as required by FRS14 ‘ Earnings per share’.

The actual number of shares in issue at 31 December 2001 was 2,255 million *(2000: 2,251 million*).

(b) Diluted earnings per share

	2001			2000		
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit/(loss) attributable to equity shareholders	**16**	**2,250**	**0.7**	(1,730)	2,247	(77.0)
Dilutive effect of share awards and options	**–**	**4**	**–**	–	4	0.1
Diluted earnings per share	**16**	**2,254**	**0.7**	(1,730)	2,251	(76.9)

16 – Subsidiary undertakings

(a) Acquisitions

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

	Country of incorporation	Percentage acquired	Date of acquisition
ABN AMRO Magyar Elet es Nyugdijbiztosito Reszvenytarsasag	Hungary	100%	28 June 2001
Fortis Australia Limited	Australia	100%	3 July 2001
Eurovita Italcasse Assicurazioni S.p.A	Italy	50.96%	11 July 2001
The Insurance Corporation of Singapore	Singapore	100%	21 August 2001
Unicorp Vida, Compania de Seguros y Reaseguros	Spain	50%	11 September 2001
Ahorro Andaluz, Entidad Gestora de Fondos de Penslones	Spain	50%	11 September 2001
Bia Galicia, Compania de Seguros y Reaseguros, S.A.	Spain	50%	24 September 2001
Bank Nagelmackers	Belgium	100%	30 November 2001
Caja España Vida, Compania de Seguros y Reaseguros	Spain	50%	26 December 2001
Risparmio Vita Assicurazioni S.p.A	Italy	100%	28 December 2001

16 – **Subsidiary undertakings** continued

(a) Acquisitions continued

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

(ii) On 3 July 2001, the Group completed the acquisition of Fortis Australia Limited from Fortis Group for a cash consideration of £124 million, including transaction costs. The net assets at the date of acquisition were £76 million giving rise to goodwill of £48 million.

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

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

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

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

(b) Goodwill on acquisitions

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

	Book value £m	Fair value adjustments £m	Fair value £m
Assets			
Total investments	3,587	38	3,625
Additional value of in-force long-term business (22a)	25	93	118
Other assets	862	2	864
Total assets	4,474	133	4,607
Liabilities			
Technical provisions including linked liabilities	2,751	4	2,755
Other creditors and provisions	1,448	–	1,448
Total liabilities	4,199	4	4,203
Total shareholders' funds	275	129	404
Less: Minority interests			(66)
Shareholders' funds acquired			338
Goodwill arising on acquisition			461
Total consideration			799
The total consideration comprised:			
Cash (including contingent cash amounts)			789
Attributable acquisition costs			10
			799

16 – Subsidiary undertakings continued

(b) Goodwill on acquisitions continued

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

No individual acquisition was material enough to require separate disclosure.

In addition to the goodwill arising on the acquisition of these subsidiary undertakings, the Group acquired 43.7% of the minority interest in Commercial Union Sigorta AS, and made a number of smaller acquisitions in continental Europe. These gave rise to an additional amount of £35 million goodwill. Total positive goodwill arising in the year was £496 million (note 17).

(c) Disposals

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

	2001 £m	2000 £m
Long-term savings businesses:		
Poland	**–**	65
Canada (see (i) below)	**(5)**	–
General insurance businesses:		
Germany	**–**	(43)
South Africa	**–**	(11)
New Zealand (see (ii) below)	**52**	–
United States (see (v) below)	**125**	(1,070)
Belgium (see (iv) below)	**46**	–
Other businesses:		
Australia	**–**	4
UK (see (iii) below)	**70**	–
Other small operations	**(1)**	(3)
	287	(1,058)

(i) In the first six months of 2001, the Group completed the disposal of its wholly-owned Canadian subsidiaries, Commercial Union Life Holdings Limited and Norwich Union Holdings (Canada) Limited, for a combined consideration of £120 million. The embedded value of both businesses at disposal amounted to £117 million and the loss on disposal, after transaction costs, was £5 million.

(ii) In February 2001, the Group completed the disposal of its wholly-owned New Zealand subsidiary, State Insurance Limited, for a cash consideration of £125 million. The net assets disposed of amounted to £69 million and the profit on disposal, after transaction costs, was £52 million.

(iii) In March 2001, the Group completed the disposal of its holding in Quilter Holdings Limited for a cash consideration of £102 million. The cash consideration reflected the value of the Group's 56.7% interest in Quilter Holdings Limited following the exercise of management options immediately before the change of ownership. The Group's share of the net assets disposed of amounted to £24 million and the profit on disposal, after transaction costs and writing back £6 million of goodwill previously charged to reserves, was £70 million.

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

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

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

The aggregate pre-tax loss on sale recorded in the Group's consolidated profit and loss account reserves at 31 December 2001 is £996 million retranslated at the exchange rate prevailing at 1 June 2001, and is further analysed on page 69.

(vi) During the course of 2001, the Group entered into a binding agreement to dispose of its specialist non-comprehensive insurer, Sabre Insurance Company. This disposal was not completed by 31 December 2001.

16 – Subsidiary undertakings continued

(d) Discontinued operation – United States general insurance

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

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

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

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

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

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

(e) The Company's subsidiary undertakings

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

	2001 £m	2000 £m
Net asset value		
At 1 January	**13,655**	10,224
Additions	**1,238**	6,832
Disposals	**–**	(540)
Movement in net asset value	**(1,194)**	(2,861)
At 31 December	**13,699**	13,655

Shares in subsidiary undertakings are valued at net asset value computed in accordance with the Company's accounting policies. The resulting gain over book value of £3,199 million *(2000: £4,393 million)* has been credited to the Company's revaluation reserve (see note 33). The directors are satisfied that the aggregate value of all such investments is not less than the aggregate amount at which they are stated in the balance sheet.

(f) Principal subsidiary undertakings at 31 December 2001 are listed on page 99.

17 – Goodwill

The carrying value of goodwill comprises:

	Positive goodwill £m	Negative goodwill £m	Total 2001 £m	Total 2000 £m
Cost:				
At 1 January	933	(52)	**881**	495
Additions (16b)	496	–	**496**	364
Disposals	(37)	–	**(37)**	(13)
Foreign exchange rate movements	(10)	10	**–**	14
Other movements	–	–	**–**	21
At 31 December	1,382	(42)	**1,340**	881
Amortisation:				
At 1 January	137	(3)	**134**	43
Charge in the year	76	(2)	**74**	92
Disposals	(8)	–	**(8)**	–
Foreign exchange rate movements	(1)	–	**(1)**	(1)
At 31 December	204	(5)	**199**	134
Carrying value at 31 December	1,178	(37)	**1,141**	747

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

Goodwill is being amortised on a straight-line basis over its useful economic life. Useful economic lives have been determined in respect of each acquisition to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets. No useful economic lives are in excess of 20 years. As explained in accounting policy K on page 45, goodwill arising in 1997 and prior years was charged directly to reserves.

18 – Land and buildings

The carrying value of land and buildings comprises:

	Long-term business		Non-long-term business		Group	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Freeholds	**6,276**	6,041	**759**	787	**7,035**	6,828
Long leaseholds – over 50 years	**1,877**	1,933	**22**	29	**1,899**	1,962
Short leaseholds – under 50 years	**31**	32	**76**	4	**107**	36
	8,184	8,006	**857**	820	**9,041**	8,826

The cost of land and buildings at 31 December 2001 was £7,211 million *(2000: £7,299 million)*. The carrying value of land and buildings occupied by the Group for its own activities was £554 million *(2000: £580 million)*.

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

19 – Investments in Group undertakings and participating interests

(a) Investments in participating interests included in the consolidated balance sheet comprise:

	Long-term business £m	Non-long-term business £m	Total 2001 £m	Long-term business £m	Non-long-term business £m	Total 2000 £m
Investments in associated undertakings (19b)	**752**	**257**	**1,009**	727	252	979
Other participating interests	**43**	**25**	**68**	1	12	13
	795	**282**	**1,077**	728	264	992

The cost of the above investments was £902 million and £76 million respectively *(2000: £920 million and £26 million respectively)*.

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

(b) Associated undertakings

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

	Long-term business £m	Non-long-term business £m	Total £m
Share of result for the year after tax	10	4	14
Foreign exchange rate movements	(3)	(4)	(7)
Unrealised investment losses after tax	(5)	(2)	(7)
Dividends received	–	(4)	(4)
Additions	36	13	49
Disposals	–	(2)	(2)
Amortisation of goodwill on associated undertakings (7a)	(13)	–	(13)
Movements in investments in associated undertakings	25	5	30
Balance at 1 January			
Goodwill (19c)	257	–	257
Share of net assets	470	252	722
	727	252	979
Balance at 31 December			
Goodwill (19c)	**244**	**–**	**244**
Share of net assets	**508**	**257**	**765**
	752	**257**	**1,009**

(ii) The associated undertakings included above are:

Company	Class of share	Proportion held	Country of incorporation and operation
Global Aerospace Underwriting Managers Limited	Ordinary £1 shares	50%	England
Norwich Winterthur Holdings Limited	Ordinary £1 shares	48.5%	England
RBS Life Investments Limited	Ordinary £1 shares	49.99%	Scotland
Société Foncière Lyonnaise	Ordinary FF 50 shares	31.5%	France
The British Aviation Insurance Company Limited (31 December 2000)	Ordinary £1 shares	38.1%	England

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

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

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

19 – Investments in Group undertakings and participating interests continued

(c) The carrying value of goodwill on associated undertakings comprises:

	Long-term business £m	Non-long-term business £m	Total 2001 £m	Total 2000 £m
Cost:				
At 1 January	**257**	**–**	**257**	–
Additions	**–**	**–**	**–**	257
At 31 December	**257**	**–**	**257**	257
Amortisation:				
At 1 January	**–**	**–**	**–**	–
Charge in the year	**13**	**–**	**13**	–
At 31 December	**13**	**–**	**13**	–
Carrying value at 31 December	**244**	**–**	**244**	257

Goodwill is being amortised on a straight-line basis over its useful economic life of 20 years, which has been determined to match the period over which the value of the underlying businesses will exceed the value of their identifiable net assets.

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

20 – Other financial investments

(a) These financial investments comprise:

	Long-term business £m	Non-long-term business £m	Total 2001 £m	Long-term business £m	Non-long-term business £m	Total 2000 £m
Shares and other variable yield securities and units in unit trusts	**37,342**	**4,133**	**41,475**	44,941	5,868	50,809
Debt securities and other fixed income securities:						
At current value	**20,353**	**9,288**	**29,641**	11,460	13,813	25,273
At amortised cost	**34,129**	**–**	**34,129**	35,095	–	35,095
Participation in investment pools	**77**	**35**	**112**	101	–	101
Loans secured by mortgages:						
Own mortgages	**8,259**	**1,035**	**9,294**	7,912	941	8,853
Securitised mortgages (21)	**930**	**219**	**1,149**	348	–	348
Less: Non-recourse funding (21)	**(930)**	**(219)**	**(1,149)**	(348)	–	(348)
	–	**–**	**–**	–	–	–
Other loans:						
Loans secured on policies	**152**	**–**	**152**	957	–	957
Other loans	**2,880**	**201**	**3,081**	2,209	292	2,501
Deposits with credit institutions	**747**	**1,194**	**1,941**	1,874	967	2,841
	103,939	**15,886**	**119,825**	104,549	21,881	126,430

All investments above are shown at current value unless otherwise indicated. The cost of financial investments above was £109,767 million *(2000: £106,707 million).*

20 – Other financial investments continued

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

	2001 £m	2000 £m
Shares and other variable yield securities and units in unit trusts	**36,462**	50,625
Debt securities and other fixed income securities	**58,837**	58,433

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

	2001 £m	2000 £m
Cost	**33,756**	34,794
Cumulative amortisation	**373**	301
Amortised cost	**34,129**	35,095
Market value	**35,494**	36,743

The redemption value of investments held at the year end was £614 million less *(2000: £488 million greater)* than the amortised cost.

(d) In addition to the investments in participating interests detailed in note 19, the Group holds investments exceeding 10% of a class of the equity capital in a number of other companies in the United Kingdom and elsewhere. These investments do not represent a material part of the assets or investment income of the Group. These include the Group's 7.8% *(2000: 9.3%)* shareholding in Delta Lloyd Investment Fund NV. As this company invests mainly in equities and all dividends received are passed on to the shareholders, the Group's interest has been shown in other financial investments in these accounts. The economic benefits of ownership of an additional holding of 16.6% *(2000: 12.1%)* belong to the Delta Lloyd Pension Fund.

(e) Included within other financial investments are shareholdings held on a long-term basis in the issued share capital of Société Générale, a banking company incorporated in France, Münchener Rückversicherungs-Gesellschaft, a reinsurance company incorporated in Germany and The Royal Bank of Scotland Group, a banking company incorporated in Scotland. The market values of these holdings at 31 December 2001 were £1,100 million, £1,203 million and £1,546 million respectively *(2000: £1,188 million, £1,510 million and £1,391 million respectively)* and represented 6.6%, 3.6% and 3.2% *(2000: 6.8%, 3.6% and 3.3%)* of the respective issued share capitals of these companies. Of these holdings, the long-term business operations owned £453 million *(2000: £359 million)* of the Société Générale shares, £509 million *(2000: £255 million)* of the Münchener Rückversicherungs-Gesellschaft shares and £1,510 million *(2000: £1,357 million)* of The Royal Bank of Scotland Group shares.

Of the holdings in Société Générale at 31 December 2001, shares with a market value of £281 million *(2000: £304 million)* are held to cover the obligation of a French subsidiary to repay exchangeable bonds. Further details of these bonds are given in note 40(b).

(f) At 31 December 2001, the Group held equity index futures, forwards and options to buy a notional total of £1,771 million *(2000: £566 million)* and to sell a notional total of £1,657 million *(2000: £169 million)* for long-term business operations. These contracts have a net positive fair value of £86 million *(2000: £1 million)*. No adjustment has been made to the classification of existing investments to reflect the effect of the future settlement of these transactions.

In 1998, the Group purchased several swap options from a European bank to cover a possible future exposure to interest rates related to guaranteed annuities in a subsidiary purchased prior to 1998. At 31 December 2001, the exposure hedged by these options was £2,451 million *(2000: £2,551 million)* and the contracts had a fair market value of £132 million (*2000: £122 million)*. These options have varying expiry dates up to 2028.

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

Included within other financial investments are £336 million *(2000: £391 million)* of debt securities and other fixed income securities which have been sold under stock repurchase arrangements. The obligations arising under these arrangements are included in other creditors (note 41).

21 – Securitised mortgages and related assets

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

(a) In a United Kingdom long-term business subsidiary ("NUER"), the beneficial interest in a portfolio of equity release mortgages was transferred during 2001 to a special purpose securitisation company, Equity Release Funding (No 1) plc ("ERF1"), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within ERF1 after meeting all its obligations to the noteholders, loan providers and other third parties in the priority of payments. No gain or loss was recognised on this transfer. The purchase of the mortgages was funded by the issue of fixed and floating rate notes by ERF1.

The ultimate effective holding company of ERF1 is Equity Release Funding Holdings Limited, whose shares are held on trust. NUER does not own, directly or indirectly, any of the share capital of ERF1 or its parent company. NUER has purchased £12.5 million of subordinated fixed rate notes, which are repayable in 2031. These are included in debt securities and other fixed income securities within other financial investments in the consolidated balance sheet.

NUER receives payments from ERF1 in respect of fees for loan administration and cash handling purposes. NUER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where NUER is in breach of warranty or loans are substituted in order to effect a further advance.

Income of £1 million has been recognised by NUER relating to the securitisation of the mortgage portfolio.

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

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

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

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

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

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

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

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

	Internally generated £m	Acquired £m	Total £m
Balance at 1 January	6,058	547	6,605
Foreign exchange rate movements	(32)	(17)	(49)
In-force long-term business acquired in subsidiaries (16b)	–	118	118
In-force long-term business disposed of	(27)	–	(27)
Amortisation charge for the year	–	(49)	(49)
Other movements during the year			
Transfer to revaluation reserve (32)	(761)	–	(761)
Movement in minority interest on internally-generated in-force business (22b)	22	–	22
	(739)	–	(739)
Movements arising in the year	(799)	52	(747)
Balance at 31 December	**5,259**	**599**	**5,858**

The amortisation charge for the year appears under the heading "Other technical charges" in the long-term business technical account on page 47. This is grossed up for attributable tax in the reconciliations on pages 47 and 50, and in note 3b on page 58.

Details of the assumptions and methodology supporting the additional value of in-force long-term business can be found on pages 96 to 98.

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

	2001 £m	2000 £m	Movement in the year £m
Additional value of internally-generated in-force long-term business	**5,259**	6,058	(799)
Amount attributable to minority interests	**(81)**	(59)	(22)
Balance at 31 December	**5,178**	5,999	(821)

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

	2001 £m	2000 £m
Net assets of the long-term businesses (3c)	**5,463**	4,850
Less: Goodwill arising on RBSLI joint venture	**(244)**	(257)
Less: Net (assets)/liabilities of other life and savings operations	**(14)**	36
Net assets of long-term operations	**5,205**	4,629
Additional value of in-force long-term business	**5,858**	6,605
	11,063	11,234

Analyses of the geographical split of the embedded value and of the movement in the year are given in the supplementary information on page 95.

23 – Assets held to cover linked liabilities

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

	2001 £m	2000 £m
Assets held to cover linked liabilities	**28,704**	27,255
Reinsurers' share of technical provision	**537**	703
Technical provision for linked liabilities	**29,241**	27,958

(b) The cost of assets held to cover linked liabilities is £27,336 million *(2000: £25,812 million)*.

24 – Debtors arising out of direct insurance operations

	2001 £m	2000 £m
Amounts owed by policyholders	**1,892**	2,330
Amounts owed by intermediaries	**1,581**	1,944
Debtors arising out of direct insurance operations	**3,473**	4,274

25 – Other debtors

	2001 £m	2000 £m
Banking and stockbroking assets (29a)	**3,359**	2,138
Other	**2,277**	1,908
Other debtors	**5,636**	4,046

26 – Tangible assets

	Motor vehicles £m	Computer equipment £m	Other £m	Total £m
Cost:				
At 1 January	75	455	518	1,048
Acquisitions/(disposals) of subsidiaries	(23)	(92)	(193)	(308)
Additions	7	118	67	192
Disposals	(14)	(52)	(33)	(99)
Foreign exchange rate movements	–	(5)	(4)	(9)
At 31 December	45	424	355	824
Depreciation:				
At 1 January	28	327	337	692
Acquisitions/(disposals) of subsidiaries	(7)	(91)	(193)	(291)
Charge for the year	8	101	68	177
On disposals	(7)	(37)	(12)	(56)
Foreign exchange rate movements	–	(3)	(2)	(5)
At 31 December	22	297	198	517
Net book value at 31 December 2001	**23**	**127**	**157**	**307**
Net book value at 31 December 2000	47	128	181	356

27 – Own shares

Movements in the residual value of own shares comprise:

	Number	2001 £m	Number	2000 £m
Additions	**1,926,500**	**18**	550,000	6
Distributed in year	**(1,214,033)**	**–**	(396,265)	–
Charge for the year	**–**	**(18)**	–	–
Movement arising in the year	**712,467**	**–**	153,735	6
Balance at 1 January	**2,413,220**	**10**	2,259,485	4
Balance at 31 December	**3,125,687**	**10**	2,413,220	10

These shares are owned by an employee share trust to satisfy awards under Integration Incentive Plans, Deferred Bonus Plans, Executive Share Option Plans and the CGNU Long Term Incentive Plan. A charge to profit has been made in respect of the exercise of options and vesting of awards during the year. Further details of the shares held can be found in note 30(b). Further details of the features of the plans can be found in the Remuneration report on pages 37 and 38.

28 – Deferred acquisition costs

The asset in the consolidated balance sheet comprises:

	2001 £m	2000 £m
Costs in respect of long-term business	**1,595**	1,520
Costs in respect of general business	**1,008**	1,336
	2,603	2,856

29 – Banking and stockbroking activities

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

	2001 £m	2000 £m
Investments	**630**	459
Loans and advances to banks	**402**	275
Loans and advances to customers	**2,242**	1,216
	3,274	1,950
Stockbroking clients and counterparties	**–**	38
Short-term deposits and cash	**21**	17
Other banking and stockbroking assets	**64**	133
	3,359	2,138

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

	2001 £m	2000 £m
Deposits by banks	**229**	124
Bank customer accounts	**2,270**	1,269
Stockbroking clients and counterparties	**–**	28
Bank overdrafts	**41**	22
Other banking and stockbroking liabilities	**772**	456
	3,312	1,899

30 – Ordinary share capital

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

	2001 £m	2000 £m
3,000,000,000 *(2000: 3,000,000,000)* ordinary shares of 25 pence each	**750**	750

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

	2001 £m	2000 £m
2,254,928,378 *(2000: 2,251,102,449)* ordinary shares of 25 pence each	**564**	563

30 – Ordinary share capital continued

(b) At 31 December 2001, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

CGNU Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	437.74	141,637	2002	797.60	1,316,301	2001, 2003 or 2005
	484.66	85,663	2002	750.00	1,901,994	2002, 2004 or 2006
	478.26	139,189	2001 or 2003	895.20	2,809,320	2003, 2005 or 2007
	580.27	392,222	2002 or 2004	664.00	6,542,079	2004, 2006 or 2008

Norwich Union Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	541.60	2,960,599	2002	752.00	917,998	2002 or 2004
	785.00	420,378	2001 or 2003			

Hibernian Savings Related Share Option Scheme	Option price Irish p	Number of shares	Normally exercisable	Option price Irish p	Number of shares	Normally exercisable
	810.40	124,812	2002 or 2004	1,087.56	371,819	2004 or 2005
	1,165.00	212,134	2003 or 2005			

General Accident Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	421.73	650	2001	421.73	136,037	2003
	352.79	166,209	2002	555.55	616,214	2002 or 2004

CGNU Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	580.17	215,705	1995 to 2002	857.00	43,343	2000 to 2007
	585.97	25,099	1996 to 2003	1,073.31	18,797	2001 to 2008
	575.29	214,624	1997 to 2004	1,119.00	61,745	2001 to 2008
	547.17	40,564	1997 to 2004	1,016.00	11,023	2001 to 2008
	542.17	35,283	1998 to 2005	853.00	1,210,265	2001 to 2008
	614.83	33,305	1998 to 2005	965.00	121,227	2002 to 2009
	581.17	280,365	1999 to 2006	919.00	2,152,180	2002 to 2009
	601.17	23,423	1999 to 2006	870.83	170,417	2002 to 2009
	689.17	45,121	1999 to 2006	952.00	28,362	2002 to 2009
	677.50	26,871	2000 to 2007	947.67	3,165	2002 to 2009
	680.00	71,248	2000 to 2007	822.00	103,207	2003 to 2010
	725.50	10,803	2000 to 2007	972.33	243,709	2003 to 2010
	763.50	7,858	2000 to 2007	960.00	1,447,878	2003 to 2010
	773.50	81,683	2000 to 2007	1,035.00	2,157,708	2004 to 2011

General Accident Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	562.85	28,100	1996 to 2003	553.93	278,708	1999 to 2006
	463.09	62,210	1997 to 2004	766.42	216,847	2000 to 2007
	506.08	122,114	1998 to 2005			

CGNU Executive Share Option Scheme (Delta Lloyd)	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	581.17	4,558	1996 to 2001	952.00	39,118	1999 to 2004
	680.00	104,717	1997 to 2002	822.00	682,713	2000 to 2005
	1,119.00	299,823	1998 to 2003	950.00	760,374	2001 to 2006
	965.00	435,758	1999 to 2004			

CGU plc Deferred Bonus Plan	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	899.50	48,791	2002 to 2009	875.00	51,258	2003 to 2010
	966.50	22,185	2002 to 2009			

30 – Ordinary share capital continued

(b) continued

At 31 December 2001, restricted awards over a total of 1,207,364 ordinary shares were outstanding under the CGNU Integration Incentive Plan. The awards will be satisfied by means of shares purchased by an employee share trust set up for the purpose of satisfying awards under various executive incentive plans and funded by the Company. Details are given in note 27. As at 31 December 2001, the trust held 3,125,687 shares with an aggregate nominal value of £781,422 and their market value at the year end was £26 million. The trustees have waived their right to dividends on the shares held in trust. Further details of the Plan can be found on page 42.

As at 31 December 2001, awards over a total of 8,754 ordinary shares were outstanding under the Commercial Union Long Term Incentive Plan. These awards will vest in 2002. Shares will be purchased into an employee share trust established to satisfy the vesting of awards.

As at 31 December 2001, awards over a total of 1,140,496 ordinary shares, and options over a total of 20,178 ordinary shares, were outstanding under the CGNU Deferred Bonus Plan. These awards will vest in 2004. Shares will be purchased into an employee share trust to satisfy the vesting awards.

As at 31 December 2001, awards over a total of 1,766,955 ordinary shares were outstanding under the CGNU Long Term Incentive Plan. Subject to satisfying performance criteria, these awards will vest in 2003 and 2004. Shares will be purchased into an employee share trust to satisfy the vesting of awards. Further details of this plan can be found on pages 37 and 38.

The Company has also established and funded an employee share ownership trust, which has the power to acquire shares in the open market to meet future obligations under the Company's Savings Related Share Option Schemes. Alternatively, new shares may be issued by the Company to meet such obligations.

(c) During 2001, a total of 3,825,929 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	Share capital £m	Share premium £m
At 1 January	2,251,102,449	563	1,055
Shares issued under the Group's Employee and Executive Share Option Schemes	3,825,929	1	28
At 31 December	**2,254,928,378**	**564**	**1,083**

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

31 – Preference share capital

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

	2001 £m	2000 £m
Authorised		
200,000,000 cumulative irredeemable preference shares of £1 each	**200**	200
	200	200
Issued and paid up		
100,000,000 8⅜% cumulative irredeemable preference shares of £1 each	**100**	100
100,000,000 8¾% cumulative irredeemable preference shares of £1 each	**100**	100
	200	200

The fair value of these shares at 31 December 2001 was £273 million *(2000: £234 million).*

(b) The preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are being altered. On a winding up, they carry a preferential right to return of capital ahead of the ordinary shares.

32 – Group reserves

	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2001	5,999	3,049	2,767	11,815
Transfer from non-technical account	–	–	(841)	(841)
Foreign exchange rate movements	(33)	–	(158)	(191)
Decrease in value of in-force long-term business (P & 22a)	(761)	–	–	(761)
Goodwill on disposals, previously written off	–	–	9	9
Other movements	(27)	(74)	95	(6)
At 31 December 2001	**5,178**	**2,975**	**1,872**	**10,025**

As explained in accounting policy K on page 45, goodwill arising on acquisitions since 1 January 1998 is carried on the balance sheet and amortised over its useful economic life. The cumulative amounts of positive and negative goodwill charged or credited to the consolidated profit and loss account, attributable to subsidiary undertakings acquired from 1 January 1968 to 31 December 1997 and not subsequently sold, are £1,270 million and £18 million respectively. Similar information relating to subsidiary undertakings acquired before 1968 is not readily available.

The cumulative amount in the profit and loss account reserve relating to unrealised gains and losses is £1,104 million *(2000: £2,412 million).*

33 – Company reserves

Movements in the Company's reserves comprise:

	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
Profit for the year attributable to equity shareholders, including dividends paid or proposed by subsidiary undertakings	–	–	278	278
Dividends	–	–	(874)	(874)
Retained loss for the year	–	–	(596)	(596)
Unrealised losses	(1,194)	–	–	(1,194)
Movements in the year	(1,194)	–	(596)	(1,790)
At 1 January 2001	4,393	227	7,195	11,815
At 31 December 2001	**3,199**	**227**	**6,599**	**10,025**

The cumulative amount in the profit and loss account includes non-distributable gains of £5,735 million *(2000: £5,735 million).*

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

34 – Subordinated debt

	Group and Company 2001 £m	2000 £m
6.125% £700 million subordinated notes 2036	**678**	–
5.75% €800 million subordinated notes 2021	**479**	–
	1,157	–

The 6.125% Fixed/Fixed Rate Reset Subordinated Notes 2036 and the 5.75% Fixed/Floating Rate Reset Subordinated Notes 2021 were issued by the Company on 14 November 2001. The Notes rank below the senior obligations and ahead of the preference and ordinary share capital issued by the Company. The 2036 Notes are callable at par, at the option of the Company, on 16 November 2026 and 14 November 2031. If the Notes are not called, the interest rate payable will be reset to an amount of 2.85% over the Gross Redemption Yield on the appropriate five-year benchmark gilt on the reset date. The 2021 Notes are callable at par on 14 November 2011 and at three monthly intervals thereafter up to maturity. If the Notes are not called, the interest payable will be reset to an amount of 2.12% above 3 month Euribor.

The fair value of these notes at 31 December 2001 was £1,133 million *(2000: £nil).*

35 – Long-term business

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

(i) In the United Kingdom mainly in

– "with-profit" funds of CGNU Life, Commercial Union Life, Norwich Union Life & Pensions and the Provident Mutual fund, where the with-profits policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance;

– "non-profit" funds of Norwich Union Annuity, Norwich Union Life & Pensions and Norwich Union Linked Life, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by Norwich Union Life & Pensions are derived from management fees and policy charges, and emerge in the non-profit fund.

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

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

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

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

36 – Long-term business provision

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

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

	Interest %	Mortality tables used
United Kingdom		
Assurance:		
With-profit	2.25 to 2.5	AM80/AF80 or A67/70 less 3 years
Non-profit	3.25 to 4	70%, 90% or 100% AM80/AF80 adjusted for smoker status
Pure endowment and deferred annuity:		
Pensions business (in deferment)	3 to 5.75	Nil or 50% of AM80/AF80 or AM80 less 5 years
General annuity business (from vesting)	4	IMA80/IFA80 or IMA92/IFA92 Adjusted
Pensions business (from vesting)	4 to 4.75	PMA80/PFA80 or PMA92/PFA92 Adjusted
Annuity in payment:		
General annuity	4 to 5.8	IMA80/IFA80 or IMA92/IFA92 or RMV92/RFV92 Adjusted
Pensions	4 to 5.8	PMA80/PFA80 or PFA92/PFA92 Adjusted

For unitised with-profit business, the provisions are valued initially by determining the lower of the current non-guaranteed surrender value and the bid value of units. This result is then compared with a prospective valuation and the higher result is taken.

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

36 – Long-term business provision continued

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

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

37 – Provisions for outstanding claims

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

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

(b) Claims incurred in the general business technical account in 2000 included deficits amounting to £737 million arising on claims reported in previous years. These arose principally in relation to certain long-tail liability business which is no longer written. There were no material deficits in 2001.

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

		Rate		Mean term of liabilities	
	Class	2001	2000	2001	2000
Netherlands	Permanent health and injury	**3.5%**	4%	**12 years**	8 years
Belgium	Workers' compensation	–	4%	–	19 years
United States	Workers' compensation	–	7%	–	7 years
United States and London Market	Business no longer written	–	4.5%	–	9 years

Net of reinsurers' share, the outstanding claims provisions before discounting were £8,058 million *(2000: £14,470 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries. The unwinding of the discount in respect of the United States and London Market business no longer written was not material *(2000: £24 million)*.

38 – Equalisation provision

An equalisation provision has been established in the Group accounts as explained in accounting policy U on page 46. This had the effect of reducing Group and Company shareholders' funds by £272 million at the year end *(2000: £216 million)*. The change in the equalisation provision during the year comprised a reduction of £56 million *(2000: £27 million)* in the balance on the general business technical account and the profit on ordinary activities before tax. The closing provision in 2000 was reduced by £23 million, representing the equalisation provision of a subsidiary company sold during that year.

39 – Provisions for other risks and charges

Movements in provisions for other risks and charges were:

	Pensions and similar obligations £m	Deferred tax (note 13c) £m	Provision for integration costs £m	Other £m	Total £m
At 1 January 2001	161	429	261	1,235	2,086
Exchange rate movements on opening provisions	1	(2)	(1)	(5)	(7)
Movement during the year:					
Additional provisions made in the year			58	30	
Amounts utilised			(296)	(1,084)	
Amounts released unutilised			–	(15)	
Total movement	(92)	(63)	(238)	(1,069)	(1,462)
At 31 December 2001	**70**	**364**	**22**	**161**	**617**

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

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

(a) The analysis by business segment is:

	Debenture loans		Amounts owed to credit institutions		Commercial paper		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Long-term business	**51**	16	**–**	–	**–**	–	**51**	16
General business	**–**	–	**11**	11	**–**	–	**11**	11
Other	**785**	893	**180**	384	**1,686**	1,304	**2,651**	2,581
Non-long-term business	**785**	893	**191**	395	**1,686**	1,304	**2,662**	2,592
	836	909	**191**	395	**1,686**	1,304	**2,713**	2,608

"Other" comprises borrowings by holding companies within the Group which are not allocated to operating companies. The amounts shown above are net of related derivative contracts.

(b) Debenture loans comprise:

	Long-term business		Other	
	2001 £m	2000 £m	2001 £m	2000 £m
9.125% US$100 million subordinated debentures 2026	**–**	–	**–**	61
9.5% guaranteed bonds 2016	**–**	–	**145**	150
11.9% C$24 million mortgage 2005	**–**	–	**8**	9
8.625% guaranteed bonds 2005	**–**	–	**145**	149
1.5% FF2.8 billion exchangeable bonds 2003	**–**	–	**281**	304
10.75% guaranteed bonds 2002	**–**	–	**100**	100
2.5% subordinated perpetual loan notes	**–**	–	**106**	108
Institutional borrowings (average rate 5%)	**51**	16	**–**	–
Institutional borrowings 2000/2001 (average rate 3%)	**–**	–	**–**	12
	51	16	**785**	893
Repayable as follows:				
One year or less	**1**	1	**100**	73
Between one and two years	**6**	6	**281**	100
Between two and five years	**44**	9	**153**	462
After five years	**–**	–	**251**	258
	51	16	**785**	893
The interest charge for the year on the above loans was:	**2**	1	**56**	63

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

The 9.5% and the 8.625% guaranteed bonds were issued at a discount of £1.1 million and £0.2 million respectively. These amounts, together with the issue expenses, are being amortised over the full term of the bonds. Although these bonds were issued in sterling, the loans have been converted into French franc and deutschmark liabilities through the use of financial instruments in a subsidiary undertaking.

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

(b) continued

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

The 10.75% guaranteed bonds were issued at a discount of £0.8 million and this amount, together with the issue expenses, is being amortised over the full term of the bonds.

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

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

(c) Amounts due to credit institutions comprise:

	General business		Other	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	**11**	11	**180**	305
Other borrowings	**–**	–	**–**	79
	11	11	**180**	384
Repayable as follows:				
One year or less	**11**	11	**156**	201
Between one and two years	**–**	–	**–**	–
Between two and five years	**–**	–	**–**	150
After five years	**–**	–	**24**	33
	11	11	**180**	384
The interest charge for the year on the above was:	**1**	13	**14**	27

(d) Commercial paper comprises:

	Other	
	2001 £m	2000 £m
Average rate 5% *(2000: 6%)*	**1,686**	1,304
The interest charge for the year on the above borrowings was:	**83**	73

The commercial paper is all repayable within one year and is issued in a number of different currencies. Part of this has been converted into a sterling liability through the use of financial instruments in a subsidiary undertaking.

(e) The Company's loans comprise:

	2001 £m	2000 £m
9.5% guaranteed bonds 2016	**198**	198
8.625% guaranteed bonds 2005	**199**	199
10.75% guaranteed bonds 2002	**100**	100
Commercial paper	**1,641**	1,043
	2,138	1,540
Repayable as follows:		
One year or less	**1,741**	1,043
Between one and two years	**–**	100
Between two and five years	**199**	199
After five years	**198**	198
	397	497
	2,138	1,540

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

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

(g) After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the general business and other borrowings of the Group was:

	Floating rate borrowings		Fixed rate borrowings		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Sterling	**1,180**	1,187	**400**	100	**1,580**	1,287
Euro	**106**	228	**387**	731	**493**	959
United States dollar	**574**	267	**–**	–	**574**	267
Canadian dollar	**–**	–	**8**	76	**8**	76
Other	**6**	3	**1**	–	**7**	3
Total non-long-term business borrowings	**1,866**	1,685	**796**	907	**2,662**	2,592

The floating rate borrowings comprise commercial paper and bank borrowings bearing interest based on local inter-bank offer rates, which are fixed in advance for the period of the borrowings. Excluding the subordinated perpetual loan notes, the fixed rate borrowings have a weighted average interest rate of 6.26% *(2000: 5.88%)* for a weighted average term of 10 years *(2000: 10 years).*

(h) The Group has the following undrawn committed central borrowing facilities available to it, of which £1,000 million *(2000: £1,000 million)* is used to support the commercial paper programme:

	2001 £m	2000 £m
Expiring within one year	**1,550**	1,430
Expiring beyond one year	**1,430**	1,170
	2,980	2,600

(i) The difference between the carrying value and the fair value of the non-long-term business fixed rate borrowings and the related swaps is as follows:

	Carrying value 2001 £m	Fair value 2001 £m	Carrying value 2000 £m	Fair value 2000 £m
Non-long-term business fixed rate borrowings	**891**	**1,142**	1,012	1,129
Currency swaps	**(95)**	**(156)**	(105)	(157)
	796	**986**	907	972

(j) The General Accident preference shares, included in minority interests at their par value of £250 million together with an £8 million accrual for dividends, are listed on the London Stock Exchange. Their fair value at 31 December 2001 was £331 million *(2000: £297 million)*, based on their quoted market price.

41 – Other creditors including tax and social security

	2001 £m	2000 £m
Banking and stockbroking liabilities (29b)	**3,312**	1,899
Proposed final ordinary dividend (14)	**536**	535
United Kingdom and overseas tax	**174**	420
Bank overdrafts	**918**	500
Other	**3,627**	2,712
Other creditors including tax and social security	**8,567**	6,066

Bank overdrafts arise substantially from unpresented cheques and amount to £553 million *(2000: £281 million)* in long-term business operations and £364 million *(2000: £219 million)* in general business and other operations. The "other" totals include the obligation to repay £336 million *(2000: £391 million)* received under stock repurchase arrangements entered into in the United Kingdom and the Netherlands.

42 – Accruals and deferred income

	2001 £m	2000 £m
Deferred reinsurance commissions	**51**	29
Other accruals and deferred income	**952**	1,215
Accruals and deferred income	**1,003**	1,244

43 – Pension and other post-retirement benefit costs

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

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

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

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

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

The 2001 pension costs of defined benefit and defined contribution schemes for the Group were £89 million *(2000: £88 million)*. There were no significant contributions outstanding or prepaid as at 31 December 2001.

43 – Pension and other post-retirement benefit costs continued

(d) FRS17 Retirement benefits

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

	UK	Netherlands	Canada	Ireland
Date of most recent actuarial valuation	Various	31.12.00	1.1.01	1.4.00
The main financial assumptions used to calculate scheme liabilities under FRS17 are:				
Inflation rate	2.4%	2.5%	2.5%	3.0%
General salary increases	4.2%	3.5%	3.0%	4.75%
Pension increases	2.4%	2.5%	1.3%	2.5%
Deferred pension increases	2.4%	2.5%	0%	2.5%
Discount rate	5.9%	6.1%	6.6%	5.9%

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

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total £m
Equities	3,281	169	69	230	3,749
Bonds	957	271	79	73	1,380
Property	313	–	–	28	341
Other	159	3	17	7	186
Total market value of assets	4,710	443	165	338	5,656
Present value of scheme liabilities	(4,518)	(430)	(145)	(229)	(5,322)
Surplus in the schemes	192	13	20	109	334
Surplus not possible to recognise	–	–	–	(17)	(17)
Recognised pension asset	192	13	20	92	317
Related deferred tax liability	(58)	(3)	(8)	(15)	(84)
Net pension asset	134	10	12	77	233

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

	Net assets £m	Profit and loss account £m
Totals included in the Group accounts	12,523	1,872
Less: pension asset on SSAP 24 basis	(143)	(143)
Totals excluding pension asset	12,380	1,729
Add: pension asset on FRS17 basis	233	233
Totals including pension asset	12,613	1,962

44 – Assets under management

The total Group assets under management are:

	2001 £m	2000 £m
Total assets included in the balance sheet	**188,234**	193,318
Third party funds under management		
Unit trusts, Oeics, Peps and Isas	**4,677**	5,295
Segregated funds	**15,998**	21,302
Total assets under management	**208,909**	219,915

45 – Cash flow statement

The cash flow statement reflects long-term business activities only to the extent that cash is transferred between long-term and non-long-term operations. In the following analyses, long-term business assets and liabilities shown in the consolidated balance sheet have therefore been excluded.

(a) The reconciliation of profit/(loss) on ordinary activities to net cash inflow from operating activities is:

	2001 £m	2000 £m
Profit/(loss) on ordinary activities before tax	**514**	(1,406)
Add back:		
Integration costs	**59**	425
Financial Services Compensation Scheme levy	**31**	–
Merger transaction costs	**–**	59
Profit/(loss) on ordinary activities before tax, excluding exceptional items and merger transaction costs	**604**	(922)
Adjustments for financing expense and items not involving movements of cash:		
Depreciation of tangible fixed assets	**136**	141
Amortisation of goodwill	**87**	92
Amortisation of acquired additional value of in-force long-term business	**64**	29
(Decrease)/increase in general business underwriting liabilities and provisions	**(347)**	280
Realised and unrealised losses/(gains) on investments	**621**	(780)
Provision for loss on sale of United States general business	**–**	1,070
Net (profit) arising on the disposal of subsidiary undertakings	**(287)**	(12)
Decrease/(increase) in deferred acquisition costs	**28**	(67)
Movement in banking and stockbroking assets and liabilities	**(398)**	(100)
Movement in other assets/liabilities	**393**	1,285
Profits retained in associated undertakings	**2**	–
Profits not yet transferred from long-term business funds	**(702)**	(467)
Loan interest expense	**217**	189
	(186)	1,660
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs	**418**	738

(b) Analysis of cash flows in respect of the acquisition and disposal of subsidiary and associated undertakings is:

	2001 £m	2000 £m
Cash consideration for subsidiary undertakings acquired	**(603)**	(546)
Cash proceeds from disposal of subsidiary undertakings	**1,732**	246
Net cash balances (acquired)/divested with subsidiary undertakings	**(276)**	23
	853	(277)

45 – Cash flow statement continued

(c) Changes in financing during the year were:

	Share capital 2001 £m	Share capital 2000 £m	Borrowings 2001 £m	Borrowings 2000 £m
Issue of ordinary share capital	**29**	54	**–**	–
New borrowings drawn down, net of expenses	**–**	–	**10,290**	9,673
Repayment of borrowings	**–**	–	**(9,039)**	(9,234)
Net cash inflow	**29**	54	**1,251**	439
Foreign exchange rate movements	**–**	–	**(24)**	49
Loans in acquired companies	**–**	–	**–**	10
Changes in financing	**29**	54	**1,227**	498
Balance at 1 January	**3,814**	3,760	**2,592**	2,094
Balance at 31 December	**3,843**	3,814	**3,819**	2,592

	2001 £m	2000 £m
Share capital is represented by:		
Ordinary share capital	**564**	563
Preference share capital	**200**	200
Share premium account	**1,083**	1,055
Merger reserve in respect of share capital	**1,996**	1,996
	3,843	3,814

(d) Changes in cash during the year were:

	2001 £m	2000 £m
(Decrease)/increase in cash holdings	**(69)**	119
Foreign exchange rate movements	**2**	3
Changes in cash	**(67)**	122
Balance at 1 January	**605**	483
Balance at 31 December	**538**	605

(e) Non-long-term business cash included in the consolidated balance sheet comprised:

	2001 £m	2000 £m	Changes in year £m
Cash at bank and in hand:			
General business and other activities	**922**	829	93
Banking and stockbroking	**21**	17	4
	943	846	97
Bank overdrafts:			
General business and other activities	**(364)**	(219)	(145)
Banking and stockbroking	**(41)**	(22)	(19)
	(405)	(241)	(164)
	538	605	(67)

45 – Cash flow statement continued

(f) Movements in opening and closing non-long-term portfolio investments were:

	2001 £m	2000 £m
Net purchases/(sales) of investments	**1,223**	(1,541)
Net investments (divested)/acquired with subsidiary undertakings	**(6,165)**	105
Changes in market values and foreign exchange rate movements	**(732)**	1,435
Net movement in opening and closing non-long-term portfolio investments	**(5,674)**	(1)
Balance at 1 January	**23,224**	23,225
Balance at 31 December	**17,550**	23,224

(g) Non-long-term portfolio investments included in the consolidated balance sheet comprised:

	2001 £m	2000 £m	Changes in year £m
Land and buildings	**857**	820	37
Other participating interests	**25**	12	13
Other financial investments	**15,886**	21,788	(5,902)
Deposits with ceding undertakings	**152**	145	7
Banking and stockbroking investments	**630**	459	171
	17,550	23,224	(5,674)

46 – Contingent liabilities

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

Note 36 gives details of the assumptions used in determining the long-term business provision which are designed to allow for prudence and the appropriate emergence of surpluses to pay future bonuses. Note 37 gives details of the estimation techniques used in determining the general business outstanding claims provision. Both are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed for long-term business, or assumptions over general business claims inflation may alter in the future, there is a contingent liability in respect of this uncertainty.

The Group is continuing with a review of those past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Personal Investment Authority and the Financial Services Authority. 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. A provision of some £96 million *(2000: £225 million)* has been made to meet the outstanding costs of the extended review, including potential levies payable to the Investors Compensation Scheme. It continues to be the Group's view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

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

47 – Capital commitments

In carrying on the business of investment, the Group has entered into future commitments, including property development, after 31 December 2001. These amounts are not reflected in the consolidated Group balance sheet on pages 52 and 53. The Group has in hand a number of property developments which, under contracts already signed, will require expenditure of £207 million *(2000: £51 million)* for long-term business and £1 million *(2000: £48 million)* for general business operations.

Five year review

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Premium income after reinsurance and investment sales					
Life assurance, investment sales and health premiums, including share of associates	**19,906**	18,036	15,450	11,619	10,993
General insurance	**8,433**	8,990	8,373	7,428	7,225
Total continuing operations	**28,339**	27,026	23,823	19,047	18,218
Consolidated profit and loss account					
Life assurance (achieved profit basis)	**1,674**	1,569	1,496	1,440	1,382
Health	**70**	68	24	17	9
Fund management and non-insurance operations	**27**	37	46	37	24
General insurance	**945**	412	459	496	922
Corporate costs and unallocated interest charges	**(613)**	(546)	(402)	(286)	(284)
Wealth management	**(99)**	(133)	–	–	–
Operating profit including life achieved profit – continuing operations	**2,004**	1,407	1,623	1,704	2,053
Deduct life achieved profit	**(1,674)**	(1,569)	(1,496)	(1,440)	(1,382)
Add modified statutory life profit	**1,203**	1,190	1,172	1,075	943
Operating profit on continuing operations before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	**1,533**	1,028	1,299	1,339	1,614
Discontinued operations	**(21)**	(554)	201	152	268
Amortisation of goodwill and acquired value of long-term business	**(151)**	(121)	(56)	(10)	–
Financial Services Compensation Scheme levy	**(31)**	–	–	–	–
Integration costs	**(59)**	(425)	(163)	(645)	–
Operating profit before tax	**1,271**	(72)	1,281	836	1,882
Short-term fluctuation in investment return	**(988)**	258	250	784	1,070
Change in the equalisation provision	**(56)**	(27)	(55)	47	(73)
Net profit/(loss) arising on the sale of subsidiary undertakings	**287**	(1,058)	(8)	17	–
Loss on withdrawal from London Market operations	**–**	(448)	–	–	–
Merger transaction costs	**–**	(59)	–	(75)	–
(Loss)/profit on ordinary activities before tax	**514**	(1,406)	1,468	1,609	2,879
Tax	**(424)**	(255)	(382)	(482)	(792)
Minorities	**(57)**	(52)	(66)	(40)	(94)
Dividends	**(874)**	(872)	(790)	(729)	(574)
Retained (loss)/profit transferred to reserves	**(841)**	(2,585)	230	358	1,419
Consolidated shareholders' funds					
Equity shareholders' funds	**11,672**	13,433	15,473	14,691	13,022
Non-equity shareholders' funds	**200**	200	200	202	202
	11,872	13,633	15,673	14,893	13,224
Pence per ordinary share					
Net asset value (a)	**530p**	606p	700p	669p	603p
Market price (London) (a)	**845p**	1082p	998p	941p	848p
Earnings per share attributable to equity shareholders (b):					
Operating profit before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items, after tax, attributable to equity shareholders in respect of continuing operations	**43.2p**	28.3p	39.2p	35.5p	32.0p
Ordinary dividend (c)	**38.0p**	38.0p	34.3p	31.7p	25.1p

Notes

(a) The net asset value and market price (London) are as at 31 December. Market prices for 1999 and 1998 are for CGU plc, while that for 1997 is for Commercial Union plc. The net asset value is calculated based on equity shareholders' funds, adding back the equalisation provision.

(b) Basic earnings per ordinary share are shown only. No figures have been provided for diluted earnings per share.

(c) Figures for 1999 and 1998 are based on the weighted average dividends per share of CGU plc and Norwich Union plc. Figures for 1997 are based on the weighted average dividends per share of Commercial Union plc, General Accident plc and Norwich Union plc.

Summarised consolidated profit and loss account – achieved profit basis

For the year to 31 December 2001

2001 €m		2001 £m	2000 £m
	Operating profit		
2,700	Life achieved operating profit	**1,674**	1,569
113	Health	**70**	68
47	Fund management	**29**	61
1,524	General insurance	**945**	412
(3)	Non-insurance operations	**(2)**	(24)
(302)	Corporate costs	**(187)**	(185)
(687)	Unallocated interest charges	**(426)**	(361)
3,392		**2,103**	1,540
(160)	Wealth management	**(99)**	(133)
3,232	**Operating profit – continuing operations before tax, amortisation of goodwill and exceptional items**	**2,004**	1,407
(34)	Discontinued operations	**(21)**	(554)
3,198		**1,983**	853
(140)	Amortisation of goodwill	**(87)**	(92)
(50)	Financial Services Compensation Scheme levy	**(31)**	–
(95)	Integration costs	**(59)**	(425)
2,913	**Operating profit before tax**	**1,806**	336
(4,169)	Variation from longer-term investment return	**(2,584)**	213
2	Effect of economic assumption changes	**1**	(269)
(90)	Change in the equalisation provision	**(56)**	(27)
463	Net profit/(loss) arising on the sale of subsidiary undertakings	**287**	(1,058)
–	Loss on withdrawal from London Market operations	**–**	(448)
–	Merger transaction costs	**–**	(59)
(881)	**Loss on ordinary activities before tax**	**(546)**	(1,312)
(1,018)	Tax on operating profit – continuing operations before amortisation of goodwill and exceptional items	**(631)**	(437)
854	Tax on profit on other ordinary activities	**529**	174
(1,045)	**Loss on ordinary activities after tax**	**(648)**	(1,575)
(130)	Minority interests	**(80)**	(65)
(1,175)	**Loss for the financial year**	**(728)**	(1,640)
(27)	Preference dividends	**(17)**	(17)
(1,202)	**Loss for the financial year attributable to equity shareholders**	**(745)**	(1,657)
(1,382)	Ordinary dividends	**(857)**	(855)
(2,584)	**Retained loss for the financial year**	**(1,602)**	(2,512)

	Earnings per share attributable to equity shareholders		
90.5c	Operating profit on an achieved profit basis before amortisation of goodwill and exceptional items, after tax, in respect of continuing operations	**56.1p**	39.7p
(53.4)c	Loss for the financial year	**(33.1)p**	(73.8)p
(53.4)c	Loss for the financial year – diluted	**(33.1)p**	(73.7)p

Basis of preparation

The achieved profit statement on page 92 includes the results of the Group's life operations reported under the achieved profit basis combined with the modified statutory basis results of the Group's non-life operations set out on pages 44 to 90. In the directors' opinion, the achieved profit basis provides a more accurate reflection of the performance of the Group's life operations year on year than results under the modified statutory basis. The achieved profit methodology used is in accordance with the guidance on "Supplementary reporting for long-term insurance business (the achieved profits method)" circulated by the Association of British Insurers in December 2001. Further details on the methodology and assumptions are set out on pages 96 to 98.

The results of the Group's life operations under the modified statutory basis, which is the basis used in the annual statutory accounts, can be found on pages 44 to 90.

The contribution from the Group's share of the alliance with The Royal Bank of Scotland Group plc (RBSG) is incorporated within the achieved operating profit. Goodwill amortised in the period in respect of the Group's holding in the associated company, RBS Life Investments Limited, is included within the "Amortisation of goodwill" on page 92.

Components of total life achieved profit

Total life achieved profit, including the Group's share from the alliance with RBSG, comprises the following components, the first four of which in aggregate are referred to as life achieved operating profit:

- new business contribution written during the year including value added between the point of sale and end of year;
- the profit from existing business equal to:
  - – the expected return on the value of the in-force business at the beginning of the period,
  - – experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value,
  - – the impact of changes in operating assumptions including risk margins;
- development costs incurred in establishing new life businesses;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected experience based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

	2001 £m	2000 £m
New business contribution	**479**	392
Profit from existing business – expected return	**848**	839
– experience variances	**(18)**	10
– operating assumption changes*	**17**	(7)
Development costs	**–**	(20)
Expected return on shareholders' net worth	**339**	319
	1,665	1,533
Other life and savings activities**	**9**	36
Life achieved operating profit before tax and exceptional items	**1,674**	1,569
Exceptional items***	**(12)**	(106)
Investment return variances	**(1,632)**	(43)
Effect of economic assumption changes	**1**	(269)
Total life achieved profit before tax	**31**	1,151
Tax on operating profit	**(514)**	(485)
Tax on other ordinary activities	**499**	110
Total life achieved profit after tax	**16**	776

* Operating assumption changes include the impact of reducing risk margins in the Netherlands and the Poland life and pensions operations in line with the directors' views of the risks associated with these in-force portfolios. The impact of the change in the Netherlands was £17 million. The impact was £22 million in the Poland life operation and £6 million in the Poland pensions operation.

** Profits from other life and savings activities include the UK service company, which is deemed to act as a separate business segment to the long-term business operations, and have been calculated on a statutory basis.

*** Exceptional items comprise integration costs.

New business contribution

The following table sets out the contribution from new business written by the long-term business operations. The contribution generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business. Contribution before tax is calculated by grossing up the contribution after-tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries.

	Annual premium equivalent*			New business contribution		
	2001 £m	2000 £m	Local currency growth %	2001 £m	2000 at 2001 assumptions** £m	2000 £m
United Kingdom	**1,269**	979	30%	**327**	280	294
Europe (excluding UK)						
France	**233**	222	3%	**79**	57	63
Ireland	**102**	79	26%	**29**	19	21
Italy	**126**	58	113%	**28**	20	20
Netherlands (including Belgium and Luxembourg)	**170**	131	27%	**38**	9	16
Poland – life	**36**	43	(27%)	**9**	11	11
– pensions	**24**	139	(85%)	**2**	28	28
Spain	**136**	57	136%	**63**	22	22
Other	**91**	95	(7%)	**–**	2	2
International	**132**	100	33%	**16**	6	6
Total annualised premiums	**2,319**	1,903	20%			
Total new business contribution before effect of solvency margin***				**591**	454	483
Effect of solvency margin				**(112)**	(91)	(91)
Total new business contribution including effect of solvency margin				**479**	363	392

* Annual premium equivalent represents regular premiums plus 10% of single premiums.

** 2000 new business contribution has been shown using the application of 2001 economic assumptions.

*** New business contribution before effect of solvency margin includes minority interests in 2001 of £51 million *(2000: £29 million)*. This comprises minority interests in France of £4 million *(2000: £4 million)*, Italy £14 million *(2000: £8 million)*, Poland £1 million *(2000: £7 million)* and Spain £32 million *(2000: £10 million)*.

New business contributions have been calculated using the same economic assumptions as those used to determine the embedded values as at the beginning of each year and operating assumptions used to determine the embedded values as at the end of the period. The effect of solvency margin represents the impact of holding the minimum European Union (EU) solvency margin (or equivalent for non-EU operations) and discounting to present value the projected future releases from the solvency margin to shareholders.

Analysis of life achieved operating profit

Life achieved operating profit is calculated on an after-tax basis and then grossed up at the full rate of corporation tax for UK business and at appropriate rates of tax for other countries.

	2001 £m	2000 £m
United Kingdom*	**850**	903
Europe (excluding UK)		
France	**227**	204
Ireland	**79**	68
Italy	**55**	29
Netherlands (including Belgium and Luxembourg)	**221**	179
Poland – life	**65**	58
– pensions*	**34**	36
Spain	**80**	42
Other	**18**	(15)
International	**36**	29
Total life achieved operating profit before tax and exceptional items**	**1,665**	1,533

* Excludes other life and savings activities.

** Life achieved operating profit includes minority interests in 2001 of £84 million *(2000: £42 million)*. This comprises minority interests in France of £8 million *(2000: £6 million)*, Italy £27 million *(2000: £12 million)*, Poland £15 million *(2000: £15 million)*, Spain £34 million *(2000: £10 million)*, and International £nil *(2000: loss of £1 million)*.

Embedded value of life business

	2001 £m	2000 £m
Embedded value at the beginning of the year	**11,234**	10,518
Total life achieved profit after tax*	**18**	813
Exchange rate movements	**(97)**	81
Embedded value from business (disposed)/acquired**	**84**	437
Amounts injected into life operations	**175**	167
Amounts released from life operations	**(351)**	(782)
Embedded value at the end of the year***	**11,063**	11,234

* Excluding profits from other life and savings activities after tax.

** Embedded value from businesses disposed of in 2001 comprises NU Vita (Italy) (£16 million), Greece Life (£3 million) and Canada (£117 million). Embedded value for businesses acquired in 2001 comprises Risparmio and Eurovita in Italy (£120 million), Unicaja, Caixa Galicia and Caja España in Spain (£64 million), Hungary (£11 million) and The Insurance Corporation of Singapore (£25 million).

Embedded value from businesses acquired in 2000 comprises Hibernian Group in Ireland (£57 million), Aseval in Spain (£94 million), and the Group's share of the associated partnership in RBS Life Investments Limited (£343 million). Embedded value from business disposed of comprises the Norwich Union Poland life and pensions operations (£57 million).

***Embedded value at the end of the year includes minority interests in 2001 of £347 million *(2000: £208 million)*. This comprises minority interests in France of £34 million *(2000: £34 million)*, Italy £149 million *(2000: £70 million)*, Poland £55 million *(2000: £42 million)*, Spain £107 million *(2000: £57 million)* and Other Europe £2 million *(2000: £5 million)*.

Segmental analysis of embedded value of life business

	Net worth at 31 December*		Valuation of in-force at 31 December**		Embedded value at 31 December	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
United Kingdom	**2,032**	1,809	**3,998**	4,450	**6,030**	6,259
Europe (excluding UK)						
France	**836**	805	**407**	397	**1,243**	1,202
Ireland	**191**	211	**276**	274	**467**	485
Italy	**163**	99	**115**	73	**278**	172
Netherlands (including Belgium and Luxembourg)	**1,032**	1,319	**834**	767	**1,866**	2,086
Poland	**119**	74	**252**	210	**371**	284
Spain	**107**	59	**202**	147	**309**	206
Other	**58**	59	**49**	47	**107**	106
International	**289**	351	**103**	83	**392**	434
	4,827	4,786	**6,236**	6,448	**11,063**	11,234

* The shareholders' net worth comprises the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds determined on a statutory solvency basis and adjusted to add back any non-admissible assets.

**The net worth includes £2,200 million *(31 December 2000: £2,100 million)* in respect of minimum statutory solvency margin requirements that are supported by shareholders' capital. The effect of holding the minimum statutory solvency margin and allowing for projected future releases was £700 million *(31 December 2000: £700 million)*.

Minority interest in life achieved profit

	Shareholders' interest 2001 £m	Minority interest 2001 £m	Group 2001 £m	Group 2000 £m
New business contribution before effect of solvency margin	**540**	**51**	**591**	483
Effect of solvency margin	**(99)**	**(13)**	**(112)**	(91)
New business contribution including effect of solvency margin	**441**	**38**	**479**	392
Life achieved operating profit	**1,581**	**84**	**1,665**	1,533
Other life and savings activities	**9**	**–**	**9**	36
Life achieved operating profit before tax and exceptional items	**1,590**	**84**	**1,674**	1,569
Total life achieved profit before tax	**(30)**	**61**	**31**	1,151
Attributed tax	**6**	**(21)**	**(15)**	(375)
Total life achieved profit after tax	**(24)**	**40**	**16**	776
Closing life embedded value	**10,716**	**347**	**11,063**	11,234

Methodology

(a) Life achieved profit

The achieved profit method of financial reporting is designed to recognise profit as it is earned over the life of an insurance policy. The total profit recognised over the lifetime of a policy is the same as under the modified statutory basis of reporting, but the timing of recognition is different.

Distributable profits from long-term businesses arise when they are released to shareholders following actuarial valuations. These are carried out in accordance with statutory requirements designed to ensure and demonstrate solvency in long-term business funds.

Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality and administration costs. Using realistic assumptions of future experience, we can project releases to shareholders arising in future years from the business in-force and associated minimum statutory solvency margin.

The life achieved profit reflects current performance by measuring the movement, from the beginning to the end of the year, in the present value of projected releases to shareholders, from the business in-force and associated minimum statutory margin together with the movement in the net assets of the long-term operations, adjusted for any amounts released from or invested in life operations.

The present value of the projected releases to shareholders is calculated by discounting back to the current time using a risk discount rate. The risk discount rate is a combination of a discount rate to reflect the time value of money and a risk margin to make prudent allowance for the risk that experience in future years may differ from the assumptions referred to above.

The calculations are carried out on an after-tax basis and the profits are then grossed up for tax at the full rate of corporation tax for the United Kingdom and at an appropriate rate for each of the other countries.

(b) Embedded value

The shareholders' interest in the long-term business operations is represented by the embedded value. The embedded value is the total of the net assets of the long-term operations and the present value at risk discount rates (which incorporate a risk margin) of the projected releases to shareholders arising from the business in-force, less a deduction for the effect of holding the minimum statutory solvency margin. This effect of solvency margin is the difference between the nominal value of the solvency margin and the present value at risk discount rates of the projected release of the solvency margin and investment earnings on the assets deemed to back the solvency margin.

For with-profit funds in the United Kingdom and Ireland, for the purpose of recognising the value of the estate, it is assumed that terminal bonuses are increased to exhaust all of the free assets over the future lifetime of the in-force with-profit policies.

Principal economic assumptions

The principal economic assumptions used are as follows:

			United Kingdom			France
	2001	2000	1999	2001	2000	1999
Risk discount rate	**7.7%**	7.4%	7.8%	**8.6%**	8.5%	8.7%
Pre-tax investment returns:						
Base government fixed interest	**5.0%**	4.7%	5.2%	**5.1%**	5.0%	5.5%
Ordinary shares	**7.5%**	7.2%	7.7%	**7.1%**	7.0%	7.5%
Property	**6.5%**	6.2%	6.7%	**6.6%**	6.5%	7.0%
Future expense inflation	**3.7%**	3.7%	4.1%	**2.5%**	2.5%	2.5%
Tax rate	**30.0%**	30.0%	30.0%	**36.4%**	37.8%	40.0%

			Ireland			Italy
	2001	2000	1999	2001	2000	1999
Risk discount rate	**9.3%**	9.1%	9.0%	**7.6%**	7.5%	7.7%
Pre-tax investment returns:						
Base government fixed interest	**5.3%**	5.3%	5.6%	**5.3%**	5.3%	5.6%
Ordinary shares	**8.3%**	8.3%	8.6%	**8.3%**	8.3%	8.6%
Property	**6.8%**	6.8%	7.1%	**6.8%**	6.8%	7.1%
Future expense inflation	**4.0%**	5.0%	4.0%	**3.3%**	3.3%	2.5%
Tax rate	**16.0%**	20.0%	28.0%	**41.0%**	43.0%	43.0%

			Netherlands			Poland – life
	2001	2000	1999	2001	2000	1999
Risk discount rate	**8.0%**	8.0%	8.3%	**18.5%**	20.0%	19.8%
Pre-tax investment returns:						
Base government fixed interest	**5.1%**	5.0%	5.5%	**12.5%**	12.5%	12.5%
Ordinary shares	**8.1%**	7.9%	8.4%	**12.5%**	12.5%	12.5%
Property	**6.6%**	6.5%	7.0%	**n/a**	n/a	n/a
Future expense inflation	**2.5%**	2.5%	2.5%	**9.2%**	9.2%	9.2%
Tax rate	**25.0%**	25.0%	25.0%	**28.0%**	28.0%	33.0%

Principal economic assumptions continued

	Poland – pensions 2001	2000	1999	Spain 2001	2000	1999
Risk discount rate	**16.9%**	17.3%	17.1%	**8.3%**	8.4%	9.1%
Pre-tax investment returns:						
Base government fixed interest	**12.5%**	12.5%	12.5%	**5.3%**	5.4%	5.6%
Ordinary shares	**12.5%**	12.5%	12.5%	**8.3%**	8.4%	8.6%
Property	**n/a**	n/a	n/a	**6.8%**	6.9%	7.1%
Future expense inflation	**9.2%**	9.2%	9.2%	**3.2%**	4.0%	3.0%
Tax rate	**28.0%**	28.0%	33.0%	**35.0%**	35.0%	35.0%

Other assumptions

- Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.
- Assumed future mortality, morbidity and lapse rates have been derived from an analysis of CGNU's recent operating experience.
- The management expenses of CGNU attributable to long-term business operations have been split between expenses relating to the acquisition of new business and to the maintenance of business in-force. Certain expenses of an exceptional nature have been identified separately and the discounted value of projected exceptional costs has been deducted from the value of in-force business. A realistic estimate of future fund management expenses that will be charged to long-term businesses by Group companies not included in the long-term business covered by the achieved profits method has been included within the value of in-force business.
- It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values.
- The value of in-force business allows for future premiums under recurring single premium business where collection of future single premiums is expected and where the receipt of further single premiums is not regarded as new business at the point of receipt. It does not allow for future premiums under non-contractual increments, or for future Department of Social Security (DSS) rebate premiums, and the value arising therefrom is included in the value of new business when the premiums are received.
- The value of the in-force business has been determined after allowing for the effect of holding solvency margins equal to the minimum EU solvency requirement (or equivalent for non-EU operations). Solvency margins relating to with-profit business are assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders.
- Bonus rates on with-profit business have been set at levels consistent with the economic assumptions and CGNU's medium-term bonus plans. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

Alternative assumptions

Economic assumptions

The table below shows the sensitivity to a one percentage point increase in interest rates and in the discount rate for new business contribution and embedded value.

	New business contribution		Embedded value	
	Interest rates £m	Discount rate £m	Interest rates £m	Discount rate £m
United Kingdom	25	(50)	(300)	(350)
Europe (excluding UK)				
France	10	(10)	(50)	(70)
Ireland	3	(3)	(5)	(15)
Italy	1	(2)	–	(5)
Netherlands (including Belgium and Luxembourg)	10	(10)	(100)	(110)
Poland – life	–	(1)	–	(10)
– pensions	–	(1)	–	(10)
Spain	2	(5)	(10)	(15)
Other	1	(1)	–	–
International	(2)	(3)	(10)	(10)
	50	(86)	(475)	(595)

Profits are affected by a change in underlying interest rates. When interest rates change, expected future investment returns will also change and this in turn will affect projected cash flows. A change in interest rates will also result in a change in the discount rate used to calculate the present value of the projected cash flows. The impact of an increase of one percentage point in interest rates incorporates all such changes. In addition, the impact on embedded value includes the impact of the reduction that would occur in the market value of fixed interest investments if interest rates increased by one percentage point. Market values of other asset classes are assumed to reduce in proportion to movements in the market value of fixed interest investments of an appropriate term.

Alternative assumptions continued

The impact of an increase of one percentage point in the discount rate is calculated with all other assumptions remaining unchanged.

Non-economic assumptions

Sensitivity calculations have been performed to identify the non-economic assumptions to which new business contribution and the value of in-force business within embedded value are particularly sensitive. The calculations have been based on similar percentage movements in each assumption from the base assumption used to calculate the published new business contribution and value of in-force. Based on this, the Group's new business contribution is most sensitive to a change in discontinuance rates, whereas the value of in-force is broadly equally sensitive to changes in discontinuance rates, mortality rates and future maintenance expense levels.

Auditor's report to the directors of CGNU plc on the alternative method of reporting long-term business profits

We have audited the supplementary information on pages 92 to 98 in respect of the year ended 31 December 2001, which comprises the summarised profit and loss account – achieved profit basis and the related notes and analyses. The supplementary information has been prepared in accordance with the achieved profits basis, using the methodology and assumptions set out on pages 96 to 98. The supplementary information should be read in conjunction with the accounts prepared on the modified statutory solvency basis, which are on pages 44 to 90.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 43, the accounts prepared on the modified statutory solvency basis. Our responsibilities in relation to the Annual Report, including those accounts, are set out on page 43. The directors are also responsible for preparing the supplementary information on the above achieved profits basis.

Our responsibilities, as independent auditors, in relation to the supplementary information are established in the United Kingdom by the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the supplementary information has been properly prepared in accordance with the achieved profits basis. We also report to you if we have not received all the information and explanations we require for our audit of the supplementary information.

We also read the other information in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the supplementary information. This other information comprises the Chairman's statement, Group Chief Executive's review, Operating review, Financial review, the Directors' report and Corporate governance statement.

Basis of audit opinion

We conducted our audit in accordance with 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 supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary information stated on the achieved profits basis is 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 the supplementary information.

Opinion

In our opinion, the supplementary information for the year ended 31 December 2001 has been properly prepared in accordance with the achieved profits basis, using the methodology and assumptions set out on pages 96 to 98.

Ernst & Young LLP
London

26 February 2002

CGNU Group of companies

Parent Company
CGNU plc

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

United Kingdom
CGNU Life Assurance Limited
CGU Bonus Limited
CGU Insurance plc
CGU International Insurance plc
CGU Underwriting Limited
Commercial Union Life Assurance Company Limited
General Accident plc
London & Edinburgh Insurance Group Limited
Morley Fund Management Limited
Morley Pooled Pensions Limited
Morley Properties Limited
Northern Assurance Company Limited, The
Norwich Union Annuity Limited
Norwich Union Healthcare Limited
Norwich Union Insurance Limited
Norwich Union Investment Management Limited
Norwich Union Life & Pensions Limited
Norwich Union Linked Life Assurance Limited
Norwich Union Portfolio Services Limited
Norwich Union Trust Managers Limited
Norwich Union Wealth Management Limited
Scottish General Insurance Company Limited
your-move.co.uk Limited

Australia
CGU Insurance Australia Limited and its principal subsidiaries:
CGU Insurance Limited
Norwich Union Life Australia Limited
Norwich Union Navigator Limited
Sitrof Australia Limited
Swann Insurance (Australia) Pty. Limited

Belgium
Bank Nagelmackers *(Banking)*

Bermuda
Curepool Limited

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

Czech Republic
Commercial Union zivotni pojist'ovna AS

France
CGU Participations SA and its principal subsidiaries:
Abeille assurances SA
Abeille vie SA
CGU Courtage SA (98.65%)
Eurofil SA (99.50%)
Norwich Union France SA
Société d'Epargne Viagére SA (75.0%)
Union Financiere de France Banque (76.4%)

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

Hungary
ABN AMRO Magyar Elet es Nyugdijbiztosito Reszvenytarsasag

Ireland
Hibernian Group plc
Hibernian Life & Pensions Limited

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

Luxembourg
Commercial Union International Life SA

Malaysia
CGU Insurance Berhad (56.57%)

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

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

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

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

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

Singapore
The Insurance Corporation of Singapore Limited

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

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

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

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

Principal associated companies are set out in note 19 on page 71.

Shareholder information

Group financial calendar for 2002

Ex-dividend date (ordinary shares)	27 March
First dividend payment for 8⅜% cumulative irredeemable preference shares	2 April
Record date (ordinary shares)	2 April
Annual General Meeting	23 April
Dividend Reinvestment Plan Election Date	25 April
Announcement of first quarter long-term savings new business figures	25 April
Payment date (ordinary shares)	17 May
First dividend payment for 8¾% cumulative irredeemable preference shares	1 July
Announcement of unaudited six months' interim results	1 August
Second dividend payment for 8⅜% cumulative irredeemable preference shares	30 September
Announcement of third quarter long-term savings new business figures	24 October
Second dividend payment for 8¾% cumulative irredeemable preference shares	31 December

nal dividend on the ordinary shares for 2001 will be paid in cash on 17 May 2002. Shareholders are offered the pate in the Company's Dividend Reinvestment Plan (the "Plan") which enables dividends to be reinvested in the reduced dealing costs. Shareholders who have previously elected to join the Plan need take no further action as vill automatically be used to purchase CGNU's shares, on or after the dividend payment date, in accordance with .

ve not already joined the Plan and wish to do so, should contact the Company's Registrar, at the address obtain full details and a mandate form. Completed mandate forms must be returned to the Registrar by no later order to participate in the Plan for the 2001 final dividend.

ication

offer all shareholders the opportunity of registering to receive future shareholder communications (e.g. Annual w, Notice of AGM and forms of Proxy) electronically via the internet rather than in paper form through the post. vice please refer to www.shareview.co.uk

inary shareholders, share account holders and the ranges and size of shareholding as at 31 December 2001 are

Analysis of shareholders	No. of shareholders	%	No. of shares	%
Individuals	919,934	96.16	318,060,372	14.10
Banks and nominee companies	25,842	2.70	1,731,914,737	76.80
Pension fund managers and insurance companies	132	0.01	48,546,441	2.15
Other corporate bodies	10,755	1.13	156,406,828	6.95
Total	956,663	100.00	2,254,928,378	100.00

Range of shareholdings	No. of shareholders	%	No. of shares	%
1 – 1,000	899,017	93.97	227,687,169	10.10
1,001 – 5,000	51,602	5.39	94,436,938	4.18
5,001 – 10,000	2,838	0.29	19,431,978	0.86
10,001 – 250,000	2,568	0.27	131,011,428	5.81
250,001 – 500,000	206	0.02	74,556,027	3.30
500,001 and above	432	0.06	1,707,804,838	75.75
Total	956,663	100.00	2,254,928,378	100.00

Isas and Peps

The Government introduced the Individual Savings Account ("Isa") on 6 April 1999 to promote long-term savings. The Isa replaced the Personal Equity Plan ("Pep") and the Tax Exempt Special Savings Account ("Tessa").

Peps taken out prior to 5 April 1999 have been allowed to continue and, in addition, the Company introduced a Corporate Sponsored Isa enabling shareholders to hold CGNU shares in a tax advantageous manner. Details for both can be obtained from the administrators – see contact details below.

Shareholders with disabilities

Alternative versions of this publication are available on request from the Company's Registrar. The Company's Registrar has available a "textphone" (Tel: 0870 600 3950) to enable shareholders with hearing difficulties to communicate with them.

Internet addresses

There are various internet sites within the Group, most of which interlink with each other to enable quick reference direct to specific sites. The details are listed below:

CGNU Group	www.cgnu-group.com
UK long-term savings and general insurance	www.norwichunion.com
Fund management	www.morleyfm.com
Buying a home	www.your-move.co.uk www.assertahome.com

Useful contact details

Detailed below are various addresses that may prove useful in the event that you have a query in respect of your shareholding. Please quote CGNU plc, as well as the name and address in which your shares are held, in all correspondence.

General shareholding administration queries and CGNU share account queries	Lloyds TSB Registrars	The Causeway Worthing West Sussex BN99 6DA	0870 600 3952
Corporate and single company Peps	Barclays Stockbrokers Limited	Tay House 300 Bath Street Glasgow G2 4LH	0845 777 7400
Isas	Lloyds TSB Registrars (Isa Manager)	The Causeway Worthing West Sussex BN99 6DA	0870 242 4244
General comments/queries	Group Company Secretary's Department CGNU plc	St Helen's 1 Undershaft London EC3P 3DQ	020 7662 8326
Share price			0906 843 2197*

*Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute. The share price is also posted on our internet site at www.cgnu-group.com.

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