10 May 2000

UNAUDITED RESULTS – 3 MONTHS ENDED 31 MARCH 2000

A strong start to the year

- **The Group made a strong start to the year with the pre-tax operating profit significantly higher at £396m (1999 £255m), including life achieved operating profits.** On a modified statutory basis, pre-tax operating profits also increased to £234m (1999 £190m).
- **Life achieved operating profits increased to £289m (1999 £181m). Total life new business of £1.9bn included life and pensions sal es up 19%. New business value up 40%.**
- **General insurance profits up 46% to £165m, with rates firming in most businesses.**
- **CGNU merger on schedule to be completed around the end of May 2000, making the combined Group one of the leading European insurers.**

	3 months 2000 Unaudited	3 months 1999 Restated Unaudited
Premiums & investment sales: life & savings	**£2,487m**	£2,437m
: health insurance	**£229m**	£44m
: general insurance	**£2,404m**	£2,294m
Pre-tax operating profit *(i)*	**£396m**	£255m
Operating earnings per ordinary share *(i)*	**21.0p**	13.2p
Profit attributable to ordinary shareholders *(ii)*	**£230m**	£119m
Shareholders' funds	**£9,853m**	£9,567m (31 Dec 1999)

(i) Operating profits/earnings shown above include achieved life operating profits and exclude goodwill amortisation of £5m (1999 £4m) and exceptional items of £20m in 1999 (2000 nil).

(ii) Using modified statutory life profits and including short-term fluctuations in investment values.

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BOB SCOTT, GROUP CHIEF EXECUTIVE, COMMENTED:

"The Group made a strong start to the year with the pre-tax operating profit increasing by £141m to £396m, including life achieved operating profits, and operating earnings per share were up 59%. Our life, asset management and general insurance businesses all achieved better results, helped by the inclusion of acquisitions.

The strong development of our life and savings business continued with sales reaching £1.9bn, including a 19% increase in life and pensions new business. The pre-tax value of new business increased by 40% to £66m. Good growth continued in the UK with life and pension sales up 24% with similar product margins. In France, one of our largest life businesses, new business grew by 64% and in Poland we continued to benefit from our success in the new pensions market. Achieved life operating profits were up 68% to £289m, benefiting from changes in economic assumptions, growth in new business contribution and an increased roll up from a higher embedded value than at the start of last year. On a modified statutory basis, life profits increased to £127m from £116m last year, which now includes the results of Your Move, the UK estate agency chain.

We have significantly increased the distribution power of our UK life and savings businesses through deals with The Royal Bank of Scotland and Tesco. The Royal Bank of Scotland, when combined with NatWest, provides opportunities to sell through a network of some 2,000 branches and to 9 million current account customers. We also became the exclusive provider of life and pension products to Tesco Personal Finance, with its 1.4m customers. Discussions are continuing with Société Générale with a view to strengthening our position in the French long term savings market – we are also seeking other bancassurance distribution arrangements in Europe.

General insurance profits rose 46% to £165m, with improved underwriting results in the United Kingdom and United States, although increased estimates of claims from the December storms and large losses impacted results in Continental Europe. The longer term investment return was £62m higher at £362m, reflecting higher investment returns and acquisitions. General insurance premiums were up 7% to £2,404m, with rate increases being significant. Rating and underwriting actions continued to be taken in all our principal businesses with rates continuing to firm in most markets, including the United Kingdom. Our cost savings programme has produced one of the lowest administration expense ratios of the major players in the United Kingdom, with a reduction to 11% from 13% in the first quarter.

The group has a number of e-commerce and new technology initiatives underway. In March, we started selling life policies on the internet in the United Kingdom, and motor policies in France through Eurofil, the 2nd largest tele-direct writer. In a separate announcement today, we advised of the launch of "asserta home", a major e-commerce initiative for home buyers. This is the first strand of our wealth management project using internet technology, further announcements on which will be made at the time of the interim results.

We announced in February of this year the planned disposal of our US general insurance business, in preference to investing the substantial sums required to reach a leading market position. An information memorandum has been circulated to interested parties.

Our planned merger with Norwich Union to create CGNU, the United Kingdom's largest insurer, is on schedule for completion around the end of May. The merger received strong support from shareholders and good progress is being made on regulatory approvals around the world, including approval from the European Commission. Both companies have the management expertise and experience to successfully integrate these large businesses."

OTHER HIGHLIGHTS:

Acquisitions

The completed acquisitions of the Hibernian Group, NUTS OHRA and GAN Canada benefited the first quarter results. In total, they added £69m to life premiums, £179m to health premiums, £77m to general insurance premiums and £18m to pre-tax operating profits, including achieved life profits.

CGU merger integration and cost savings

Integration and cost savings from the CGU merger were largely completed at the end of 1999, with the annualised cost savings target of £325m achieved six months ahead of schedule. Total cost savings of £81m are reflected in the first quarter results, of which £47m are included in general insurance administrative expenses, £22m in claims handling expenses and £12m in life, asset management and unallocated expenses.

E-commerce

In a separate release today, the group announced the launch of "asserta home", a major new home-moving portal. The new initiative provides access to the largest on-line homes database with some 180,000 homes for sale, representing in the region of 50% of the market.

"asserta home" will be the first in the UK to offer a personalised and comprehensive on-line home-moving service, following extensive research to determine customer's needs during the house- buying process. Users can receive immediate updates of newly available homes via e-mail or mobile phone text messaging, search and rank properties on 16 different criteria, access photographs on-line, and organise home moves over the net 365 days a year, 24 hours a day.

The UK home-moving market generates fees and associated expenditure of over £9 billion per annum, and is an important entry point to the mortgage and insurance market. "asserta home" aims to build its revenues from commissions from mortgages, life protection products and from general insurance, in addition to advertising revenues and other transactional fees. The business is expected to be profitable during its third year and the investment to be made by CGU is estimated at £40m over 3 years. A major press and TV advertising campaign around the country will support the launch with TV advertising starting on 15 May. It is anticipated that the equity in "asserta home" will be owned as follows: 30% partner Estate Agents, 56% with CGU, and 14% for "asserta home" management and staff.

Shareholders' funds

Shareholders' funds amounted to £9,853m (31 Dec 1999 £9,567m) after deducting the equalisation provision of £132m (31 Dec 1999 £134m).

Net assets per ordinary share at 31 March 2000 were 735p (31 Dec 1999 714p) after deducting the equalisation provision. Adding back the equalisation provision, they were 745p (31 Dec 1999 724p). At 5 May 2000, net assets per ordinary share were estimated at 731p (741p adding back the equalisation provision).

The solvency margin (excluding life) was 49% (31 Dec 1999 49%).

The Group decided to reduce its strategic holding in Munich Re from 5.0% to 3.5%, which it completed by the end of April. The Group regards its current holding as a key element of its long standing relationship with Munich Re.

Return on equity (ROE)

The group's "normalised" after tax return on equity for the 12 months to 31 March 2000 was 9% (5 year average 14%). The normalised return is based on the after tax operating profits including life achieved operating profits, before exceptional items and goodwill amortisation, and the opening equity capital. The total return on equity, including all investment and currency movements over the 12 months to 31 March 2000, amounted to 13%.

Performance highlights including life achieved profits

3 months 2000 Unaudited €m		3 months 2000 Unaudited £m	3 months 1999 Restated Unaudited £m
	Revenues		
3,797	Life premiums	**2,315**	2,149
282	Investment sales	**172**	288
376	Health premiums	**229**	44
4,455		**2,716**	2,481
3,943	General insurance premiums	**2,404**	2,294
8,398	Total	**5,120**	4,775
	Operating profit		
473	Life achieved operating profits	**289**	181
15	Health	**9**	7
271	General insurance	**165**	113
2	Associated undertakings	**1**	6
41	Asset management	**25**	13
802		**489**	320
(153)	Unallocated expenses and interest charges	**(93)**	(65)
649	**Pre-tax operating profit before goodwill amortisation and exceptional items**	**396**	255
(198)	Taxation, minorities and preference dividends	**(121)**	(82)
451	**Operating profit before goodwill amortisation and exceptional items, after taxation, attributable to equity shareholders**	**275**	173
34.4c	**Per share** (ii)	**21.0p**	13.2p

Reconciliation to modified statutory operating profit

3 months 2000 Unaudited €m		3 months 2000 Unaudited £m	3 months 1999 Restated Unaudited £m
649	**Pre-tax operating profit, including life achieved profits, before goodwill amortisation and exceptional items**	**396**	255
(473)	Deduct life achieved profits	**(289)**	(181)
208	Add modified statutory life profits	**127**	116
384	**Pre-tax operating profit, including modified statutory life profits, before goodwill amortisation and exceptional items**	**234**	190
(8)	Goodwill amortisation	**(5)**	(4)
376	**Pre-tax operating profit before exceptional items**	**229**	186
-	Exceptional items	**-**	(20)
376	**Operating profit before taxation**	**229**	166

Notes

(i) Unaudited financial statements follow on page 18.

(ii) Per share workings on page 17.

NOTES TO EDITORS

- On 21 February 2000, CGU and Norwich Union announced a proposed merger of the two groups. This was approved by both CGU and Norwich Union shareholders at Extraordinary General Meetings on 31 March 2000 and the proposed merger is on schedule to be completed around the end of May 2000.

- CGNU will be the largest insurance group in the UK with worldwide premium income and retail investment sales of £26bn and will be a top 5 European life insurer based on premium income.

- CGNU will be the second largest UK based fund manager with worldwide assets and additional funds under management in excess of £200bn.

- The distribution of CGU's total premiums and investment sales of £18.5 billion for the 12 months to 31 March 2000 is shown below. Life premiums, investment sales and health premiums accounted for 54% of the group's total business.

	Life, investment Sales and health %	General %	Total %
UK	24	14	38
France	12	3	15
Netherlands	6	2	8
Other Europe	10	3	13
United States	2	14	16
Canada	-	5	5
Australia & NZ	-	3	3
Rest of World	-	2	2

- All growth rates are quoted in local currency.

- Overseas currency results are translated at average exchange rates.

- CGU's corporate press releases and results presentations are available on the Internet: www.cgugroup.com/group

A review of CGU's business performance follows

BUSINESS REVIEW

LIFE

ACHIEVED LIFE PROFITS

Life achieved operating profits increased by 68% to £289m.

The new business contribution increased by 40% at constant rates of exchange to £66m, boosted by strong first quarter sales, broadly maintained margins and the benefit of higher long term interest rates.
The expected return increased considerably as the benefits of higher interest rates on a strongly growing embedded value came through. In addition, there was a one-off uplift of £66m, following the alignment of economic assumptions for achieved profits between CGU and Norwich Union, in line with the pro-forma analysis provided in the merger press release of 21 February 2000. The £66m benefit was split as follows: UK £24m, France £7m, and £35m in the Netherlands. The changes mainly reflect property investment margin assumptions.

Achieved operating profits

	3 months 2000 £m	3 months 1999 £m
New business contribution	66	49
Expected return	167	123
Effect of experience	(3)	7
Alignment of economic assumptions	66	-
Achieved operating profit before tax	296	179
Other life and savings activities	(7)	2
Life operating profit before tax	289	181

A more detailed analysis of life profits is given below. In view of the sizeable movement in interest rates, the 1999 new business contribution has also been shown using the same economic assumptions as have been applied in 2000, to allow a better underlying comparison between 2000 and 1999.

Analysis of life profits	Profit on business in force and net assets		New business contribution			Total		
	3mths 2000	3mths 1999	3 mths 2000	3 mths 1999 *(i)*	3 mths 1999 published	3 mths 2000	3 mths 1999 *(i)*	3 mth 1999 published
	£m	£m	£m	£m	£m	£m	£m	£m
Life operating profit before taxation								
UK	91	44	39	31	27	130	75	71
France	39	26	9	8	7	48	34	33
Netherlands	78	43	3	3	-	81	46	43
Italy	4	3	1	10	10	5	13	13
Poland – life	9	12	3	7	6	12	19	18
Poland – pensions	3	(1)	11	-	-	14	(1)	(1)
Other Europe	2	(1)	(1)	(3)	(3)	1	(4)	(4)
Other life businesses	4	4	1	2	2	5	6	6
	230	130	66	58	49	296	188	179
Other life & savings activities *(ii)*						(7)	2	2
Life operating profit before taxation						289	190	181
Effect of changes in interest rates and Investment return fluctuations						105		117
Achieved profit before taxation						394		298
Taxation						(127)		(89)
Achieved profit after taxation						267		209

Notes:

(i) *New business contribution has been shown using 2000 economic assumptions.*

(ii) *Profits of other life and savings activities, which include service companies, have been calculated on a statutory basis. The result includes a loss of £12m (1999 loss £4m) from Your Move, the UK estate agency chain, previously included in other financial services.*

Life profits reporting

Life profits are shown using the "achieved" profits basis. We believe this is a better measure of the performance of our life businesses than the modified statutory basis, which is deliberately conservative and more concerned with solvency protection and distributability than performance. The modified statutory basis for life profits is used in the statutory financial statements at the end of this report.

LIFE AND SAVINGS NEW BUSINESS

Our life and savings businesses made good progress in the first quarter, with good growth in sales and profit contribution. Total sales of £1.9bn included life and pensions new business of £1.7bn, up 19%. UK life and pension sales were up 24%, France produced an excellent performance with sales up 64%, and we continued to benefit from our success in Polish pensions, having captured around 30% of pension funds under management in the privatised market.

New business sales

	New single premiums		New annual premiums		Investment sales *(ii)*		Total
	3 mths 2000 £m	Local currency growth %	3 mths 2000 £m	Local currency growth %	3 mths 2000 £m	Local currency growth %	Local currency Growth %
UK	749	24	46	28	104	(60)	-
France	466	64	4	29			64
Netherlands *(iii)*	109	32	15	(13)			25
Italy	59	(77)	1	(90)			(77)
Poland – life	3	24	12	(24)			(17)
Poland – pensions	-	n/a	77	n/a			n/a
Germany	14	(69)	12	95			(49)
Other Europe *(iv)*	72	180	10	264	68	138	163
Rest of World	50	20	13	16			19
Total	1,522	14	190	79	172	(40)	9

Notes:
(i) *Premiums are gross of reassurance.*
(ii) *Includes ISAs, PEPs, unit trusts and UCITS (collective investments sold throughout Europe and Asia).*
(iii) *Figures include £20m in single premiums and £0.4m in annual premiums from NUTS OHRA.*
(iv) *Figures include £26m in single premiums and £6m in annual premiums from Hibernian.*

New business contribution

	New annualised premiums *(i)*		New business contribution		
	3 mths 2000 £m	3 mths 1999 £m	3 mths 2000 £m	3 mths 1999 at 2000 assumptions *(ii)* £m	3 mths 1999 published £m
UK	121	97	39	31	27
France	51	36	9	8	7
Netherlands	26	28	3	3	-
Italy	7	44	1	10	10
Poland – life	12	16	3	7	6
Poland – pensions	77	-	11	-	-
Other Europe	30	18	(1)	(3)	(3)
Other life businesses	18	15	1	2	2
Total	342	254	66	58	49

Notes:
(i) Annualised premiums are annual premiums plus 10% of single premiums.
(ii) 1999 new business contribution has been shown using the application of year 2000 economic assumptions.

UK : CGU Life is a top 3 life insurer for new business and has a market share of around 5% . It is one of the UK's strongest life offices, with an estate of some £5 billion in the with-profits funds, low unit costs and a multi-distribution capability.

The profit from new business increased by 26% to £39m, with a strong contribution from higher sales of with-profit bonds more than offsetting lower endowment sales. Product margins were similar to those of 1999.

New life and pension sales were 24% higher at £795m with strong growth in with-profit bonds, protection and pension products, where the option for a penalty-free transfer into a new stakeholder pension has boosted sales.

France : The profit contribution from new business was up 19% to £9m. This reflects higher AFER sales, an increasing proportion of which are more profitable unit-linked contracts. Margins on other savings products have also improved, although margins were lower for protection products. CGU France produced an excellent first quarter with single premium sales up 64% to £466m. AFER's strong market position as the leading savings organisation in France and its excellent investment return record helped boost bond sales to £207m, up 39%. Unit-linked sales (including £89m in unit-linked AFER sales) and other savings products more than doubled to £223m.

Netherlands : The new business contribution of £3m was maintained. The overall value of our Netherlands business continues to have strong upside potential to benefit from higher investment returns, as it has over previous years, than the long term assumptions used.

Delta Lloyd Nuts Ohra is the third largest life and pensions insurer in the Netherlands, with a market share of around 6%. Single premium sales were up 32% at £109m, boosted by the inclusion of £20m from the acquisition of NUTS OHRA and increased individual pensions sales. For annual premiums, sales of Delta Life increased by 27% to £3m, and group pensions of £5m were 13% higher. We reduced sales of less profitable protection products and overall, new annual premiums of £15m were 13% lower.

Italy : Underlying margins were similar to last year, but lower new business volumes have led to a reduction in new business contribution to £1m (1999 £10m). Our bancassurance partnership with Banca delle Marche is developing well, with £16m of single premium sales in the first quarter (1999 nil). Banca Popolare di Lodi added £3m in single premiums and £1m in new annual premiums. Overall, single and annual premiums were lower at £59m and £1m respectively, following the ending of our bancassurance agreement with Credito Italiano last year.

Poland : New business profits remain strong in Poland, reflecting an excellent contribution from pensions business.

In Poland, we are the market leader for private pensions having captured over 20% of the market by number of customers and around 30% by funds under management. We now have a customer base in excess of 3 million, providing future cross-selling opportunities.

New annual pension premiums of £77m were received in the first quarter. Along with the £282m of annual pension premiums received in 1999, this represents the processing of 2 million cases, with a further 300,000 cases in the pipeline. In the first quarter, we attracted a further 26,000 non-mandatory new pension cases, with the premiums to be processed in the second quarter.

CU Polska increased its share of the life market to 20% in 1999, up from 18%. First quarter 2000 life sales were lower following the market's focus on pension business last year with annual premiums at £12m. However, single premiums were higher at £3m.

Other : In our 'other European' businesses, the overall value of new business was higher, mainly reflecting the acquisition of Hibernian in January 2000. The new business contribution also improved in Turkey following the doubling of annual premium sales to £6m.

Profit on business in-force and net assets

	Expected return using 1-1-2000 assumptions	Effect of changes in assumptions	Effect of experience and other changes	Total	
	3 mths 2000 £m	3 mths 2000 £m	3 mths 2000 £m	3 mths 2000 £m	3 mths 1999 £m
UK	67	24	-	91	44
France	32	7	-	39	26
Netherlands	40	35	3	78	43
Italy	4	-	-	4	3
Poland – life	9	-	-	9	12
Poland – pensions	3	-	-	3	(1)
Other Europe	4	-	(2)	2	(1)
Other life businesses	8	-	(4)	4	4
Total	167	66	(3)	230	130

Profit on business in force and net assets has been split into three components.

(i) The 'Expected return' is the investment return we anticipated earning on the start of year embedded value. It comprises earnings at the risk discount rate on the start of the year value of in force business and at the long term investment return on the net assets. The rates used are those applicable at the beginning of 2000.

(ii) The 'Effect of changes in assumptions' reflects the alignment of CGU economic assumptions in line with the CGNU proforma basis for 1999. These mainly relate to changes in the property investment margin assumptions.

(iii) The 'Effect of experience and other changes' comprises any impact from such items as changes in mortality, lapse and expense assumptions, together with experience variations in 2000. These items are fully reviewed on an annual basis, with the main impact in the fourth quarter. Movements in the first three quarters will normally be small.

Analysis of embedded value

	Net assets		Valuation of in-force		Total Embedded value	
	3mths 2000 £m	3 mths 1999 £m	3 mths 2000 £m	3 mths 1999 £m	3 mths 2000 £m	3 mths 1999 £m
UK	87	116	2,175	1,820	2,262	1,936
France	465	463	466	366	931	829
Netherlands	850	756	965	765	1,815	1,521
Italy	60	64	63	46	123	110
Poland – life	43	27	93	69	136	96
Poland – pensions	15	20	53	-	68	20
Other Europe	39	30	136	65	175	95
Other life businesses	199	176	41	46	240	222
Total	1,758	1,652	3,992	3,177	5,750	4,829

Analysis of movement in embedded value

	3 months 2000 £m	3 months 1999 £m
Opening balance	**5,675**	4,868
Achieved profits (excluding other life and savings activities)	**401**	296
Embedded value of acquired businesses	**57**	-
Capital injections	**8**	2
Dividends	**(159)**	(104)
Tax	**(129)**	(88)
Exchange movements	**(103)**	(145)
Closing balance	**5,750**	4,829

An analysis of worldwide life premium income and investment sales is shown below:

	3 months 2000 £m	3 months 1999 £m
Life		
UK	1,020	859
France	507	439
Netherlands	298	274
Italy	98	322
Poland	139	50
Ireland	64	20
Other Europe	107	116
United States	59	51
Canada	18	16
Other life businesses	5	2
	2,315	2,149
Investment sales		
United Kingdom	104	259
Other Europe	68	29
	172	288
Total	2,487	2,437

MODIFIED STATUTORY LIFE PROFITS

Modified statutory profits of £127m were 15% higher at constant rates of exchange. Your Move, the UK estate agency chain, has been included in the UK life result. Following extensive advertising for the new brand name, which has been charged fully to profits, there was a loss of £12m in the first three months (1999 loss £4m).

	Modified statutory profits 3 mths 2000 £m	3 mths 1999 £m
UK	59	56
France	26	19
Netherlands	32	31
Italy	3	7
Poland – life	10	4
Poland – pensions	(3)	(1)
Other Europe	(3)	(2)
Other life businesses	3	2
Total	127	116

HEALTH

The Group sees opportunities in selected health markets, driven by ageing populations and the resulting pressures on state funded health schemes. In the Netherlands, we have a significant health business following the acquisition of NUTS OHRA. Health business there is often sold through employee packages, providing synergies with group pension sales where we have a strong market position.

At the end of 1999, the Group began reporting health business separately. For comparison purposes, premiums of £25m and £19m in respect of the first quarter 1999 have been reclassified from the French and Netherlands general insurance business into health. Operating profits for health business are reported on a statutory basis and benefited from the acquisition of NUTS OHRA. Rates were up by 13% in the sickness segment of the Dutch health business.

	Health profit 3 mths 2000 £m	3 mths 1999 £m	Underwriting result 3 mths 2000 £m	3 mths 1999 £m	Premiums 3 mths 2000 £m	3 mths 1999 £m	Local currency growth %
France	3	4	1	3	25	25	8
Netherlands	6	3	(6)	(1)	204	19	1,138
Total	9	7	(5)	2	229	44	479

GENERAL INSURANCE

General insurance profits were up 46% to £165m, with better underwriting results from our largest businesses in the United Kingdom and United States and a strong increase in the longer term investment return. Weather claims were also favourable in the first quarter at £60m (1999 £74m).

General insurance premiums rose 7% to £2,404m with rates continuing to firm in most of our principal markets.

The longer term investment return ("LTIR"), applicable to general insurance business, increased to £362m (1999 £300m). The improvement reflected higher investment returns and acquisitions. Details of the principal assumptions for calculating the LTIR are outlined on page 16.

The group combined operating ratio was 108% (1999 108%) and the general insurance administration expense ratio reduced to 13.1% from 13.4%, driven by an excellent performance in the UK.

	General insurance profit 3 months		Underwriting result 3 months		Premiums 3 months		Local currency growth
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	%
UK	47	17	(64)	(78)	737	710	4
France *(note)*	(13)	(3)	(37)	(18)	218	241	2
Netherlands *(note)*	6	9	(10)	(5)	103	95	22
Other Europe	6	-	(18)	(18)	216	183	32
United States	79	60	(26)	(33)	680	655	2
Canada	12	11	(19)	(17)	195	164	12
Australia & NZ	17	9	(6)	(8)	133	129	3
Rest of World	8	5	(8)	(7)	103	97	7
Group reinsurance	3	5	(9)	(3)	19	20	(4)
	165	113	(197)	(187)	2,404	2,294	7

Note: Health business has been removed from France and the Netherlands and reported separately.

UK: Underwriting results continued to respond to rate increases, portfolio improvements and cost savings although a number of large claims impacted the commercial property account in the first quarter. The administration expense ratio reduced to 11% from 13%. Results continued to improve in the motor classes where premium rates have risen over the last 12 months by 20% in both private and commercial lines. The homeowners class, which accounts for over 20% of UK business, made another good underwriting profit. Liability rates are up 8% and will increase further during the year. CGU led the market with rate increases and as the market up-rates to our rating strength, our new business levels are improving. Trading conditions are improving in the London marine market, with hull and energy classes starting to firm. Revenue increased following additional capacity in our Lloyds syndicates.

France: Underwriting results were affected by an increase of some £9m in the estimated cost of last year's winter storm claims and by large claims in the quarter. Rates in personal lines have hardened in the market following the impact of the severe storms in December and single digit increases are being achieved in motor and commercial property.

Further growth was achieved at Eurofil, the second largest direct writer in France, with the improvement in underwriting largely reflecting a lower level of advertising spend against the first quarter last year.

Netherlands: Motor results are responding to rate increases and a further 7% has been implemented at the start of the year. A number of large claims impacted the commercial fire and bourse business results. NUTS OHRA produced a break-even underwriting result and contributed premiums of £12m.

Other Europe: The growth in premium income and stable underwriting results followed inclusion of the Hibernian which produced an underwriting loss of £3m and contributed premiums of £50m. Other countries' results were broadly in line with last year.

Rate increases continued to be applied for motor business in most countries, reflecting the trend towards higher settlement claims. In Ireland, motor rates were up 5%, with double digit increases in household and liability.

United States: There was a further underwriting improvement from our US business to a combined statutory operating ratio of 101% in the first quarter. Results benefited from favourable weather claims, which were £12m lower than the first quarter last year.

Workers' compensation produced a lower underwriting loss and carried an average rate increase of 8.5% across the class. Rates were also 5.5% higher in our agri business. In the market, commercial lines rates continued to harden and were up by 6% across CGU's portfolio. Rate increases were applied across most classes of CGU's business and actions continued to be taken on underperforming segments.

Canada: Underwriting results at our market leading Canadian business were at a similar level to last year, allowing for the acquisition of GAN Canada, which also accounted for most of the premium growth. Favourable weather conditions benefited property results, although large claims affected the motor account, where we are carrying selective rate increases of between 3-6%.

Australia: Underwriting results improved reflecting rate increases and underwriting actions. The market has hardened with rate increases achieved at CGU averaging 6% for motor classes, 14% in liability and significant increases in workers' compensation.

ASSOCIATES

Profits from associates were lower at £1m (1999 £6m), which largely reflected the consolidation of the Hibernian Group as a subsidiary following its acquisition in January 2000.

ASSET MANAGEMENT

CGU managed assets of £140bn at 31 March 2000 (31 December 1999 £136bn), making it one of the top 20 European fund managers. The group's strategy is to grow in the third party fund management market and mandates for new funds and other third party funds of £194m (1999 £130m) were received in the first quarter.

Profits from asset management, which now excludes other financial services results, increased to £25m (1999 £13m). The improvement reflected the reclassification of other financial services businesses to life and general insurance and the establishment of arms length fee arrangements as well as a strong increase in profits to £11m from Delta Lloyd Nuts Ohra.

OTHER FINANCIAL HIGHLIGHTS

SHAREHOLDERS' FUNDS

Shareholders' funds amounted to £9,853m (31 Dec 1999 £9,567m) after deducting the equalisation provision of £132m (31 Dec 1999 £134m). A good increase in shareholders' funds included an increase of £169m in the valuation of in-force life business, before the effect of exchange rate changes, in addition to the profit attributable to ordinary shareholders as set out on page 18. Movements in rates of exchange had a negative effect of £117m of which £41m related to the reserve arising on the valuation of in-force life business.

UNALLOCATED EXPENSES

Unallocated expenses amounted to £26m (1999 £18m). These expenses included a number of business development initiatives and worldwide staff profit sharing expenses.

UNALLOCATED INTEREST CHARGES

Unallocated interest charges include interest on intra-group loans with the centre and external borrowings not allocated to territorial operations. These charges amounted to £67m (1999 £47m) and included external loan interest of £21m (1999 £16m). The increase reflected acquisitions, higher interest rates and the purchase of strategic investments.

LONGER TERM INVESTMENT RETURN (LTIR)

The longer term investment return applicable to general business results is calculated separately for each principal general insurance business unit. 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. For other investments, the actual income receivable is included. The principal assumptions underlying the calculation of the LTIR are:-

	Longer term rates of return			
	Equities		Properties	
	2000	1999	2000	1999
	%	%	%	%
UK	8.1	6.9	6.6	5.4
France	7.5	5.9	6.5	4.9
Netherlands	8.4	6.8	6.5	4.9
United States	9.3	7.7	7.3	5.7
Canada	9.3	7.9	7.3	5.9
Australia & NZ	10.0	8.0	8.0	6.0

The euro

Our businesses in the euro zone are continuing to work actively to prepare for the final conversion. Costs incurred to date for the introduction of the euro amount to £37m, with £4m included in these results. The expected total cost of preparation for the euro is some £70m, excluding the UK.

EARNINGS PER SH ARE CALCULATION

Earnings per share	3 months 2000 Before tax £m	3 months 2000 Net of tax, minorities and preference dividend £m	3 months 2000 Per share p	3 months 1999 Before tax £m	3 months 1999 Net of tax, minorities and preference dividend £m	3 months 1999 Per share p
Operating profit, including life achieved profits, before goodwill amortisation and exceptional items	**396**	**275**	**21.0**	255	173	13.2
Deduct life achieved profits	(289)	(191)	(14.6)	(181)	(118)	(9.0)
Add modified statutory life profit	127	81	6.2	116	78	6.0
Operating profit, including modified statutory life profits, before goodwill amortisation and exceptional items	**234**	**165**	**12.6**	190	133	10.2
Goodwill amortisation	(5)	(5)	(0.4)	(4)	(4)	(0.3)
Operating profit before exceptional items	229	160	12.2	186	129	9.9
Exceptional items	-	-	-	(20)	(17)	(1.3)
Operating profit	229	160	12.2	166	112	8.6
Short-term fluctuations in investment returns	154	70	5.3	8	18	1.4
Change in the equalisation provision	-	-	-	(11)	(11)	(0.9)
Profit attributable to equity shareholder	**383**	**230**	**17.5**	163	119	9.1

Earnings per share were calculated using a weighted average of 1312.7m (31 March 1999 average of 1309.4m) ordinary shares in issue.

Achieved profits assumptions follow.

ACHIEVED PROFITS ASSUMPTIONS

The key economic assumptions are listed below:

	United Kingdom		France		Netherlands		Italy		Poland Life		Poland Pensions	
	EV	Operating profits	EV	Operating profits	EV	Operating profits	EV	Operating profits	EV	Operating profits	EV	Operating profits
	%	%	%	%	%	%	%	%	%	%	%	%
Risk margin	4.0	4.0	5.2	5.2	4.5	4.5	4.4	4.4	10.5	10.5	8.0	8.0
After tax discount rate (excluding risk margin)	3.5	3.6	3.2	3.3	3.6	3.6	3.2	3.2	8.4	8.4	8.4	8.4
Risk discount rate	7.6	7.8	8.6	8.7	8.3	8.3	7.7	7.7	19.8	19.8	17.1	17.1
Pre-tax investment returns:												
Base Government fixed interest return*	5.0	5.2	5.3	5.5	5.5	5.5	5.6	5.6	12.5	12.5	12.5	12.5
Ordinary shares	7.5	7.7	7.3	7.5	8.4	8.4	8.6	8.6	12.5	12.5	12.5	12.5
Property	6.5	6.7	6.8	7.0	7.0	7.0	7.1	7.1	-	-	-	-
Future expense inflation	4.1	3.7	2.5	2.5	2.5	2.5	2.5	2.5	9.2	9.2	9.2	9.2
Tax rate for grossing up profits and new business contribution		30.0		40.0		25.0		43.0		33.0		33.0

* The assumed return for fixed interest investments depends upon the actual duration of the assets.
Note: There is no longer any risk margin differential for unit-linked business.