AVIVA

Annual report + accounts 2002

A brand **new** company, 300 years **strong**

Our position

7th
largest insurer worldwide

No1
insurer in the UK and life and pensions provider to Europe

25m
customers worldwide

£28bn
premium income and investment sales from continuing operations*

£208bn
assets under management

59,000
employees worldwide

We are the **world's seventh-largest insurer**, the biggest in the UK and the leading provider of life and pension products to Europe. Now we are taking the opportunity to build a distinctive international **brand** to reflect that strength.

*Including share of associates' premiums.

All growth rates are quoted at constant rates of exchange.

Our **brand**: why is it **important**?

In a world where many have **plenty of choice**, but not enough time, brands are increasingly useful as signposts, helping people make choices with confidence. Aviva is determined to build a **distinctive brand**. Research worldwide revealed that consumers associate the name Aviva with **making the most out of life**.

Building a **brand** that **stands out**

Focusing our brand **activity**

We reviewed our trading brands market by market and **retained** the **strongest**. Now we are rolling out Aviva as a **new international** brand to reinforce the best and replace the rest. The Aviva brand is already live in many of our operations in Europe and Asia. It will be introduced in Australia, Canada, the US and other markets in 2003.

It takes time, commitment and consistent delivery to build a strong brand. **Norwich Union** (UK), **Hibernian** (Ireland), **Delta Lloyd** (Netherlands) and **Commercial Union** (Poland) are **valuable assets** that we have retained.

Protecting the value in our **strongest** brands

Making our **marketing activity** **work harder**

We are concentrating our efforts on promoting **fewer brands** to help achieve **greater consistency** and **value for money** from our marketing and advertising activity worldwide.

With **59,000 people** working for Aviva around the world, a strong group brand – with shared values of **integrity**, **performance**, **progressiveness** and **teamwork** – helps unite us as a **single team**.

Creating a **stronger** sense of **belonging**

Aviva – making the **most** out of **life**

Highlights of the year

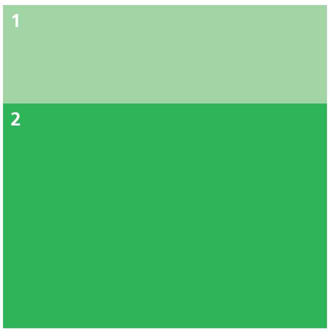
£1,798m
operating profit before tax**

£14.6bn
worldwide long-term savings new business sales

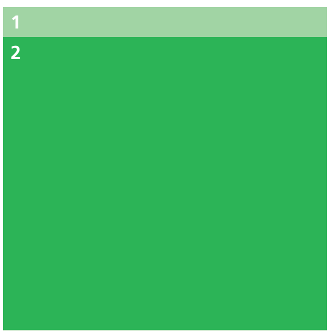
23p
full year dividend

£9.7bn
shareholders' funds

£959m
operating profit before tax from general insurance†



Worldwide business mix* by sector
1 – General insurance 28%
2 – Long-term savings# 72%



Worldwide business mix* by geography
1 – Rest of world 10%
2 – Europe 90%

*With reference to premium income from continuing operations.

#Including health premium income.

**From continuing and discontinued operations, including life achieved operating profit and stated before amortisation of goodwill and exceptional items.

†From continuing and discontinued operations.

Group strategy

1 To grow our long-term savings business aggressively and profitably.

2 To build a world-class fund management business.

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

4 To build top-five positions in key markets.

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

Chairman's statement

In life and pensions, we have grown to be the **number one provider to Europe**, having been a medium-sized company only four years ago.

The year 2002 was a difficult one for investors. Returns were mostly negative, and often dramatically so. Aviva shareholders have also seen our share price decline. Our policyholders have experienced both a shrinking investment and reduced bonuses. There is nothing we can do about world equity markets. What we can do, however, is try to be better than the market and perform above the level of our competitors. It seems to me that we have succeeded in that ambition.

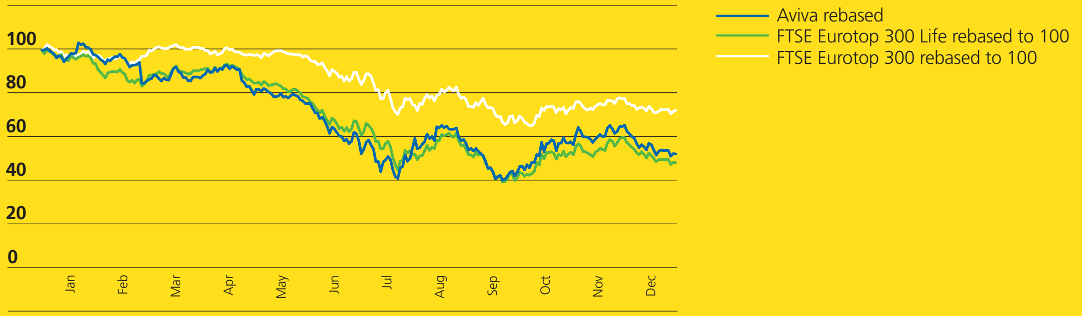
In life and pensions, we have grown to be the number one provider to Europe, having been a medium-sized company only four years ago. In general insurance, we have outperformed the market and few of our competitors in the world have been more profitable.

We have further streamlined and focused our business during the year. The biggest sale was of our Australian and New Zealand general insurance operations, following an unsolicited offer at a price the board felt compelled to accept. We also exited markets where we were sub-scale.

In contrast, we are expanding where we see opportunities to be leaders. We signed a further bancassurance partnership agreement in Spain and are now the third-biggest life and savings operation in that country. We have come from virtually nowhere a few years back. In France we signed a bancassurance agreement with Crédit du Nord to further consolidate our position. In the Netherlands we agreed to be the exclusive life and general insurer for ABN AMRO, one of the country's three leading banks, and in Italy we agreed our fourth major bancassurance partnership with Banca Popolare Commercia e Industria.

Our capital position has suffered as a result of the decline in equity markets. However, we remain strong and our rating is healthy.

Aviva relative to FTSE Eurotop 300 Life Assurance and FTSE Eurotop 300



We are looking forward to an open, transparent and competitive European Market becoming a reality. The European Financial Services Round Table (EFR) – a group of top people from Europe's largest banks and insurance companies – is working to achieve that goal. I am the EFR's chairman and we are proposing ways to build the missing links in the creation of such a market, ahead of the enlargement of the European Union in 2004 when 10 new members will join. A level playing field will benefit competition and the consumer.

We obviously upset many of our shareholders and the market when we announced our proposal last year to reduce our dividend. The decision was the correct course of action necessary to retain capital to take advantage of profitable growth opportunities. The subsequent fall in the equity markets has created a strain on our capital position and increased the importance of striking the right balance between retention of funds to grow our long-term savings business and dividend payments.

We propose a final dividend for 2002 of 14.25 pence net per share, which brings the total for the year to 23 pence. This is consistent with the dividend policy announced in February 2002 and will be payable on 16 May 2003 to shareholders on the register on 28 March 2003.

The world of business has been plagued by many scandals and unacceptable behaviour during the year. We operate to high standards of ethics and corporate governance and also have a demanding programme of corporate social responsibility, for which we have attracted flattering attention.

Our regulators have on several occasions criticised our industry in an aggressive fashion. I think that should in future be done in a more discriminating way, as there are examples of good behaviour. The buying public should not be made to mistrust a whole industry when that is unjustified.

We have announced that Sir Michael Partridge, a non-executive director and member of the audit committee, will retire on 7 May 2003, at the close of our annual general meeting. Sir Michael originally joined the board of Norwich Union in 1996. I thank him for his invaluable contribution during this period.

We aspire to be the low-cost producer, top service provider and insurer of choice. I readily admit that we have a distance to go, but we will get there. Our management is committed and our loyal staff continue to train and equip themselves to face the challenge. I thank them for their unstinting efforts in the past year.

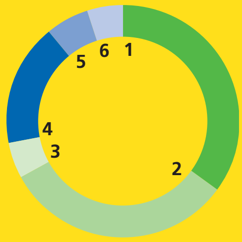
It is in difficult times that we see excellent opportunities to improve further our leadership position.

Pehr G Gyllenhammar
Chairman

Geographical breakdown of worldwide business mix*

Long-term savings#
1 – UK 35%
2 – Continental Europe 32%
3 – Rest of world 5%
General insurance
4 – UK 17%
5 – Continental Europe 6%
6 – Rest of world 5%

*With reference to premium income from continuing operations.
#Including health premium income.



Group at a glance

Key market positions for Aviva

Long-term savings

No 2 market positions:
UK, Poland

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

Top-10 market positions:
Australia, France, Italy

Other significant operations:
United States

Fund management

3rd largest UK-based fund manager

Top-five market positions:
Ireland, Netherlands, Navigator (Australia)

One of the top 10 in Europe

Other significant operations:
France

General insurance

No 1 market positions:
UK, Ireland

Top-five market positions:
Canada, Netherlands, Singapore

Other significant operations:
France

Developments in 2002	Performance in 2002
• **Continental European business** now accounts for 43% of worldwide life and pension sales and 49% of life achieved operating profit. • **Worldwide total bancassurance** sales up 50% at £3.0 billion. • **New partnerships in** Europe and South East Asia extend bancassurance reach to some 35 million potential customers. • **New life insurance** joint ventures launched in India and China, both markets with huge long-term growth potential. • **Introduced new savings** products offering capital or income protection to meet continuing investor preference for non-equity related products.	**£13,618m** New life and pension sales **£19,100m** Net premiums written including share of associates' premiums* **£1,524m** Life achieved operating profit before tax *Including health premiums of £928 million.
• **Introduced new socially** responsible investment products in UK and Ireland. • **Morley launched first** US mutual funds, building capability in the North American market. • **Around 70% of** French funds in top quartile for returns over three years. • **Investment sales in** the Netherlands up 38%. • **Launched Navigator Asia** in Singapore, extension of highly successful Australian online fund administration platform.	**£208bn** Assets under management **£1,028m** Investment sales **£7.5bn** New external mandates in the UK
• **Better-than-target** COR† of 101.4% resulting from disciplined underwriting and efficient claims handling. • **Sold general insurance** businesses in Australia, New Zealand and Spain and broker distribution business in France. • **UK expense ratio** of 10.4% one of the lowest among major UK insurers. • **Improving customer service** in Canada, including introduction of Total Incident Management concept from UK. • **Ongoing investment** in market-leading initiatives including our pioneering Pay As You Drive™ motor insurance project.	**£8,497m** Net premiums written† **101.4%** Combined operating ratio (COR)† **£959m** Operating profit before tax† †From continuing and discontinued operations.

Group Chief Executive's review

We achieved a **robust set of results**. We took clear-sighted decisions to ensure we remain **financially strong** and one of the **best-positioned** companies in the market.

Overview
Without doubt, 2002 was a very demanding year. Worldwide economic uncertainty and falling equity markets contributed to the toughest conditions I have experienced in 30 years in the industry.

Yet we achieved a robust set of results. We took clear-sighted decisions to ensure we remain financially strong and one of the best-positioned companies in the market. Aviva is a resilient and disciplined business with excellent prospects.

Group results
The testing economic environment inevitably had an impact on our group financial performance. Under the circumstances, our pre-tax operating profit† of £1,798 million *(2001: £1,983 million)* was a good result.

Worldwide long-term savings new business sales held up well, despite a loss of customer confidence in equity-backed investments. Our sales fell by 2% to £14.6 billion *(2001: £15 billion),* while life achieved operating profit was £1,524 million *(2001: £1,665 million)*.

Our general insurance business has been realigned over the past three years through a clear and consistent strategy of concentrating on more stable personal and selected commercial lines and exiting the more volatile business. This helped us achieve an excellent operating profit† of £959 million *(2001: £924 million)*. As a measure of how efficiently our business performs, we achieved a combined operating ratio (COR)† of 101.4%, which is better than our group target.

For the second consecutive year, falling global investment markets resulted in a reduction in shareholders' funds, which at 31 December 2002 stood at £9.7 billion *(2001: £11.8 billion, restated#)*. Nevertheless, our capital position remains sound, with sufficient earnings to fully support growth in our existing businesses.

†From continuing and discontinued operations.

#Restated for the effect of Financial Reporting Standard 19 ''Deferred Tax''.

Operating profit before tax* £million

	Continuing operations	Total
1998	1,637	1,856
1999	1,608	1,824
2000	1,325	853
2001	1,935	1,983
2002	**1,720**	**1,798**

*From continuing and discontinued operations, including life achieved operating profit and stated before amortisation of goodwill and exceptional items.
Continuing operations
Discontinued operations

Worldwide business mix† £billion

1998	18.4
1999	23.1
2000	26.4
2001	27.8
2002	**27.9**

†With reference to premium income from continuing operations.
General insurance
Total long-term business including health

Investing for future growth

With long-term savings business generating 72% of our total premiums, and 92% of our new business sales coming from Europe, we regard the development of our European long-term savings operations as the cornerstone of our future success.

There is significant scope for our business to grow further. Governments across Europe are introducing reforms to encourage people to make increased provision for their retirement and reduce the pressure on state schemes. In times of financial uncertainty, customers will seek the reassurance and expertise of trusted brands like ours. We can provide savings products that offer a degree of capital security or a fixed rate of return for investors wary of falling share prices. We are also confident that demand for equity-backed investments will improve as the markets recover in the medium to long term.

We see the planned expansion of the European Union in 2004 as an opportunity for our business. We already have an established operation in Poland and smaller businesses in a number of the other prospective member countries, where greater accessibility should encourage foreign investment, stimulate economic growth, increase the standard of living and give people more freedom to invest in financial products and services.

Among our strengths is the ability to understand our customers and provide what they need through a variety of sales channels, tailored to individual markets. We have agreed new distribution partnerships in France, the Netherlands, Italy, Spain and Hong Kong, which will increase our reach through bancassurance alone to some 35 million potential customers worldwide. We are building new operations in India and China, both markets with huge long-term growth potential, and launched a new version of our online fund administration platform, Navigator, in Singapore.

Being financially flexible enables us to pursue attractive opportunities for the profitable development of our business. We accepted an unsolicited offer in October 2002 to sell our general insurance businesses in Australia and New Zealand for £651 million. This was an excellent deal for Aviva's shareholders, with the price more than twice the net asset value of the businesses.

Our cash-generative general insurance operation is an integral part of the group's business portfolio. We are the number one general insurer in the UK and Ireland and have top-five positions in Canada, the Netherlands and Singapore. Continued investment in product innovation, for example our Pay As You Drive™ motor insurance scheme in the UK, and new facilities, such as our call and claims processing operation planned in India, will help us maintain a leadership position in our markets and high levels of customer service 24 hours a day.

Another important development is our new name, Aviva. Our trading operations now have the strength of an international financial services brand behind them. We have introduced the new Aviva identity very cost-efficiently, with the rebranding in each country being paid for largely from existing marketing budgets.

Short-term outlook

In common with the rest of the insurance and financial services industry, we face considerable challenges in the short term. Investment markets continue to be turbulent and investors are discouraged by financial uncertainty.

We have to deal with a changing regulatory framework and the need to reduce costs to match the amount of business we expect to write. We will continue to invest in projects that will enable us to enhance our low cost operating model and reduce our future cost base.

The tough environment will test us in many respects throughout 2003. Even so, I am driving the business hard, using our experience, size and expertise to provide the right products and services for our customers in each market.

Long-term outlook

The opportunities for our business in the longer term remain excellent. People still need to make financial provision for the future. We envisage growth from the strong market positions we have built in our life and pensions business. Our innovative general insurance operations have reduced their risk exposure and improved the quality of their earnings. Furthermore, our capital position is a solid foundation to support further growth.

One of our greatest strengths is the quality of the people who work as a team at the heart of our business. Our employees worldwide have a first-class track record of delivering results, and I thank them all for their dedicated efforts.

In the current financial climate, integrity, prudent management and consistent performance are more important than ever. That is what I am determined we shall deliver. I am confident that the longer-term opportunities will allow us to grow our business for the benefit of our customers and shareholders alike.

Richard Harvey

Richard Harvey
Group Chief Executive

£1,524m

life achieved operating profit before tax

Operating review: **Long-term savings**

Growing our long-term savings business **aggressively** and **profitably**.

Overview

Conditions in savings and investment markets continue to be challenging as a result of the uncertain economic environment and nervous stock markets. Sales slowed during the year as our customers took a more conservative approach to equity-backed products. In the short term, we are addressing this loss of confidence by promoting savings products that offer an element of protection for capital or income. Even so, we expect the tough sales environment to continue in 2003.

Looking further ahead, we are strongly positioned as the largest life and pensions provider to Europe. We have well-established businesses in the UK, France, the Netherlands and Ireland and, over the past few years, have built major operations in Italy and Spain. Part of our strength also lies in our diverse mix of products sold through a variety of distribution channels. We have built what we believe to be one of the insurance industry's premier distribution models. Our business will benefit as the increasing pressure of ageing populations on state welfare schemes leads to pension reforms, with the onus on the individual to increase private provision for their future well-being. We are also investing in the developing markets of South East Asia, India and China, which have great potential for future growth.

Our comparative success in the face of continuing market turbulence is reflected in worldwide life and pensions new business sales being maintained at £13.6 billion *(2001: £13.5 billion)*. This included a further increase in continental European business to £5.8 billion *(2001: £5.5 billion)*, which now accounts for 43% of our total life and pensions sales and 49% of life achieved operating profit.

These figures are a good achievement at a time when encouraging people to invest for the future has been difficult. We benefited from our developing bancassurance agreements, notably in the UK, Spain and Italy, with worldwide total bancassurance sales up 50% at £3.0 billion *(2001: £2.0 billion)*.

We delivered a robust life achieved operating profit of £1,524 million *(2001: £1,665 million)* after strengthening our annuity reserves in the UK.

Life achieved operating profit £million

1998	1,410*
1999	1,455*
2000	1,533*
2001	1,665*
2002	**1,524**

*Reclassification of other life and savings business from "Life" to "Non-insurance operations".

UK

With nearly six million customers, Norwich Union Life is Aviva's largest long-term savings operation, producing around 50% of our worldwide new business in 2002.

Our UK business seeks to achieve its strategic objective of strong, profitable growth by providing a comprehensive range of life insurance, pensions, savings and investment products through a wide choice of distribution channels.

Independent financial advisers (IFAs) continue to represent the dominant source of business, providing around 70% of our sales. We also have a salaried direct sales force, a telesales operation, an internet service and partnerships with The Royal Bank of Scotland Group (RBSG), Tesco Personal Finance and 18 building societies.

We are operating in a very competitive market facing significant regulatory change at a time when uncertain investment returns have severely weakened consumer confidence. In this context, total new business sales of £7.4 billion *(2001: £8.1 billion)* was a good result, and demonstrated the underlying strength of our business.

Overall, pension sales were higher at £2.7 billion *(2001: £2.5 billion)*, including stakeholder sales of £651 million *(2001: £282 million)*. We are developing this strong platform by seeking to improve our margins on stakeholder business through reduced commissions and a focus on large group schemes for new business.

Bond sales were lower at £2.8 billion *(2001: £3.7 billion)* as investors remained cautious about equity-related products. In response to these changing needs, we introduced a series of new and innovative products which offer a degree of capital or income protection.

New business sales from our partnership with RBSG grew impressively, building on the momentum established in the latter part of 2001. Through this joint venture we hold a 50% interest in two life businesses which market products under the Royal Bank of Scotland and NatWest brands. An expanded product range helped total sales through the partnership rise by 83% to £880 million *(2001: £480 million).* In reporting our financial numbers we include our share of the total partnership sales.

Our market-leading equity release business, which enables customers to free up capital tied up in their homes, continued its strong growth with sales up 74% to £361 million *(2001: £208 million)*.

UK operating profit in 2002 was down at £699 million *(2001: £850 million)* after a £123 million net charge *(2001: £78 million)* for strengthening annuity reserves. This charge reflected new evidence that suggests improvements in life expectancy are increasing at a faster rate than previously thought.

During the year we took firm action to maintain our capital position. We led the industry in cutting with-profit bonus rates and introduced market value reductions on with-profit policies. While tough in the short term, this action was necessary for the protection of our customers' long-term interests. Policyholders have, however, continued to enjoy good payouts. A typical Norwich Union 25-year with-profit endowment has on average produced a return of about 11% a year, compared with inflation of around 4% over the same period.

Our orphan estate, which is used to support business development for the benefit of policyholders and shareholders alike, provides a more realistic indication of the underlying strength of our with-profit funds. At 31 December 2002 it stood at £4.3 billion *(2001: £5.2 billion)*. The orphan estate is calculated on the basis of realistic assumptions, as distinct from the statutory basis of reserving which uses rules specified by statute. We are examining the possible reattribution of the orphan estate between policyholders and shareholders. This follows the proposals in the Sandler report issued in July 2002, although this work is unlikely to be completed before the end of 2004.

We need to be more efficient in this changing world. We continue to cut costs and deliver efficiency improvements. For instance, we were the first UK life insurer to offer IFAs the choice of handling term assurance electronically both online and offline. We have also signed an innovative agreement with Misys, the leading IFA network, to deliver full e-trading to the IFA industry through the AssureWeb portal. The accelerating move towards e-only products will benefit providers, IFAs and customers through a more streamlined policy administration process.

Worldwide new business sales £billion	
1998	7.8
1999	11.2
2000	13.5
2001	15.0
2002	**14.6**

Long-term savings continued

A key priority for us is improving our customer service. We recognise that, despite our efforts over the past year, our service has not always been of the required standard. We are determined to improve our service levels over the coming year and, for example, an upgrade of our call centre telephone systems has already been completed. We were pleased to win provider of the year awards from each of the two largest IFA networks, Misys and Bankhall, which shows the strength of our total proposition.

During the year a number of industry regulatory reports were published, including the Sandler and Pickering reviews, the Financial Services Authority's report on with-profit business, and a Government Green Paper on pensions. We broadly support the core proposals to improve consumer awareness of the need to save, create a range of simplified products and wider access to advice, remove overlapping regulation and provide greater understanding of with-profit products. Such initiatives should help to increase demand in the UK long-term savings market and favour providers such as ourselves with scale, multi-distribution expertise and strong product offerings. But it is important to assess how we could operate profitably under these principles. We have publicly stated that we will not sell products that are not commercially viable for us.

Our business remains fundamentally strong. Despite the current financial uncertainty and pressures in the market, people still need to save for the future. There is an estimated £27 billion annual shortfall in the UK between actual savings and the amount individuals should be putting aside for a comfortable retirement. As a major provider in the UK market we would expect to play a key role in developing the products and services that will narrow this gap, provided the returns available to shareholders are attractive.

France

Aviva France is the group's second-largest long-term savings business. We have a top-10 market position and are ranked among the top five traditional insurers, with some 1.5 million customers.

We have a broad product offering, focused on individual savings, protection and unit-linked products. These are sold through a mixture of distribution channels, including tied agents, brokers, a salaried sales force, direct operations and an agreement with the AFER savings association. AFER is the largest retirement savings organisation in France, with around 560,000 members.

During the year we reached important agreements that extend our distribution and create significant customer opportunities. We are setting up a joint venture with Médéric, a provident institution, to sell life products to Médéric's client base of 75,000 companies, representing one million people. This new partnership will start in the second quarter of 2003. We have also formed a bancassurance partnership which will make Aviva the sole partner of Crédit du Nord, a federation of eight regional banks and a subsidiary of Société Générale, for all new life business sold from November 2004. We regard this agreement, which will give us access to 1.3 million customers through more than 600 branches, as a unique opportunity, making us the only life insurer present in all distribution channels in France.

During 2002, sales of unit-linked and other savings products were lower at £699 million *(2001: £892 million)*. This was in a unit-linked market that fell by an estimated 32%. Sales of single premium fixed interest AFER products were £983 million *(2001: £930 million)*. Operating profit was £228 million *(2001: £227 million)*.

Looking forward, pressure is increasing to reform the pensions and healthcare system in France. We are well placed to benefit from such changes. We shall continue to develop the business through our increased range of distribution channels and key partnerships.

Long-term savings premium income (after reinsurance)* £million

1998	10,514
1999	13,470
2000	14,848
2001	17,590
2002	**18,172**

*Including associates' share of premiums.

During the year we reached important agreements that **extend our distribution** and create significant **customer opportunities**.

Ireland
Hibernian is a top-five long-term savings provider in Ireland with a market share of over 11%. Our business strategy is to seek profitable growth through brokers, tied agents and financial institutions such as banks and building societies.

Total new business sales were lower at £343 million *(2001: £523 million)* and were in line with a fall in the market overall. Savers remained cautious about investing in equity-linked products, but our performance was buoyed by one-off sales from the Irish Government's special savings incentive accounts (SSIAs), which closed at the end of April 2002.

We are well prepared for the introduction of the Government's new personal retirement savings accounts (PRSAs) in 2003, and will benefit from Norwich Union's experience in the UK stakeholder market. We have also been testing the sale of long-term savings products through Tesco, building on the supermarket retailer's partnership with Norwich Union in the UK.

Italy
Our Italian business is ranked sixth in the Italian life market. It has a cost base below the market average and sells attractive investment, savings and pensions products. Italy is a growth market with a relatively low level of life and pensions sales. Prospective pension and tax reforms expected by the end of 2003 should further stimulate demand.

We see bancassurance, which accounts for around 70% of new business in Italy, as the key to continuing growth in our business. We achieved a 17% increase in total sales to £1,133 million *(2001: £958 million)*, of which £964 million *(2001: £833 million)* came through bancassurance.

We further expanded our bancassurance network in 2002 when, together with UniCredito Italiano, we agreed to form a joint venture with Banca Popolare Commercia e Industria, a bank with some 1.15 million customers. Sales from this partnership are expected to flow through during 2003.

Together with our existing arrangements with UniCredito, Banca Popolare di Lodi and Banca delle Marche, our bancassurance reach now extends through 2,500 branches to four million customers in Italy.

We are also **investing** in **South East Asia**, **India** and **China**, which have great potential for future growth.

Netherlands, Belgium and Luxembourg
Delta Lloyd's top-five position in the Dutch life market has been reinforced by a new bancassurance partnership with ABN AMRO, a top-three bank in the Netherlands, which complements our independent intermediary and direct distribution channels.

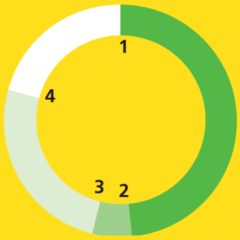
The agreement with ABN AMRO, announced in November 2002, represents a major step towards enhancing our multi-distribution capability. It provides for the sale of life and general insurance products through the bank's network of 570 branches to over five million customers. We expect to see sales coming through from the second quarter of 2003.

Total life and pensions sales were maintained at £796 million *(2001: £777 million)*. This reflected lower pension sales arising in part from changes in tax legislation, offset by increased sales of immediate annuity products as we sought to retain monies from maturing life policies. Operating profit was £200 million *(2001: £221 million)*.

The integration of our activities in Belgium following the acquisition of Bank Nagelmackers in late 2001 has established a retail banking network which sells Delta Lloyd life products to private clients. Consequently our Belgian life business, which operates under the Delta Lloyd brand, is now performing particularly well.

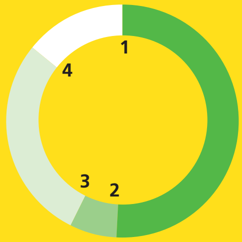
2002 – Worldwide new business sales by distribution channels

1 – IFA	£7,092m
2 – Partnerships	£799m
3 – Direct	£3,725m
4 – Bancassurance	£3,030m
Total	£14,646m



2001 – Worldwide new business sales by distribution channels

1 – IFA	£7,600m
2 – Partnerships	£977m
3 – Direct	£4,265m
4 – Bancassurance	£2,112m
Total	£14,954m



Spain

We have rapidly achieved a top-three ranking in the Spanish life market, compared with 26th in 1999. This reflects the expansion of our bancassurance business, which now represents the fourth-largest banking network in the country. This is in a market where bancassurance accounts for around 70% of sales. Underpinning our business is a low-cost, efficient and innovative operation with one of the lowest expense ratios in the Spanish market.

During 2002 our business continued to grow strongly. Total new business rose by 39% to £1,309 million *(2001: £932 million)*, of which 95% came through our bancassurance partnerships. Operating profit was £83 million *(2001: £80 million)*.

In September 2002 we agreed a new bancassurance joint venture with savings bank Caja de Granada and our existing partner, Unicaja, to take effect from 2003. This means our bancassurance network, which also includes Bancaja, Caixa Galicia and Caja España, will comprise 3,500 branches with access to about nine million customers.

We are also investing in complementary distribution channels, including financial advisers, brokers and agents. Aviva Vida, our broker and agency company, continues to develop a specialist sales force. Pension reforms, tax incentives and increasing public awareness of the need to save offer considerable potential for further growth in this developing market.

Other Europe

In Germany we achieved good growth as sales of group and private pensions boosted total new business premiums by 30% to £154 million *(2001: £117 million)*.

Total new business sales from our other operations in Central and Eastern Europe amounted to £317 million *(2001: £447 million)*, reflecting tough economic conditions in the region. Opportunities will grow with the expansion of the European Union in 2004. In anticipation, we are strengthening our direct sales force networks in these countries.

In Poland we remain the leading provider of individual life and private pensions products and are restructuring our business to benefit from the next stage of economic development. In Turkey we are one of the first five companies invited to obtain a licence to sell pension products.

International

Life and pensions new business outside Europe grew by 42% to £952 million *(2001: £689 million)*.

Our US operation, which is a niche player in the world's largest life market, reported total life and pension sales up 66% to £587 million *(2001: £371 million)*. We sell life products and annuities through a network of 7,000 independent agents and brokers, supported by market-leading web technology. We also have distribution agreements with several leading banks.

We are a top-10 player in the Australian market, selling a range of retail investment, insurance and superannuation products through independent agents, brokers and financial planners. Total life and pension sales were maintained at £239 million *(2001: £244 million)*.

Our new bancassurance arrangements in South East Asia are developing well. Our partnership with DBS, one of the leading banks in the region, has given us exclusive access to about four million customers in Singapore since the second half of 2001. In 2002 we reached a second agreement with DBS, giving us access to another one million customers in Hong Kong. Total new business sales from these arrangements were £121 million *(2001: £63 million)*. Our focus in 2003 will be developing these operations towards their full potential.

In June 2002 we launched a life business in India with Dabur Group as a joint venture in which we have a 26% share. We are developing a high-quality direct sales force, complemented by bancassurance partnerships with ABN AMRO, American Express, Lakshmi Vilas Bank and Canara Bank.

China is also a market with enormous long-term potential. We obtained a licence towards the end of 2002 to write life insurance in China, and in January 2003 started our new joint venture operation in Guangzhou with a major state-owned company, China National Cereals, Oils & Foodstuffs Import & Export Corporation (COFCO). We have completed our first sales through Aviva COFCO and will look to establish further branch offices as the business grows.

£208bn
Worldwide assets under management

Operating review: **Fund management**

Building a **world-class** fund management business.

Overview
Investing in equity markets was a frustrating business last year. Investors in major stock markets typically experienced losses of between 15% and 40% by the end of 2002. Although we anticipate a gentle recovery in the global economy in 2003, we expect the impact of difficult investment conditions to persist in the short term.

In such conditions, Aviva's in-house fund management expertise is even more crucial to our business. We continuously strive to generate superior investment performance on behalf of our shareholders, policyholders and institutional clients. To that end, we continue to develop our presence as a leading international fund manager by making increased use of shared systems, investment processes and research expertise across our operations.

Worldwide assets under management were maintained at £208 billion *(2001: £209 billion)* as flows of new business compensated for the impact of falling investment values. However, the effect of lower markets on fee income saw operating profit fall to £5 million *(2001: £29 million)*.

UK
Morley Fund Management is our institutional fund management operation, with assets of over £100 billion. We cover all the major asset classes and specialise in actively managed funds.

As a major shareholder in many organisations we are actively involved in issues of corporate governance. This includes talking directly with companies in which we invest. We introduced several new socially responsible investment (SRI) products during 2002 to help institutional investors apply more social and environmental investment criteria. We also launched our first US mutual funds from our Boston office, which represents a step towards building capability in the North American market.

The volatile markets during 2002 saw new business volumes in the industry drop sharply, but we succeeded in securing £7.5 billion of new external mandates *(2001: £3.8 billion)*. In the circumstances, and taking into account the impact of lower equity markets on fee income, Morley's operating profit of £4 million *(2001: £25 million)* was a good result.

Worldwide assets under management £billion

1998	185
1999	208
2000	220*
2001	209*
2002	**208**

*Restated for the effect of Financial Reporting Standard 19 "Deferred Tax".

Our biggest asset is the combined experience and talent of our team of over 190 investment professionals. We continue to use this experience to create better ways to manage our business, including improved investment processes, restructured funds, changes in asset allocation and managing appropriate levels of risk.

Morley won a number of external accolades during the year, including fund manager of the year in the *Pensions Week* Awards, and achieved top ratings from Standard & Poor's for our emerging markets fund management team. We were also awarded specialist manager of the year in the UK Pension Awards, in recognition of our SRI expertise.

Our retail products, such as unit trusts and individual savings accounts (Isas), are marketed under our Norwich Union brand. Sales of £556 million *(2001: £816 million)* reflected caution among private investors. Continuing investment in our retail business resulted in an operating loss of £16 million *(2001: £32 million)*. Norwich Union was named best UK insurance fund manager in Standard & Poor's UK Investment Funds Performance Awards for the second consecutive year.

France
Aviva Gestion d'Actifs (formerly Victoire Asset Management) has a reputation for strong investment performance, with around 70% of our funds in the top quartile for returns over three years.

We have £58 billion of assets under management, most of which are invested on behalf of our own operations. Despite the difficult markets, we recorded an operating profit of £11 million *(2001: £12 million)*.

Awards won in 2002 included best insurance asset manager for the third time in four years from monthly financial magazine *Mieux Vivre Votre Argent*, and best performance awards over one and three years from *La Tribune*/Standard & Poor's.

Netherlands and Belgium
The Delta Lloyd group is among the leading fund managers in the Netherlands, with assets under management of £27 billion *(2001: £29 billion)*.

We offer our clients a broad spread of investment products: Delta Lloyd focuses on lower-risk stock selection to provide less volatile returns, while OHRA adopts a themed approach to industry sectors considered to offer the best long-term growth potential. Investment sales rose to £119 million *(2001: £85 million)*, partly owing to the introduction of products with a fixed return to offset the unpredictable markets.

Our Belgian operation Nagelmackers was voted Belgium's best fund manager for the second successive year by Belgium's leading financial daily, *de Financieel-Economische Tijd*.

Ireland
Hibernian is Ireland's fourth-largest fund manager, with £5.9 billion of assets under management and a market share of nearly 10%. During the year, in association with Morley, we launched Ireland's first SRI funds.

Australia
Portfolio Partners, which manages £3.3 billion of assets for retail and institutional investors through a range of unit trusts and individual mandates, reported new sales of £267 million *(2001: £347 million)*. Navigator, our online investment portfolio service, is among the top five master trusts in Australia, with £2.8 billion in funds under administration *(2001: £2.8 billion)*. New sales, affected by consumer caution in the light of poor stock market performance, were £797 million *(2001: £930 million)*.

Singapore
We launched Navigator Asia in Singapore in October 2002 and plan to roll out our online Navigator platform more widely across the region starting in 2003. We are pleased with our selection as the first investment administrator to be given access to Singapore's £20 billion Central Provident Fund Investment Scheme. This means we can provide our services to a comprehensive social security savings scheme with a pool of three million investors.

£959m

Operating profit before tax†

Operating review: **General insurance**

Overview

Our general insurance strategy is to create strong market positions focused on personal lines and selected commercial insurance. By targeting these sectors, we have a lower-risk business capable of producing a steadier stream of profits which we can use to support growth in our long-term savings operations.

The success of our strategy is reflected in an excellent operating profit† of £959 million *(2001: £924 million)*. Operating profit from continuing operations was £881 million *(2001: £876 million)*. Worldwide net premiums written from continuing operations were maintained at £7.8 billion *(2001: £7.9 billion)*.

One of our key performance measures is the group's combined operating ratio (COR), which broadly expresses the total of claims costs, commission and expenses as a percentage of premiums. We have one of the best CORs among our European peer group. We produced a better-than-target COR of 101.4%† as a result of our disciplined underwriting and efficient claims handling. Our COR from continuing operations was 101.7%, and this excellent result gives us confidence that we are capable of sustaining our target COR of 102% over the underwriting cycle.

Market conditions across our businesses are becoming more difficult. This is particularly true in personal lines, as rating competition intensifies. However, we will not chase sales volume at the expense of profit. Our clear strategy, combined with scale and presence in our chosen markets, positions us to continue to produce excellent returns for our shareholders.

UK

Norwich Union Insurance is the largest general insurer in the UK and produces 61% of the group's general insurance business. Our overall UK market share is around 16%, although higher in our chosen sectors, such as private motor and targeted business cover. We are committed to delivering consistent and sustainable performance, and high-quality products and service, while building on our market leadership.

Competition in the personal lines market is intense, with new entrants, high street retailers and other major brands increasing the pressure on insurers to provide low prices. In contrast, the commercial market has seen increasing opportunities as insurers reassess their risk strategies and tighten underwriting standards following the demise of Independent Insurance Group and the World Trade Center disaster.

We produce sustainable returns through disciplined underwriting, efficient claims handling and rigorous management of costs. We believe that the skills of our insurance professionals are fundamental to running an efficient and effective business. Following the launch of our Underwriting Academy in 2001 to develop our skills and improve our risk selection, we created a Claims Academy in 2002 to provide our staff with the training support they need to deliver excellent customer service.

Our expense ratio in 2002 – broadly a measure of costs excluding commission as a percentage of premiums – was 10.4% *(2001: 10.5%)*, one of the lowest among major UK insurers. The key to our expense management is balancing low costs with high levels of service, while allowing us to invest in new technology to maintain our leading position in the market. For example, we announced in early 2003 our plans to develop a call and claims processing operation in India. This investment will help us maintain a leadership position in our markets and high levels of customer service 24 hours a day.

Customers increasingly look for individually tailored products and services. We are developing a number of initiatives to meet this growing demand to give customers an even fairer price based on their particular circumstances. We continue to lobby the Government for improved flood defences in the UK, and our unique digital map covering most of mainland Britain will help us to calculate flood risks more accurately for individual policies.

Other examples of market-leading initiatives include our pioneering Pay As You Drive™ motor insurance project and the launch of Norwich Union Rescue as a branded vehicle breakdown service. We have also launched a series of business products that are more straightforward and relevant to the needs of our customers.

The success of our approach is reflected in an improved operating profit of £611 million *(2001: £590 million)*, on net premiums written of £4.7 billion *(2001: £4.8 billion)*. Behind this result is a change in mix between personal lines premiums of £2.8 billion *(2001: £3.1 billion)* and commercial lines premiums of £1.9 billion *(2001: £1.7 billion)*. This reflects how we manage our business as a balanced portfolio in response to changing market conditions.

†From continuing and discontinued operations.

General insurance operating profit before tax† £million

	Continuing operations	Total
1998	429	648
1999	444	660
2000	330	(142)
2001	876	924
2002	**881**	**959**

†From continuing and discontinued operations.
Continuing operations
Discontinued operations

Taking a **focused** approach to general insurance, with **disciplined** underwriting and **efficient** claims handling.

Another strength lies in our multi-distribution capability, which gives customers the opportunity to buy our products in the way they choose. We have leading positions across the broker, corporate partnership and retail direct channels, including a growing number of customers who conduct their business with us over the internet.

France
We operate in France through Aviva Assurances, a general insurer which sells through a network of 900 tied agents, and Eurofil, the second-largest direct insurance business in the French market with some 160,000 clients. In addition, from September 2002 we began selling car and household insurance through a new bancassurance agreement with the Crédit du Nord group, a federation of eight regional banks with over 600 branches.

In May 2002 we sold CGU Courtage, our broker distribution business, for £189 million, and withdrew from the aviation and space insurance pools. Our French business now concentrates mainly on personal and small business insurance for 1.2 million clients.

We achieved an operating profit of £47 million *(2001: £58 million)*, despite claims arising from the floods in southern France in September 2002. Net premiums written were down 32% at £478 million. These results also reflect the reduced size of the business following the sale of CGU Courtage.

During the year we began work on a common claims platform for Aviva Assurances and Eurofil. This shared approach offers the opportunity for improved operational efficiency and management of costs, coupled with better customer service.

101.4%
combined operating ratio*

101.7%
combined operating ratio – continuing operations†

*From continuing and discontinued operations.

†Continuing operations excludes the results of the disposed general insurance operations in Australia and New Zealand.

Ireland

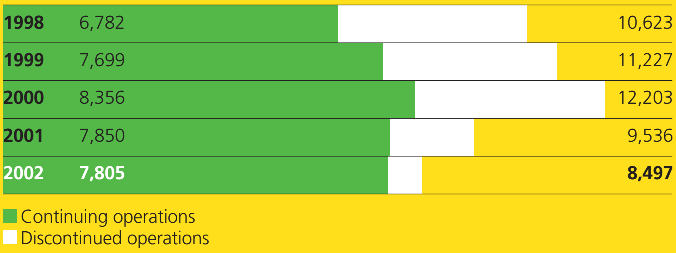
Hibernian is Ireland's largest general insurer, with a 24% market share. We provide cover for all aspects of motor, home and small commercial insurance through brokers and corporate partnerships, by telephone, or at one of our high street branches. Operating profit was £44 million *(2001: £48 million)* on net premiums of £377 million *(2001: £456 million)*.

A number of steps have been taken to address issues affecting the insurance market in Ireland. For example, the Irish Government has set up a personal injuries assessment board to ensure greater consistency in compensation awards, reduce litigation and restrict rising insurance costs. For our part, we continue to offer reduced car insurance premiums to inexperienced drivers who successfully complete the advanced tuition provided through our highly successful Ignition training programme. We have also introduced a new web-based software package, free to all Hibernian business customers. It enables companies to assess their individual risks and needs, and qualify for a reduction in their premiums.

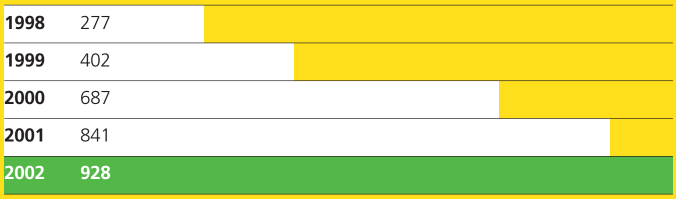
We achieved an improvement in our customer service standards during 2002, particularly through our new service centres in Galway and Cork. Our claims service also benefited from the introduction of a new e-claims system.

Customers increasingly look for individually **tailored products** and services. We are developing a number of initiatives to meet this **growing demand**.

General insurance net written premiums £million



Health premiums £million



Netherlands

In the Netherlands, where Delta Lloyd is a top-five general insurer, we primarily target small to medium commercial insurance sold through intermediaries. We also operate a direct channel under the OHRA brand aimed at individuals, and our new bancassurance agreement with ABN AMRO will offer further opportunities in 2003 to cross-sell general insurance products.

Our emphasis is on careful underwriting and we have withdrawn from unprofitable classes of business. We also introduced an affordable and very successful private motor policy in May 2002. Nevertheless our result suffered following storms in October, the worst for 16 years, and spending on a new shared service centre. This initiative is expected to provide efficiency and customer service benefits and is targeted to launch by the end of 2003. As a result we achieved an operating profit of £13 million *(2001: £19 million)* on net premiums written of £412 million *(2001: £387 million)*.

Healthcare insurance provides over half our premium income, and we aim to become the best online health insurer in the Netherlands. In an effort to improve our service for customers, we are the only Dutch insurer to limit the wait for all hospital operations to a maximum of two weeks.

A new initiative aimed at the self-employed and small to medium-sized businesses is our sick leave policy, which provides income protection during the first year of illness. Our complementary sick leave management programme helps employees return to work as soon as they are able.

Other Europe

In July we sold our Spanish general insurance business and the brand name Plus Ultra for £152 million. We also agreed the sale of a number of other small general insurance businesses in Portugal, Switzerland, Greece and Malta. These operations did not offer the potential for market-leading positions or superior returns.

Canada

CGU Canada (which rebrands to Aviva later in 2003) has been insuring Canadians since 1906. It is our second-largest general insurance operation by premium income. Through a network of independent insurance brokers, we provide a broad range of traditional products and services. In addition, we underwrite a number of specialist products.

Creating better processes, pricing strategies and customer service are the three main pillars of our general insurance strategy in Canada. We aim to have a strong position in each of our regional markets and are committed to profitable growth.

We have begun an Intelligent Underwriting programme, which combines systems technology and working more closely with brokers at the point of sale. This is already producing benefits by helping us to identify acceptable risks within the small to medium-sized business market.

In addition, we have devoted significant effort to improving customer service through more efficient resolution of claims, and are introducing the Total Incident Management concept developed by Norwich Union in the UK. Another important initiative is our broker portal, which provides personal lines policy information to brokers via the internet.

Net premiums written rose to £1,009 million *(2001: £878 million)*, together with an operating profit of £80 million *(2001: £72 million)*.

Asia

Our Asian general insurance operations continued to perform strongly. We were voted best overall insurer for the third successive time in the Singapore International Insurance Brokers' Awards.

Australia and New Zealand

In October 2002 we agreed to sell our general insurance businesses in Australia and New Zealand for £651 million. The price was equivalent to 6% of our market capitalisation; by contrast, these operations accounted for just 2% of our group premiums and profit. The results of these businesses are shown as discontinued operations.

Corporate social responsibility

Overview
As a company with 59,000 employees serving nearly one million shareholders and 25 million customers around the world, we recognise our responsibility to help sustain and build the communities in which we live and work.

Substantial progress has been made in Aviva's corporate social responsibility (CSR) programme over the past year. We issued our first CSR report in April 2002, having produced an environment report in each of the previous three years. In 2002, our programme covered 93% of the group.

CSR embraces performance in environmental management, community, employees, human rights, health and safety, suppliers, customers and standards of business conduct.

Environment
Our environmental programme continues to move ahead strongly. For example, in the UK approximately 30% of our electricity is now derived from renewable resources *(2001: 19%)*. We also ask would-be suppliers in the UK for details of their environmental and human rights performance.

Our businesses in Europe, Asia, Australia and North America have environmental initiatives in place to reduce waste, increase recycling and manage their use of energy resources. In Canada, like the UK, we include environmental performance questions in our tendering process.

We also chaired a working group under the United Nations Environment Programme which, in January 2003, produced international guidelines on environmental management and reporting practice for financial services organisations.

People
This year, for the first time, our CSR report covers performance in the areas of workforce, human rights and health and safety according to the parameters of the Gyllenhammar report. These guidelines were the outcome of a group convened by the European Commission under our own chairman, Pehr Gyllenhammar.

Initiatives designed to benefit our employees include the involvement of hundreds of call centre staff in the UK in a work-life balance project sponsored by the Department of Trade and Industry to test a range of flexible working arrangements. Our Dutch business, Delta Lloyd, won the diversity award from the Confederation of Netherlands Industry and Employers (VNO-NCW) for encouraging female staff to take up senior positions.

Communities
We recognise our responsibility to work in partnership with the communities in which we operate. In 2002, Aviva invested over £5.9 million in community initiatives worldwide.

Examples include our sponsorship of crime prevention activities, including a national community scheme with Crime Concern in the UK and Neighbourhood Watch in Canada. Commercial Union Poland celebrated its 10th anniversary by encouraging staff, agents and clients to become involved in voluntary work, in addition to continuing support for healthcare and education initiatives. In the Czech Republic we responded to the widespread floods in August 2002 by launching an appeal among our staff and insurance advisers. The money we raised helped to rebuild a kindergarten and repair a local health centre.

Charities
The bulk of our charitable support in the UK is concentrated on three organisations: Breakthrough Breast Cancer, Cruse Bereavement Care, and The Princess Royal Trust for Carers. In addition, we raised £220,580 for the Alzheimer's Society, voted as our 2002 UK staff charity of the year.

In France we direct our charity support through the Aviva Foundation, which works mainly with children and the elderly. We raised £128,800 for the United Way in Canada, a charity dedicated to building caring communities, and took part in fundraising for the Canadian Paraplegic Association. In Australia we launched a Guiding Star Workplace Giving programme to support six major charities.

Customer service
Our businesses strive to provide our customers with a service hallmarked by integrity, quality and care. In the UK, innovative products such as Pay As You Drive™ insurance and a revolutionary digital flood map to help calculate fairer premiums are examples of how our core businesses help to meet our CSR goals.

We believe that **investing in CSR** is good for business and for all those associated with it.

Measuring progress
External recognition of our progress is reflected in Aviva's continued inclusion in socially responsible investment (SRI) funds. We continue to be the only UK insurer in the Dow Jones Sustainability Indexes, and we are included in the FTSE4Good indices.

In addition, we were ranked the top global insurer for CSR performance by Innovest, the investment research advisers and ratings agency, in December 2002. The report highlighted that Aviva was setting the standard for best practice in nearly every aspect of CSR in the insurance industry.

Public bodies
Aviva has helped to define CSR practice in the UK through our chairmanship of the Forge II project, a public/private partnership which in November 2002 published guidance for the management and reporting of CSR by UK financial services organisations.

We are committed to following the principles of the UN's Global Compact and are keen to play our part in developing CSR thinking and practice worldwide. Aviva is also proud to have had the opportunity of chairing the Acorn Trust, which has developed an accreditation system for small and medium-sized enterprises in the UK.

Further details
More CSR information can be found in the Directors' report on page 32. Full details of our activities, including our annual CSR report, are on our website at www.aviva.com/csr

Mike Biggs, Group Finance Director

Financial review

Corporate governance is central to the Aviva operating model, supported by strong performance management and capital management disciplines. Throughout 2002 these disciplines have been challenged and developed by the increasing pace of change across our industry.

The next few years will see this trend continue, improving corporate accountability and increasing the prospect of stable financial markets – a benefit to capital providers and policyholders alike.

Performance management

Key financial objectives

The group strategy is underpinned by the following key financial objectives:

• Delivering an after-tax operating profit, including life achieved profit, equivalent to a 10% net real return on opening equity capital;

• Maintaining a dividend cover between 1.5 and 2.0 times based on statutory after-tax operating profits; and

• Achieving a combined operating ratio, on general insurance business, of 102% across the underwriting cycle.

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 profit measured on an achieved profits basis more closely reflects the performance of a long-term savings operation than that measured on a modified statutory basis. Accordingly, these financial statements include supplementary information on achieved profits reporting on pages 92 to 98 and the group's incentive schemes and internal management reporting are aligned to that basis.

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

The modified statutory solvency basis of reporting is required by statute. The statutory operating profit excludes amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items. Dividend cover is measured as statutory operating profit after tax, minorities and preference dividends, expressed as a multiple of ordinary dividends for the year.

At the end of 2002 we disposed of our general insurance operations in Australia and New Zealand and accordingly the operating results from these businesses have been treated in the financial statements as arising from discontinued operations.

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

Operating profit

Year ended 31 December	2002 £m	Restated* 2001 £m
Pre-tax operating profit, including life achieved profit, before amortisation of goodwill and exceptional items		
Life achieved profit	**1,524**	1,665
Health	**61**	70
Fund management	**5**	29
General insurance	**881**	876
Non-insurance	**(69)**	7
Corporate costs	**(218)**	(187)
Unallocated interest charges	**(434)**	(426)
Wealth management	**(30)**	(99)
Continuing operations	**1,720**	1,935
Discontinued operations		
– Australia and New Zealand general insurance	**78**	69
– US general insurance	**–**	(21)
	1,798	1,983
Taxation, minorities and preference dividends	**(637)**	(734)
Operating profit before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders	**1,161**	1,249
Operating earnings** per share		
– achieved profit basis	**51.5p**	55.5p
– modified statutory solvency basis	**38.0p**	42.6p

*Restated for the effect of Financial Reporting Standard 19 "Deferred Tax".

**Operating profit before amortisation of goodwill and exceptional items after-tax, attributable to equity shareholders in respect of continuing and discontinued operations. The modified statutory solvency operating earnings is also stated before the amortisation of acquired additional value of in-force long-term business.

The group's operating profit before tax from continuing and discontinued operations, including life achieved profit, was 10% lower at £1,798 million *(2001: £1,983 million)*.

This corresponds to a normalised post-tax return on opening equity capital of 10.1% *(2001: 9.7%)*. The total return on equity capital has steadily increased over the last three years.

The reduction in operating profit, including life achieved profit, was driven by a number of economic effects. The downturn in the global equity markets has dampened consumer demand for our long-term savings products which has in turn reduced the contribution to profits from new business sales. In addition, following the recent industry report that indicated improvements in the rate of life expectancy in UK male annuitant policyholders, we have taken the prudent decision to strengthen our reserves in our UK life operations for the second year running, albeit at a more pronounced level this year. Our fund management operations have continued to suffer from reduced fee income, while in our non-insurance operations and at a corporate level we have invested more heavily in our infrastructure. Finally, the reduction in overall profitability masks a strong improvement in the underwriting performance of our general insurance business which is better than our target of a COR of 102%.

On a modified statutory basis operating profit before tax from continuing operations was also lower at £1,218 million *(2001: £1,464 million)*. Including the results of discontinued operations, operating profits before tax amounted to £1,296 million *(2001: £1,512 million)*.

In 2001 the group's dividend cover amounted to 1.1 times statutory operating profits after tax. The 2002 dividend cover based on the modified statutory solvency basis operating earnings in respect of continuing and discontinued operations was 1.65 times (1.51 times excluding discontinued operations).

The pre-tax profit on disposal of our Australian and New Zealand general insurance operations was £234 million before deducting goodwill previously written off through reserves. We also completed the sale of CGU Courtage, our broker-based French general insurance operation, and exited the Spanish general insurance market.

The proceeds from all the disposals initiated or completed during 2002 amounted to over £1.0 billion. With the exception of Australia and New Zealand, the remaining disposals are less material in the context of the group, and accordingly the results from these businesses have been treated as arising from continuing operations.

Financial highlights

Year ended 31 December	2002 £m	Restated* 2001 £m
(Loss)/profit before tax:		
– achieved profit basis	**(2,463)**	(546)
– modified statutory basis	**(282)**	514
Earnings per share based on (loss)/profit for the financial year:		
– achieved profit basis	**(91.5)p**	(23.1)p
– modified statutory basis	**(24.4)p**	10.8p
Dividends per share	**23.0p**	38.0p

*Restated for the effect of Financial Reporting Standard 19 "Deferred Tax".

The group reported a loss before tax on a modified statutory basis of £282 million which was depressed by a £1.2 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 equity markets fell between 25% and 35%.

On an achieved profit basis, the loss before tax of £2,463 million includes the adverse effect of economic assumption changes of £0.6 billion and a further investment return shortfall of £2.3 billion, reflecting the impact of market falls on the group's life embedded value. Approximately £1.7 billion of these items arose in the UK with a further £0.8 billion shortfall in France and the Netherlands. The 2001 results were depressed for similar reasons but to a lesser extent.

Included in both the non-life and life investment variances and economic assumption changes are a number of one-off impacts. These relate to the impact of a changed UK with-profit asset mix, a change in the assumed future with-profit bonus rate profiles, some adverse tax effects following anticipated changes in UK Inland Revenue legislation and prudent recognition of deferred tax assets. These one-off effects together amounted to £0.5 billion, on a post tax basis.

In preparing the 2002 financial statements we have adopted the requirements of Financial Reporting Standard 19 "Deferred Tax". The principal change has been to provide, on a discounted basis, an additional deferred tax on unrealised appreciation or depreciation of investments. On an achieved profit basis the effect of this new policy has resulted in a tax credit on other ordinary activities of £982 million *(2001: £740 million, restated)*. The tax for the year includes a charge of £531 million *(2001: £616 million, restated)* in respect of operating loss from continuing operations, equivalent to an effective rate of 30.9% *(2001: 31.8%)*. On a modified statutory basis the effective rate on operating profit from continuing operations amounted to 30.4% *(2001: 32.2%)*.

The directors establish the appropriate level for dividends with reference to the longer-term trend in business performance, keeping in mind the need to retain earnings to fund future growth. The profit for the financial year reflects the volatility of the financial markets and is not, therefore, directly comparable to the dividends paid by the group. The total ordinary dividends for 2002 were £519 million *(2001: £857 million)* representing 23 pence net per share *(2001: 38 pence net per share)*.

Long-term savings

On an annual premium equivalent basis (the sum of new regular premiums and one tenth of new single premiums) total new business sales increased by 1% in 2002 to £2,488 million. This includes a substantial and growing contribution from our expanding bancassurance operations, particularly in Spain and Italy, which accounted for 21% of total sales in 2002. The life and pensions products contributed £2,373 million, a growth of some 2% over last year with sales in our continental European operations contributing 43% of total life and pensions new business sales.

Our UK life and pensions business reported sales totalling £1,231 million *(2001: £1,269 million)* on an annual equivalent basis with an enhanced contribution from our alliance with The Royal Bank of Scotland Group. Sales through the influential IFA channel on an APE basis declined by 9% during 2002, reflecting investor caution during the worst bear market for over a quarter of a century.

The decline in equity-related business contributed to a sales slowdown in France and Ireland.

Long-term savings: new business contribution[1]

Year ended 31 December	2002 £m	2001 £m
UK	**290**	327
France	**69**	79
Ireland	**29**	29
Italy	**38**	28
Netherlands (including Belgium and Luxembourg)	**21**	38
Poland	**10**	11
Spain	**87**	63
Other Europe	**(5)**	–
International	**39**	16
Total	**578**	591

1. Excludes retail investment sales and is stated before the effect of solvency margin.

New business contribution amounted to £578 million for the year with strong growth in Italy, Spain and our International operations.

In the UK, an increasing proportion of new business relates to products with a much tighter pricing structure, most notably in the pensions sector. The reduction in the UK new business contribution is in part attributed to the switch in mix towards these products. The effect of changes in business mix and lower sales volumes is reflected in reduced new business contribution in both France and the Netherlands.

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

Year ended 31 December	2002 %	2001 %
UK	**23.6**	25.8
France	**30.9**	33.9
Ireland	**28.2**	28.5
Italy	**24.9**	22.2
Netherlands (including Belgium and Luxembourg)	**13.3**	22.3
Poland	**20.8**	18.4
Spain	**45.9**	46.5
Other Europe	**(5.4)**	–
International	**22.2**	12.1
Total	**24.4**	25.5

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.

New business margins in our rapidly growing operations in Italy and Spain remain strong as business expansion secures incremental economies of scale. The new business margins of our more developed businesses in the UK, France and the Netherlands are lower compared to 2001, due to strong competition in the respective marketplaces.

Long-term savings: life achieved operating profit

Year ended 31 December	2002 £m	2001 £m
New business contribution	**452**	479
Profit from existing business		
Expected return	**849**	848
Experience variances	**(110)**	(18)
Operating assumption changes	**9**	17
Expected return on shareholders' net worth	**324**	339
Life achieved operating profit	**1,524**	1,665

Life achieved operating profit of £1,524 million is lower than last year due to a combination of economic and operational factors. The depressed state of equity markets has meant that the expected returns on existing business and shareholders' net worth have been lower than in 2001. The effect of this will be even more pronounced in 2003 where we estimate, all other things being equal, that the equivalent expected returns will be lower by £175 million based upon an opening embedded value which is lower by £915 million and economic assumptions which are also lower by between 0.5% and 1%.

In 2002 there have been a number of changes to operational assumptions, the most significant being the adverse impact of changes to the annuitant mortality assumptions in the UK. The output of industry studies in the UK has indicated revised predictions of the rate of improvement in male annuitant mortality. Our current experience shows profits against the existing reserve basis, however, in setting our assumptions we have taken the prudent decision to increase our reserves on our UK annuity portfolio by a net £123 million *(2001: £78 million)*.

On a modified statutory basis, the profit from long-term business operations before tax was £1,022 million *(2001: £1,194 million)*. The year on year reduction principally reflects falling annual and final bonus rates to our with-profit policyholders and lower expected investment returns in the Netherlands. On this basis of profit measurement, the impact of improved life expectancy on our UK annuity portfolio has been offset by the impact of a number of other adjustments including items arising out of our normal year end reserving reviews.

General Insurance

Worldwide general insurance net premium income, from continuing operations, amounted to £7,805 million *(2001: £7,850 million)* reflecting a rigorous approach to underwriting and pricing and a consequent adverse impact on policy volumes. Including the contribution from the disposed general insurance operations in Australia and New Zealand and the US general insurance operation disposed in June 2001, net premium income decreased to £8,497 million *(2001: £9,536 million)*.

We are committed to our strategy of taking a focused approach to general insurance operations. During 2002 we withdrew from Spain, completed the sale of our broker-based operations in France and announced our exit from an aviation pool in the UK.

*General insurance: combined operating ratio**

Year ended 31 December	2002 %	2001** %
UK	**101**	102
France	**102**	104
Ireland	**100**	101
Netherlands (including Belgium and Luxembourg)	**105**	104
Other Europe	**102**	105
Canada	**102**	107
Other international	**101**	102
Continuing operations	**102**	103
Australia and New Zealand	**98**	99
	101	102

*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.

** The group withdrew from the US general insurance market in 2000 and the disposal of the operations was completed during 2001. In 2001 the COR for the discontinued US general insurance operations was 115%. Including this item produces a COR in respect of 2001 from continuing and discontinued operations of 104%.

Our aim is to achieve a group COR of 102% across the cycle, and it is satisfying to see this delivered. Although market conditions are favourable, the achievement of 101.7% on continuing operations is an excellent result. Except for the Netherlands, improvements have been made in all segments with particular success in Canada where the strong rating action and disciplined underwriting has resulted in an improved COR of 102% *(2001: 107%)*. In the Netherlands profitability was lower as a result of the storms in October and higher project spend on a new shared service centre.

In the UK, we have sacrificed some volume to achieve rating increases, which is contributing significantly to the COR as the increases earn through. We expect increasing competition in the personal lines market in 2003 which will slow rating increases further. We remain committed to our strict underwriting strategy across all our target markets.

General insurance: operating profit

Year ended 31 December	2002 £m	2001 £m
UK	**611**	590
France	**47**	58
Ireland	**44**	48
Netherlands (including Belgium and Luxembourg)	**13**	19
Other Europe	**49**	41
Canada	**80**	72
Other international	**37**	48
Continuing operations	**881**	876
Australia and New Zealand	**78**	69
United States	**–**	(21)
	959	924

The operating profit from continuing operations reflects the improvement in the underwriting performance to £145 million loss *(2001: £223 million loss)*, together with the normalised investment return of £1,026 million *(2001: £1,099 million)*.

Normalised investment returns have declined during 2002 as a result of general insurance disposals over the last two years, falling values of investments and changes to the asset mix from equities to fixed income securities. The effect of lower investment values at the end of 2002 is expected, all other things being equal and assuming unchanged longer term investment rates of return, to have an even more pronounced effect in 2003 reducing normalised investment returns by an estimated £125 million, based on a fall of £1,754 million in equity and property portfolios.

Fund Management

Falling market values of equity investments have led to depressed fund management fees across the Group's fund management operations. The notable exception was France where the majority of the investment portfolio is held in fixed income securities.

Our UK fund management business, which includes the results of our retail investment operations and our institutional business, Morley Fund Management, reported a loss of £12 million *(2001: loss of £4 million)*. The investment in the retail operation has been significantly scaled back this year. In spite of the fall in the worldwide equity markets, the group finished the year with £208 billion of assets under management *(2001: £209 billion)*.

Non-insurance

The Group's non-insurance businesses suffered a loss of £69 million *(2001: profit of £7 million)*. This decline primarily reflects the costs of upgrading our unit-pricing system and costs associated with the reorganisation of a number of IFA service centres borne by the UK life service company.

Corporate costs

Higher corporate costs reflect a £26 million spend on a programme to improve the quality of our global finance systems and processes. We have assessed the impact of the changing corporate governance, regulatory and financial reporting environment and believe that it is critical that the group undertakes this investment.

Capital management

Shareholders' funds have declined by 18% to £9,669 million, *(2001: £11,752 million, restated)* largely reflecting the fall in European equity markets. This corresponds to a net asset value per ordinary share of 433 pence *(2001: 524 pence per share, restated)* after adding back the equalisation provision of £314 million *(2001: £272 million)*.

The operating performance of the group, including life achieved profit, generated £1.1 billion of after-tax profits, which has been more than offset by £3.1 billion of after-tax short-term fluctuations in investment returns and other non-operating items. Aviva's shareholders' funds are sensitive to movements in global investment markets. We estimate the sensitivity to a 10% fall in global equity markets or a 1% rise in global interest rates to be as follows:

Sensitivity analysis

Component of shareholders' funds	31 December 2002 £bn	Equities down 10% £bn	Interest rates up 1% £bn
Additional value of in-force[1]	**4.4**	4.1	4.7
Other net assets	**12.9**	12.6	12.5
Borrowings[2]	**(6.9)**	(6.9)	(6.9)
Shareholders' funds	**10.4**	9.8	10.3

1. Assumes achieved profit assumptions adjusted to reflect revised bond yields
2. Comprising internal, external and subordinated debt.
3. These sensitivities assume a full tax charge/credit on market value appreciation/falls.

Capital employed

The group maintains an efficient capital 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 its business.

Capital employed by segment

At 31 December	2002 £m	Restated* 2001 £m
Long-term savings	**10,379**	11,307
General insurance and health	**3,917**	4,560
Other business	**554**	324
Corporate	**2,476**	2,947
Total continuing operations	**17,326**	19,138
Discontinued operations – Australia and New Zealand	**–**	357
Total capital employed	**17,326**	19,495

*Restated for the effect of Financial Reporting Standard 19 "Deferred Tax".

The group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is some £5.7 billion *(2001: £5.9 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.

At 31 December 2002, total capital employed in our long-term savings operations was lower, predominantly reflecting a reduction in the future value of inforce business. The disposal of a number of general insurance businesses and the impact of lower equity markets on the asset base reduced the total capital employed in our general insurance businesses.

Deployment of equity shareholders' funds

					Full year 2002	Restated* Full year 2001
	Equities £m	Fixed income securities £m	Other investments £m	Other net assets £m	Total £m	Total £m
Assets						
Long-term savings	**523**	**3,552**	**674**	**977**	**5,726**	5,115
General insurance, health, corporate and other business	**2,603**	**2,481**	**1,115**	**(292)**	**5,907**	6,734
	3,126	**6,033**	**1,789**	**685**	**11,633**	11,849
Goodwill					**1,271**	1,341
Additional value of in-force long-term business					**4,422**	5,948
Assets backing total capital employed in continuing operations					**17,326**	19,138
External debt					**(2,053)**	(2,651)
Internal debt					**(3,671)**	(3,284)
Subordinated debt					**(1,190)**	(1,157)
					10,412	12,046
Minority interests					**(743)**	(651)
Preference capital					**(200)**	(200)
Total continuing operations					**9,469**	11,195
Discontinued operations – Australia and New Zealand					**–**	357
Equity shareholders' funds					**9,469**	11,552

*Restated for the effect of Financial Reporting Standard 19 "Deferred Tax".

Our exposure to equities has reduced from £4.9 billion at 31 December 2001 to £3.1 billion, which represents 18% of our total capital employed. This reduction reflects the divestment of businesses during the year, the impact of falling markets and the reduction of equity holdings.

At the end of 2002, the group's total external borrowings amounted to £3.2 billion *(2001: £3.8 billion)* including subordinated debt. A significant proportion 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.

The ratio of the group's external debt to shareholders' funds was 18% *(2001: 20%, restated)*. Interest cover, which measures the extent to which external interest costs are covered by achieved operating profit, was 14 times *(2001: 12 times)*.

In addition to its external funding sources, the group has a number of internal debt arrangements in place. These have allowed the assets supporting technical liabilities to be invested 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 market rates and are appropriately serviced. Internal debt increased in 2002 as a result of the formalisation of intra group arrangements, offset by the use of corporate assets to satisfy the third instalment of the Berkshire Hathaway premium of £0.5 billion.

Our capital position has suffered as a result of the decline in equity markets but remains healthy. The ratings of the group's main operating subsidiaries are AA ("very strong") from Standard & Poor's and Aa2 ("excellent") from Moody's. These ratings were confirmed in February 2003, although the rating agencies have highlighted that the insurance sector remains under review.

Return on capital employed

Progress towards the group's 10% net real return target has been frustrated this year by depressed profitability on long-term savings and the reduced profitability of our Netherlands general insurance business.

Return on capital employed[1]

	2002			Restated* 2001
At 31 December	Normalised after-tax return £m	Opening equity capital restated* £m	Return on capital annualised %	Return on capital %
Long-term savings	**1,064**	**11,307**	**9.4**	10.0
General insurance and health	**569**	**4,560**	**12.5**	12.0
Other business	**(67)**	**324**	**(20.7)**	(27.0)
Corporate	**(63)**	**2,947**	**(2.1)**	(3.2)
	1,503	**19,138**	**7.9**	8.8
Borrowings	**(314)**	**(7,092)**	**4.4**	4.4
	1,189	**12,046**	**9.9**	11.3
Minority interests	**(83)**	**(651)**	**12.7**	15.9
Preference capital	**(17)**	**(200)**	**8.5**	8.5
Total continuing operations	**1,089**	**11,195**	**9.7**	11.1
Discontinued operations				
– Australia and New Zealand	**72**	**357**	**20.2**	11.1
– US general insurance	**–**	**–**	**–**	–
Equity shareholders' funds	**1,161**	**11,552**	**10.1**	9.7

1. The return on capital is calculated as the after tax return on opening equity capital, based on operating profit, including life achieved profit, before amortisation of goodwill and exceptional items.

*Restated for the effect of Financial Reporting Standard 19 "Deferred Tax".

Financial strength of the group and its principal insurance operations

In a market that increasingly looks for quality and financial strength, the resilience of the regulatory capital position of the group and its principal insurance operations is of great importance.

Aviva group had an estimated excess regulatory capital, as measured on the new EU Directive, of some £0.7 billion at 31 December 2002 *(2001: £1.7 billion)*. This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators excluding the surplus held in the group's UK life funds.

Our principal UK general insurance regulated subsidiaries are CGU International Insurance plc (CGUII) and Norwich Union Insurance (NUI). CGUII is the parent company of the majority of the group's overseas life and general insurance subsidiaries.

The combined businesses of the CGUII group and NUI have strong solvency positions. On an aggregate basis the estimated excess solvency margin (representing the regulatory value of excess available assets over the required minimum margin) was £2.3 billion at end 2002 after covering the required minimum margin of £3.2 billion. The solvency margin of the combined regulated group is resilient to equity market movements. We estimate that the solvency can withstand further significant market falls from end 2002 levels before the solvency cover is reduced to 1.0 times.

Furthermore, as CGUII also indirectly holds the majority of our overseas life and non-life businesses its regulatory solvency strength is available to support these businesses. Another measure that the group uses to assess its capital requirements is risk-based capital. As at 31 December 2002 the risk-based capital requirement of our worldwide general insurance businesses was £3.1 billion in comparison to £4.0 billion of capital employed by these businesses after deducting goodwill and adding back the claims equalisation reserve.The combined general insurance businesses of CGUII and NUI hold total regulated available assets of £5.5 billion. After deducting the risk-based capital for the general insurance businesses of CGUII and NUI of £3.1 billion and, adding back the claims equalisation reserve of £0.3 billion, the remaining available capital of £2.7 billion is available to fund future UK and overseas business growth.

A common measure of the financial strength in the UK for life insurance business is the free asset ratio (FAR). We estimate that the average free asset ratio of our three UK life companies was 11.8% at end 2002 including implicit items *(31 December 2001: 14.7%)*. If these implicit items were excluded then the FAR would be 7.7% *(31 December 2001: 10.8%)*

The realistic strength of our with-profit funds is underpinned by our UK orphan estate. At 31 December 2002, the orphan estate of £4.3 billion *(2001: £5.2 billion)* is based upon a realistic assessment of liabilities and is calculated after prudently allowing for over £4 billion in respect of the expected cost of guarantees and the glide path. The orphan estate is used to support strong business development for the benefit of our policyholders and shareholders alike. The orphan estate is calculated on the basis of realistic assumptions, as distinct from the statutory basis of reserving which uses rules specified by statute.

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, hedging debt and the outcome of corporate transactions, 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 (52%) and sterling (29%).

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.

Reinsurance is actively used to limit risk and capital requirements in the inherently volatile general insurance business. In 2002, reinsurance retentions for catastrophes were £100 million. On renewal of the contract at 1 January 2003, reinsurance retentions for catastrophes at a group level was increased to £250 million for a single event covering more than one country or a series of events throughout the calendar year. This cover protects the net exposures of our individual business units who have their own reinsurance in place.

Mike Biggs
Group Finance Director

Pehr Gyllenhammar
Richard Harvey

George Paul
Mike Biggs
Guillermo de la Dehesa
Wim Dik
Sir Michael Partridge

Philip Scott
Patrick Snowball

Derek Stevens
Philip Twyman
Elizabeth Vallance
André Villeneuve
Tony Wyand














Board of directors

Pehr Gyllenhammar (67) *Chairman*
Appointed to the board in 1997, becoming chairman in 1998. Former executive chairman of AB Volvo. Currently a senior adviser to Lazard Freres & Co. LLC, chairman of the Trustees of Reuters Founders Share Company Limited and of Swedish Ships Mortgage Bank and a non-executive director of Lagardère SCA. *Chairman of the nomination committee.*

Richard Harvey FIA (52) *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 of Norwich Union in 1998. *Member of the nomination committee.*

George Paul DL (63) *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.*

Mike Biggs ACA (50) *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 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 (61) *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 and director of Banco Pastor. A former deputy governor of the International Monetary Fund and the World Trade Bank and a former deputy general manager of the Bank of Spain and Secretary of State of Finance in Spain. Currently non-executive chairman of Aviva's operations in Spain, non-executive vice-chairman of Goldman Sachs Europe and a director of Campofrio, Unión Eléctrica Fenosa, Bank Santander Central Hispano and Telepizza. *Member of the audit and nomination committees.*

Wim Dik (64) *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 LogicaCMG plc and Vos Logistics. *Member of the remuneration committee.*

Sir Michael Partridge KCB (67) *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, non-executive director of Methodist Ministers' Pension Trust Limited and Epworth Investment Management Limited. Sir Michael will retire from the board at the forthcoming Annual General Meeting. *Member of the audit committee.*

Philip Scott FIA (49) *Executive director*
Appointed to the board in May 2000. Joined Norwich Union in 1973, held a number of senior positions and was appointed to the board of Norwich Union in 1993. He was the chief executive of Norwich Union Life (Aviva's UK life and long-term savings business) until September 2002, at which time he became executive chairman of Norwich Union Life.

Patrick Snowball (52) *Executive director*
Appointed to the board in March 2001 as chief executive of Norwich Union Insurance (Aviva's general insurance operation in the UK). He was previously a director of Norwich Union, appointed in October 1999, having joined that company in 1989.

Derek Stevens (64) *Non-executive director*
Appointed to the board in 1995. A former director and chief financial officer of British Airways Plc, a former finance director of TSB Group plc and a former chairman of the Trustees of British Airways Pension Scheme. Currently chairman of the Airline Group Limited, a director of NATS Holdings Limited and a member of the Council of the Institute of Education at the University of London. *Chairman of the audit committee and chairman of Aviva Staff Pension Trustee Limited.*

Philip Twyman FIA, FIAA (58) *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 responsible for Aviva's international and fund management operations.

Elizabeth Vallance (57) *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 College, University of London, chairman of the Council of the Institute of Education, University of London, non-executive director of Charter Pan European Trust plc and a former non-executive director of HMV Group Limited. *Member of the remuneration and nomination committees.*

André Villeneuve (58) *Non-executive director*
Appointed to the board in 1996. A non-executive director of United Technologies Corporation. A former chairman of Instinet Corporation and executive director of Reuters plc. *Member of the remuneration committee.*

Tony Wyand (59) *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 Aviva's operations in continental Europe and Ireland. A non-executive director of Société Générale, UniCredito Italiano (two companies with which Aviva has joint venture arrangements) and Grosvenor Group Holdings Limited.

Richard Whitaker LLB, FCII
Group Company Secretary

Directors' report

The directors submit their report and accounts for Aviva plc, together with the consolidated accounts of the Aviva Group of companies, for the year ended 31 December 2002.

Annual General Meeting
A separate document accompanying the Annual report and accounts contains the notice convening the Annual General Meeting and a description of the business to be conducted thereat. The Annual General Meeting of the Company will be held on 7 May 2003 at The Barbican Centre, Silk Street, London EC2Y 8DS at 11.00am.

Change of name
Following shareholders' approval at last year's Annual General Meeting, the Company changed its name from CGNU plc to Aviva plc on 1 July 2002.

Principal activities
Aviva plc is the holding company of the Aviva 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. Details of material acquisitions and disposals made by the Group during the year are contained on pages 67 to 69.

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 27.

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 14.25 pence *(2001: 23.75 pence)* per share which, together with the interim dividend of 8.75 pence *(2001: 14.25 pence)* per share, produces a total dividend for the year of 23.00 pence *(2001: 38.00 pence)* per share. The total cost of dividends for 2002, including preference dividends, will amount to £536 million *(2001: £874 million)*, requiring £1,070 million to be transferred from reserves *(2001: £615 million, restated)*.

The final dividend for 2002 will be paid on 16 May 2003 to all holders of ordinary shares on the Register of Members at the close of business on 28 March 2003. The Company's Dividend Reinvestment Plan will be available to shareholders in respect of the payment of the final dividend. In addition, a Transcontinental Account Payment Service will be available to shareholders residing in certain participating jurisdictions. Further details of these arrangements 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 2002, and shares issued during the year which ended on that date, are given in note 32 on pages 77 to 78.

Directors
The names of the present members of the Board and their biographical notes appear on pages 28 to 29.

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 Mike Biggs, Guillermo de la Dehesa, Pehr Gyllenhammar and Richard Harvey. Mike Biggs and Richard Harvey each have a service contract with a Group company, details of which can be found on page 37.

Sir Michael Partridge retires by rotation at the forthcoming Annual General Meeting but will not be seeking re-election.

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 39 to 41. All the disclosed interests are beneficial.

	At 1 January 2002	At 31 December 2002
Mike Biggs	20,703	**43,550**
Guillermo de la Dehesa	144	**144**
Wim Dik	–	**200**
Pehr Gyllenhammar	16,756	**25,760**
Richard Harvey	21,205	**21,829**
Sir Michael Partridge	2,297	**2,004**
George Paul	25,464	**30,593**
Philip Scott	26,772	**68,571**
Patrick Snowball	290	**3,447**
Derek Stevens	1,991	**2,005**
Philip Twyman	17,131	**24,286**
Elizabeth Vallance	830	**830**
André Villeneuve	640	**640**
Tony Wyand	13,964	**31,389**

The following changes to directors' interests during the period 1 January 2003 to 25 February 2003 have been reported to the Company. They relate to shares acquired through the reinvestment of dividends in Personal Equity Plans and/or Individual Savings Accounts, and through the acquisition of Partnership Shares by the Trustee of the Aviva All Employee Share Ownership Plan.

	Number of shares
Mike Biggs	20
Richard Harvey	215
Sir Michael Partridge	16
George Paul	42
Philip Scott	194
Patrick Snowball	194

Substantial shareholdings
As at 25 February 2003, 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 81,261,749 ordinary shares, representing an interest of 3.60% of the issued ordinary share capital of the Company.

United Kingdom employees
The Group is committed to continuing communication and dialogue with employees. News about the Group is provided through a variety of channels, but primarily through the intranet, 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 encourages and promotes employee development. 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 settings 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 success through share ownership. The Group operates two elements of the plan. The partnership element allows eligible employees to purchase Aviva shares at the prevailing market price from their pre-tax income. The second element enables staff to receive free shares, at the Board's discretion, based broadly on the performance of the Company's operations in the UK. 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.

Corporate Social Responsibility (CSR)

Aviva defines CSR as embracing corporate performance in environmental management, community, employees, human rights, health and safety, suppliers, customers and standards of business conduct.

In light of the guidelines of the Association of British Insurers, the governance of Aviva's CSR programme is subject to a fixed schedule. The Board reviews progress and plans on an annual basis, whilst the Executive Committee regularly reviews progress throughout the year. High level progress is reviewed internally by a CSR Steering Group which meets four times each year and which comprises senior executives from principal businesses.

Detailed external review is undertaken each year with participants drawn from various parts of the business together with representatives from non-governmental organisations. This is the most important CSR policy review group for Aviva. CSR risks and opportunities are assessed as part of the review process. Aviva's CSR programme is externally assured every two years.

Aviva's CSR report contains full details of progress achieved within the CSR programme during the year. A copy of the printed summary CSR report is available from the Group Company Secretary or the full report may be viewed on www.aviva.com/csr

Employee practice

Aviva Group companies are committed to providing equal opportunities to all employees, irrespective of their 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.

Health and Safety

The health and safety of staff is a priority and is reviewed 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. Under the Group's Health and Safety Policy, the Group Chief Executive is accountable for health and safety.

Standards of Business Conduct

The Group operates a Standards of Business Conduct Policy which provides guidance for every employee, Group-wide, to act with integrity in all business relationships.

Charitable donations

Aviva has continued to support community initiatives and charitable causes worldwide, and the total Group commitment during the year was £5.9 million.

In 2002, the Group's community investment in the United Kingdom, as measured using the Business in the Community's benchmarking template, totalled £4.9 million of which £2.3 million *(2001: £1.3 million*) was direct donations to charitable organisations.

Political donations

No political donations were made in the United Kingdom during the year *(2001: £nil).* It is the Company's policy not to make donations to political organisations or for political causes, and it has no intention of changing this policy.

At the 2002 Annual General Meeting, shareholders passed a resolution authorising the Board to make expenditure, up to an aggregate limit of £100,000, on activities which fall under the Political Parties, Elections and Referendums Act (PPER). This piece of legislation introduced a very broad definition of EU political expenditure in the European Union, such that some of the activities undertaken throughout the Group's businesses in the EU could now fall within that definition.

There is a requirement for companies to seek shareholders' approval for expenditure falling under the PPER and therefore, at the forthcoming Annual General Meeting, shareholders will be asked to renew the authority granted at the 2002 Annual General Meeting to permit 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.

Creditor payment policy and practice

It is 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 2002 represented approximately 29 days of average daily purchases through the year *(2001: 27 days).*

Auditor

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

25 February 2003

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.

During 2003 we will be reviewing our corporate governance arrangements in the light of changes proposed to the Combined Code following the recent reports by Higgs and Smith.

The Board of Directors
The Board has eight scheduled meetings each year and meets more frequently as required. It currently comprises seven non-executive directors, excluding 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 the 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 the Board, its committees and processes are performing and how they might be improved. The review also assesses the performance of each director and the contribution he/she makes. The last review was undertaken in July 2002.

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. To ensure that the non-executive 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 2002 review, the Board considers that all of the current non-executive directors and the Chairman are independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement.

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, which include 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. Each operates within clear terms of reference and the minutes of their meetings are circulated to all directors.

Remuneration Committee
Details of the Remuneration Committee, including its membership and duties are set out in the Directors' remuneration report on page 35.

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 (including considering the appropriateness of accounting policies), 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 on significant issues raised at 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 the constitution of the Board and considers the balance of skills and experience of the directors. It oversees the 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 information technology 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. As and when considered appropriate, the Company 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 Meetings, 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.

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 27 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 UK 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.

Appointment of the auditor
Ernst & Young LLP was appointed as auditor of the Company in 2001 following a competitive bid process between the firms which had acted as auditors of Norwich Union and CGU prior to their merger in 2000. During the current year, Ernst & Young's audit signing partner will change as part of a rotation process.

The Company has established a policy aimed at safeguarding and supporting the independence of the auditor by avoiding conflicts of interests. The policy sets out the approach to be taken by the Group when using the services of the auditor and distinguishes between those matters where the Company requires an independent view, such as audit and assurance work, from other consultancy work. The policy recognises that there may be a small number of areas where, for pragmatic or historical reasons, it may be in the Company's interests to use the auditor for other work but such appointments are subject to a clear and transparent approval process.

An analysis of the fees paid to the auditor in 2002 is set out in note 13 on page 64.

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 control of business risks.

During the year, the Group 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 Group has an established governance framework. This framework is designed to oversee the Group's operations world-wide and assist the Group in achieving its ambitions. The key features of the control environment within this governance structure 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 sets out risk management and control standards for the Group's operations world-wide; and procedures for the approval of major transactions and capital allocation.

Risk identification and assessment
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 Group's risk management and control framework is designed to support the identification, assessment, monitoring and control of risks significant to the achievement of its business objectives. During the year work has commenced to align this framework to the requirements of the Financial Services Authority's Prudential Sourcebook. Risk management functions within the business are responsible for assessing and reporting the potential impact and probability of the most significant risks identified across the Group and the adequacy of related mitigation programmes. This includes assessing and reporting risks arising from the Group's financial, regulatory and operational activities as well as social, ethical and environmental risks. The results of these assessments are reviewed by the Group Business Risk Committee, under the chairmanship of the Group Finance Director and reported to the Board at each meeting. The overall risk management process is reviewed six monthly by the Group 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 Business Plan. Performance against the Group Business Plan is monitored monthly by the executive directors and reviewed at each Board meeting. This report also includes reports on risk, audit, compliance, solvency and liquidity. 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 their conclusions and recommendations to management and to the Group Audit Committee.

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, except that during the period two executive directors had contracts with notice periods which exceeded 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.

Directors' remuneration report

This report sets out the remuneration policy for the Company's senior executives, including the executive directors, outlines the various elements of their remuneration, and details the amounts of remuneration paid in 2002.

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

George Paul (Chairman)
Wim Dik
Elizabeth Vallance
André Villeneuve

The Group Chief Executive normally attends the meetings of the Committee, except when his own remuneration is being discussed, as does the Group Human Resources Director.

The Committee, which has four scheduled meetings each year, considers all aspects of remuneration paid to senior executives, and makes recommendations to the Board on the remuneration policy, strategy and framework for this group of employees. The remuneration policy is reviewed by the Committee on a regular basis to ensure that it remains appropriate within the market and for the achievement of its objectives. Within the scope of the policy, which is approved by the Board, the Committee determines the level of remuneration paid to each of the executive directors.

Mike Pemberton, the Group Human Resources Director, has provided material assistance to the Committee during the year advising on market trends, practices and appropriate levels of remuneration. He has been supported by Ernst & Young LLP who have advised on remuneration benefits generally, including salary levels, bonus and incentive arrangements. Deloitte & Touche advise on the calculation of total shareholder return for the purposes of the long-term incentive plans. In addition, the Committee has taken into account the views of Pehr Gyllenhammar, Chairman, and Richard Harvey, Group Chief Executive, on performance assessment. Ernst & Young LLP is the Company's auditor and has provided other audit and assurance services to the Group as disclosed in note 13 on page 64. Deloitte & Touche provide no other material services to the Group.

On a regular basis, the Committee commissions its own independent review of the remuneration policy and the packages paid, to ensure that the policy reflects good practice and that the packages remain competitive and in line with the market. New Bridge Street Consultants, who provide no other services to the Group, were appointed by the Committee to undertake such a review during the year.

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 determines the level of fees paid to the Company's non-executive directors following a recommendation from the executive directors.

In line with best practice, and in anticipation of regulations which are now in place, the Company put its remuneration report to a vote at last year's Annual General Meeting.

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 individual and collective contributions to the Company's performance.

Against this broad policy, 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.

The Committee's philosophy is that senior executives' own interests should be aligned with those of the Company's shareholders. It therefore believes that, whilst paying a competitive basic salary, the majority of the total remuneration package should be closely linked to the performance of the business and delivered in the form of shares. The policy seeks to provide an appropriate balance between the delivery of the annual business plan and the long-term profitable growth of the Company.

During the year, New Bridge Street Consultants were appointed to review and advise on the current remuneration policy and packages which were introduced in 2000 upon the merger of CGU and Norwich Union. New Bridge Street Consultants' report, which was considered by the Committee in July 2002, confirmed that overall the Company's remuneration policy and levels of remuneration were broadly in line with market practice for companies of similar size. Two areas in relation to the long-term incentive plans, where the Company's approach differed from that recommended by institutional investors, were noted and these are commented upon below. A number of minor matters which were suggested were considered and will be adopted.

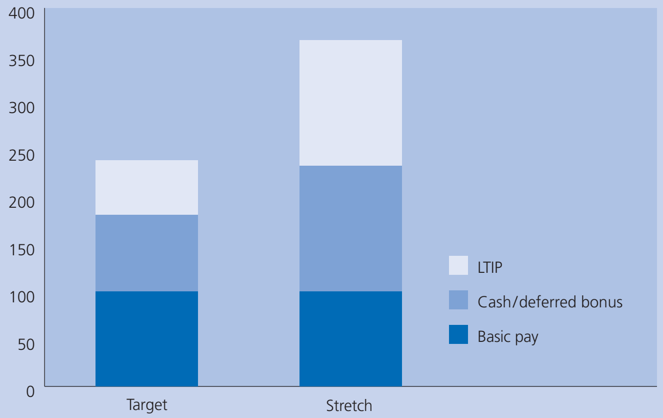
No material changes have been made to the remuneration policy during the year and none are planned for the current year. However, the Committee will continue to review and develop the policy to reflect market conditions and changes in best practice.

Remuneration package
The remuneration package for the Company's senior executives comprises the following elements:

- a basic salary;
- an annual bonus plan – to encourage executives to meet annual targets relating to business and personal performance;
- a deferred bonus plan – linked to the annual bonus plan to encourage executives to take all of their bonus in the form of shares and retain them for a period of three years;
- a long-term incentive plan – to align executives' longer-term interests with those of shareholders;
- a non-contributory defined benefit pension entitlement and other benefits.

The balance of these elements is such that, for directors achieving "Target" performance, basic salary represents approximately 40% of the remuneration package, with the annual bonus/deferred bonus plan representing 35% and the long-term incentive plan 25%. At "Stretch" performance, basic pay represents approximately 28% of the remuneration package, with the annual bonus/deferred bonus plan representing 36% and the long-term incentive plan also representing about 36%. "Stretch" performance would represent the achievement of business results significantly better than the business plan target.

The relative value of the elements of executive directors' remuneration* (£'000)



*For the purposes of this diagram, the following assumptions have been made:

At "Target" performance – the annual bonus is 35% of basic pay and the executive director chooses to defer the whole of his bonus, which is matched. The ROCE performance condition on the long-term incentive plan is met in full and the Company's TSR position is median, resulting in the vesting of 50% of the shares awarded. The share price growth during the three-year performance/deferral period averages 5% per year.

At "Stretch" performance – the annual bonus is 50% of basic salary and the executive director chooses to defer the whole of his bonus, which is matched. The ROCE performance condition on the long-term incentive plan is met in full and that the Company's TSR position is upper decile, resulting in the vesting of 100% of the shares awarded. The share price growth during the three-year performance/deferral period averages 10% per year.

Basic salaries

In determining the level of basic salaries, the Committee gathers data from a number of independent sources concerning the level of salaries paid to senior executives performing comparable functions within the largest 50 listed companies in the United Kingdom, with an additional focus on leading United Kingdom and European financial services companies. Salaries are reviewed annually.

When reviewing basic salaries, the Committee takes into account market data and the senior executive's performance. The Company's policy is to set basic salaries for competent performance at the median level. Salaries are targeted towards the upper quartile for those executives who display sustained superior performance.

Cash bonuses

Senior executives participate in a discretionary annual cash bonus plan that provides for the payment of cash bonuses. For executive directors, the bonus for "Target" performance is 35% of basic salary and for achieving "Stretch" performance a payment of up to 50% can be made. 70% of the potential payment under the plan is dependent upon financial targets. The remaining 30% of the bonus is based upon the director's attainment of personal objectives.

For the executive directors, shared Group-wide objectives are based on financial measures relevant to the business, including new business contribution, combined operating ratio and operating profit. For the Group Chief Executive and the Group Finance Director, Group-wide targets are the relevant performance measures for annual bonus purposes. For the other executive directors, Group-wide targets represent about 40% of their overall financial target, with the remainder represented by targets pertaining to the business unit(s) for which they are responsible.

The Committee considers it important that senior executives hold shares in the Company and a fundamental part of the annual bonus plan is the requirement that a stated proportion of any cash bonus awarded under the plan be taken in the form of shares through the Deferred Bonus Plan. Executive directors are required to defer 50%, and may elect to defer up to 100%, of their cash bonus. In respect of bonuses deferred, 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.

If a participant leaves service during the vesting period for reasons of ill-health, retirement or redundancy, the matching shares are released in full at the end of the vesting period. In all other cases, the matching shares lapse. The shares granted under the plan are held in trust and vest automatically after three years.

The Committee has considered carefully the suggestion of certain institutional investors that the vesting of the matching awards should be subject to the attainment of performance conditions. The award of matching shares can only be made in relation to bonuses actually earned, (i.e. the performance conditions attaching to the annual bonus plan must have been met). The plan makes it compulsory for participants to defer 50% of their bonus into shares and encourages participants to invest the whole of their bonus into shares, thereby strengthening further the alignment of their interests with those of shareholders. It is felt that the imposition of additional performance conditions would be detrimental to achieving this. As a result of benchmarking the Company's remuneration package, the Committee is aware that the maximum amount which a participant can earn under the Company's annual bonus plan, and hence defer (being 50% of basic salary), is at the lower end of the market range. The Committee believes that the deferred bonus plan is not excessive.

Long-term incentives

The Aviva Long Term Incentive Plan is a discretionary share plan and it is the Committee's policy to make an annual award of shares to executive directors with a value of 100% of their basic salary at the time the award is granted. All awards are made subject to the achievement of stretching performance conditions – 70% of the award relating to Total Shareholder Return (TSR) performance against a comparator group and 30% of the award relating to Return on Capital Employed (ROCE) performance. The awards vest after three years, but only to the extent that the performance conditions are satisfied.

The performance conditions compare the TSR produced by the Company over the performance period against the TSR of companies in a chosen comparator group, and on the ROCE within the Company. The Committee believes that this combination is the most appropriate way of incentivising executives since it takes into account both the total returns to shareholders and the Company's underlying performance. Achievement of median TSR performance within this group triggers the vesting of 20% of the shares, 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 largest provider of life and pension products to Europe, the comparator group for the TSR part of the plan comprises 19 European financial services companies, namely – Abbey National, AEGON, Allianz, AXA, Barclays, CNP Assurances, Ergo, Fortis, HBOS, HSBC, ING, Legal & General, Lloyds TSB, Prudential, Royal Bank of Scotland, Royal & Sun Alliance, Skandia, Swiss Life and Zurich. The Committee believes that this is the group of competitors against which Aviva's relative performance is most appropriately measured.

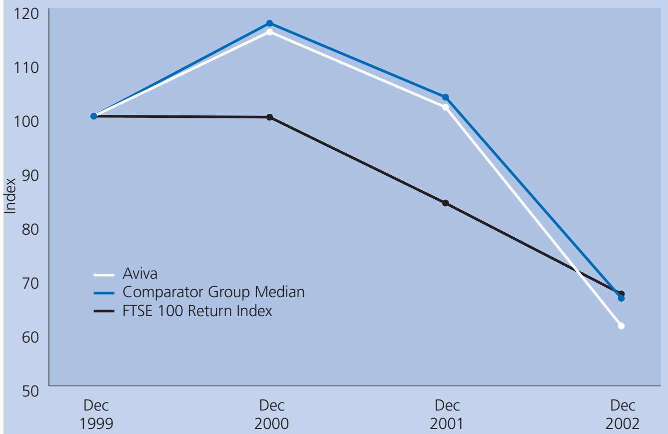
The other 30% of the award vests if the Company achieves a given return, in excess of inflation, on ROCE over the three year performance period. Awards under this performance condition will begin to vest if the cumulative ROCE over the performance period is 24% in excess of the rate of inflation, with the full 30% vesting if the ROCE is 30%, or higher.

If the performance targets have not been met at all at the end of the performance period, they will be retested at the end of five years, the ROCE performance condition being adjusted accordingly, (i.e. the cumulative ROCE would need to be at least 40% in excess of the rate of inflation over the extended performance period for any awards under that part of the plan to vest). The Committee is aware that certain institutions are not in favour of performance conditions being retested. From a benchmarking exercise undertaken on its behalf, the Committee is aware that the Company's performance conditions are very demanding compared with such plans generally. The Committee believes that it is important to strike a balance between setting challenging performance conditions and retaining the motivational incentive which is the fundamental purpose of the plan. After careful consideration, it believes that this is best achieved by retaining the demanding conditions but allowing one retest at the end of five years. No retesting takes place if any part of the performance condition has been met at the end of the three year performance period.

Whether or not the performance conditions have been met is determined by the Committee. The rules of the plans require the Committee to request an independent consultant to determine the relevant TSR positions. In respect of the ROCE calculation, the Committee requests that the Group's auditor expresses a view on the basis of the calculation used.

The following graph compares the TSR performance of the Company with the TSR of the FTSE100 index. The period covered is the three years since the beginning of 2000, the year in which CGU and Norwich Union merged to form Aviva. The graph also includes the median TSR of the companies in the comparator group. This graph is included as it is the group with which performance is measured for the purposes of the long-term incentive plan. In addition to insurers, there are a number of European banks in the comparator group. Aviva has outperformed the insurers over each of the three years, two years and one year periods to December 2002, but has underperformed the whole comparator group.

Three year total shareholder return comparison



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

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 Aviva (formerly CGNU) Staff Pension Scheme.

Under the Scheme, executive directors have a normal retirement age of 60 and accrue pensions 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 or 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 caps the amount of pension that can be paid from a tax-approved scheme. Where this limit applies, additional benefits are provided from the unfunded arrangement. Mike Biggs, Richard Harvey and Philip Twyman are affected by this limit and therefore will, at retirement, receive some of their pension benefits from the unfunded 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.

The Company operates a number of Inland Revenue approved all-employee share plans in the UK. Senior executives are entitled to participate in these plans on the same basis as other eligible employees. These include the Free Share element of the Aviva All-Employee Share Ownership Plan (AESOP). Under this plan, eligible employees can receive up to a maximum of £3,000 pa in the form of shares from the profits of the Company, free of tax, subject to a retention period. The Partnership element of the AESOP allows participants to invest up to £125 per month out of their gross salary in the Company's shares.

The Aviva 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.

Service contracts

Service contracts agreed with each executive director incorporate their terms and conditions of employment.

Philip Twyman and Tony Wyand are both approaching their retirement dates when their service contracts will terminate. Accordingly, Mr Wyand's contract will terminate in November 2003 and Mr Twyman's in April 2004. In line with the Company's policy, the other executive directors have rolling service contracts which came into effect on 1 June 2000 and which can be terminated by the Company giving 12 months notice and by the director giving six months notice.

In respect of the early termination of a service contract, the Company would, depending upon the circumstances, either seek to make a payment in respect of damages less an amount for appropriate mitigation, or would invoke a provision in the service contract allowing it to terminate the contract by making a payment of one year's basic salary in lieu of notice.

Under the Company's discretionary redundancy arrangements, which apply to UK based employees, an executive director may, depending on his length of service, receive an ex-gratia payment of up to one year's basic salary should he leave employment on the grounds of redundancy. No special arrangements would apply should there be a change in the control of the Company.

The Company is currently reviewing its policies against the statement on best practice on executive contracts and severance recently issued by the Association of British Insurers.

The non-executive directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Such appointments are for three years and may be renewed by mutual consent. The Company may terminate these appointments at any time without the payment of compensation.

Directors' remuneration in 2002

This section of the Report (which has been subject to audit) sets out the remuneration which was paid to the directors during the year to 31 December 2002. As a result of recent mergers, there are a number of incentive plans of the former companies, which are now closed but under which some awards/options remain outstanding.

Executive Directors

Salary and bonuses

The remuneration payable to executive directors who held office for any part of the financial year in respect of 2002, including amounts paid to them as directors' of subsidiary undertakings, was as follows:

	Basic salary 2002 £'000	Basic salary 2001 £'000	Bonuses (note 1) 2002 £'000	Bonuses (note 1) 2001 £'000	Benefits (note 2) 2002 £'000	Benefits (note 2) 2001 £'000	Total 2002 £'000	Total 2001 £'000
Mike Biggs	**437**	402	**163**	183	**147**	17	**747**	602
Richard Harvey	**691**	636	**258**	287	**70**	55	**1,019**	978
Philip Scott	**437**	396	**163**	175	**136**	124	**736**	695
Patrick Snowball	**376**	263*	**145**	109	**17**	123	**538**	495
Philip Twyman	**451**	423	**178**	140	**16**	16	**645**	579
Tony Wyand	**476**	451	**181**	208	**21**	22	**678**	681

*From date of appointment.

Notes

(1) "Bonuses" include amounts earned under the Annual Bonus Plan (including amounts deferred under the Aviva Deferred Bonus Plan) in respect of performance in 2002 and the value of shares granted under the free share part of the Aviva All-Employee Share Ownership Plan in respect of 2002 performance. Also paid to directors during the year were one-off incentive bonuses relating to prior years performance periods, i.e. the one-off cash award made in March 2002 under the CGNU Integration Incentive Plan and the one-off cash award made in March 2002 based on the Norwich Union Restricted Share Plan, as set out below.

	Integration incentive plan* 2002 £'000	Integration incentive plan* 2001 £'000	Restricted share plan* 2002 £'000	Restricted share plan* 2001 £'000	Total Emoluments 2002 £'000	Total Emoluments 2001 £'000
Mike Biggs	**200**	–	**57**	–	**1,004**	602
Richard Harvey	**320**	–	**82**	–	**1,421**	978
Philip Scott	**207**	–	**55**	–	**998**	695
Patrick Snowball	**166**	–	**41**	–	**745**	495
Philip Twyman	**143**	–	**–**	–	**788**	579
Tony Wyand	**195**	–	**–**	–	**873**	681

*One-off awards – Plans now closed. Details of these plans are contained on pages 41 and 42 below.

(2) 2002 Benefits. All the executive directors received the benefit of a company car allowance and private medical insurance. In respect of Mike Biggs the amount disclosed includes benefit in kind charges in respect of the provision of accommodation in London. The disclosure for Philip Scott includes benefit in kind charges in relation to accommodation in York where a significant part of Norwich Union Life's operations are based and relocation expenses reimbursed by the Company relating to the purchase of a property in London where Philip Scott needs to be located to fulfil his executive duties. A charge relating to the benefits which cannot be provided from the pension scheme as a result of the 'earnings cap' is also included in respect of Richard Harvey and Mike Biggs.

Pension benefits

During the year each of the directors accumulated pension benefits under the defined benefits section of the Group's pension scheme for UK employees. The Directors' Remuneration Report Regulations 2002 require disclosure of defined benefit pension arrangements on a different basis to that specified in Section 1 of the Combined Code. Details on both basis are set out below.

	Directors' Remuneration Report Regulations						Combined Code		
	Pension accumulated 2002 £'000	Increase in pension 2002 £'000	Transfer value 2002 £'000	Transfer value 2001 £'000	Increase in transfer value 2002 £'000	Age at 31 December 2002	Pension accumulated 2002 £'000	Increase in pension 2002 £'000	Increase in transfer value 2002 £'000
Mike Biggs	**123**	**28**	**1,150**	1,098	**52**	**50**	**123**	**27**	**249**
Richard Harvey	**403**	**61**	**4,536**	4,317	**219**	**52**	**403**	**55**	**618**
Philip Scott	**241**	**40**	**2,109**	2,230	**(121)**	**48**	**241**	**36**	**317**
Patrick Snowball	**126**	**29**	**1,431**	1,224	**207**	**52**	**126**	**27**	**309**
Philip Twyman	**94**	**22**	**1,803**	1,352	**451**	**58**	**94**	**20**	**388**
Tony Wyand	**318**	**17**	**6,311**	5,786	**525**	**59**	**318**	**12**	**230**

Disclosed for each director is the "pension accumulated", being the amount of pension to which the director would be entitled to on leaving service at 31 December 2002. Under the Combined Code the "increase in pension" is the increase during the year net of inflation and the increase in the "transfer value" represents the transfer value of that increase. Under the Directors' Remuneration Report Regulations the "increase in pension" relates to the difference between the accumulated pensions at the end of 2001, and 2002. Also disclosed is the "transfer value" of the accumulated pensions at 31 December 2002 and 2001. The "increase in transfer value" for 2002 is the difference between these values, and represents an obligation on the pension fund (where funded) or the Company (where unfunded) – they are not sums paid or due to the director. Although the director may have had an increase in pension benefits over the year, the fall in equity markets since the beginning of 2002 may have resulted in a reduced transfer value.

Payments to former directors

No payments or awards were made to former directors during the year, and no former 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 or 31 March 1997. No compensation for loss of office was made to any director, or former director, during the year.

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.

Share options

	At 1 January 2002 Number	Options granted during year Number	Options exercised during year Number	Options lapsing during year Number	At 31 December 2002 Number	Exercise price p	Exercise period
Mike Biggs							
– Savings related options							
1997	3,185	–	–	3,185	**–**	541.6	July 2002 – Dec 2002
Richard Harvey							
– Savings related options							
1997	3,185	–	–	3,185	**–**	541.6	July 2002 – Dec 2002
2002	–	4,426	–	–	**4,426**	401.0	Dec 2009 – May 2010
Philip Scott							
– Savings related options							
1997	3,185		–	3,185	**–**	541.6	July 2002 – Dec 2002
2002	–	4,096	–	–	**4,096**	401.0	Dec 2007 – May 2008
Patrick Snowball							
– Savings related options							
1997	3,185	–	–	3,185	**–**	541.6	July 2002 – Dec 2002
Philip Twyman							
– Executive options							
1996	39,714	–	–	–	**39,714**	553.9	Aug 1999 – Aug 2006
1997	36,637	–	–	–	**36,637**	766.4	Aug 2000 – Aug 2007
1998	36,107	–	–	–	**36,107**	853.0	Dec 2001 – Dec 2008
1999	36,866	–	–	–	**36,866**	919.0	Aug 2002 – Aug 2009
2000	41,666	–	–	–	**41,666**	960.0	Sept 2003 – Sept 2010
– Savings related options							
1998	2,162	–	–	2,162	**–**	797.6	
2002	–	2,356	–	–	**2,356**	401.0	Dec 2005 – May 2006
– Bonus Plan options							
1999	3,824	–	–	–	**3,824**	966.5	July 2002 – July 2009
2000	4,259	–	–	–	**4,259**	875.0	Mar 2003 – Mar 2010
Tony Wyand							
– Executive options							
1994	37,099	–	–	–	**37,099**	575.3	Mar 1997 – Mar 2004
1994	12,701	–	–	–	**12,701**	547.2	Nov 1997 – Nov 2004
1995	5,651	–	–	–	**5,651**	614.8	Aug 1998 – Aug 2005
1996	50,129	–	–	–	**50,129**	581.2	Mar 1999 – Mar 2006
1998	43,376	–	–	–	**43,376**	853.0	Dec 2001 – Dec 2008
1999	42,720	–	–	–	**42,720**	919.0	Aug 2002 – Aug 2009
2000	45,000	–	–	–	**45,000**	960.0	Sept 2003 – Sept 2010
– Savings related options							
1998	2,162	–	–	–	**2,162**	797.6	Nov 2003 – April 2004
– Bonus Plan options							
1999	4,593	–	–	–	**4,593**	966.5	July 2002 – July 2009

Current plans

"Savings related options" are options granted under the Inland Revenue-approved SAYE Share Option Schemes. Options are normally exercisable during the six months period following either the third, fifth or seventh anniversary of the relevant savings contract.

Closed plans

"Executive options" are those granted to former CGU directors under the CGNU Executive Share Option Scheme, or predecessor schemes. Options, granted on various dates from 1994 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 have been met. During the year, the three-year performance periods attaching to options granted in 1998 and 1999 expired. In order for participants to exercise these options, the Company's TSR, when compared with the TSR of a comparator group of financial services companies, 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 attaching to the options granted in 1998, the Company was ranked fourth out of the 10 companies remaining in the comparator group and accordingly 72.7% of the options have become exercisable at 853 pence per share. In respect of the options granted in 1999, the Company was ranked seventh in the comparator group and therefore none of these options have become exercisable. Under the rules of the scheme, the performance conditions will be retested at each subsequent anniversary of their grant in respect of the options which have not vested.

"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.

The mid-market price of an ordinary share in the Company on 31 December 2002 was 443 pence, and the mid-market prices during the year ranged from 341.5 pence to 873.0 pence. No director exercised any options during the year and therefore no gains on such were made.

Share awards

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

	At 1 January 2002 Number	Awards granted during year Number	Awards vesting during year Number	Awards lapsing during year Number	At 31 December 2002 Number	Market price at date awards granted p	Market price at date awards vested p	Vesting date
Mike Biggs								
CGNU Integration Incentive Plan	37,333	–	37,333	–	**–**	960.0	762.0	March 2002
Aviva Long Term Incentive Plan								
– 2000	34,453	–	–	–	**34,453**	960.0	–	March 2003
– 2001	43,229	–	–	–	**43,229**	949.5	–	March 2004
– 2002	–	54,177	–	–	**54,177**	739.0	–	March 2005
Aviva Deferred Bonus Plan								
– 2001	29,492	–	–	–	**29,492**	949.5	–	May 2004
– 2002	–	46,592	–	–	**46,592**	739.0	–	March 2005
Richard Harvey								
CGNU Integration Incentive Plan	59,393	–	59,393	–	**–**	960.0	762.0	March 2002
Aviva Long Term Incentive Plan								
– 2000	107,988	–	–	–	**107,988**	960.0	–	March 2003
– 2001	69,270	–	–	–	**69,270**	949.5	–	March 2004
– 2002	–	86,814	–	–	**86,814**	739.0	–	March 2005
Aviva Deferred Bonus Plan								
– 2001	50,530	–	–	–	**50,530**	949.5	–	May 2004
– 2002	–	72,924	–	–	**72,924**	739.0	–	March 2005
Philip Scott								
CGNU Integration Incentive Plan	38,052	–	38,052	–	**–**	960.0	762.0	March 2002
Aviva Long Term Incentive Plan								
– 2000	34,453	–	–	–	**34,453**	960.0	–	March 2003
– 2001	38,541	–	–	–	**38,541**	949.5	–	March 2004
– 2002	–	54,177	–	–	**54,177**	739.0	–	March 2005
Aviva Deferred Bonus Plan								
– 2001	35,458	–	–	–	**35,458**	949.5	–	May 2004
– 2002	–	44,424	–	–	**44,424**	739.0	–	March 2005
Patrick Snowball								
CGNU Integration Incentive Plan	28,282	–	28,282	–	**–**	960.0	762.0	March 2002
Aviva Long Term Incentive Plan								
– 2000	24,682	–	–	–	**24,682**	960.0	–	March 2003
– 2001	36,458	–	–	–	**36,458**	949.5	–	March 2004
– 2002	–	45,691	–	–	**45,691**	739.0	–	March 2005
Aviva Deferred Bonus Plan								
– 2001	16,888	–	–	–	**16,888**	949.5	–	May 2004
– 2002	–	36,552	–	–	**36,552**	739.0	–	March 2005
CGNU Restricted Share Plan	13,141	–	5,584	7,557	**–**	960.0	735.0	March 2002

Share awards continued

	At 1 January 2002 Number	Awards granted during year Number	Awards vesting during year Number	Awards lapsing during year Number	At 31 December 2002 Number	Market price at date awards granted p	Market price at date awards vested p	Vesting date
Philip Twyman								
CGU Deferred Bonus Plan								
– 1999	3,824	–	3,824	–	**–**	967.0	465.0	Aug 2002
– 2000	4,259	–	–	–	**4,259**	875.0	–	March 2003
CGNU Integration Incentive Plan	41,138	–	41,138	–	**–**	960.0	762.0	March 2002
Aviva Long Term Incentive Plan								
– 2001	41,666	–	–	–	**41,666**	949.5	–	March 2004
– 2002	–	57,441	–	–	**57,441**	739.0	–	March 2005
Aviva Deferred Bonus Plan								
– 2001	21,666	–	–	–	**21,666**	949.5	–	May 2004
– 2002	–	34,464	–	–	**34,464**	739.0	–	March 2005
Tony Wyand								
CU Long Term Incentive Plan	3,057	–	3,057	–	**–**	848.0	717.0	Feb 2002
CGU Deferred Bonus Plan	4,593	–	4,593	–	**–**	967.0	485.0	Oct 2002
CGNU Integration Incentive Plan	44,429	–	44,429	–	**–**	960.0	762.0	March 2002
Aviva Long Term Incentive Plan								
– 2001	45,000	–	–	–	**45,000**	949.5	–	March 2004
– 2002	–	60,704	–	–	**60,704**	739.0	–	March 2005
Aviva Deferred Bonus Plan								
– 2001	20,700	–	–	–	**20,700**	949.5	–	May 2004
– 2002	–	52,206	–	–	**52,206**	739.0	–	March 2005

Current plans

The Aviva Long Term Incentive Plan was approved by shareholders at the 2001 Annual General Meeting. Awards under the plan are made on an annual basis and the 2002 award was made in March. Awards are subject to the attainment of performance conditions over a three-year performance period as described on page 36.

The Aviva Deferred Bonus Plan was approved by shareholders at the 2001 Annual General Meeting and replaced the CGU Deferred Bonus Plan. 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 2002, and also the matching awards granted on a "one for one" basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

Closed plans

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 award referred to in the above table is the remaining half of the award which vested in 2000 and which was transferred to the participant during the year.

The CGU Deferred Bonus Plan was approved by shareholders in 1999. Awards under this plan were granted to participants in lieu of some or all of the cash bonuses earned under the annual cash bonus plan. This plan, which operated in respect of bonuses awarded in 1999 and 2000, was replaced by the Aviva Deferred Bonus Plan referred to above. Awards vest on the third anniversary of their grant.

The CGNU Integration Incentive Plan relates to the merger of CGU and Norwich Union, and was approved by shareholders at the 2001 Annual General Meeting. The Plan had 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 parts of the plan were achieved. Details are as follows:

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 saving 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, which were awarded in September 2000, vested 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 became eligible to receive cash bonuses which were paid in March 2002. The amounts are included in "Salary and Bonuses" disclosed above on page 38.

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

Norwich Union 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, was paid in March 2002. Mr Snowball was 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 Aviva at the time of the merger. In respect of these directors, the Committee reserved the right to approve a discretionary cash payment and, in this regard, the Committee awarded a cash bonus to these directors based on a number of shares and the Company's share price on 8 March 2002. The cash bonuses were paid in March 2002 and are disclosed under "Salary and Bonuses" above on page 38.

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. The current limit is £1 million per annum as approved by shareholders at last year's Annual General Meeting. 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.

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 the 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, which takes into account the time commitment expended in preparing for and attending meetings as well as market practice. Other than the Chairman who receives a car allowance, non-executive directors receive no benefits in addition to their fees nor do they participate in any incentive or performance plans.

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

	2002 £'000	2001 £'000
Pehr Gyllenhammar	**297**	268
Guillermo de la Dehesa	**68**	57
Wim Dik	**38**	36
Sir Michael Partridge	**38**	36
George Paul	**160**	160
Derek Stevens	**63**	54
Dr Elizabeth Vallance	**38**	36
André Villeneuve	**38**	36

The fee disclosed for Pehr Gyllenhammar includes 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 the Chairman of the Board's Audit Committee and of the Aviva Staff Pension Scheme and that for Guillermo de la Dehesa includes a fee for acting as the non-executive chairman of the Group's operations in Spain. No non-executive director accrued retirement benefits during the year.

The aggregate amount of emoluments, paid to directors in 2002 was £6.6 million *(2001: £6.6 million)*.

Approved by the Board on 25 February 2003

George Paul
Chairman
Remuneration Committee

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 auditors' report to the members of Aviva plc

We have audited the Group's accounts for the year ended 31 December 2002 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 49. These accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual report, the Directors' remuneration 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 and the part of the Directors' remuneration report to be audited 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 whether the accounts and the part of the Directors' remuneration report to be audited have been 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 the unaudited part of the Directors' 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 and the part of the Directors' remuneration report to be audited. 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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

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 2002 and the effect of the movement in the provision during the year on the general business technical result and loss on ordinary activities before tax, are disclosed in accounting policy T and note 40 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 2002 and of the loss 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

25 February 2003

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") issued in December 1998. The accounting policies adopted reflect United Kingdom financial reporting standards and statements of standard accounting practice applicable at 31 December 2002, as considered appropriate for an insurance company. The 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 – 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. Unearned premiums 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.

C – Claims
General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

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 and a reduction for the expected value of salvage and other recoveries. 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. Provisions for certain claims 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 39(a).

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

D – 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.

E – 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.

F – 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.

G – 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.

H – 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.

In November 2000, the Accounting Standards Board issued Financial Reporting Standard ("FRS") 17 Retirement Benefits, the accounting provisions of which are not required to be adopted by the Group until 2005. However, the FRS requires certain disclosures to be made in the notes to the accounts, as shown in note 45(d).

I – Tax
The shareholder tax charge in the non-technical account is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves as appropriate. In the long-term business technical account, the charge is based on the method of assessing tax for long-term funds applicable in the relevant country of operation.

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

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and pattern of expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. This is a change in accounting policy, the effects of which are detailed in note 3(a) on pages 56 and 57.

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

J – 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 indications of 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 back through the profit and loss account when calculating the profit or loss on any disposal of the underlying investment.

K – 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 of the Group's financial position or results for the financial year.

L – 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 translated at the year end rates and included 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.

M – 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. In the Company balance sheet, subsidiary undertakings are stated at current value which, for this purpose, is net asset value.

N – Participating interests, associated undertakings and joint ventures
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 Group has also invested in a number of joint ventures, where its share of the underlying assets and liabilities may be greater than 50% but where the terms of the relevant agreements make it clear that control is not exercised. The appropriate proportion of the profit or loss on ordinary activities before tax of joint ventures and associated undertakings is shown separately in the non-technical account, except where these investments 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 joint ventures and associated undertakings is included in the consolidated balance sheet, with gross equity method disclosures for the former as required by FRS9 "Associates and joint ventures".

O – 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 through the profit and loss account 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 impairment 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 97. 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.

P – 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 38.

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.

Q – 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 on a straight-line basis, 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.

R – 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.

S – 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.

T – 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.

U – 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 long-term 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.

V – Share-based compensation
The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan ("SAYE plan"), details of which are given in the Directors' remuneration report on pages 35 to 42. Compensation costs for non-SAYE plans are based on the market price of the shares when purchased by an employee share trust, less any amounts paid or payable by employees in respect of the awards. These costs are charged to the profit and loss account over the periods during which the share awards or options are earned.

For the SAYE plan, shares are issued to a qualifying share ownership trust, with the excess of the market price subscribed at the date of transfer by the trust over the nominal value being recorded in the Company's share premium account. The difference between the market price at the date of transfer to the trust and the exercise price payable by employees is charged to the Company's profit and loss account or, in the consolidated group accounts, directly to the profit and loss account reserve.

Consolidated profit and loss account

Technical account – long-term business
For the year ended 31 December 2002

2002 €m		2002 £m	Restated 2001 £m
29,095	Gross premiums written – continuing operations (6a)	**18,330**	17,564
(725)	Outward reinsurance premiums	**(457)**	(335)
28,370	**Written and earned premiums, net of reinsurance** (B & 6a)	**17,873**	17,229
7,642	**Investment income** (F & 7a)	**4,815**	6,841
	Claims paid		
(19,890)	Gross amount	**(12,531)**	(10,332)
693	Reinsurers' share	**437**	270
(19,197)		**(12,094)**	(10,062)
	Change in the provision for claims		
360	Gross amount	**227**	(306)
13	Reinsurers' share	**8**	(28)
373		**235**	(334)
(18,824)	**Claims incurred, net of reinsurance** (C)	**(11,859)**	(10,396)
	Change in long-term business provision (P)		
(5,849)	Gross amount	**(3,685)**	(5,467)
2,408	Reinsurers' share	**1,517**	10
(3,441)		**(2,168)**	(5,457)
301	Change in technical provision for linked business, net of reinsurance (P)	**190**	(727)
(3,140)	**Changes in other technical provisions, net of reinsurance**	**(1,978)**	(6,184)
(3,271)	Net operating expenses (9)	**(2,061)**	(2,224)
(427)	Investment expenses and charges (7a)	**(270)**	(240)
(14,021)	Unrealised losses on investments (F & 7a)	**(8,833)**	(11,120)
(159)	Other technical charges (24a)	**(100)**	(49)
259	Tax attributable to long-term business (I & 14b)	**163**	641
94	Allocated investment return transferred from the non-technical account (F & 7b)	**59**	36
4,445	Transfers from the fund for future appropriations (S)	**2,801**	6,230
(13,080)	**Other income/(charges)**	**(8,241)**	(6,726)
968	**Balance on the long-term business technical account – continuing operations** (G)	**610**	764
968	**Balance on the long-term business technical account**	**610**	764
413	Tax credit attributable to balance on the long-term business technical account	**260**	353
1,381	**Profit from long-term business operations before tax**	**870**	1,117

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.

2002 €m		2002 £m	Restated 2001 £m
1,622	Long-term business operating profit before amortisation of acquired additional value of in-force long-term business and amortisation of goodwill on associated undertakings (4a)	**1,022**	1,194
(221)	Amortisation of acquired additional value of in-force long-term business (included within other technical charges)	**(139)**	(64)
(20)	Amortisation of goodwill on associated undertakings (7a & 21c)	**(13)**	(13)
1,381	**Profit from long-term business operations before tax**	**870**	1,117

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 2002

2002 €m		2002 £m	2001 £m
15,549	Gross premiums written – continuing operations (6a)	**9,796**	9,734
1,243	– discontinued operations (6a)	**783**	1,852
16,792	**Gross premiums written** (6b)	**10,579**	11,586
(1,832)	Outward reinsurance premiums	**(1,154)**	(1,209)
13,862	Net premiums written – continuing operations (6a)	**8,733**	8,691
1,098	– discontinued operations (6a)	**692**	1,686
14,960	**Net premiums written** (B)	**9,425**	10,377
	Change in the provision for unearned premiums		
(646)	Gross amount	**(407)**	57
272	Reinsurers' share	**171**	57
(374)		**(236)**	114
14,586	**Earned premiums, net of reinsurance**	**9,189**	10,491
1,876	**Allocated investment return transferred from the non-technical account** (F & 7b)	**1,182**	1,404
	Claims paid		
(11,470)	Gross amount	**(7,226)**	(9,195)
1,168	Reinsurers' share	**736**	1,123
(10,302)		**(6,490)**	(8,072)
	Change in the provision for claims		
529	Gross amount	**333**	(302)
(792)	Reinsurers' share	**(499)**	590
(263)		**(166)**	288
(10,565)	**Claims incurred, net of reinsurance** (C)	**(6,656)**	(7,784)
(3)	Changes in other technical provisions, net of reinsurance	**(2)**	1
(4,275)	Net operating expenses (9)	**(2,693)**	(3,149)
(4,278)	**Other charges**	**(2,695)**	(3,148)
(90)	Change in the equalisation provision (T & 40)	**(57)**	(56)
1,529	**Balance on the general business technical account**	**963**	907

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	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Operating profit						
General insurance – continuing operations (4a)	**(145)**	(223)	**1,026**	1,099	**881**	876
Health – continuing operations (4a)	**(24)**	(13)	**85**	83	**61**	70
	(169)	(236)	**1,111**	1,182	**942**	946
General insurance – discontinued operations (2 & 4a)	**7**	(174)	**71**	222	**78**	48
Profit before exceptional items	**(162)**	(410)	**1,182**	1,404	**1,020**	994
Financial Services Compensation Scheme levy					**–**	(31)
Change in the equalisation provision					**(57)**	(56)
Balance on the general business technical account					**963**	907

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 2002

2002 €m		2002 £m	Restated 2001 £m
968	Balance on long-term business technical account	**610**	764
413	Tax credit attributable to balance on the long-term business technical account (I)	**260**	353
1,381	**Profit from long-term business operations before tax**	**870**	1,117
1,529	**Balance on general business technical account**	**963**	907
	Investment income (F & 7a)		
25	Share of result of associated undertakings, net of goodwill amortisation	**16**	4
1,692	Other	**1,066**	1,730
1,717		**1,082**	1,734
(94)	Allocated investment return transferred to the long-term business technical account (F & 7b)	**(59)**	(36)
(770)	Investment expenses and charges (7a)	**(485)**	(511)
(1,614)	Unrealised losses on investments (7a)	**(1,017)**	(1,193)
(1,876)	Allocated investment return transferred to the general business technical account (F & 7b)	**(1,182)**	(1,404)
	Other income/(charges), including value adjustments		
8	Profit from fund management (4a)	**5**	29
(48)	Loss on wealth management	**(30)**	(99)
(135)	(Loss)/profit from other operations	**(85)**	3
	Other charges:		
(346)	– corporate costs (10)	**(218)**	(246)
(194)	– amortisation of goodwill (18)	**(122)**	(74)
(6)	Net (loss)/profit arising on the disposal of subsidiary undertakings (17c)	**(4)**	287
(721)		**(454)**	(100)
(448)	**(Loss)/profit on ordinary activities before tax**	**(282)**	514
(327)	**Tax on (loss)/profit on ordinary activities** (I & 14a)	**(206)**	(198)
(775)	**(Loss)/profit on ordinary activities after tax** (A)	**(488)**	316
(40)	Minorities – equity	**(25)**	(36)
(33)	– non-equity	**(21)**	(21)
(73)		**(46)**	(57)
(848)	**(Loss)/profit for the financial year**	**(534)**	259
(27)	Preference dividends	**(17)**	(17)
(875)	**(Loss)/profit for the financial year attributable to equity shareholders**	**(551)**	242
(824)	Ordinary dividends (15)	**(519)**	(857)
(1,699)	**Retained loss transferred from reserves** (34)	**(1,070)**	(615)

	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, in respect of:		
55.2c	– continuing operations (16a)	**34.8p**	40.8p
60.3c	– continuing and discontinued operations (16a)	**38.0p**	42.6p
(38.7)c	(Loss)/profit for the financial year (16a)	**(24.4)p**	10.8p
(38.7)c	(Loss)/profit for the financial year – diluted (16b)	**(24.4)p**	10.7p

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 tax

For the year ended 31 December 2002

2002 €m		2002 £m	Restated 2001 £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		
1,622	Modified statutory life profit (4a)	**1,022**	1,194
97	Health (4a)	**61**	70
8	Fund management (4a)	**5**	29
1,398	General insurance (4a)	**881**	876
(109)	Non-insurance operations	**(69)**	7
(346)	Corporate costs (10)	**(218)**	(187)
(689)	Unallocated interest charges (7a)	**(434)**	(426)
(48)	Wealth management	**(30)**	(99)
1,933	Total continuing operations	**1,218**	1,464
	Discontinued operations (4a)		
124	– Australia and New Zealand general insurance operations	**78**	69
–	– US general insurance operation	**–**	(21)
124		**78**	48
2,057		**1,296**	1,512
	Amortisation of goodwill		
(20)	– long-term business (7a & 21c)	**(13)**	(13)
(194)	– non-long-term business (18)	**(122)**	(74)
(214)		**(135)**	(87)
(221)	Amortisation of acquired additional value of in-force long-term business	**(139)**	(64)
–	Financial Services Compensation Scheme levy	**–**	(31)
–	Integration costs (10)	**–**	(59)
1,622	Operating profit 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 (4b)	**1,022**	1,271
	Short-term fluctuation in investment return		
(94)	– long-term business (7b)	**(59)**	(36)
(1,880)	– non-long-term business (7b)	**(1,184)**	(952)
(1,974)		**(1,243)**	(988)
(90)	Change in the equalisation provision (40)	**(57)**	(56)
(6)	Net (loss)/profit arising on the disposal of subsidiary undertakings (17c)	**(4)**	287
(448)	**(Loss)/profit on ordinary activities before tax**	**(282)**	514

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 2002

2002 €m		2002 £m	Restated 2001 £m
(848)	(Loss)/profit for the financial year	**(534)**	259
	Movement in internally-generated additional value		
(2,398)	of in-force long-term business* (34)	**(1,511)**	(761)
(800)	Foreign exchange gains/(losses) (U & 34)	**179**	(191)
(4,046)	**Total recognised gains and losses arising in the year**	**(1,866)**	(693)
(190)	Prior year adjustment (3a)	**(120)**	
(4,236)	**Total recognised gains and losses since last annual report**	**(1,986)**	

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

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 2002

2002 €m		2002 £m	Restated 2001 £m
	Balance at 1 January		
	As previously reported		13,633
	Prior year adjustment		(346)
19,265	As restated	**11,752**	13,287
(4,046)	Total recognised gains and losses arising in the year	**(1,866)**	(693)
(851)	Dividends	**(536)**	(874)
18	Increase in share capital (32c)	**11**	29
489	Goodwill written back and other movements (J & 34)	**308**	3
14,875	**Balance at 31 December**	**9,669**	11,752

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 2002

2002 €m	Assets	2002 £m	Restated 2001 £m
	Goodwill (J & 18)		
1,660	Positive goodwill	**1,079**	1,178
(60)	Negative goodwill	**(39)**	(37)
1,600		**1,040**	1,141
	Investments (K)		
14,486	Land and buildings (19)	**9,416**	9,041
	Investments in joint ventures (N & 20)		
1,911	Share of gross assets	**1,242**	–
(1,732)	Share of gross liabilities, including loans from Group undertakings	**(1,126)**	–
179		**116**	–
1,023	Loans to joint ventures	**665**	–
1,202		**781**	–
1,615	Investments in associated undertakings and participating interests (N & 21a)	**1,050**	1,077
178,701	Other financial investments (22a)	**116,156**	120,974
(3,229)	Less: Non-recourse funding (22a)	**(2,099)**	(1,149)
175,472		**114,057**	119,825
6,803	Additional value of in-force long-term business (O & 24a)	**4,422**	5,948
125	Deposits with ceding undertakings	**81**	208
199,703		**129,807**	136,099
45,443	**Assets held to cover linked liabilities** (25)	**29,538**	28,704
	Reinsurers' share of technical provisions		
795	Provision for unearned premiums (B)	**517**	397
4,471	Long-term business provision (P)	**2,906**	1,319
3,684	Claims outstanding (C)	**2,394**	3,167
518	Technical provision for linked liabilities (P & 25)	**337**	537
9,468		**6,154**	5,420
	Debtors		
4,922	Debtors arising out of direct insurance operations (26)	**3,199**	3,473
1,252	Debtors arising out of reinsurance operations	**814**	629
38	Loan to associated undertaking	**25**	32
9,122	Other debtors (27)	**5,929**	5,636
15,334		**9,967**	9,770
	Other assets		
454	Tangible assets (Q & 28)	**295**	307
4,907	Cash at bank and in hand	**3,190**	2,125
2	Own shares (29)	**1**	10
5,363		**3,486**	2,442
	Prepayments and accrued income		
2,254	Accrued interest and rent	**1,465**	1,432
4,129	Deferred acquisition costs (D & 30)	**2,684**	2,603
1,203	Other prepayments and accrued income	**782**	713
7,586		**4,931**	4,748
284,497	**Total assets**	**184,923**	188,324

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.

2002 €m	Liabilities	2002 £m	Restated 2001 £m
	Capital and reserves		
867	Ordinary share capital (32c)	**564**	564
308	Preference share capital (33a)	**200**	200
1,175	Called up share capital	**764**	764
1,683	Share premium account (32c)	**1,094**	1,083
5,896	Revaluation reserve (A & 34)	**3,832**	5,268
4,389	Merger reserve (34)	**2,853**	2,975
1,732	Profit and loss account (A & 34)	**1,126**	1,662
	Shareholders' funds:		
14,567	Equity	**9,469**	11,552
308	Non-equity	**200**	200
14,875		**9,669**	11,752
746	Minority interests – equity	**485**	393
397	– non-equity (42j)	**258**	258
1,143		**743**	651
16,018	**Total capital and reserves**	**10,412**	12,403
1,831	Subordinated debt (R & 36)	**1,190**	1,157
17,849	**Total capital, reserves and subordinated debt**	**11,602**	13,560
	Other liabilities		
5,763	**Fund for future appropriations** (S)	**3,745**	6,507
	Technical provisions		
6,830	Provision for unearned premiums (B)	**4,440**	4,679
167,132	Long-term business provision (P & 38)	**108,636**	102,955
18,248	Claims outstanding (C)	**11,861**	13,669
483	Equalisation provision (T & 40)	**314**	272
82	Other technical provisions	**53**	54
192,775		**125,304**	121,629
45,961	**Technical provision for linked liabilities** (P & 25)	**29,875**	29,241
1,271	**Provisions for other risks and charges** (41)	**826**	1,562
1,380	**Deposits received from reinsurers**	**897**	912
	Creditors		
2,246	Creditors arising out of direct insurance operations	**1,460**	1,119
1,543	Creditors arising out of reinsurance operations	**1,003**	1,494
–	Long-term business borrowings		
–	Debenture loans (R & 42b)	**–**	51
131	Amount due to credit institutions (42c)	**85**	–
–	General business and other borrowings		
663	Debenture loans (R & 42b)	**431**	785
277	Amounts due to credit institutions (42c)	**180**	191
2,235	Commercial paper (42d)	**1,453**	1,686
10,735	Other creditors including tax and social security (43)	**6,978**	8,567
42	Loans from associated undertakings	**27**	17
17,872		**11,617**	13,910
1,626	**Accruals and deferred income** (44)	**1,057**	1,003
266,648	**Total other liabilities**	**173,321**	174,764
284,497	**Total liabilities**	**184,923**	188,324

Approved by the Board on 25 February 2003

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 2002

	2002 £m	2001 £m
Operating activities		
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs (47a)*	**1,001**	697
Exceptional items and merger transaction costs paid*	**(523)**	(491)
	478	206
Dividends from joint ventures and associates		
Dividends from associates (21b)	**4**	4
Returns on investments and servicing of finance		
Interest paid on borrowings	**(136)**	(197)
Interest paid on subordinated debt	**(73)**	(10)
Preference dividends paid	**(21)**	(17)
Dividends paid to minorities	**(35)**	(22)
Net cash outflow from servicing of finance	**(265)**	(246)
Tax		
Corporation tax received/(paid)	**175**	(39)
Capital expenditure		
Purchases of tangible fixed assets	**(138)**	(131)
Sales of tangible fixed assets	**36**	17
Net purchases of tangible fixed assets	**(102)**	(114)
Acquisitions and disposals		
Net disposals of subsidiary and associated undertakings (47b)	**241**	853
Equity dividends		
Equity dividends paid	**(732)**	(856)
Financing activities		
Issue of share capital (47c)	**11**	29
Net (repayment)/drawdown of loans**	**(68)**	313
Proceeds from issue of subordinated debt (36)	**–**	1,157
Net cash (outflow)/inflow from financing activities	**(57)**	1,499
Net cash flows	**(258)**	1,307
Cash flows were invested as follows:		
Increase/(decrease) in cash holdings (47d)	**719**	(69)
Net portfolio investment		
Purchases of investments**	**9,815**	16,474
Sales of investments	**(10,562)**	(15,032)
Net (sales)/purchases of investments (47f)	**(747)**	1,442
Non-trading cash outflow to long-term business operations	**(230)**	(66)
Net investment of cash flows	**(258)**	1,307

The cash flows presented in this statement relate to non-long-term business transactions only. Long-term business profits are included as net cash inflow from operating activities only to the extent that they have been remitted to shareholders by way of dividends from life operations. The proceeds from the sale of our Australian and New Zealand general insurance businesses are excluded from the above cash flow statement as they are accounted for within debtors at 31 December 2002 and were received on 2 January 2003.

*Payments to the Berkshire Hathaway Group for reinsurance purchased in December 2000, to secure protection against any adverse impact on the run-off of London Market claims reserves, are now shown within exceptional items.

**The cash flows relating to mortgages securitised have been reclassified from net purchases of investments to drawdown of loans in 2001.

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 2002

	2002 £m	Restated 2001 £m
Fixed assets		
Shares in subsidiary undertakings (M & 17d)	**10,615**	13,579
Investment in joint venture (N and 20c)	**20**	–
	10,635	13,579
Current assets		
Amounts owed by subsidiary undertakings	**4,111**	3,467
Other assets	**146**	355
Own shares	**–**	10
	4,257	3,832
Creditors: Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**(1,745)**	(1,799)
Loans (42e)	**(1,433)**	(1,741)
Proposed ordinary dividend	**(322)**	(536)
Other creditors	**(61)**	(29)
Net current assets/(liabilities)	**696**	(273)
Total assets less current liabilities	**11,331**	13,306
Creditors: Amounts falling due after more than one year		
Loans (42e)	**(472)**	(397)
Subordinated notes (R & 36)	**(1,190)**	(1,157)
Net assets	**9,669**	11,752
Represented by:		
Capital and reserves		
Ordinary share capital (32)	**564**	564
Preference share capital (33)	**200**	200
Called up share capital	**764**	764
Share premium account (32c)	**1,094**	1,083
Revaluation reserve (35)	**115**	3,079
Merger reserve (35)	**227**	227
Profit and loss account: (35)		
Distributable	**1,734**	864
Non-distributable	**5,735**	5,735
	7,469	6,599
Shareholders' funds	**9,669**	11,752
Analysed between:		
Equity	**9,469**	11,552
Non-equity	**200**	200
	9,669	11,752

Approved by the Board on 25 February 2003

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.

Notes to the accounts

1 – Exchange rates
The euro rates employed in this report are an average rate of €1 = £0.63 *(2001: €1 = £0.62)* and a closing rate of €1 = £0.65 *(2001: €1 = £0.61)*.

2 – Discontinued operations
"Discontinued operations" disclosures in 2002 relate to the disposal of the general insurance businesses in Australia and New Zealand. The 2001 comparatives include both these businesses and the general insurance business in the United States, which was sold in that year. The results of all other operations are described as "Continuing operations".

The Group's consolidated profit and loss account incorporates the following financial information in respect of the Australia, New Zealand and US general insurance businesses:

Abridged statement of operating and investment gains

	Australia and New Zealand general insurance business		US general insurance business	
	2002 £m	2001 £m	2002 £m	2001 £m
Net premiums written	**692**	583	**–**	1,103
Change in the provision for unearned premiums	**(38)**	(24)	**–**	102
Earned premiums, net of reinsurance	**654**	559	**–**	1,205
Allocated investment return transferred from the non-technical account	**71**	70	**–**	152
Claims incurred, net of reinsurance	**(452)**	(389)	**–**	(978)
Other charges	**(195)**	(171)	**–**	(400)
Balance on the general business technical account				
Underwriting result	**7**	(1)	**–**	(173)
Longer term investment return	**71**	70	**–**	152
	78	69	**–**	(21)
Unallocated interest charges*	**–**	–	**–**	(21)
Operating profit/(loss)	**78**	69	**–**	(42)
Amortisation of goodwill	**(2)**	(1)	**–**	(1)
Short-term fluctuation in investment returns and other items	**(40)**	(6)	**–**	13
Profit/(loss) on ordinary activities before tax	**36**	62	**–**	(30)
Tax on profit/(loss) on ordinary activities	**(6)**	(12)	**–**	(93)
Profit/(loss) for the financial year	**30**	50	**–**	(123)
Retranslation to closing rate	**–**	–	**–**	(2)
Retained profit/(loss)	**30**	50	**–**	(125)

*Unallocated interest charges are eliminated on consolidation.

3 – Changes in accounting policy

(a) Provision for deferred tax
Financial Reporting Standard 19 ("FRS19") "Deferred Tax" was published by the Accounting Standards Board in December 2000, and replaced the existing Statement of Standard Accounting Practice ("SSAP15") on deferred tax. FRS19 is effective for the year ended 31 December 2002. The principal impact of the change from the accounting policy applied under SSAP15 is to provide additional deferred tax on unrealised appreciation or depreciation of investments. The additional deferred tax provision results in a reduction in the fund for future appropriations for with-profit life business and a reduction in profit and loss account reserve for general insurance business. In the case of non-profit life business, the establishment of an additional deferred tax provision has a neutral effect on shareholders' funds as the increase in deferred tax provision is offset by a corresponding decrease in the additional value of in-force long-term business. The Group has chosen to adopt the discounting option for its deferred tax balances, to reflect the time value of money.

The effects of implementing FRS19 are as follows:

(i) An incremental provision for deferred tax was established at 31 December 2001 of £945 million and has been accounted for as a prior year adjustment. This incremental provision has reduced to £112 million at 31 December 2002. The establishment of the incremental provision has resulted in the following at the respective balance sheet dates:

	2002 £m	2001 £m
With-profit business		
Reduction in fund for future appropriations	**53**	735
Non-profit business		
Increase in additional value of in-force business	**12**	90
General insurance business and other		
Reduction in shareholders' funds	**47**	120
Incremental deferred tax provision arising from the move from SSAP 15 to FRS 19	**112**	945

3 – Change in accounting policy continued

(ii) The implementation of FRS 19 has resulted in a decrease in loss after tax of £151 million *(2001: increase in profit after tax of £226 million)*.

(b) Presentation changes

The Group's long-term businesses include various service companies as well as the main operating companies. The results of the former were previously included in the long-term business technical account but are now shown as part of profit from other operations in the non-technical account. The loss reclassified in 2002 is £54 million *(2001: profit of £9 million)*.

4 – Geographical segmental information

The Group's reportable business segments are long-term business, health business, fund management and general insurance business. The main geographical segments are the United Kingdom, Europe (excluding the United Kingdom) and International.

(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 and amortisation of goodwill on associates

	2002 £m	2001 £m
United Kingdom*	**626**	689
Europe (excluding UK)		
France	**142**	160
Ireland	**36**	49
Italy	**24**	26
Netherlands (including Belgium and Luxembourg)	**111**	214
Poland	**66**	46
Spain	**27**	36
Other Europe	**(19)**	(21)
International	**9**	(5)
	1,022	1,194

*The other life and savings result has been reclassified to non-insurance (note 3(b)).

(ii) Operating profit in respect of health business

	Underwriting result		Operating result	
	2002 £m	2001 £m	2002 £m	2001 £m
United Kingdom	**5**	4	**9**	8
Europe (excluding UK)				
France	**(2)**	(2)	**10**	9
Netherlands	**(27)**	(15)	**42**	53
	(24)	(13)	**61**	70

(iii) Operating profit in respect of fund management

	Operating result	
	2002 £m	2001 £m
United Kingdom	**(12)**	(4)
Europe (excluding UK)		
France	**11**	12
Netherlands	**4**	8
Other Europe	**2**	2
International		
Australia and New Zealand	**(1)**	7
Other International	**1**	4
	5	29

4 – Geographical segmental information continued

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

	Underwriting result 2002 £m	Underwriting result 2001 £m	Operating result 2002 £m	Operating result 2001 £m
United Kingdom	**(52)**	(81)	**611**	590
Europe (excluding UK)				
France	**(14)**	(33)	**47**	58
Ireland	**(15)**	(7)	**44**	48
Netherlands	**(21)**	(14)	**13**	19
Other Europe	**(10)**	(25)	**49**	41
International				
Canada	**(28)**	(56)	**80**	72
Other International	**(5)**	(7)	**37**	48
Continuing operations	**(145)**	(223)	**881**	876
Discontinued operations:				
Australia and New Zealand	**7**	(1)	**78**	69
United States	**–**	(173)	**–**	(21)
	7	(174)	**78**	48
	(138)	(397)	**959**	924

(b) Operating profit before tax

	2002 £m	2001 £m
United Kingdom	**1,072**	1,015
Europe (excluding UK)	**415**	710
International	**109**	111
Continuing operations	**1,596**	1,836
Discontinued operations	**78**	48
Corporate costs (10)	**(218)**	(187)
Unallocated interest charges	**(434)**	(426)
Operating profit	**1,022**	1,271

(c) Net assets by business and geographical segment

	Long-term business 2002 £m	Long-term business Restated 2001 £m	General insurance and health business 2002 £m	General insurance and health business Restated 2001 £m	Total 2002 £m	Total Restated 2001 £m
United Kingdom	**2,650**	2,697	**2,052**	2,043	**4,702**	4,740
Europe (excluding UK)	**2,923**	2,301	**1,055**	1,525	**3,978**	3,826
International	**384**	361	**810**	992	**1,194**	1,353
	5,957	5,359	**3,917**	4,560	**9,874**	9,919
Other business					**554**	324
Additional value of in-force long-term business					**4,422**	5,948
Corporate and other holding company assets					**2,476**	2,947
					17,326	19,138
External borrowings					**(2,053)**	(2,651)
Internal borrowings					**(3,671)**	(3,284)
Subordinated debt					**(1,190)**	(1,157)
Discontinued operations					**–**	357
Total					**10,412**	12,403

4 – Geographical segmental information continued

(d) Net assets by principal currency

	2002 £m	Restated 2001 £m
Sterling	**3,007**	3,251
Euro	**5,445**	6,918
Canadian dollar	**532**	588
United States dollar	**243**	451
Other	**1,185**	1,195
Total	**10,412**	12,403

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

5 – New long-term savings business premiums
The analysis of new life and savings business premiums written is:

	New business – single premiums		New business – regular premiums		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Life and pensions:						
United Kingdom – Group companies	**6,066**	6,434	**591**	591	**6,657**	7,025
– associates*	**171**	228	**16**	12	**187**	240
	6,237	6,662	**607**	603	**6,844**	7,265
Europe (excluding UK)						
France	**1,814**	1,961	**42**	37	**1,856**	1,998
Ireland	**267**	468	**76**	55	**343**	523
Italy	**1,089**	924	**44**	34	**1,133**	958
Netherlands (including Belgium and Luxembourg)	**709**	674	**87**	103	**796**	777
Poland – life	**22**	17	**24**	34	**46**	51
– pensions	**9**	2	**21**	24	**30**	26
Spain	**1,244**	885	**65**	47	**1,309**	932
Other Europe	**240**	188	**69**	72	**309**	260
International	**863**	619	**89**	70	**952**	689
Total life and pensions (including share of associates)	**12,494**	12,400	**1,124**	1,079	**13,618**	13,479
Investment sales:						
United Kingdom	**543**	808	**13**	8	**556**	816
Europe (excluding UK)						
Netherlands	**119**	85	**–**	–	**119**	85
Other Europe	**86**	227	**–**	–	**86**	227
International	**267**	347	**–**	–	**267**	347
Total investment sales	**1,015**	1,467	**13**	8	**1,028**	1,475
Total long-term savings (including share of associates)	**13,509**	13,867	**1,137**	1,087	**14,646**	14,954

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

In addition to the amounts included above, Navigator, our Australian funds administration business, recorded sales of £797 million for the 12 months to 31 December 2002 *(2001: £930 million).*

6 – Premiums written and sales of investment products

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

	Premiums before reinsurance 2002 £m	Premiums before reinsurance 2001 £m	Premiums after reinsurance 2002 £m	Premiums after reinsurance 2001 £m
Long-term business premiums (ii)	**18,645**	17,939	**18,172**	17,590
Sales of investment products (5)	**1,028**	1,475	**1,028**	1,475
Health premiums (iii)	**931**	842	**928**	841
General insurance business premiums (iv)	**8,865**	8,892	**7,805**	7,850
	9,796	9,734	**8,733**	8,691
Total premiums written and investment sales – continuing operations	**29,469**	29,148	**27,933**	27,756
General insurance business premiums – discontinued operations (v)	**783**	1,852	**692**	1,686
	30,252	31,000	**28,625**	29,442

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

	Premiums before reinsurance 2002 £m	Premiums before reinsurance 2001 £m	Premiums after reinsurance 2002 £m	Premiums after reinsurance 2001 £m
United Kingdom	**9,379**	9,448	**9,099**	9,274
Europe (excluding UK)				
France	**2,131**	2,234	**2,081**	2,185
Ireland	**486**	676	**469**	658
Italy	**1,402**	1,126	**1,382**	1,116
Netherlands (including Belgium and Luxembourg)	**1,311**	1,356	**1,300**	1,290
Poland	**732**	729	**730**	728
Spain	**1,502**	1,043	**1,489**	1,034
Other Europe	**605**	494	**548**	492
International	**1,097**	833	**1,074**	813
Total long-term business premiums, including share of associates	**18,645**	17,939	**18,172**	17,590
Less: share of associates' premiums (UK)*	**(315)**	(375)	**(299)**	(361)
Total Group long-term business premiums	**18,330**	17,564	**17,873**	17,229

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

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

	Premiums before reinsurance 2002 £m	Premiums before reinsurance 2001 £m	Premiums after reinsurance 2002 £m	Premiums after reinsurance 2001 £m
United Kingdom	**264**	242	**264**	242
Europe (excluding UK)				
France	**107**	100	**107**	100
Netherlands	**560**	500	**557**	499
Total health premiums	**931**	842	**928**	841

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

	Premiums before reinsurance 2002 £m	Premiums before reinsurance 2001 £m	Premiums after reinsurance 2002 £m	Premiums after reinsurance 2001 £m
United Kingdom	**5,461**	5,256	**4,740**	4,777
Europe (excluding UK)				
France	**544**	793	**478**	700
Ireland	**594**	525	**377**	456
Netherlands	**444**	408	**412**	387
Other Europe	**489**	591	**408**	499
International				
Canada	**1,082**	1,013	**1,009**	878
Other International	**251**	306	**381**	153
Total general insurance business premiums (excluding health)	**8,865**	8,892	**7,805**	7,850

6 – Premiums written and sales of investment products continued

(v) General insurance business premium income by geographical origin – discontinued operations

	Premiums before reinsurance 2002 £m	Premiums before reinsurance 2001 £m	Premiums after reinsurance 2002 £m	Premiums after reinsurance 2001 £m
Australia and New Zealand	**783**	665	**692**	583
United States	**–**	1,187	**–**	1,103
Total discontinued operations	**783**	1,852	**692**	1,686

(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:

	2002 £m	2001 £m
Property	**2,870**	2,854
Motor	**3,710**	3,930
Liability	**635**	538
Creditor	**688**	700
Other	**962**	870
General business premiums excluding health – continuing operations	**8,865**	8,892
Discontinued operations	**783**	1,852
General business premiums excluding health	**9,648**	10,744
Health	**931**	842
Total general business premiums	**10,579**	11,586

7 – Analysis of investment return

(a) The total investment return before tax comprises:

	Long-term business 2002 £m	Long-term business Restated 2001 £m	Non-long-term business 2002 £m	Non-long-term business 2001 £m
Share of result of joint ventures (20b)	**29**	–	**–**	–
Share of result of associated undertakings	**27**	10	**16**	4
Amortisation of goodwill on associated undertakings (21c)	**(13)**	(13)	**–**	–
	14	(3)	**16**	4
Income from land and buildings	**599**	521	**41**	45
Income from other investments	**5,618**	5,648	**918**	1,113
Realised investment (losses)/gains	**(1,445)**	675	**107**	572
Investment income	**4,815**	6,841	**1,082**	1,734
Expenses and charges, including allocated interest charges	**(270)**	(240)	**(51)**	(85)
Unallocated interest charges:				
External – subordinated debt	**–**	–	**(73)**	(10)
– other borrowings	**–**	–	**(133)**	(169)
Intra-group	**–**	–	**(228)**	(247)
	–	–	**(434)**	(426)
	(270)	(240)	**(485)**	(511)
Investment return before unrealised losses	**4,545**	6,601	**597**	1,223
Unrealised investment losses	**(8,833)**	(11,120)	**(1,017)**	(1,193)
Total investment return before tax	**(4,288)**	(4,519)	**(420)**	30

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 £1,182 million *(2001: £1,404 million)* and £59 million *(2001: £36 million)* respectively.

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

	Shareholders' interest in long-term business		Non-long-term business	
	2002 £m	2001 £m	2002 £m	2001 £m
Total investment return before tax	**28**	76	**(420)**	30
Less: share of result of associated undertakings	**–**	–	**(16)**	(4)
Add: unallocated interest charges	**–**	–	**434**	426
	28	76	**(2)**	452
Longer term investment return	**87**	112	**1,182**	1,404
Short-term fluctuation in investment return	**(59)**	(36)	**(1,184)**	(952)
	28	76	**(2)**	452

(iii) The longer term investment 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	
	2002 %	2001 %	2002 %	2001 %
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
Canada	**9.3**	9.3	**7.3**	7.3

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

	1998-2002 £m	1997-2001 £m
Actual return attributable to shareholders:		
Long-term business*	**581**	718
Non-long-term business	**6,692**	9,453
	7,273	10,171
Longer term return credited to operating results:		
Long-term business*	**626**	678
Non-long-term business	**7,587**	8,120
	8,213	8,798
(Shortfall)/excess of actual returns over longer term returns	**(940)**	1,373

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

(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 profit before tax	£40m
Properties	1% higher/lower	Group operating profit before tax	£13m

8 – Long-term business bonuses

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

	2002 £m	2001 £m
Bonuses allocated in anticipation of a bonus declaration, included in claims paid	**508**	826
Reversionary and similar policyholder bonuses, included in the movement in the long-term business provision	**2,346**	3,117
	2,854	3,943

Policyholder bonuses in the table above now include amounts for the Group's Dutch and French businesses in 2001 and 2002.

9 – Net operating expenses

Net operating expenses in the technical accounts comprise:

	Long-term business		General business	
	2002 £m	Restated 2001 £m	2002 £m	2001 £m
Acquisition costs	**1,494**	1,609	**2,379**	2,644
Changes in deferred acquisition costs	**(144)**	(42)	**(30)**	28
Administrative expenses – Financial Services Compensation Scheme levy	**–**	–	**–**	31
– other	**737**	701	**483**	590
	2,087	2,268	**2,832**	3,293
Reinsurance commissions receivable	**(26)**	(44)	**(139)**	(144)
	2,061	2,224	**2,693**	3,149

10 – Corporate costs and integration costs

	2002 £m	2001 £m
Group-wide staff profit share and other incentive plans	**86**	78
Global finance improvement programme	**26**	6
Other corporate costs	**106**	103
	218	187
Merger integration incentive plans	**–**	49
Costs of integrating acquired undertakings	**–**	10
	218	246

Integration costs in 2001 included £49 million in respect of integration incentive plans relating to the integration of the former CGU and Norwich Union businesses, which were payable to staff of certain business units and to senior management and were conditional upon the performance of the Group against predefined targets. A charge of £10 million was also included in 2001 relating to the costs of integrating the acquired businesses of Fortis Australia Limited and Aviva Limited (formerly known as The Insurance Corporation of Singapore). The tax impact of these charges was a credit of £8 million.

11 – Employee information

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

	2002 Number	2001 Number
United Kingdom	**36,298**	36,091
Europe (excluding UK)	**18,555**	18,520
International	**9,709**	13,496
	64,562	68,107

The analysis of total staff costs was:

	2002 £m	2001 £m
Wages and salaries	**1,433**	1,794
Social security costs	**194**	208
Pension costs	**117**	89
	1,744	2,091

12 – Directors
Information concerning individual directors' emoluments, interests and transactions is given on pages 38 to 42.

13 – Auditor's remuneration
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 auditor of the parent company and its associated firms in respect of other work.

	2002 £m	2001 £m
Auditing these financial statements	**4.6**	3.9
Other audit work	**4.2**	2.9
	8.8	6.8
Other work – United Kingdom	**5.1**	6.1
– Overseas	**1.5**	1.8
	6.6	7.9
	15.4	14.7

The auditor's remuneration in respect of the parent company was £11,000 *(2001: £10,000)*.

Fees for other work comprised:

	2002 £m	2001 £m
Accounting and tax advice	**0.6**	1.7
Assurance services	**3.4**	4.2
Due diligence	**1.6**	0.7
Other	**1.0**	1.3
	6.6	7.9

Of the £8.8 million *(2001: £6.8 million)* of audit fees, £7.3 million *(2001: £5.4 million)* was paid to Ernst & Young and £1.5 million *(2001: £1.4 million)* was paid to other firms. Fees for other work of £6.6 million *(2001: £7.9 million)* relate to amounts payable to Ernst & Young only.

14 – Tax

(a) Tax on (loss)/profit on ordinary activities
Tax charged /(credited) in the non-technical account comprises:

	2002 £m	Restated 2001 £m
Current tax:		
UK corporation tax	**15**	22
Overseas tax	**89**	87
Prior year adjustments		
United Kingdom	**4**	4
Overseas	**(6)**	(5)
	(2)	(1)
Tax attributable to balance on long-term business technical account	**260**	353
Total current tax	**362**	461
Deferred tax:		
Origination and reversal of timing differences	**(177)**	(268)
Changes in tax rates or law	**(5)**	–
Decrease in discount	**26**	5
Total deferred tax	**(156)**	(263)
Total tax charged in the non-technical account	**206**	198

The total tax charged in the non-technical account relates to the following:		
Parent company and subsidiary undertakings	**197**	198
Associated undertakings	**9**	–
Total tax charged in the non-technical account	**206**	198

14 – Tax continued

(b) Long-term business

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

	2002 £m	Restated 2001 £m
Current tax		
UK corporation tax	**382**	125
Overseas tax	**77**	91
Prior year adjustments		
United Kingdom	**7**	(30)
Overseas	**(4)**	1
	3	(29)
	462	187
Deferred tax		
Origination and reversal of timing differences	**(676)**	(935)
Decrease in discount	**51**	107
	(625)	(828)
Total tax credited in the long-term business technical account	**(163)**	(641)

The total tax (credited)/charged in the long-term business technical account relates to the following:		
Parent company and subsidiary undertakings	**(171)**	(641)
Associated undertakings	**8**	–
Total tax credited in the long-term business technical account	**(163)**	(641)

(c) Factors affecting current tax charge for the year

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

	Non-long-term business	
	2002 £m	Restated 2001 £m
(Loss)/profit on ordinary activities before tax	**(282)**	514
Current tax (credit)/charge at standard UK corporation tax rate of 30% *(2001: 30%)*	**(85)**	154
Adjustment to tax charge in respect of prior years	**(2)**	(1)
Non-assessable dividends	**(9)**	(16)
Non-taxable loss/(profit) on the sale of subsidiaries and associates	**58**	(57)
Non-taxable amortisation of goodwill	**21**	28
Other disallowable expenses	**20**	26
Utilisation of brought forward tax losses	**–**	(36)
Different local basis of tax on overseas profits	**51**	55
Deferred tax credit arising from movement in unrealised gains and losses	**154**	248
Other deferred tax movements	**23**	20
Deferred tax assets not recognised	**96**	23
Other items	**35**	17
Current tax charge for the year (note 14(a))	**362**	461

(d) Factors that may affect future tax charges

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

	Long-term business		Non-long-term business	
	2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Unrealised losses on investments	**–**	9	**29**	–
Provisions and other timing differences	**165**	100	**90**	84
Losses	**50**	69	**17**	48
	215	178	**136**	132

The deferred tax assets above are principally in respect of corporate entities which are more likely than not to generate tax losses in the future. The assets would be recoverable in the event that these entities generate taxable profits.

In addition, the Group has capital losses which may be available to offset future capital gains.

14 – Tax continued

(e) Balance sheet

(i) The discounted net (asset)/provision for deferred tax, comprises:

	Long-term business		Non-long-term business	
	2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Unrealised gains on investments	**214**	1,058	**48**	299
Deferred acquisition costs	**203**	179	**–**	–
Provisions and other timing differences	**62**	(63)	**37**	19
Losses	**(3)**	–	**(146)**	(180)
Undiscounted net (asset)/provision for deferred tax	**476**	1,174	**(61)**	138
Discount	**(94)**	(145)	**(78)**	(104)
Discounted net (asset)/provision for deferred tax	**382**	1,029	**(139)**	34

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

	Long-term business		Non-long-term business	
	2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Net (asset)/provision at 1 January	**1,029**	1,868	**34**	299
Amounts credited to the profit and loss account	**(625)**	(828)	**(156)**	(263)
Other items	**(22)**	(11)	**(17)**	(2)
Net (asset)/provision at 31 December	**382**	1,029	**(139)**	34

(iii) The net (asset)/provision for deferred tax is disclosed in the accounts as follows:

	Long-term business		Non-long-term business	
	2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Amount included in provisions for other risks and charges (note 41)	**407**	1,120	**58**	189
Amount included in other debtors (note 27)	**(25)**	(91)	**(197)**	(155)
Net (asset)/provision at 31 December	**382**	1,029	**(139)**	34

(iv) Deferred tax assets arise in certain overseas subsidiaries in respect of tax timing differences. The subsidiaries are expected to generate sufficient future taxable profits to use the assets created.

15 – Ordinary dividends

Ordinary dividends in the profit and loss account comprise:

	2002 £m	2001 £m
Interim – 8.75 pence *(2001: 14.25 pence)* paid on 15 November 2002	**197**	321
Final – 14.25 pence *(2001: 23.75 pence)* payable on 16 May 2003	**322**	536
	519	857

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 25 February 2003.

16 – Earnings per share

(a) Basic earnings per share

	2002			Restated 2001		
	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 before amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items:						
– continuing operations	**1,218**	**784**	**34.8**	1,464	919	40.8
– discontinued operations	**78**	**72**	**3.2**	48	40	1.8
	1,296	**856**	**38.0**	1,512	959	42.6
Adjusted for the following items:						
Amortisation of goodwill	**(135)**	**(135)**	**(6.0)**	(87)	(87)	(3.9)
Amortisation of acquired additional value of in-force long-term business	**(139)**	**(100)**	**(4.4)**	(64)	(49)	(2.2)
Financial Services Compensation Scheme levy	**–**	**–**	**–**	(31)	(22)	(1.0)
Integration costs	**–**	**–**	**–**	(59)	(51)	(2.3)
Short-term fluctuation in investment return	**(1,243)**	**(1,071)**	**(47.5)**	(988)	(754)	(33.4)
Change in the equalisation provision	**(57)**	**(40)**	**(1.8)**	(56)	(39)	(1.7)
Net (loss)/profit arising on the disposal of subsidiary undertakings	**(4)**	**(61)**	**(2.7)**	287	285	12.7
(Loss)/profit attributable to equity shareholders	**(282)**	**(551)**	**(24.4)**	514	242	10.8

Earnings per share has been calculated based on the 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 for continuing operations and for total operations, as well as on the profit attributable to equity shareholders. The directors believe the former two earnings per share figures provide a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,254 million *(2001: 2,250 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 2002 was 2,257 million *(2001: 2,255 million)*.

(b) Diluted earnings per share

	2002			Restated 2001		
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
(Loss)/profit attributable to equity shareholders	**(551)**	**2,254**	**(24.4)**	242	2,250	10.8
Dilutive effect of share awards and options	**–**	**4**	**–**	–	4	(0.1)
Diluted earnings per share	**(551)**	**2,258**	**(24.4)**	242	2,254	10.7

17 – Subsidiary undertakings

(a) Acquisitions

During the year ended 31 December 2002, the Group acquired the following companies:

	Country of incorporation	Percentage acquired	Month of acquisition
Dao Heng Assurance Limited	Hong Kong	100%	May 2002
DBS Kwong On Insurance Company Limited	Hong Kong	100%	May 2002
Caja de Granada Vida	Spain	50%	October 2002

On 31 May 2002, the Group extended its bancassurance partnership with DBS Group Holdings Limited (DBS) and acquired 100% of the issued equity share capital of Dao Heng Assurance and DBS Kwong On Insurance (together DBS Hong Kong), DBS's life and general subsidiary in Hong Kong. Total cash consideration was £31 million and net assets on acquisition of DBS Hong Kong were £16 million, giving rise to goodwill of £15 million. Further amounts may be payable depending on the achievement of performance targets by DBS Hong Kong.

In October 2002, the Group entered into a new bancassurance partnership with the Spanish savings bank, Caja de Granada. As part of this transaction, Unicorp Vida, the life and pensions business owned equally by Aviva and Unicaja, and of which Aviva has management control, acquired 50% of the issued equity share capital and management control of Caja de Granada's life and pensions agency, Caja de Granada Vida. The Group's share of the initial cash consideration paid by Unicorp Vida was £24 million including transaction costs with further amounts payable if Caja de Granada Vida achieves certain performance targets. The Group's share of Caja de Granada Vida's net assets at the date of acquisition amounted to £1 million, giving rise to goodwill of £23 million.

17 – Subsidiary undertakings continued

(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 and fair value £m
Assets	
Total investments	**18**
Other assets	**–**
Total assets	**18**
Liabilities	
Technical provisions including linked liabilities	**1**
Other creditors and provisions	**–**
Total liabilities	**1**
Total shareholders' funds	**17**
Less: Minority interests	**–**
Shareholders' funds acquired	**17**
Goodwill arising on acquisition	**38**
Total consideration	**55**
The total consideration comprised:	
Cash (including contingent cash amounts)	**55**
	55

No individual acquisition was material enough to require separate disclosure.

In addition to the goodwill arising on the acquisitions of these subsidiary undertakings, the Group acquired a further 30% of the share capital of Eurovita Italcasse Assicurazioni S.p.A. (Eurovita), a 50.96% subsidiary of the Group, for a cash consideration of £21 million. The consideration is equivalent to the increase in the Group's share of net assets and there is no additional goodwill arising. The Group now owns 80.96% of this subsidiary. The Group also made a number of smaller acquisitions in continental Europe. These gave rise to an additional amount of £38 million goodwill. Total positive goodwill arising in the year was £76 million (note 18).

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

	2002 £m	2001 £m
Long-term savings businesses:		
Canada	**–**	(5)
General insurance businesses:		
UK (see (i) below)	**(20)**	–
France (see (ii) below)	**6**	–
New Zealand - State Insurance	**–**	52
Australia and New Zealand (see (v) below)	**(66)**	–
United States	**–**	125
Belgium	**–**	46
Spain (see (iv) below)	**94**	–
Other businesses:		
France (see (iii) below)	**1**	–
UK	**–**	70
Other small operations	**(19)**	(1)
	(4)	287

(i) In January 2002, the Group completed the disposal of its wholly-owned subsidiary, Sabre Insurance Company Limited, for a total consideration of £14 million. The net assets disposed of amounted to £24 million and the loss on disposal, after transaction costs and the inclusion of £10 million of goodwill previously written off to reserves, was £20 million.

(ii) In May 2002, the Group completed the disposal of its wholly-owned subsidiary CGU Courtage SA, for a total consideration of £189 million. The net assets disposed of amounted to £137 million and the profit on disposal, after transaction costs, warranties and indemnities was £6 million.

(iii) In May 2002, the Group completed the disposal of its wholly-owned subsidiary, Royal Saint Georges Banque, for a total consideration of £16 million. The net assets disposed of amounted to £15 million and the profit on disposal, after transaction costs, was £1 million.

17 – Subsidiary undertakings continued

(iv) In July 2002, the Group completed the disposal of its wholly-owned subsidiary, Plus Ultra Compania Anonima de Seguros y Reaseguros, for a total cash consideration of £152 million. Net assets at the date of disposal amounted to £52 million and the profit on disposal, after transaction costs, was £94 million.

(v) In October 2002, the Group entered into a binding agreement to dispose of its Australian and New Zealand general insurance businesses which became unconditional on 24 December 2002. Under the terms of the agreement, the Group sold its wholly-owned subsidiaries CGU Australia Limited and Belves Investments Limited, which are the holding companies for all of Aviva's general insurance businesses in Australia and New Zealand, for a total cash consideration of £651 million including a pre-completion dividend of £106 million. At the date of disposal, the combined businesses had total net assets of £293 million, including the value of acquired goodwill. The loss on disposal, after writing back goodwill of £300 million previously written off to reserves and after deducting associated costs of sale, was £66 million.

In calculating the £86 million loss on the disposal of Sabre Insurance Company Limited, CGU Australia Limited and Belves Investments Limited, £310 million of goodwill previously written off to reserves has been brought back into account, as required by FRS10 "Goodwill and Intangible Assets". The same goodwill amount is also credited directly to the profit and loss account reserve and therefore has a neutral effect on shareholders' funds.

(d) The Company's subsidiary undertakings

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

	2002 £m	Restated 2001 £m
Net asset value		
At 1 January	**13,579**	13,309
Additions	**–**	1,238
Movement in net asset value	**(2,964)**	(968)
At 31 December	**10,615**	13,579

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 £115 million *(2001: £3,079 million, restated)* has been credited to the Company's revaluation reserve (see note 35). 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.

(e) Principal subsidiary undertakings at 31 December 2002 are listed on page 99.

18 – Goodwill

The carrying value of goodwill comprises:

	Positive goodwill £m	Negative goodwill £m	Total 2002 £m	Total 2001 £m
Cost:				
At 1 January	**1,382**	**(42)**	**1,340**	881
Additions (17b)	**76**	**–**	**76**	496
Disposals	**(67)**	**–**	**(67)**	(37)
Foreign exchange rate movements	**(1)**	**(6)**	**(7)**	–
At 31 December	**1,390**	**(48)**	**1,342**	1,340
Amortisation:				
At 1 January	**204**	**(5)**	**199**	134
Charge in the year	**125**	**(3)**	**122**	74
Disposals	**(19)**	**–**	**(19)**	(8)
Foreign exchange rate movements	**1**	**(1)**	**–**	(1)
At 31 December	**311**	**(9)**	**302**	199
Carrying value at 31 December	**1,079**	**(39)**	**1,040**	1,141

Positive and negative 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 J on page 45, goodwill arising in 1997 and prior years was charged directly to reserves.

19 – Land and buildings
The carrying value of land and buildings comprises:

	Long-term business		Non-long-term business		Group	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Freeholds	**7,027**	6,276	**599**	759	**7,626**	7,035
Long leaseholds – over 50 years	**1,692**	1,877	**12**	22	**1,704**	1,899
Short leaseholds – under 50 years	**29**	31	**57**	76	**86**	107
	8,748	8,184	**668**	857	**9,416**	9,041

The cost of land and buildings at 31 December 2002 was £7,741 million *(2001: £7,211 million).* The carrying value of land and buildings occupied by the Group for its own activities was £355 million *(2001: £554 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.

20 – Investments in joint ventures

(a) As part of their investment strategy, the UK long-term business policyholder funds have invested in a number of property limited partnerships ("PLPs") during the year, through a mix of capital and loans. The PLPs are managed by general partners ("GPs"), in which the UK long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs.

Most of the PLPs have raised external debt, secured on their respective property portfolios. The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any company of the Aviva Group.

Accounting for the PLPs as subsidiary undertakings, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms in each partnership agreement. Where the Group exerts control over a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by a contractual agreement such that no one party exerts control, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant GP) may be greater than 50%, such PLPs have been accounted for as joint ventures. Here, the Group's share of the respective PLPs' gross assets and gross liabilities are shown on the face of the consolidated balance sheet, in accordance with the requirements of FRS9 "Associates and joint ventures". Where the Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are included in other financial investments at their market value.

In addition to the PLPs described above, the Group has invested in a joint venture life assurance company in China which had not commenced operations at 31 December 2002. Details of the principal joint ventures are given in section (c) below.

(b) Movements in the Group's investments in joint ventures comprise:

	Long-term business	
	2002 £m	2001 £m
Share of result for the year after tax	**29**	–
Unrealised investment gains after tax	**72**	–
Dividends received	**(27)**	–
Additions	**707**	–
Movements in investments in joint ventures	**781**	–
Balance at 1 January	**–**	–
Balance at 31 December	**781**	–

(c) The principal joint ventures included above are as follows:

(i) Property management undertakings

Company	GP proportion held	PLP proportion held
Ashtenne Industrial Partnership	66.7%	57.6%
Bishopsbridge Limited Partnership	50%	50%
The Junction Limited Partnership	50%	50.7%
The Mall Limited Partnership	50%	50%
Quercus Property Partnership Limited	50%	80%

All the above undertakings perform property ownership and management activities, and are incorporated and operate in Great Britain. All these investments are held by subsidiary undertakings.

(ii) Other
The Group also has a 50% holding in AVIVA-COFCO Life Insurance Company Limited, a life assurance company incorporated and operating in China. These shares are held by the Company, with a cost of £20 million and share of net assets of £20 million.

21 – Investments in associated 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 2002 £m	Long-term business £m	Non-long-term business £m	Total 2001 £m
Investments in associated undertakings (21b)	**727**	**240**	**967**	752	257	1,009
Other participating interests	**36**	**47**	**83**	43	25	68
	763	**287**	**1,050**	795	282	1,077

The cost of the above investments was £915 million and £44 million respectively *(2001: £902 million and £76 million respectively).*

None of the other participating interests are 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 2002 £m
Share of result for the year after tax	**19**	**7**	**26**
Foreign exchange rate movements	**8**	**10**	**18**
Realised investment gains after tax	**–**	**2**	**2**
Unrealised investment losses after tax	**(15)**	**(17)**	**(32)**
Dividends received	**–**	**(4)**	**(4)**
Additions	**–**	**13**	**13**
Amortisation of goodwill on associated undertakings (7a)	**(13)**	**–**	**(13)**
Reclassification to subsidiary undertakings	**(24)**	**(28)**	**(52)**
Movements in investments in associated undertakings	**(25)**	**(17)**	**(42)**
Balance at 1 January			
Goodwill (21c)	**244**	**–**	**244**
Share of net assets	**508**	**257**	**765**
	752	**257**	**1,009**
Balance at 31 December			
Goodwill (21c)	**231**	**–**	**231**
Share of net assets	**496**	**240**	**736**
	727	**240**	**967**

Additions in the table above include an investment in a new associate, ProCapital SA in France. The Group also increased its shareholding in its French associate, Sofragi, to 56.4% and that company has therefore been reclassified as a subsidiary.

(ii) The principal associated undertakings included above are:

Company	Class of share	Proportion held	Country of incorporation and operation
Global Aerospace Underwriting Managers Limited	Ordinary £1 shares	50.0%	Great Britain
Norwich Winterthur Holdings Limited	Ordinary £1 shares	48.5%	Great Britain
ProCapital S.A.	Ordinary €1 shares	43.5%	France
RBS Life Investments Limited	Ordinary £1 shares	49.99%	Great Britain
Société Foncière Lyonnaise	Ordinary €2 shares	31.49%	France
The British Aviation Insurance Company Limited	Ordinary £1 shares	38.1%	Great Britain

All investments in associated undertakings are held by subsidiary undertakings and are included in the accounts using year ended 31 December 2002 figures. Société Foncière Lyonnaise ("SFL") is listed on a recognised investment exchange and its total value, based on mid market prices at 31 December 2002, is £682 million *(2001: £583 million).* All other associated undertakings are not listed. All associated undertakings transact insurance business, with the exception of SFL which is a property company, and ProCapital, which is an online brokerage company.

The Group's shareholding in SFL would reduce to 26.37% if all convertible bonds previously issued by SFL are converted to ordinary shares.

21 – Investments in associated 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 2002 £m	Total 2001 £m
Cost:				
At 1 January	**257**	**–**	**257**	257
Additions	**–**	**–**	**–**	–
At 31 December	**257**	**–**	**257**	257
Amortisation:				
At 1 January	**13**	**–**	**13**	–
Charge in the year	**13**	**–**	**13**	13
At 31 December	**26**	**–**	**26**	13
Carrying value at 31 December	**231**	**–**	**231**	244

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 has invested 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 within other financial investments or land and buildings as appropriate.

22 – Other financial investments

(a) These financial investments comprise:

	Long-term business £m	Non-long-term business £m	Total 2002 £m	Long-term business £m	Non-long-term business £m	Total 2001 £m
Shares and other variable yield securities and units in unit trusts	**22,197**	**2,603**	**24,800**	37,342	4,133	41,475
Debt securities and other fixed income securities:						
At current value	**23,084**	**7,737**	**30,821**	20,353	9,288	29,641
At amortised cost	**42,721**	**–**	**42,721**	34,129	–	34,129
Participation in investment pools	**68**	**–**	**68**	77	35	112
Loans secured by mortgages:						
Own mortgages	**9,140**	**1,121**	**10,261**	8,259	1,035	9,294
Securitised mortgages (23)	**1,621**	**483**	**2,104**	930	219	1,149
Less: Non-recourse funding (23)	**(1,621)**	**(478)**	**(2,099)**	(930)	(219)	(1,149)
	–	**5**	**5**	–	–	–
Other loans:						
Loans secured on policies	**150**	**–**	**150**	152	–	152
Other loans	**2,417**	**75**	**2,492**	2,880	201	3,081
Deposits with credit institutions	**2,207**	**532**	**2,739**	747	1,194	1,941
	101,984	**12,073**	**114,057**	103,939	15,886	119,825

All investments above are shown at current value unless otherwise indicated. The cost of financial investments above was £116,233 million *(2001: £109,767 million)*.

22 – Other financial investments continued

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

	2002 £m	2001 £m
Shares and other variable yield securities and units in unit trusts	**21,521**	36,462
Debt securities and other fixed income securities	**66,595**	58,837

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

	2002 £m	2001 £m
Cost	**42,201**	33,756
Cumulative amortisation	**520**	373
Amortised cost	**42,721**	34,129
Market value	**44,356**	35,494

The redemption value of investments held at the year end was £536 million less *(2001: £614 million less)* than the amortised cost.

(d) In addition to the investments in participating interests detailed in note 21, the Group holds investments exceeding 20% 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 8.3% *(2001: 7.8%)* 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 21.2% *(2001: 16.6%)* 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 2002 were £595 million, £372 million and £956 million respectively *(2001: £1,100 million, £1,203 million and £1,546 million respectively)* and represented 3.8%, 2.8% and 2.2% *(2001: 6.6%, 3.6% and 3.2%)* of the respective issued share capitals of these companies. Of these holdings, the long-term business operations owned £355 million *(2001: £453 million)* of the Société Générale shares, £211 million *(2001: £509 million)* of the Münchener Rückversicherungs-Gesellschaft shares and £911 million *(2001: £1,510 million)* of The Royal Bank of Scotland Group shares.

(f) At 31 December 2002, the Group held equity index futures, forwards and options to buy a notional total of £1,480 million *(2001: £1,771 million)* and to sell a notional total of £1,832 million *(2001: £1,657 million)* for long-term business operations. These contracts have a net positive fair value of £331 million *(2001: £86 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 2002, the exposure hedged by these options was £2,550 million *(2001: £2,451 million)* and the contracts had a fair market value of £167 million *(2001: £132 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 £295 million *(2001: £336 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 (see note 43).

23 – 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 FRS 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 two portfolios of equity release mortgages has been transferred to two special purpose securitisation companies, Equity Release Funding (No 1) plc ("ERF1") and Equity Release Funding (No 2) plc ("ERF2") (together "the ERF companies"), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the noteholders, loan providers and other third parties in the priority of payments. No gain or loss was recognised on the transfer to ERF1, and a gain of £5.2 million was recognised on the transfer to ERF2. The purchases of the mortgages were funded by the issue of fixed and floating rate notes by the ERF companies.

The ultimate effective holding company of both the ERF companies 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 the ERF companies or their parent company. 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.

NUER has indemnified the ERF companies for any losses they may suffer should its customers set off any shortfall in their annuities purchased from another Aviva Group company against amounts they owe to the ERF companies, and any shortfall due to negative equity not insured elsewhere. NUER's liability under these indemnities, estimated as £5 million, is included in other creditors in the consolidated balance sheet, whilst the linked liabilities figure has been reduced by the same amount to show the Group's net interest in these securitisations.

NUER has purchased £12.5 million of subordinated fixed rate notes in ERF1, 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 the ERF companies in respect of fees for loan administration and cash handling purposes. Income of £2 million *(2001: £1 million)* has been included in investment income, relating to the securitisation of the mortgage portfolios.

(b) In a Dutch subsidiary ("DL"), the principal benefits of three portfolios of mortgage loans have been transferred to three special purpose securitisation companies, Arena 2000-1 BV, Arena 2001-1 BV and Arena 2002-1 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, Stichting Security Trustee Arena 2001-1 BV and Stichting Security Trustee Arena 2002-1 BV. DL does not own, directly or indirectly, any of the share capital of the Arena companies or their parent companies. 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 £5 million *(2001: £41 million).*

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. Included in investment income is £71 million *(2001: £36 million)* relating to the securitisation of these mortgage loan portfolios.

In all of the above transactions, Aviva 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 Aviva Group.

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

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

	Restated Internally generated £m	Acquired £m	Restated Total £m
Balance at 1 January 2002	**5,349**	**599**	**5,948**
Foreign exchange rate movements	**75**	**21**	**96**
Adjustment to in-force long-term business previously acquired	**–**	**(15)**	**(15)**
Amortisation charge for the year	**–**	**(100)**	**(100)**
Other movements during the year			
Transfer to revaluation reserve reflecting movement in AVIF in the year (34)	**(1,511)**	**–**	**(1,511)**
Movement in minority interest on internally-generated in-force business (24b)	**4**	**–**	**4**
Movements arising in the year	**(1,432)**	**(94)**	**(1,526)**
Balance at 31 December 2002	**3,917**	**505**	**4,422**

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.

The adjustment to in-force business previously acquired arises from the final determination of the embedded value of long-term businesses acquired in 2001. The Group received a refund of part of the consideration it paid to reflect the reduced additional value of in-force long-term business acquired.

Details of the assumptions and methodology supporting the additional value of in-force long-term business can be found on pages 96 to 97.

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

	2002 £m	Restated 2001 £m	Movement in the year £m
Additional value of internally-generated in-force long-term business	**3,917**	5,349	(1,432)
Amount attributable to minority interests	**(85)**	(81)	(4)
Balance at 31 December	**3,832**	5,268	(1,436)

Excluding this reserve, total shareholders' funds at 31 December 2002 would be £5,837 million *(2001: £6,484 million, restated).*

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

	2002 £m	Restated 2001 £m
Net assets of the long-term businesses (4c)	**5,957**	5,359
Less: Goodwill arising on investment in Royal Bank of Scotland Life Investments (21c)	**(231)**	(244)
Net assets of long-term operations	**5,726**	5,115
Additional value of in-force long-term business	**4,422**	5,948
	10,148	11,063

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.

25 – Assets held to cover linked liabilities

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

	2002 £m	2001 £m
Assets held to cover linked liabilities	**29,538**	28,704
Reinsurers' share of technical provision	**337**	537
Technical provision for linked liabilities	**29,875**	29,241

(b) The cost of assets held to cover linked liabilities is £28,047 million *(2001: £27,336 million).*

26 – Debtors arising out of direct insurance operations

	2002 £m	2001 £m
Amounts owed by policyholders	**1,748**	1,892
Amounts owed by intermediaries	**1,451**	1,581
Debtors arising out of direct insurance operations	**3,199**	3,473

27 – Other debtors

	2002 £m	2001 £m
Banking and stockbroking assets (31a)	**3,514**	3,359
Deferred tax asset (note 14e)	**222**	246
Other	**2,193**	2,031
Other debtors	**5,929**	5,636

28 – Tangible assets

	Motor vehicles £m	Computer equipment £m	Other £m	Total £m
Cost:				
At 1 January	**45**	**424**	**355**	**824**
Acquisitions/(disposals) of subsidiaries	**(6)**	**(34)**	**(26)**	**(66)**
Additions	**14**	**76**	**69**	**159**
Disposals	**(17)**	**(57)**	**(49)**	**(123)**
Foreign exchange rate movements	**1**	**2**	**3**	**6**
At 31 December	**37**	**411**	**352**	**800**
Depreciation:				
At 1 January	**22**	**297**	**198**	**517**
Acquisitions/(disposals) of subsidiaries	**(2)**	**(23)**	**(17)**	**(42)**
Charge for the year	**8**	**62**	**37**	**107**
On disposals	**(8)**	**(41)**	**(32)**	**(81)**
Foreign exchange rate movements	**–**	**2**	**2**	**4**
At 31 December	**20**	**297**	**188**	**505**
Net book value at 31 December 2002	**17**	**114**	**164**	**295**
Net book value at 31 December 2001	23	127	157	307

29 – Own shares

Movements in the residual value of own shares comprise:

	Number	2002 £m	Number	2001 £m
Additions	**114,875**	**1**	1,926,500	18
Distributed in year	**(1,232,103)**	**–**	(1,214,033)	–
Charge for the year	**–**	**(10)**	–	(18)
Movement arising in the year	**(1,117,228)**	**(9)**	712,467	–
Balance at 1 January	**3,125,687**	**10**	2,413,220	10
Balance at 31 December	**2,008,459**	**1**	3,125,687	10

These shares are owned by employee share trusts in the Company and a subsidiary undertaking to satisfy awards under the Group's Long Term Incentive Plan, Executive Share Option Plans and Deferred Bonus Plans. The shares are purchased in the market and carried at cost. Further details of the shares held can be found in note 32(b). Further details of the features of the plans can be found in the Directors' remuneration report on pages 36 and 37.

30 – Deferred acquisition costs

The asset in the consolidated balance sheet comprises:

	2002 £m	2001 £m
Costs in respect of long-term business	**1,750**	1,595
Costs in respect of general business	**934**	1,008
	2,684	2,603

31 – Banking and stockbroking activities

(a) Banking and stockbroking assets (see note 27), excluding intra-group balances, comprise:

	2002 £m	2001 £m
Investments	**977**	630
Loans and advances to banks	**543**	402
Loans and advances to customers	**1,722**	2,242
	3,242	3,274
Short-term deposits and cash	**–**	21
Other banking and stockbroking assets	**272**	64
	3,514	3,359

(b) Banking and stockbroking liabilities (see note 43), excluding intra-group balances, comprise:

	2002 £m	2001 £m
Deposits by banks	**72**	229
Bank customer accounts	**2,720**	2,270
Bank overdrafts	**–**	41
Other banking and stockbroking liabilities	**457**	772
	3,249	3,312

32 – Ordinary share capital

(a) The authorised share capital of the Company at 31 December 2002 was:

	2002 £m	2001 £m
3,000,000,000 *(2001: 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 2002 was:

	2002 £m	2001 £m
2,256,737,144 *(2001: 2,254,928,378)* ordinary shares of 25 pence each	**564**	564

(b) At 31 December 2002, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	484.66	53,426	2002	750.00	953,848	2002, 2004 or 2006
	478.26	81,534	2003	895.20	1,271,007	2003, 2005 or 2007
	580.27	244,626	2002 or 2004	664.00	2,284,972	2004, 2006 or 2008
	797.60	550,524	2003 or 2005	401.00	15,507,162	2005, 2007 or 2009

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	74,415	2002	752.00	246,229	2002 or 2004
	785.00	316,203	2003			

Hibernian Savings Related Share Option Scheme	Option price €	Number of shares	Normally exercisable	Option price €	Number of shares	Normally exercisable
	1,028.99	123,640	2002 or 2004	1,087.56	78,367	2004 or 2006
	1,479.24	212,134	2003 or 2005	662.85	628,417	2005 or 2007

General Accident Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable
	421.73	111,996	2003
	555.55	116,753	2002 or 2004

32 – Ordinary share capital continued

Aviva Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	585.97	25,099	1996 to 2003	1,119.00	61,745	2001 to 2008
	547.17	39,252	1997 to 2004	1,016.00	11,023	2001 to 2008
	575.29	130,625	1997 to 2004	853.00	673,131	2001 to 2008
	542.17	35,283	1998 to 2005	965.00	32,295	2002 to 2009
	614.83	6,587	1998 to 2005	870.83	141,490	2002 to 2009
	581.17	184,433	1999 to 2006	919.00	1,320,366	2002 to 2009
	601.17	23,423	1999 to 2006	947.67	3,165	2002 to 2009
	689.17	45,121	1999 to 2006	952.00	28,362	2002 to 2009
	677.50	22,443	2000 to 2007	822.00	93,331	2003 to 2010
	680.00	65,307	2000 to 2007	972.33	232,194	2003 to 2010
	725.50	8,143	2000 to 2007	960.00	1,362,649	2003 to 2010
	763.50	3,929	2000 to 2007	1,035.00	2,097,716	2004 to 2011
	773.50	71,869	2000 to 2007	499.00	14,282	2005 to 2012
	857.00	43,343	2000 to 2007	516.00	4,064,346	2005 to 2012
	1073.31	18,797	2001 to 2008			

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	256,680	1999 to 2006
	463.09	62,210	1997 to 2004	766.42	195,588	2000 to 2007
	506.08	122,114	1998 to 2005			

Aviva Executive Share Option Scheme (Delta Lloyd)	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	1,119.00	212,356	1998 to 2003	822.00	597,695	2000 to 2005
	965.00	367,435	1999 to 2004	950.00	726,721	2001 to 2006
	952.00	25,025	1999 to 2004	739.00	972,140	2002 to 2007

CGU plc Deferred Bonus Plan	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	899.50	41,731	2002 to 2009	875.00	45,424	2003 to 2010
	966.50	10,403	2002 to 2009			

At 31 December 2002, awards over a total of 3,672,199 ordinary shares were outstanding under the Aviva Long Term Incentive Plan. Subject to satisfying performance criteria, these awards will vest in 2003, 2004 and 2005. Further details of this plan can be found on page 36. The awards will be satisfied by means of shares purchased by employee share trusts set up for the purpose of satisfying awards under various executive incentive plans and funded by the Company. Details are given in note 29. As at 31 December 2002, the trusts held 2,008,459 shares with an aggregate nominal value of £0.5 million and their market value at the year end was £8.9 million. The trustees have waived their right to dividends on the shares held in trust.

As at 31 December 2002, awards over a total of 3,278,807 ordinary shares, and options over a total of 252,694 ordinary shares, were outstanding under the Aviva Deferred Bonus Plan. These awards will vest in 2003, 2004 and 2005. Shares will be purchased into an employee share trust to satisfy the vesting awards.

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 2002, a total of 1,808,766 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	**2,254,928,378**	**564**	**1,083**
Shares issued under the Group's Employee and Executive Share Option Schemes	**1,716,805**	**–**	**10**
Shares issued in relation to the acquisition (in 2000) of UK Property Gold Limited	**91,961**	**–**	**1**
At 31 December	**2,256,737,144**	**564**	**1,094**

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.

33 – Preference share capital

(a) The preference share capital of the Company at 31 December 2002 was:

	2002 £m	2001 £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 2002 was £213 million *(2001: £273 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.

34 – Group reserves

	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2002 as previously reported	5,178	2,975	1,872	10,025
Prior year adjustment (3a)	90	–	(210)	(120)
Restated opening balances	**5,268**	**2,975**	**1,662**	**9,905**
Transfer to non-technical account	**–**	**–**	**(1,070)**	**(1,070)**
Foreign exchange rate movements	**75**	**–**	**104**	**179**
Decrease in value of in-force long-term business (O & 24a)	**(1,511)**	**–**	**–**	**(1,511)**
Goodwill on disposals, previously written off (17c)	**–**	**–**	**310**	**310**
Other movements	**–**	**(122)**	**120**	**(2)**
At 31 December 2002	**3,832**	**2,853**	**1,126**	**7,811**

As explained in accounting policy J 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 £957 million and £15 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 £136 million *(2001: £907 million, restated)*.

35 – Company reserves

Movements in the Company's reserves comprise:

	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2002 as previously reported	3,199	227	6,599	10,025
Prior year adjustment (3a)	(120)	–	–	(120)
Restated opening balances	**3,079**	**227**	**6,599**	**9,905**
Profit for the year attributable to equity shareholders, including dividends received or receivable from subsidiary undertakings	**–**	**–**	**1,406**	**1,406**
Dividends	**–**	**–**	**(536)**	**(536)**
Retained profit for the year	**–**	**–**	**870**	**870**
Unrealised losses (17d)	**(2,964)**	**–**	**–**	**(2,964)**
At 31 December 2002	**115**	**227**	**7,469**	**7,811**

The cumulative amount in the profit and loss account includes non-distributable gains of £5,735 million *(2001: £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.

36 – Subordinated debt

	Group and Company 2002 £m	Group and Company 2001 £m
6.125% £700 million subordinated notes 2036	**679**	678
5.75% €800 million subordinated notes 2021	**511**	479
	1,190	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 three month Euribor.

The fair value of these notes at 31 December 2002 was £1,167 million *(2001: £1,133 million)*.

37 – 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 and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.

(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 2002.

38 – 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 requirements of the Companies Act. 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 in the United Kingdom, France and the Netherlands are:

	Interest %	Mortality tables used
United Kingdom		
Assurance:		
With-profit	3.2 to 3.5	AM92/AF92 or A67/70 adjusted
Non-profit	3.2 to 4	AM80/AF80 or AM92/AF92 or TM92/TF92 adjusted for smoker status
Pure endowment and deferred annuity:		
Pensions business (in deferment)	3.5 to 5.5	Nil or AM80/AF80 or AM92/AF92 adjusted
General annuity business (from vesting)	4	IM80/IF80 or IM92/IF92 adjusted plus allowance for mortality improvement*
Pensions business (from vesting)	4 to 4.5	PMA80/PFA80 or PMA92/PFA92 adjusted plus allowance for future mortality improvement*
Annuity in payment:		
General annuity	4.8 to 5.3	IMA80/IFA80 adjusted plus allowance for future mortality improvement
Pensions	5 to 5.3	PMA80/PFA80 adjusted plus allowance for future mortality improvement*

*Allowance for future mortality improvements reflect the "medium cohort" projection from the CMIB working paper published in December 2002, adjusted for females and for a higher rate of improvement at very old ages.

38 – Long-term business provision continued

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.

	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 assurances	3 to 4	GBM 61-65, 76-80, 80-85 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.

39 – 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, economic conditions 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. Large claims are usually separately assessed, either by being measured at case estimate face value or separately projected in order to reflect their future development. 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 on certain classes of business are discounted as follows:

		Rate		Mean term of liabilities	
	Class	2002	2001	2002	2001
Netherlands	Permanent health and injury	**3.5%**	3.5%	**12 years**	12 years

Net of reinsurers' share, the outstanding claims provisions before discounting were £9,508 million *(2001: £9,700 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.

40 – Equalisation provision

An equalisation provision has been established in the Group accounts as explained in accounting policy T on page 46. This had the effect of reducing Group and Company shareholders' funds by £314 million at the year end *(2001: £272 million)*. The change in the equalisation provision during the year comprised a reduction of £57 million *(2001: £56 million)* in the balance on the general business technical account and the profit on ordinary activities before tax, offset by £15 million representing the equalisation provision of a subsidiary company sold during the year.

41 – Provisions for other risks and charges

Movements in provisions for other risks and charges were:

	Pensions and similar obligations £m	Restated Deferred tax (note 14e) £m	Other £m	Restated Total £m
At 1 January 2002, as restated	**70**	**1,309**	**183**	**1,562**
Foreign exchange rate movements on opening provisions	**3**	**7**	**6**	**16**
Movement during the year:				
Additional provisions made in the year			**172**	
Amounts utilised			**(46)**	
Amounts released unutilised			**(21)**	
Total movement	**(6)**	**(851)**	**105**	**(752)**
At 31 December 2002	**67**	**465**	**294**	**826**

"Other" provisions comprise many small provisions throughout the Group for obligations such as the costs of compensation, litigation, staff entitlements and reorganisation.

42 – 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	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Long-term business	**–**	51	**85**	–	**–**	–	**85**	51
General business	**–**	–	**11**	11	**–**	–	**11**	11
Other	**431**	785	**169**	180	**1,453**	1,686	**2,053**	2,651
Non-long-term business	**431**	785	**180**	191	**1,453**	1,686	**2,064**	2,662
	431	836	**265**	191	**1,453**	1,686	**2,149**	2,713

"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	
	2002 £m	2001 £m	2002 £m	2001 £m
9.5% guaranteed bonds 2016	**–**	–	**157**	145
11.9% C$24 million mortgage 2005	**–**	–	**6**	8
8.625% guaranteed bonds 2005	**–**	–	**155**	145
1.5% FF2.8 billion exchangeable bonds 2003	**–**	–	**–**	281
10.75% guaranteed bonds 2002	**–**	–	**–**	100
2.5% subordinated perpetual loan notes	**–**	–	**113**	106
Institutional borrowings (average rate 5%)	**–**	51	**–**	–
	–	51	**431**	785
Repayable as follows:				
One year or less	**–**	1	**–**	100
Between one and two years	**–**	6	**–**	281
Between two and five years	**–**	44	**161**	153
After five years	**–**	–	**270**	251
	–	51	**431**	785
The interest charge for the year on the above loans was:	**–**	2	**41**	56

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 euro liabilities through the use of financial instruments in a subsidiary undertaking.

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

The 1.5% FF2.8 billion exchangeable bonds were issued by a French subsidiary undertaking and were redeemed at the option of that company in June 2002.

The 10.75% guaranteed bonds matured in March 2002 and were repaid on the same date.

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 €489.9 million and their fair value is estimated at €172.4 million *(2001: €175.0 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 seven years to a maximum of 2.76%. The loan notes are convertible into ordinary shares in Delta Lloyd NV, should there be a public offering of those shares.

The long-term institutional borrowings in the prior year arose wholly in the Netherlands and were mainly in respect of segregated funds for external pension schemes.

(c) Amounts due to credit institutions comprise:

	Long-term business		General business			Other
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans	**85**	–	**11**	11	**169**	180
	85	–	**11**	11	**169**	180
Repayable as follows:						
One year or less	**–**	–	**11**	11	**93**	156
Between one and two years	**–**	–	**–**	–	**75**	–
Between two and five years	**–**	–	**–**	–	**1**	–
After five years	**85**	–	**–**	–	**–**	24
	85	–	**11**	11	**169**	180
The interest charge for the year on the above was:	**2**	–	**1**	1	**13**	14

As explained in note 20(a), the UK long-term business policyholder funds have invested in a number of property limited partnerships ("PLPs"). The PLPs have raised external debt, secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any companies in the Aviva Group. The figures in the long-term business columns above relate to those PLPs which have been consolidated as subsidiaries.

(d) Commercial paper comprises:

		Other
	2002 £m	2001 £m
Average rate 4% *(2001: 5%)*	**1,453**	1,686
The interest charge for the year on the above borrowings was:	**67**	83

All commercial paper is 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 the Company and a subsidiary undertaking.

(e) The Company's loans comprise:

	2002 £m	2001 £m
9.5% guaranteed bonds 2016	**198**	198
8.625% guaranteed bonds 2005	**199**	199
10.75% guaranteed bonds 2002	**–**	100
Bank loans	**75**	–
Commercial paper	**1,433**	1,641
	1,905	2,138
Repayable as follows:		
One year or less	**1,433**	1,741
Between one and two years	**75**	–
Between two and five years	**199**	199
After five years	**198**	198
	472	397
	1,905	2,138

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

42 – 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	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Sterling	**922**	1,180	**323**	400	**1,245**	1,580
Euro	**106**	106	**113**	387	**219**	493
United States dollar	**582**	574	**–**	–	**582**	574
Canadian dollar	**8**	–	**6**	8	**14**	8
Other	**3**	6	**1**	1	**4**	7
Total non-long-term business borrowings	**1,621**	1,866	**443**	796	**2,064**	2,662

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 7.94% *(2001: 6.26%)* for a weighted average term of 8 years *(2001: 10 years)*.

(h) The Group has the following undrawn committed central borrowing facilities available to it, of which £1,000 million *(2001: £1,000 million)* is used to support the commercial paper programme:

	2002 £m	2001 £m
Expiring within one year	**880**	1,550
Expiring beyond one year	**2,060**	1,430
	2,940	2,980

(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 2002 £m	Fair value 2002 £m	Carrying value 2001 £m	Fair value 2001 £m
Non-long-term business fixed rate borrowings	**529**	**624**	891	1,142
Currency swaps	**(86)**	**(133)**	(95)	(156)
	443	**491**	796	986

(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 2002 was £267 million *(2001: £331 million)*, based on their quoted market price.

43 – Other creditors including tax and social security

	2002 £m	2001 £m
Banking and stockbroking liabilities (31b)	**3,249**	3,312
Proposed final ordinary dividend (15)	**322**	536
United Kingdom and overseas tax	**868**	174
Bank overdrafts	**348**	918
Other	**2,191**	3,627
Other creditors including tax and social security	**6,978**	8,567

Bank overdrafts arise substantially from unpresented cheques and amount to £61 million *(2001: £554 million)* in long-term business operations and £287 million *(2001: £364 million)* in general business and other operations. The "other" totals include the obligation to repay £295 million *(2001: £336 million)* received under stock repurchase arrangements entered into in the United Kingdom and the Netherlands.

44 – Accruals and deferred income

	2002 £m	2001 £m
Deferred reinsurance commissions	**90**	51
Other accruals and deferred income	**967**	952
Accruals and deferred income	**1,057**	1,003

45 – 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 over 95% 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. These reports showed no material deficits in any of the main schemes.

(b) The Group has continued to account for pensions in accordance with SSAP24 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.

The accounting provisions of FRS17 were not expected to be mandatory for the Group until the year ending 31 December 2003 but, in the transitional period, certain disclosures were required in the notes to the accounts. In November 2002, the Accounting Standards Board issued an amendment to FRS17 which extended the transitional period through to, in the Group's case, the year ending 31 December 2005. The transitional 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 to form the CGNU Staff Pension Scheme, which has since been renamed the Aviva Staff Pension Scheme. New entrants now join the defined contribution section of the scheme, as the defined benefit section is generally closed to new employees.

The merged scheme was valued as at an effective date of 1 April 2002, on a market value basis using the Projected Unit Method. The main financial assumptions used were a pension increase rate of 2.5%, a salary increase rate of 4.25% and an interest rate of 6.4%. The scheme had an asset value of £4,639 million, projected accrued liabilities of £4,010 million and a funding level of 116%. The cost of future service benefits in respect of defined benefit members was 21.4% of pensionable salaries which, after allowing for amortisation of the scheme surplus and interest on the balance sheet prepayment, led to a net pension cost for the period to 31 December 2002 of 8.2% of pensionable salaries. The pension cost was then increased to allow for the amounts credited to members' accounts under the defined contribution section of the scheme.

The employing companies' contributions to the defined benefit section of the merged scheme throughout 2002 were 12.5% and 3.2% of employees' pensionable salaries in respect of members of the previous CGU scheme and NU scheme respectively. The employers' contribution rate for 2003 has been agreed as 25% of pensionable salaries for all members of this section.

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 2002 pension costs of defined benefit and defined contribution schemes for the Group were £117 million *(2001: £89 million)*. There were no significant contributions outstanding or prepaid as at 31 December 2002.

(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 2002. The updating was made by actuaries in each country, with overall co-ordination by external consultants, Watson Wyatt. Other than the actuary of the Aviva Staff Pension Scheme, the actuaries making the calculation were independent of the Group. Scheme assets are stated at their market values at 31 December 2002. 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	
	2002	2001	2002	2001	2002	2001	2002	2001
Date of most recent actuarial valuation	**1.4.02**	Various	**31.12.01**	31.12.00	**31.12.01**	1.1.01	**Various**	1.4.00
The main financial assumptions used to calculate scheme liabilities under FRS17 are:								
Inflation rate	**2.2%**	2.4%	**2.5%**	2.5%	**2.5%**	2.5%	**2.5%**	3.0%
General salary increases	**4.0%**	4.2%	**3.5%**	3.5%	**3.0%**	3.0%	**4.25%**	4.75%
Pension increases	**2.2%**	2.4%	**2.5%**	2.5%	**1.25%**	1.25%	**2.25%**	2.5%
Deferred pension increases	**2.2%**	2.4%	**2.5%**	2.5%	**0%**	0%	**2.25%**	2.5%
Discount rate	**5.75%**	5.9%	**5.5%**	6.1%	**5.75%**	6.6%	**5.55%**	6.2%

45 – Pension and other post-retirement benefit costs continued

(ii) The expected rates of return on the schemes' assets are:

	UK		Netherlands		Canada		Ireland	
	2003 %	2002 %	2003 %	2002 %	2003 %	2002 %	2003 %	2002 %
Equities	**8.25%**	**8.0%**	**8.5%**	**8.1%**	**8.5%**	**9.1%**	**8.5%**	**8.3%**
Bonds	**4.9%**	**5.0%**	**4.7%**	**5.1%**	**5.4%**	**6.1%**	**4.8%**	**5.3%**
Property	**6.0%**	**6.5%**	**n/a**	**n/a**	**n/a**	**n/a**	**6.3%**	**6.8%**

(iii) The pension expense for these schemes on an FRS17 basis comprises:

	Total 2002 £m
Current service cost	**137**
Past service cost	**1**
Charge to net operating expenses	**138**
Expected return on pension scheme assets	**(402)**
Interest on pension scheme liabilities	**319**
(Credit) to investment income	**(83)**
Total charge that would be made to profit on ordinary activities before tax in respect of these schemes under FRS17	**55**
Expected return on pension scheme assets less actual return	**1,139**
Experience gains and losses arising on scheme liabilities	**(131)**
Changes in assumptions underlying the present value of the scheme liabilities	**41**
Increase in recoverable surplus	**(17)**
Actuarial loss that would be recognised in the statement of total recognised gains and losses under FRS17	**1,032**

(iv) The following disclosures of experience gains and losses will be built up over time to give a five year history:

	2002 £m	2002 %
Difference between the expected and actual return on scheme assets		
Amount	**1,139**	
Percentage of the scheme assets at the end of the year		**23.4%**
Experience gains and losses on scheme liabilities		
Amount	**131**	
Percentage of the present value of scheme liabilities		**2.4%**
Total amount recognised in the statement of total recognised gains and losses		
Amount	**1,032**	
Percentage of the present value of scheme liabilities		**18.7%**

(v) The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2002 were:

	UK		Netherlands		Canada		Ireland		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Equities	**2,678**	3,281	**141**	169	**72**	69	**187**	230	**3,078**	3,749
Bonds	**880**	957	**338**	271	**68**	79	**68**	73	**1,354**	1,380
Property	**309**	313	**–**	–	**–**	–	**26**	28	**335**	341
Other	**83**	159	**7**	3	**–**	17	**1**	7	**91**	186
Total market value of assets	**3,950**	4,710	**486**	443	**140**	165	**282**	338	**4,858**	5,656
Present value of scheme liabilities	**(4,538)**	(4,518)	**(533)**	(430)	**(156)**	(145)	**(285)**	(229)	**(5,512)**	(5,322)
(Deficit)/surplus in the schemes	**(588)**	192	**(47)**	13	**(16)**	20	**(3)**	109	**(654)**	334
Surplus not possible to recognise	**–**	–	**–**	–	**–**	–	**–**	(17)	**–**	(17)
Recognised pension (liability)/asset	**(588)**	192	**(47)**	13	**(16)**	20	**(3)**	92	**(654)**	317
Related deferred tax asset/(liability)	**176**	(58)	**16**	(3)	**6**	(8)	**–**	(15)	**198**	(84)
Net pension (liability)/asset	**(412)**	134	**(31)**	10	**(10)**	12	**(3)**	77	**(456)**	233

45 – Pension and other post-retirement benefit costs continued

(vi) Movements in the pension schemes' surplus on a FRS17 basis comprise:

	Total 2002 £m
Surplus in the schemes at 1 January	**334**
Contributions paid into the schemes	**113**
Charge to net operating expenses	**(138)**
Credit to investment income	**83**
Actuarial loss, excluding increase in recoverable surplus	**(1,049)**
Foreign exchange rate movements	**3**
Deficit in the schemes at 31 December	**(654)**

The change in the net pension surplus calculated under FRS17 is mainly attributable to a reduction in the market value of the schemes' assets. These assets principally comprise equities, the values of which have been subject to significant market fluctuations. The fall in the relevant share indices accounts for the majority of the £1,139 million difference between actual and expected return on assets.

(vii) The effect on the Group's net assets and retained profits at 31 December 2002 of substituting the FRS17 figures for the corresponding SSAP24 balance sheet entries would be as follows:

	Net assets 2002 £m	Net assets Restated 2001 £m	Profit and loss account reserve 2002 £m	Profit and loss account reserve Restated 2001 £m
Totals included in the Group accounts	**10,412**	12,403	**1,126**	1,662
Less: pension asset on SSAP24 basis	**(175)**	(143)	**(175)**	(143)
Totals excluding pension asset	**10,237**	12,260	**951**	1,519
(Less)/add: pension (liability)/asset on FRS17 basis	**(456)**	233	**(456)**	233
Totals including pension liability/asset on FRS17 basis	**9,781**	12,493	**495**	1,752

46 – Assets under management

The total Group assets under management are:

	2002 £m	Restated 2001 £m
Total assets included in the balance sheet	**184,923**	188,324
Third party funds under management		
Securitised mortgages (gross of non-recourse funding)	**2,099**	1,149
Unit trusts, Oeics, Peps and Isas	**3,636**	4,677
Segregated funds	**16,955**	14,849
Total assets under management	**207,613**	208,999

47 – 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 (loss)/profit on ordinary activities to net cash inflow from operating activities is:

	2002 £m	2001 £m
(Loss)/profit on ordinary activities before tax, excluding the results of joint ventures and associated undertakings	**(283)**	512
Add back:		
Integration costs	**–**	59
Financial Services Compensation Scheme levy	**–**	31
(Loss)/profit on ordinary activities before tax, excluding exceptional items	**(283)**	602
Adjustments for financing expense and items not involving movements of cash:		
Depreciation of tangible fixed assets	**82**	136
Amortisation of goodwill	**135**	87
Amortisation of acquired additional value of in-force long-term business	**139**	64
Increase/(decrease) in general business underwriting liabilities and provisions	**461**	(347)
Realised and unrealised losses on investments	**894**	621
Net loss/(profit) arising on the disposal of subsidiary undertakings	**4**	(287)
Decrease/(increase) in deferred acquisition costs	**(30)**	28
Movement in banking and stockbroking assets and liabilities	**40**	(398)
Movement in other assets/liabilities	**(293)**	676
Profits not yet transferred from long-term business funds	**(412)**	(702)
Loan interest expense	**264**	217
	1,284	95
Net cash inflow from operating activities, excluding exceptional items and merger transaction costs	**1,001**	697

(b) Analysis of cash flows in respect of the acquisition and disposal of subsidiary and associated undertakings is:

	2002 £m	2001 £m
Cash consideration for subsidiary undertakings acquired	**(55)**	(603)
Cash proceeds from disposal of subsidiary undertakings	**381**	1,732
Net cash balances acquired/(divested) with subsidiary undertakings	**(85)**	(276)
	241	853

(c) Changes in financing during the year were:

	Share capital 2002 £m	Share capital 2001 £m	Borrowings 2002 £m	Borrowings 2001 £m
Issue of ordinary share capital	**11**	29	**–**	–
New borrowings drawn down, net of expenses	**–**	–	**1,466**	10,509
Repayment of borrowings	**–**	–	**(1,534)**	(9,039)
Net cash inflow	**11**	29	**(68)**	1,470
Foreign exchange rate movements	**–**	–	**60**	(24)
Loans repaid for non-cash consideration	**–**	–	**(299)**	–
Amortisation of discounts and other non-cash items	**–**	–	**1**	–
Changes in financing	**11**	29	**(306)**	1,446
Balance at 1 January				
Share capital	**3,843**	3,814		
External borrowings			**3,819**	2,592
Non-recourse funding			**219**	–
	3,843	3,814	**4,038**	2,592
Balance at 31 December				
Share capital	**3,854**	3,843		
External borrowings			**3,254**	3,819
Non-recourse funding			**478**	219
	3,854	3,843	**3,732**	4,038

	2002 £m	2001 £m
Share capital is represented by:		
Ordinary share capital	**564**	564
Preference share capital	**200**	200
Share premium account	**1,094**	1,083
Merger reserve in respect of share capital	**1,985**	1,967
	3,843	3,814

47– Cash flow statement continued

(d) Changes in cash during the year were:

	2002 £m	2001 £m
Increase/(decrease) in cash holdings	**719**	(69)
Foreign exchange rate movements	**16**	2
Changes in cash	**735**	(67)
Balance at 1 January	**538**	605
Balance at 31 December	**1,273**	538

(e) Non-long-term business cash included in the consolidated balance sheet comprised:

	2002 £m	2001 £m	Changes in year £m
Cash at bank and in hand:			
General business and other activities	**1,560**	922	638
Banking and stockbroking	**–**	21	(21)
	1,560	943	617
Bank overdrafts:			
General business and other activities	**(287)**	(364)	77
Banking and stockbroking	**–**	(41)	41
	(287)	(405)	118
	1,273	538	735

(f) Movements in opening and closing non-long-term portfolio investments were:

	2002 £m	2001 £m
Net (sales)/purchases of investments	**(747)**	1,442
Net investments (divested)/acquired with subsidiary undertakings	**(1,826)**	(6,165)
Changes in market values and foreign exchange rate movements	**(668)**	(732)
Investments sold for non-cash consideration	**(267)**	–
Changes in non recourse funding	**(259)**	(219)
Net movement in opening and closing non-long-term portfolio investments	**(3,767)**	(5,674)
Balance at 1 January		
Total non-long-term portfolio investments	**17,769**	23,224
Non-recourse funding	**(219)**	–
	17,550	23,224
Balance at 31 December		
Total non-long-term portfolio investments	**14,261**	17,769
Non-recourse funding	**(478)**	(219)
	13,783	17,550

(g) Non-long-term portfolio investments included in the consolidated balance sheet comprised:

	2002 £m	2001 £m	Changes in year £m
Land and buildings	**668**	857	(189)
Other participating interests	**47**	25	22
Other financial investments	**12,073**	15,886	(3,813)
Deposits with ceding undertakings	**18**	152	(134)
Banking and stockbroking investments	**977**	630	347
	13,783	17,550	(3,767)

48 – Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions
Note 38 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 39 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 uncertainty in respect of this liability.

(b) Asbestos, pollution and social environmental hazards
In the course of conducting insurance business, various companies within the Aviva Group receive general insurance liability claims, and become involved in actual or threatened litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including the United Kingdom, 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.

(c) Guarantees on long-term savings products
As a normal part of their operating activities, various Group companies have given guarantees, including interest rate guarantees, in respect of certain long-term insurance and fund management products. In the United Kingdom, in common with other pension and life policy providers, the Group wrote individual and group pension policies in the 1970s and 1980s with a guaranteed annuity rate option ("GAO"). Since 1993, such policies have become more valuable to policyholders, and more costly for insurers, as current annuity rates have fallen in line with interest rates. Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable case in 2000 which effectively required full reserving by all companies. Prior to the ruling, consistent with the Group's ordinary reserving practice in respect of such obligations, full reserves for GAOs had already been established. No adjustment was made, or was necessary, to the Group's reserving practice as a result of the ruling. The directors continue to believe that the existing provisions are sufficient.

(d) Pensions mis-selling
The Pensions Review of past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Financial Services Authority ("FSA"), has largely been completed. A provision of some £68 million *(2001: £96 million)* remains to meet the outstanding costs of the few remaining cases, the anticipated cost of any guarantees provided, and potential levies payable to the Financial Services Compensation Scheme. It continues to be the directors' view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

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

In May 2002, in accordance with FSA requirements, the Group commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The Group will continue to send these updates annually to all mortgage endowment holders, in accordance with FSA requirements. An expense provision of £50 million *(2001: £10 million)* has been made to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the directors' view that there will be no material effect either on the Group's liability to meet the expectations of policyholders or on shareholders.

(f) Other
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.

49 – Capital commitments
In carrying on the business of investment, the Group has entered into future commitments, including property development, after 31 December 2002. 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 £344 million *(2001: £207 million)* for long-term business and £nil *(2001: £1 million)* for general business operations.

Five year review

	2002 £m	Restated (c) 2001 £m	Restated (c) 2000 £m	Restated (c) 1999 £m	Restated (c) 1998 £m
Premium income after reinsurance and investment sales					
Life assurance, investment sales, including share of associates	**19,200**	19,065	17,349	15,048	11,342
General insurance	**7,805**	7,850	8,356	7,699	6,782
Health	**928**	841	687	402	277
Total continuing operations	**27,933**	27,756	26,392	23,149	18,401
Consolidated profit and loss account					
Life assurance (achieved profit basis)	**1,524**	1,665	1,533	1,455	1,410
Health	**61**	70	68	24	17
Fund management and non-insurance operations	**(64)**	36	73	87	67
General insurance	**881**	876	330	444	429
Corporate costs and unallocated interest charges	**(652)**	(613)	(546)	(402)	(286)
Wealth management	**(30)**	(99)	(133)	–	–
Operating profit including life achieved profit – continuing operations	**1,720**	1,935	1,325	1,608	1,637
Deduct life achieved profit	**(1,524)**	(1,665)	(1,569)	(1,496)	(1,440)
Add modified statutory life profit	**1,022**	1,194	1,190	1,172	1,075
Operating profit on continuing operations before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items	**1,218**	1,464	946	1,284	1,272
Discontinued operations	**78**	48	(472)	216	219
Amortisation of goodwill and acquired value of long-term business	**(274)**	(151)	(121)	(56)	(10)
Financial Services Compensation Scheme levy	**–**	(31)	–	–	–
Integration costs	**–**	(59)	(425)	(163)	(645)
Operating profit before tax	**1,022**	1,271	(72)	1,281	836
Short-term fluctuation in investment return	**(1,243)**	(988)	258	250	784
Change in the equalisation provision	**(57)**	(56)	(27)	(55)	47
Net (loss)/profit arising on the disposal of subsidiary undertakings	**(4)**	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	**(282)**	514	(1,406)	1,468	1,609
Tax	**(206)**	(198)	(255)	(382)	(482)
Minority interests	**(46)**	(57)	(52)	(66)	(40)
Dividends	**(536)**	(874)	(872)	(790)	(729)
Retained (loss)/profit transferred (from)/to reserves	**(1,070)**	(615)	(2,585)	230	358
Consolidated shareholders' funds					
Equity shareholders' funds	**9,469**	11,552	13,087	15,473	14,691
Non-equity shareholders' funds	**200**	200	200	200	202
	9,669	11,752	13,287	15,673	14,893
Pence per ordinary share					
Net asset value (a)	**433p**	524p	591p	700p	669p
Market price (London) (a)	**443p**	845p	1082p	998p	941p
Earnings per share attributable to equity shareholders (b):					
MSSB 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	**34.8p**	40.8p	24.6p	38.5p	32.5p
Ordinary dividend (d)	**23.0p**	38.0p	38.0p	34.3p	31.7p

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. 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) The profit and loss account figures for 2001 and the balance sheet figures for 2000 and 2001 have been restated for the effects of implementing accounting standard FRS19 "Deferred Tax". All years have been restated for the reclassification of the results of the various service companies from life assurance to non-insurance operations.

(d) Figures for 1999 and 1998 are based on the weighted average dividends per share of CGU plc and Norwich Union plc.

Alternative method of reporting long-term business

Summarised consolidated profit and loss account – achieved profit basis
For the year ended 31 December 2002

2002 €m		2002 £m	Restated* 2001 £m
	Operating profit		
2,419	Life achieved operating profit	**1,524**	1,665
97	Health	**61**	70
8	Fund management	**5**	29
1,398	General insurance	**881**	876
(109)	Non-insurance operations	**(69)**	7
(346)	Corporate costs	**(218)**	(187)
(689)	Unallocated interest charges	**(434)**	(426)
(48)	Wealth management	**(30)**	(99)
2,730	**Operating profit – continuing operations before tax, amortisation of goodwill and exceptional items**	**1,720**	1,935
	Discontinued operations		
124	Australia and New Zealand general insurance operations	**78**	69
–	US general insurance operations	**–**	(21)
2,854	**Operating profit - before tax, amortisation of goodwill and exceptional items**	**1,798**	1,983
(214)	Amortisation of goodwill	**(135)**	(87)
–	Financial Services Compensation Scheme levy	**–**	(31)
–	Integration costs	**–**	(59)
2,640	**Operating profit before tax**	**1,663**	1,806
(5,564)	Variation from longer-term investment return	**(3,504)**	(2,584)
(890)	Effect of economic assumption changes	**(561)**	1
(90)	Change in the equalisation provision	**(57)**	(56)
(6)	(Loss)/profit on the disposal of subsidiary undertakings	**(4)**	287
(3,910)	**Loss on ordinary activities before tax**	**(2,463)**	(546)
(843)	Tax on operating profit – continuing operations before amortisation of goodwill and exceptional items	**(531)**	(616)
1,559	Tax on loss on other ordinary activities	**982**	740
(3,194)	**Loss on ordinary activities after tax**	**(2,012)**	(422)
(52)	Minority interests	**(33)**	(80)
(3,246)	**Loss for the financial year**	**(2,045)**	(502)
(27)	Preference dividends	**(17)**	(17)
(3,273)	**Loss for the financial year attributable to equity shareholders**	**(2,062)**	(519)
(824)	Ordinary dividends	**(519)**	(857)
(4,097)	**Retained loss**	**(2,581)**	(1,376)

*Restated for the effect of Financial Reporting Standard 19.

	Earnings per share		
	Operating profit on an achieved profit basis before amortisation of goodwill and exceptional items, after tax, attributable to equity shareholders in respect of:		
76.7c	– continuing operations	**48.3p**	53.7p
81.7c	– continuing and discontinued operations	**51.5p**	55.5p
(145.2)c	Loss attributable to equity shareholders	**(91.5)p**	(23.1)p
(145.2)c	Loss attributable to equity shareholders – diluted**	**(91.5)p**	(23.1)p

**As required by FRS14 "Earnings per share", the impact of the dilutive effect is not recognised as it would result in a smaller loss.

Basis of preparation – achieved profit basis
The achieved profit statement above 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 97.

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 (RBSG) is incorporated within the achieved operating profit. Goodwill amortised in the year in respect of the Group's holding in the associated company, RBS Life Investments Limited, is included within the 'Amortisation of goodwill' above.

The results for 2002 and 2001 have been audited by the auditors Ernst & Young LLP. Their audit report in respect of 2002 is on page 98.

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 three 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;
- 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.

	2002 £m	2001* £m
New business contribution (after the effect of solvency margin)	**452**	479
Profit from existing business – expected return	**849**	848
– experience variances	**(110)**	(18)
– operating assumption changes**	**9**	17
Expected return on shareholders' net worth	**324**	339
Life achieved operating profit before tax and exceptional items	**1,524**	1,665
Exceptional items***	**–**	(12)
Investment return variances	**(2,320)**	(1,632)
Effect of economic assumption changes	**(561)**	1
Total life achieved (loss)/profit before tax	**(1,357)**	22
Tax on operating (loss)/profit	**(460)**	(511)
Tax on other ordinary activities	**857**	499
Total life achieved (loss)/profit after tax	**(960)**	10

*The other life and savings result has been reclassified to non-insurance (page 57).

**Operating assumption changes include the impact of reducing the risk margins in the US in line with the directors' views of the risks associated with this in-force portfolio. The impact of this change was £13 million. In 2001, operating assumption changes included the impact of reducing risk margins in the Netherlands and the Poland life and pensions operations. 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.

***Exceptional items in 2001 comprised 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	
	2002 £m	2001 £m	Local currency growth %	2002 £m	2001 £m
United Kingdom	**1,231**	1,269	(3%)	**290**	327
Europe (excluding UK)					
France	**223**	233	(5%)	**69**	79
Ireland	**103**	102	(1%)	**29**	29
Italy	**153**	126	20%	**38**	28
Netherlands (including Belgium and Luxembourg)	**158**	170	(8%)	**21**	38
Poland	**48**	60	(16%)	**10**	11
Spain	**189**	136	38%	**87**	63
Other	**93**	91	3%	**(5)**	–
International	**175**	132	36%	**39**	16
Total annualised premiums	**2,373**	2,319	2%		
Total new business contribution before effect of solvency margin**				**578**	591
Effect of solvency margin				**(126)**	(112)
Total new business contribution including effect of solvency margin				**452**	479

*Annual premium equivalent represents regular premiums plus 10% of single premiums.

**New business contribution before effect of solvency margin includes minority interests in 2002 of £69 million *(2001: £51 million)*. This comprises minority interests in France of £4 million *(2001: £4 million)*, Italy £19 million *(2001: £14 million)*, Poland £1 million *(2001: £1 million)* and Spain £45 million *(2001: £32 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 year. 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.

	2002 £m	2001 £m
United Kingdom	**699**	850
Europe (excluding UK)		
France	**228**	227
Ireland	**75**	79
Italy	**52**	55
Netherlands (including Belgium and Luxembourg)	**200**	221
Poland	**111**	99
Spain	**83**	80
Other	**(2)**	18
International	**78**	36
Total life achieved operating profit before tax and exceptional items*	**1,524**	1,665

*Life achieved operating profit includes minority interests in year to 31 December 2002 of £90 million *(2001: £84 million)*. This comprises minority interests in France of £7 million *(2001: £8 million)*, Italy £26 million *(2001: £27 million)*, Poland £18 million *(2001: £15 million)* and Spain £39 million *(2001: £34 million)*.

Embedded value of life business

	2002 £m	2001 £m
Embedded value at the beginning of the year	**11,063**	11,234
Total life achieved (loss)/profit after tax	**(960)**	18
Exchange rate movements	**220**	(97)
Embedded value of businesses acquired/(disposed)*	**13**	84
Amounts injected into life operations	**419**	175
Amounts released from life operations	**(607)**	(351)
Embedded value at the end of the year**	**10,148**	11,063

*Embedded value from businesses acquired in 2002 represents the life subsidiary of DBS Hong Kong of £13 million. Embedded value from businesses acquired in 2001 comprises Risparmio and Eurovita in Italy (£120 million), the life operations of Unicaja, Caixa Galicia and Caja España in Spain (£64 million), Hungary (£11 million) and The Insurance Corporation of Singapore (£25 million). Embedded value from business disposed of in 2001 comprises NU Vita (Italy) (£16 million), Greece (£3 million) and Canada (£117 million).

**Embedded value at the end of the year includes minority interests in 2002 of £410 million *(2001: £347 million)*. This comprises minority interests in France of £42 million *(2001: £34 million)*, Italy £180 million *(2001: £149 million)*, Poland £51 million *(2001: £55 million)*, Spain £134 million *(2001: £107 million)* and Other Europe £3 million *(2001: £2 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	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
United Kingdom	**1,845**	2,032	**3,167**	3,998	**5,012**	6,030
Europe (excluding UK)						
France	**833**	836	**388**	407	**1,221**	1,243
Ireland	**218**	191	**254**	276	**472**	467
Italy	**250**	163	**99**	115	**349**	278
Netherlands (including Belgium and Luxembourg)	**859**	1,032	**947**	834	**1,806**	1,866
Poland	**129**	119	**223**	252	**352**	371
Spain	**149**	107	**201**	202	**350**	309
Other	**128**	58	**48**	49	**176**	107
International	**294**	289	**116**	103	**410**	392
	4,705	4,827	**5,443**	6,236	**10,148**	11,063

*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 £2,600 million *(2001: £2,200 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 £750 million *(2001: £700 million).*

Minority interest in life achieved profit

	Shareholders' interest 2002 £m	Minority interest 2002 £m	Group 2002 £m	Group 2001 £m
New business contribution before effect of solvency margin	**509**	**69**	**578**	591
Effect of solvency margin	**(108)**	**(18)**	**(126)**	(112)
New business contribution including effect of solvency margin	**401**	**51**	**452**	479
Life achieved operating profit before tax and exceptional items	**1,434**	**90**	**1,524**	1,665
Total life achieved (loss)/profit before tax	**(1,371)**	**14**	**(1,357)**	22
Attributed tax	**401**	**(4)**	**397**	(12)
Total life achieved (loss)/profit after tax	**(970)**	**10**	**(960)**	10
Closing life embedded value	**9,738**	**410**	**10,148**	11,063

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

Economic assumptions are derived actively based on market yields on risk-free fixed interest assets at each period end. Margins are applied on a consistent basis to risk free yields to obtain investment return assumptions for ordinary shares and property, and risk discount rates. The reductions in assumptions in 2002 reflect the fall in actual risk-free yields (for example, in the UK the 15-year gilt) over the year in each territory. Risk margins remain unchanged in all our key businesses.

The principal economic assumptions used are as follows:

	United Kingdom			France		
	2002	2001	2000	2002	2001	2000
Risk discount rate	**7.3%**	7.7%	7.4%	**8.1%**	8.6%	8.5%
Pre-tax investment returns:						
Base government fixed interest	**4.5%**	5.0%	4.7%	**4.3%**	5.1%	5.0%
Ordinary shares	**7.0%**	7.5%	7.2%	**6.3%**	7.1%	7.0%
Property	**6.0%**	6.5%	6.2%	**5.8%**	6.6%	6.5%
Future expense inflation	**3.6%**	3.7%	3.7%	**2.5%**	2.5%	2.5%
Tax rate	**30.0%**	30.0%	30.0%	**35.4%**	36.4%	37.8%

	Ireland			Italy		
	2002	2001	2000	2002	2001	2000
Risk discount rate	**8.7%**	9.3%	9.1%	**7.3%**	7.6%	7.5%
Pre-tax investment returns:						
Base government fixed interest	**4.6%**	5.3%	5.3%	**4.4%**	5.3%	5.3%
Ordinary shares	**7.6%**	8.3%	8.3%	**7.4%**	8.3%	8.3%
Property	**6.1%**	6.8%	6.8%	**5.9%**	6.8%	6.8%
Future expense inflation	**4.0%**	4.0%	5.0%	**3.3%**	3.3%	3.3%
Tax rate	**12.5%**	16.0%	20.0%	**39.8%**	41.0%	43.0%

	Netherlands			Poland*		
	2002	2001	2000	2002	2001	2000
Risk discount rate	**7.4%**	8.0%	8.0%	**15.4%**	18.5%	20.0%
Pre-tax investment returns:						
Base government fixed interest	**4.2%**	5.1%	5.0%	**8.0%**	12.5%	12.5%
Ordinary shares	**7.2%**	8.1%	7.9%	**8.0%**	12.5%	12.5%
Property	**5.7%**	6.6%	6.5%	**n/a**	n/a	n/a
Future expense inflation	**2.5%**	2.5%	2.5%	**5.4%**	9.2%	9.2%
Tax rate	**25.0%**	25.0%	25.0%	**27.0%**	28.0%	28.0%

*The economic assumptions shown above are those in the calculations for the life business. The economic assumptions for the pension business are identical with the exception of the risk discount rate which is 13.8% *(2001: 16.9%; 2000: 17.3%).*

Principal economic assumptions continued

	Spain		
	2002	2001	2000
Risk discount rate	**7.7%**	8.3%	8.4%
Pre-tax investment returns:			
Base government fixed interest	**4.6%**	5.3%	5.4%
Ordinary shares	**7.6%**	8.3%	8.4%
Property	**6.1%**	6.8%	6.9%
Future expense inflation	**3.0%**	3.2%	4.0%
Tax rate	**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 Aviva's recent operating experience.
- The management expenses of Aviva 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 Aviva'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**	**(45)**	**(225)**	**(275)**
Europe (excluding UK)				
France	**7**	**(8)**	**(60)**	**(65)**
Ireland	**3**	**(3)**	**(5)**	**(15)**
Italy	**2**	**(2)**	**–**	**(10)**
Netherlands (including Belgium and Luxembourg)	**7**	**(7)**	**(70)**	**(110)**
Poland	**–**	**(1)**	**–**	**(15)**
Spain	**(2)**	**(8)**	**(15)**	**(15)**
Other	**1**	**(1)**	**–**	**(5)**
International	**–**	**(5)**	**(5)**	**(15)**
	43	**(80)**	**(380)**	**(525)**

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.

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 business. Based on this, the Group's new business contribution is most, and broadly equally, sensitive to changes in future maintenance expenses and discontinuance rates, whereas the value of in-force business is most sensitive to changes in levels of future maintenance expense.

Auditors' report to the directors of Aviva plc on the alternative method of reporting long-term business profits

We have audited the supplementary information on pages 92 to 97 in respect of the year ended 31 December 2002, 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 profit basis, using the methodology and assumptions set out on pages 96 to 97. 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.

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

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 profit 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 2002 has been properly prepared in accordance with the achieved profit basis, using the methodology and assumptions set out on pages 96 to 97.

Ernst & Young LLP
London

25 February 2003

Aviva Group of companies

Parent Company
Aviva 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 Investment Services 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 Funds Limited
Norwich Union Investment Management Limited
Norwich Union Life & Pensions Limited
Norwich Union Linked Life Assurance Limited
Norwich Union Wealth Management Limited
Scottish General Insurance Company Limited
your-move.co.uk Limited

Australia
CGNU Australia Holdings Limited and its principal subsidiaries:
Norwich Union Life Australia Limited
Navigator Australia Limited

Belgium
Bank Nagelmackers 1747 NV *(Banking)* (99.6%)
Delta Lloyd Life NV

Bermuda
Curepool Limited

Canada
CGU Group Canada Limited and its principal operating subsidiary:
CGU Insurance Company of Canada

Czech Republic
Aviva zivotni pojist'ovna a.s.

France
Aviva Participations SA and its principal subsidiaries:
Aviva Assurances SA
Aviva Courtage SA
Aviva Direct SA
Aviva France SA
Aviva Gestion d'Actifs
Aviva Vie SA
Eurofil SA
Société d'Epargne Viagére SA (75.0%)
Union Financiere de France Banque (76.33%)

Germany
Delta Lloyd Deutschland AG and its principal subsidiary:
Berlinische Lebensversicherung AG (99.5%)

Hungary
Aviva Eletbiztosito Rt.

Ireland
Hibernian Group plc and its principal subsidiaries:
Hibernian General Insurance Limited
Hibernian Investment Managers Limited
Hibernian Life & Pensions Limited

Details of the principal joint ventures and associates are set out in notes 20 and 21 on pages 70 to 72.

Italy
Aviva Italia Holding 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 (50.0%)
Commercial Union Vita SpA (55.0%)
Eurovita Assicurazioni Spa (40.5%)
Risparmio Vita Assicurazioni Spa (55.0%)
Commercial Union Italia SpA

Luxembourg
Commercial Union International Life SA

Malaysia
CGU Insurance Berhad (56.9%)

Netherlands
Delta Lloyd NV and its principal subsidiaries:
Delta Lloyd Asset Management NV
Delta Lloyd Bankengroep NV *(Banking)*
Delta Lloyd Levensverzekering NV
Delta Lloyd Schadeverzekering NV
Delta Lloyd Zorgverzekering NV
OHRA Schadeverzekeringen NV
OHRA Levensverzekeringen NV

Poland
Commercial Union Polska Towarzystwo Ubezpieczen Ogolnych SA (90.0%)
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
Aviva Limited

Spain
Ahorro Andaluz, Entidad Gestora de Fondos de Pensiones (50.0%)
Aseguradora Valenciana, SA de Seguros y Reaseguros (50.0%)
Aviva Vida y Pensiones, SA de Seguros y Reaseguros
Bia Galicia de Seguros y Reaseguros (50.0%)
Caja Espana Vida, Compania de Seguros y Reaseguros (50.0%)
Unicorp Vida, Compania de Seguros y Reaseguros SA (50.0%)

Thailand
CGU Insurance (Thai) Co. Ltd (49.0%)

Turkey
Commercial Union Hayat Sigorta AS
Commercial Union Sigorta AS (98.63%)

United States
CGNU Corporation and its principal operating subsidiary:
CGU Life Insurance Company of America

Associates and joint ventures
In addition to the principal subsidiaries listed above, the Group has ongoing interests in the following operations that are classified as associates or joint ventures. Further details of those operations that were most significant in 2002 are set out in notes 20 and 21 on pages 70 to 72.

United Kingdom
RBS Life Investments Limited (49.99%)
The British Aviation Insurance Company Limited (38.1%)
The Group also has interests in several UK property limited partnerships. Further details are provided in note 20 on page 70.

China
AVIVA - COFCO Life Insurance Company Limited (50%)

France
ProCapital SA (43.5%)
Societe Fonciere Lynnouse (31.49%)

India
Aviva Life Insurance Company India Pvt. Limited (26%)

Shareholder information

Dividend Reinvestment Plan
Aviva's Dividend Reinvestment Plan (the "Plan") enables cash dividends to be reinvested in the Company's shares at reduced dealing costs. Shareholders who have not already joined the Plan and wish to do so should contact the Company's registrar (at the address opposite) to obtain full details and a mandate form. Shareholders who have previously elected to join the Plan need take no further action.

Dividend payments direct to your bank account
If you wish, you can have your dividend payments credited to your bank or building society account on the dividend payment date – a tax voucher will still be posted to your home address to confirm the payment. The Company has also recently introduced a service – the Transcontinental Account Payment Service ("TAPS") – which allows shareholders in many countries to have dividends credited direct to bank accounts in local currencies.

To obtain further details and a mandate form for either service please contact the Company's registrars (at the address opposite).

Shareview
Shareview is the internet based service that allows you to view your shareholding online and, if you wish, to receive shareholder communications (e.g. Notice of Meeting, Report and Accounts, etc.) via e-mail rather than by post.

To register for the service please go to www.shareview.co.uk where you will also find more details of the service, practical help and extensive information on other share registration matters.

Share price
If you would like to access the current share price of Aviva shares, you can call 0906 843 2197*. The share price is also posted on the Company's internet site at www.aviva.com

Shareholders with disabilities
Alternative versions of this publication (including Braille, large print and audio-tape) are available on request from the Company's registrar.

Shareholder profile
The categories of ordinary shareholders and the ranges and size of shareholding as at 31 December 2002 are set out below:

Analysis of shareholders	No. of shareholders	%	No. of shares	%
Individuals	910,179	96.38	316,496,215	14.02
Banks and nominee companies	24,285	2.57	1,742,711,608	77.22
Pension fund managers and insurance companies	133	0.02	36,741,529	1.63
Other corporate bodies	9,699	1.03	160,787,792	7.13
Total	944,296	100.00	2,256,737,144	100.00

Range of shareholdings	No. of shareholders	%	No. of shares	%
1 – 1,000	886,917	93.92	224,261,478	9.94
1,001 – 5,000	51,344	5.44	94,143,525	4.17
5,001 – 10,000	2,834	0.30	19,575,417	0.87
10,001 – 250,000	2,527	0.27	130,545,601	5.78
250,001 – 500,000	228	0.02	80,249,473	3.56
500,001 and above	446	0.05	1,707,961,650	75.68
Total	944,296	100.00	2,256,737,144	100.00

*Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute.

Group financial calendar for 2003

Ex-dividend date (ordinary shares)	26 March
Record date (ordinary shares)	28 March
First dividend payment for 8⅜% cumulative irredeemable preference shares	1 April
Announcement of first quarter long-term savings new business figures	24 April
Dividend Reinvestment Plan election date	25 April
Annual General Meeting	7 May
Dividend payment date (ordinary shares)	16 May
First dividend payment for 8¾% cumulative irredeemable preference shares	1 July
Announcement of unaudited six months' interim results	31 July
Second dividend payment for 8⅜% cumulative irredeemable preference shares	30 September
Announcement of third quarter long-term savings new business figures	23 October
Second dividend payment for 8¾% cumulative irredeemable preference shares	31 December

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 Aviva plc, as well as the name and address in which your shares are held, in all correspondence.

General shareholding administration queries and Aviva 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	0870 514 3263
Individual Savings Accounts ("Isas")	Lloyds TSB Registrars (Isa Manager)	The Causeway Worthing West Sussex BN99 6DA	0870 242 4244

Internet sites

Aviva owns various internet sites, most of which interlink with each other. For a list of all our websites, please go to: http://www.aviva.com/customers/global.cfm

Aviva group	www.aviva.com
UK long-term savings and general insurance	www.norwichunion.com
Fund management	www.morleyfm.com
Buying a home	www.your-move.co.uk

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