

26 February 2003

PRELIMINARY RESULTS 12 MONTHS ENDED 31 DECEMBER 2002

AVIVA REPORTS ROBUST OPERATING PROFIT* OF £1,798 MILLION (2001: £1,983 MILLION) FOR THE 12 MONTHS TO 31 DECEMBER 2002. On a modified statutory basis, operating profit** was £1,296 million (2001: £1,512 million)

ROBUST LIFE PERFORMANCE IN TOUGH MARKETS

- **Total life achieved operating profit of £1,524 million (2001: £1,665 million)** after a net charge of £123 million (2001: £78 million) arising from prudent annuitant mortality strengthening
- **New business contribution of £578 million (2001: £591 million)** with worldwide margins of 24.4% (2001: 25.5%)
- **Leading position in European bancassurance distribution with worldwide bancassurance sales up 50% to £3.0 billion (2001: £2.0 billion)**
- **Continuing benefits of geographical diversity with our Continental European businesses contributing 49% of life achieved operating profit**

EXCELLENT GENERAL INSURANCE RESULT

- **Worldwide combined operating ratio[†] of 101.4% (2001: 104%)**
- **Worldwide combined operating ratio on continuing operations^{††} of 101.7% (2001: 103%)**
- **General insurance operating profit[†] higher at £959 million (2001: £924 million)**

RESILIENT CAPITAL POSITION

- **Equity shareholders' funds of £9.5 billion (2001: £11.6 billion, restated****)**
- **Orphan estate is estimated at £4.3 billion and the estimated free asset ratio[#] of the UK life funds is 11.8%**

Richard Harvey, Group Chief Executive, commented:

"We have delivered a robust set of results in a difficult year where the ongoing turmoil in investment markets has affected consumer demand and investor sentiment. These results demonstrate the effectiveness of our product and distribution strategies and are a measure of the Group's financial and operational strength.

"The benefits of a strong business model, where resilient long-term savings operations are allied with a cash-generative general insurance business, are evident in these tough market conditions. We expect 2003 to be a challenging year and will continue our emphasis on capital disciplines, cost management and building our bancassurance opportunities."

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

** From continuing and discontinued operations, before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.

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

Calculated in accordance with FSA regulations and includes implicit items.

† From continuing and discontinued operations.

†† Continuing operations excludes the results of the disposed general insurance operations in Australia and New Zealand sold in 2002 and the results of the US general insurance operations sold in June 2001.
All growth rates quoted are at constant rates of exchange.

FINANCIAL HIGHLIGHTS

| | 2002 £m | Restated* 2001 £m |
|--|--------------|-------------------------|
| Total premiums written (after reinsurance) and investment sales | | |
| Continuing operations, including share of associates' premiums | 27,933 | 27,756 |
| Discontinued operations | | |
| – Australia and New Zealand general insurance operations | 692 | 583 |
| – US general insurance operations | - | 1,103 |
| | 28,625 | 29,442 |
| Worldwide long-term savings new business sales | | |
| Life and pensions | 13,618 | 13,479 |
| Retail investments | 1,028 | 1,475 |
| New business contribution (before effect of solvency margin) | 578 | 591 |
| Achieved operating profit before tax | | |
| Life achieved operating profit** | 1,524 | 1,665 |
| Health | 61 | 70 |
| Fund management | 5 | 29 |
| General insurance | 881 | 876 |
| Non-insurance operations** | (69) | 7 |
| Corporate costs | (218) | (187) |
| Unallocated interest charges | (434) | (426) |
| Wealth management | (30) | (99) |
| Achieved operating profit before tax – continuing operations | 1,720 | 1,935 |
| Discontinued operations | | |
| – Australia and New Zealand general insurance operations (sold December 2002) | 78 | 69 |
| – US general insurance operation (sold June 2001) | - | (21) |
| Achieved operating profit before tax | 1,798 | 1,983 |
| Modified statutory operating profit [†] | 1,296 | 1,512 |
| Modified statutory operating profit after tax, minorities and preference dividends [†] | 856 | 959 |
| Achieved operating earnings per share [†] | 51.5p | 55.5p |
| Modified statutory operating earnings per share [†] | 38.0p | 42.6p |
| Final dividend per ordinary share | 14.25p | 23.75p |
| Total dividend per ordinary share | 23.0p | 38.0p |
| Equity shareholders' funds | 9,469 | 11,552 |
| Total shareholders' funds | 9,669 | 11,752 |
| Net asset value per ordinary share [#] | 433p | 524p |
| Assets under management | £208bn | £209bn |

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

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

† From continuing and discontinued operations.

After adding back the claims equalisation provision.

GROUP CHIEF EXECUTIVE'S STATEMENT

2002 has been a difficult year with ongoing turmoil in investment markets affecting consumer demand and investor sentiment. The Group has delivered a robust set of results with operating profit before tax from continuing and discontinued operations of £1,798 million (2001: £1,983 million).

These results demonstrate the importance of our broad product range and multi-distribution strategy, which have enabled us to deliver solid results in challenging times. We have a strong business model, with long-term savings operations allied to a cash-generating general insurance business. A particular strength is our breadth of distribution, which includes one of the leading bancassurance networks in Europe.

Long-term savings

As the largest provider of life and pensions to Europe, we have delivered a solid performance despite the challenging conditions that have affected the savings industry as a whole. Worldwide new business sales were £14.6 billion (2001: £15.0 billion) with margins at 24.4% (2001: 25.5%), reflecting the impact of a shift in product mix in some territories.

In the UK the Group has achieved life and pension sales of £1,231 million (2001: £1,269 million) on an Annual Premium Equivalent (APE) basis. Life achieved operating profit in the UK was lower at £699 million (2001: £850 million) and is after strengthening our annuitant mortality reserves at a net cost of £123 million (2001: £78 million). In setting our assumptions for calculating our embedded values, we have taken into account the recent experience studies of the Continuous Mortality Investigation Bureau (CMIB). Our current experience shows profits against the existing reserve basis, but we have taken the prudent decision to strengthen our base mortality assumptions to reflect the study.

During 2002, there were a number of reviews relating to the UK long-term savings market, including the proposals outlined in the Government's recent Green Paper on UK pensions and taxation reform. We broadly welcome these proposals as a first step, but we believe they need to go further in providing savings incentives if they are to close the savings gap. We agree that a price cap on Sandler-style products should be open to consultation. We have made it clear that we will not write business at uneconomic rates of return.

In Continental Europe, life and pension sales increased to £967 million (2001: £918 million) on an APE basis, demonstrating the success of our growing bancassurance businesses in Italy and Spain. Life achieved operating profit from Continental Europe was £747 million (2001: £779 million) which represents 49% of our total life achieved operating result.

Bancassurance is an important part of our distribution strategy and in 2002 worldwide sales through this channel increased by 50% to £3.0 billion (2001: £2.0 billion). We continue to seek opportunities to extend our reach across the important long-term savings markets of Europe and have recently secured new bancassurance agreements with ABN AMRO in the Netherlands, Credit du Nord in France, Caja de Granada in Spain and Banca Popolare Commerciale e Industria ("BPCI") in Italy. These arrangements offer further potential for growth in our life and pensions distribution through access to our new partners' existing customer bases and deploy the extensive experience held within our worldwide group. In addition we completed our partnership with Médéric, a French mutual, which will commence sales in the first half of 2003.

Fund management

The sustained fall in world investment markets has inevitably continued to impact the results of our fund management business. Overall operating profit for the year reflected this and was lower at £5 million (2001: £29 million). Worldwide funds under management were maintained at £208 billion (2001: £209 billion), as the impact of new business flows in the period offset the falls in worldwide investment markets.

General insurance

Our cash-generative general insurance business is an integral part of our operating model. We are the number one general insurer in the UK and Ireland and have top-five positions in Canada and the Netherlands. Our general insurance business, including both continuing and discontinued operations, contributed an operating profit of £959 million (2001: £924 million). On the same basis our worldwide combined operating ratio (COR) improved to 101.4% reflecting the rating actions taken during the year and our strict approach to underwriting. The COR of our continuing operations was 101.7% (2001: 103%). These results demonstrate the success of our strategy to focus on personal lines and small commercial business. We have exceeded our COR target and remain confident of our ability to maintain a COR of 102% across the underwriting cycle.

As we announced in October, we have sold our Australian and New Zealand general insurance businesses to Insurance Australia Group Limited ("IAG") following an unsolicited approach which the Board considered to be an excellent deal for the Group's shareholders.

Shareholders' capital employed and financial strength

In a market that increasingly looks for quality and financial strength, our resilient capital position is fundamental to our business. While the Group achieved a robust operating performance, this has been offset by the falls in investment markets. As a result the equity shareholders' funds were £9.5 billion (2001: £11.6 billion, restated) which is equivalent to 433 pence per share (2001: 524 pence, restated).

The solvency position of our main trading operations remains strong despite market falls. At 31 December 2002 the average free asset ratio of our main UK life trading operations was 11.8% (7.7% excluding implicit items), and the orphan estate was

£4.3 billion (2001: £5.2 billion). This orphan estate estimate 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.

Furthermore, the solvency capital of our combined general insurance and overseas life operations remains strong with an estimated excess solvency margin of £2.3 billion at 31 December 2002. The solvency margin of the combined regulated Group is resilient to market falls.

Dividend

In line with our previous announcement, the Board recommends a final dividend of 14.25 pence net per share payable on 16 May 2003 to shareholders on the register at 28 March 2003. This brings the total dividend for the year to 23.0 pence net per share (2001: 38.0 pence net per share).

Outlook

We expect the challenging conditions we have faced during the past twelve months to continue throughout 2003, particularly in long-term savings markets where we expect some of our key markets to contract. We will continue to improve our efficiency while delivering high standards of service to customers. Our recent announcement to build a new call centre and claims processing operation in India and our restructuring of our UK life sales and marketing function are examples of this. We have already announced our commitment to reducing unit costs in our UK life business and we will continue to drive down costs across our businesses to ensure that costs are appropriately aligned to revenues. We have a track record of achieving cost savings, as demonstrated by the merger, when savings exceeded our targets.

2003 will also benefit from a number of new developments including our new distribution channels in Spain, Italy, the Netherlands and France coming on stream. We will also launch collective investment products into our joint venture with The Royal Bank of Scotland Group in the UK in the first quarter and are optimistic about the potential for further growth from this distribution channel during the year.

We believe that we have the financial structure, operating model and capital resilience to deliver solid results during these challenging economic circumstances. We will continue to focus on capital disciplines, cost management and building our bancassurance opportunities through 2003.

Richard Harvey
Group Chief Executive

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NEWSWIRES: There will be a conference call today for wire services at 8.15am (GMT) on +44 (0)20 7162 0125. Quote: Aviva, Richard Harvey.

ANALYSTS: A presentation to investors and analysts will take place at 9.30am (GMT) at St Helen's, 1 Undershaft, London, EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.rawfinancial.com. In addition a replay will be available on these websites later today. There will also be a live teleconference link to the investor and analyst meeting on +44 (0)20 8400 6314. A replay facility will be available for two weeks on +44 (0)20 8797 2499. The pass code is 871615# for the whole presentation including Question & Answer session or 871637# for Question & Answer session only.

The presentation slides will be available on the Group's website, www.aviva.com/investors/presentations.cfm from 9.00am (GMT).

Photographs are available from www.newscast.co.uk and the media centre on www.aviva.com

Notes to editors

- Aviva is the largest provider of life and pensions to Europe with substantial positions in other markets around the world, making it the world's seventh-largest insurance group based on gross worldwide premiums.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide premium income and retail investment sales from continuing operations of £28 billion and assets under management of more than £200 billion.
- Overseas currency results are translated at average exchange rates.
- All growth rates are quoted in local currency.
- This preliminary announcement may contain "forward looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Aviva's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Aviva and its affiliates operate. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements.

Aviva undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements we may make.

Financial calendar 2003

| | |
|--|-----------------|
| Ex-dividend date (ordinary shares) | 26 March 2003 |
| Record date (ordinary shares) | 28 March 2003 |
| Announcement of long-term savings new business for 3 months to 31 March 2003 | 24 April 2003 |
| Annual General Meeting | 7 May 2003 |
| Payment date (ordinary shares) | 16 May 2003 |
| Announcement of unaudited six months' interim results | 31 July 2003 |
| Announcement of long-term savings new business for 9 months to 30 September 2003 | 23 October 2003 |

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OPERATING AND FINANCIAL REVIEW

Group operating profit before tax

The Group achieved an operating profit before tax, including life achieved operating profit, from continuing and discontinued operations of £1,798 million (2001: £1,983 million). On a modified statutory basis, the operating profit from continuing and discontinued operations was £1,296 million (2001: £1,512 million).

In calculating the current year Group operating profit from continuing operations, we have excluded our Australian and New Zealand general insurance businesses, the sale of which was announced in October 2002. In 2002, our Australian and New Zealand general insurance businesses returned an operating profit of £78 million (2001: £69 million) and the results of these businesses are shown under discontinued operations. For the prior year, operating profit from discontinued operations also includes the results from our US general insurance business, the sale of which completed in June 2001. Other operations sold or announced to be sold in the year, are included within the results from continuing operations as the results from these businesses are not considered to be material in the context of the Group's results.

| | 2002 £m | 2001 £m |
|---|----------------|--------------|
| Achieved operating profit before tax – continuing operations | 1,720 | 1,935 |
| Discontinued operations | | |
| – Australia and New Zealand general insurance operations (sold December 2002) | 78 | 69 |
| – US general insurance operation (sold June 2001) | - | (21) |
| | 1,798 | 1,983 |
| Amortisation of goodwill | (135) | (87) |
| Change in claims equalisation provision and Financial Services Compensation Scheme levy | (57) | (87) |
| Integration costs and merger transaction costs | - | (59) |
| (Loss)/profit on sale of subsidiary undertakings | (4) | 287 |
| Effect of economic assumption changes | (561) | 1 |
| Short-term fluctuations in investment return – general insurance and shareholder business | (1,184) | (952) |
| Variation from longer-term investment return – life business | (2,320) | (1,632) |
| Loss on ordinary activities before tax – achieved profit basis | (2,463) | (546) |
| (Loss)/profit on ordinary activities before tax – modified statutory basis | (282) | 514 |

The loss before tax on a modified statutory basis was £282 million (2001: profit of £514 million). This is stated after taking account of a shortfall of £1,184 million in the actual investment return earned in the period compared to the return based on the Group's longer-term investment return assumptions. This primarily reflects unrealised losses on equities held by the Group's non-life operations, particularly in the UK and the Netherlands where the FTSE All-Share index and the AEX index have fallen by around 25% and 36% respectively since 31 December 2001.

On an achieved profit basis the loss before tax was £2,463 million (2001: loss of £546 million) which includes an adverse variance from the longer-term investment return of £2,320 million and an economic assumption charge of £561 million. The former reflects the impact of falls in investment markets during the year on the Group's life embedded value and the latter reductions in assumed future investment returns and discount rate.

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 these results we have adopted the requirements of Financial Reporting Standard (FRS) 19 "Deferred Tax". The principal impact of the change in accounting policy has been to provide, on a discounted basis, 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) for the twelve month period ended 31 December 2002. The tax for the period includes a charge of £531 million (2001: £616 million, restated) in respect of the 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%).

Long-term savings

Worldwide new business sales were £14.6 billion (2001: £15.0 billion) against the backdrop of the continuing difficult conditions affecting the insurance industry as a whole. Our bancassurance partnerships continue to develop, particularly in the UK with The Royal Bank of Scotland Group and in Spain and Italy with our local partners. Retail investment sales were lower at £1,028 million (2001: £1,475 million), reflecting continuing investor caution towards equity-backed products.

| | 2002 | | | Local currency growth | | |
|--------------------------------|-------------------------|--------------------------|---------------|------------------------|-------------------------|-------------|
| | Life and pensions £m | Retail investments £m | Total £m | Life and pensions % | Retail investments % | Total % |
| Long-term savings sales | | | | | | |
| United Kingdom | 6,844 | 556 | 7,400 | (6%) | (32%) | (8%) |
| Europe (excluding UK) | 5,822 | 205 | 6,027 | 4% | (35%) | 2% |
| International | 952 | 267 | 1,219 | 42% | (24%) | 19% |
| | 13,618 | 1,028 | 14,646 | 1% | (31%) | (2%) |
| Navigator | - | 797 | 797 | - | (15%) | (15%) |

We expect the current uncertain conditions across long-term savings markets to continue into 2003 and lower consumer confidence to persist. We are taking action to stimulate demand by offering investors products which meet their requirements in current markets, including products offering a degree of capital or income protection.

Life achieved operating profit

| | 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 | 1,524 | 1,665 |

Life achieved operating profit before tax was lower at £1,524 million (2001: £1,665 million) after the net impact of strengthening our annuitant mortality reserves by £123 million (2001: £78 million). Our worldwide margin fell to 24.4% (2001: 25.5%) reflecting changes in product mix in a number of countries.

The expected returns on existing business and shareholders' funds net worth were lower at £1,173 million (2001: £1,187 million) due to the application of higher start of the year economic assumptions to a lower opening embedded value. We anticipate further reductions in expected returns from in-force and shareholders' net worth in 2003 reflecting the reduced end of 2002 embedded value and the lower economic assumptions. We estimate, all other things being equal, a reduction of the order of £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 1.0%.

Included in the 2002 result are a number of changes to operating assumptions, the most significant being the adverse impact of the changes to the annuitant mortality assumptions in the UK. The recent paper issued by the Continuous Mortality Investigation Board (CMIB) included revised predictions of the rate of improvement in male annuitant mortality. Our current experience shows profits against the existing reserve basis, but we have taken the prudent decision to strengthen our base mortality assumptions to reflect the study. As a consequence, we have increased our reserves on our UK annuity portfolio by a net amount of £123 million (2001: £78 million) and reduced our profit from existing business by the same amount. This has been offset by the economic impact of increases in management fees and improved unit cost management in the Netherlands and the reduction in risk margin in our US life business, in line with the Group's views on the risks associated with these businesses.

In addition, adverse experience variances arose across a number of our life businesses reflecting the challenging global operating environment. These reflect increased development spend particularly in Belgium and the economic effect of the premium reductions in the in-force book, following changes in tax legislation in the Netherlands. Further one-off project expenditure also arose in the UK, the US and Asia.

| | Annual premium equivalent ⁽¹⁾ | | New business contribution ⁽²⁾ | | New business margin ⁽³⁾ | |
|-----------------------------------|--|--------------|--|------------|------------------------------------|-------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m | 2002 % | 2001 % |
| Life and pensions business | | | | | | |
| United Kingdom | 1,231 | 1,269 | 290 | 327 | 23.6 | 25.8 |
| Europe (excluding UK) | 967 | 918 | 249 | 248 | 25.7 | 27.0 |
| International | 175 | 132 | 39 | 16 | 22.2 | 12.1 |
| | 2,373 | 2,319 | 578 | 591 | 24.4 | 25.5 |

(1) Annual premium equivalent represents regular premiums plus 10% of single premiums.

(2) Before effect of solvency margin which amounted to £126 million (2001: £112 million).

(3) New business margin represents the ratio of new business contribution to annual premium equivalent, expressed as a percentage.

UK

In 2002 Norwich Union reported total life and pension sales of £1,231 million (2001: £1,269 million) on an APE basis. These sales reflected a solid performance against the backdrop of the worst bear market for more than a quarter of a century and maintained our position as a leading provider of life and pensions products. New business contribution was £290 million (2001: £327 million) with a full year new business margin of 23.6% (2001: 25.8%). The discrete fourth quarter margin of 21.4% reflects the full year impact of strengthening annuitant mortality assumptions. Excluding this impact, the margin for the fourth quarter would have been 25.0%.

Life achieved operating profit was £699 million (2001: £850 million). The recent paper issued by the CMIB included revised predictions of the rate of improvement in male annuitant mortality. In setting our assumptions for calculating our embedded values, we have taken into account the recent experience studies of the CMIB. Our current experience shows profits against the existing reserve basis, but we have taken the prudent decision to strengthen our base mortality assumptions to reflect the study. The additional strengthening has positioned us at a medium cohort basis for achieved profit reporting. In addition, the asset portfolio of this business was realigned. The combined financial effect of these changes was a net charge of £123 million (2001: £78 million) to operating profit.

In 2002, there were a number of reviews relating to the UK long-term savings market, including in the latter half of the year the Green Paper for pensions reform and an Inland Revenue consultation paper on simplifying the pensions tax regime. We broadly welcome the Government's proposals, however we think further measures and incentives are required in order to stimulate adequate long-term savings provisions. We agree with the Government's approach, included in the recent Treasury announcement, to leave the issue of a price cap on Sandler-style products open to consultation so that we can continue the dialogue with the Government concerning an appropriate pricing structure for customers and providers. We have made it clear that we will not write business at uneconomic rates of return.

Europe (excluding UK)

Our continental European operations delivered good new business life and pensions growth of 5% up to £967 million (2001: £918 million) on an APE basis, driven by the increased distribution of our Spanish and Italian bancassurance businesses. Margins for the year were 25.7% (2001: 27.0%) reflecting in part changes to business mix in our mature businesses in France and the Netherlands.

France: In 2002, the French market suffered as a whole and our business, Aviva France, recorded new business sales of £223 million (2001: £233 million) on an APE basis. New business contribution was £69 million (2001: £79 million) with a margin of 30.9% (2001: 33.9%). Life achieved operating profit was £228 million (2001: £227 million).

Ireland: Hibernian, our top-five life and pensions provider, reported broadly flat new business sales of £103 million (2001: £102 million) on an APE basis. During 2002 we sold an increasing proportion of regular premium products, in particular £23 million of the Governments' Special Savings Incentive Account (SSIA), while sales of single premium investment products were affected by continued investor caution. New business contribution was £29 million (2001: £29 million) and new business margins were maintained at 28.2% (2001: 28.5%). Life achieved operating profit was £75 million (2001: £79 million).

Italy: 2002 saw the continued development of our bancassurance distribution network, as total Italian sales increased by 20% to £153 million (2001: £126 million) on an APE basis. Total new business contribution increased to £38 million (2001: £28 million) with margins of 24.9% (2001: 22.2%). The discrete fourth quarter margin of 32.0% benefited from the impact of the one-off sales in the quarter. Life achieved operating profit was £52 million (2001: £55 million).

Netherlands (including Belgium and Luxembourg): In 2002, our top-five life and pensions business, Delta Lloyd, reported total sales of £158 million (2001: £170 million) on an APE basis. Single premium life product sales increased as a result of the distribution network with Bank Nagelmackers coming on stream and our actions to retain maturing funds through increased sales of lower margin immediate annuities, offset by lower pension sales. New business contribution was £21 million (2001: £38 million) with new business margins of 13.3% (2001: 22.3%). Life achieved operating profit was £200 million (2001: £221 million). This is after including adverse experience variances totalling £113 million, which reflects increased development spend particularly in Belgium and other one-off operational effects. Fiscal changes last year have reduced the levels of personal tax relief available to policyholders investing in basic life annuity products and in group savings schemes. This has led to one-off premium reductions and adverse lapse experience on existing contracts. Profits from changes to operating assumptions arose partly from a reduction in unit costs secured from cost savings initiatives and partly from changes to the basis of allocation of expenses to life and savings products.

Poland: Although market conditions remain tough, CU Polska has successfully maintained its market share in the year reporting total new business sales of £48 million (2001: £60 million) on an APE basis. New business contribution was £10 million (2001: £11 million) with new business margins of 20.8% (2001: 18.4%). Life achieved operating profit was £111 million (2001: £99 million).

Spain: Our bancassurance businesses delivered strong results in 2002 and as a result Aviva Spain delivered total sales on an APE basis of £189 million (2001: £136 million), an increase of 38%. Our business is now ranked third both in the bancassurance market and the life market as a whole. New business contribution increased by 36% to £87 million (2001: £63 million), with new business margins of 45.9% (2001: 46.5%). The discrete fourth quarter margin of 41.2% reflects lower margins on the single premium pension business and changes in business mix. Life achieved operating profit was £83 million (2001: £80 million).

During 2002 we announced a number of deals to expand our bancassurance network across Europe, including partnerships with ABN AMRO in the Netherlands, Credit du Nord in France, Caja de Granada in Spain and Banca Popolare Commerciale

Industria ("BPCI") in Italy. These partnerships offer potential for growth in 2003 and 2004 and will cement our position as Europe's leading bancassurer. In addition we completed our partnership with Médéric, a French mutual, which will commence sales in the first half of 2003.

International

Total life and pensions new business sales increased by 36% to £175 million (2001: £132 million) on an APE basis, predominantly as a result of increased fixed interest annuity sales in our US business. New business contribution was £39 million (2001: £16 million) with margins of 22.2% (2001: 12.1%) benefiting from increased volumes in the US. Life achieved operating profit from our International businesses increased to £78 million (2001: £36 million), including a £13 million benefit from the change in risk margins in respect of our US life operations.

In 2002 we commenced new operations in India and China. Sales through our partnership in India with Dabur Group, where we own 26% of the joint venture, commenced in June 2002. We have entered into agreements with a number of banks to distribute our products including ABN AMRO bank, Canara Bank and Lakshmi Vilas Bank. In China, we received our licence to operate at the end of 2002 and recently made our first sales through our joint venture life business, Aviva COFCO.

Life operating profit on a modified statutory basis

On a modified statutory basis, our life operating profit amounted to £1,022 million (2001: £1,194 million). As a result of falling annual and final bonus rates, our UK with-profit result has decreased to £190 million (2001: £275 million). The non-profit result of £436 million (2001: £414 million) includes the impact of the annuitant mortality strengthening as well as the impact of a number of other items including those arising out of the normal year end reserving reviews. Taken in aggregate, the effect of all changes was broadly neutral to the UK non-profit result.

In Continental Europe, life modified statutory profit totalled £387 million (2001: £510 million) driven primarily by a lower result in the Netherlands which reflected the impact of significantly lower investment returns, higher development costs in Belgium and increases to reserves arising out of the normal year end reserving reviews. In addition, in a number of our life businesses, operating profit reflected the impact of lower equity markets and investments in our businesses. International operations recorded a profit of £9 million (2001: loss of £5 million) principally as a result of an increase in investment income on a higher average asset base and the level of development costs in the US in 2002.

Health

Premium income after reinsurance from our health business was 9% higher at £928 million (2001: £841 million), with total operating profit lower at £61 million (2001: £70 million). Our business in the Netherlands continued to be the main driver of the total health result, with operating profits of £42 million (2001: £53 million).

Fund management

Uncertain economic conditions over the past 18 months have continued to depress investment markets and reduced consumer demand. Consequently our fund management operations have been adversely affected with total operating profit lower at £5 million (2001: £29 million). Assets under management at 31 December 2002 were maintained at £208 billion (2001: £209 billion), as the impact of new business flows in the period offset the falls in worldwide investment markets. Worldwide retail investment sales fell to £1,028 million (2001: £1,475 million).

Our UK fund management business reported a loss of £12 million (2001: loss of £4 million). This result includes our retail investment operations and our institutional business, Morley Fund Management (Morley). The loss of our UK retail investment operations reduced significantly to £16 million (2001: £32 million) benefiting from changes to our commissions on our ISA products in the second half of the year. The results from our institutional business Morley were lower at £4 million (2001: £25 million). This reflected the continued fall in investment market values, which has reduced management fees, and the costs of continued investment in the business.

Our business in France, Aviva Gestion d'Actifs (formerly Victoire Asset Management), reported an operating profit of £11 million (2001: £12 million). Delta Lloyd returned an operating profit of £4 million (2001: £8 million). In Australia our award-winning multi-manager funds administration business, Navigator, reported lower sales of £797 million (2001: £930 million) reflecting falls in global investment markets (these results are excluded from the Group's headline new business figures). Increased IT infrastructure development costs and expenditure incurred in association with the launch of Navigator in Singapore resulted in a loss of £1 million (2001: profit of £7 million) for the Australian business. On an achieved operating profit basis, Navigator's new business contribution was £3 million (2001: £10 million) and its embedded value was £36 million (2001: £40 million) at 31 December 2002.

General insurance

Our worldwide general insurance continuing and discontinued operations contributed an operating profit of £959 million (2001: £924 million). Our worldwide combined operating ratio (COR) was 101.4% on the same basis. Excluding the results of our Australian and New Zealand general businesses, operating profit was £881 million (2001: £876 million) and COR 101.7% (2001: 103%), better than the Group's COR target of 102%. These excellent results demonstrate the success of our strategy of disciplined underwriting coupled with strong rating actions. There has been an improvement in the COR in most territories and we remain confident of our ability to maintain a COR of 102% across the cycle.

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 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.

| | Underwriting result* | | Operating profit* | |
|--------------------------------|----------------------|--------------|-------------------|------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| United Kingdom | (52) | (81) | 611 | 590 |
| Europe (excluding UK) | (60) | (79) | 153 | 166 |
| International | (33) | (63) | 117 | 120 |
| Continuing operations | (145) | (223) | 881 | 876 |
| Discontinued operations | 7 | (174) | 78 | 48 |

* Excludes the change in the equalisation provision of £57 million (2001: £56 million) and impact of exceptional items.

UK

As the UK's leading insurer, our general insurance business recorded operating profit of £611 million (2001: £590 million), with a combined operating ratio (COR) of 101% (2001: 102%). Our ability to manage our portfolio across products and distribution lines together with our continued investment in the business consolidates and improves upon the position we achieved in 2001, ensuring that we have a business capable of achieving our target COR across the cycle.

We have achieved a COR of 101% in our personal lines despite increasing competition in these markets. Although overall rating increases continued to slow in the second half of 2002, we achieved rating increases of 2% for personal motor and 4% for homeowners (2001: 13% and 6%, respectively). We expect increasing competition in the personal lines market in 2003.

By contrast we have seen a significant improvement in the underwriting result of our commercial lines business reflecting the impact of strong rating actions and reduced capacity in the market, particularly commercial property. In both commercial property and liability, we achieved annualised rating increases, of 19% and 35% respectively (2001: 11% and 23%, respectively). In commercial motor we remain focused on maintaining profitability and achieved annualised rating increases of 6% in 2002 (2001: 18%). These rating actions combined with disciplined underwriting have resulted in an improvement in the COR to 102% (2001: 108%).

The expense ratio improved slightly to 10.4% (2001: 10.5%) and maintains our position as one of the lowest cost providers among the large UK general insurers. We continue to invest in improvements to our infrastructure and to develop new initiatives in the UK including our pilot scheme to evaluate Pay As You Drive™ motor insurance, and the launch of Norwich Union Rescue as a branded vehicle breakdown service. We announced in early 2003 plans for a new call and claims processing operation in India. This investment will help us to maintain a leadership position in our markets and high levels of customer service 24 hours a day.

Europe (excluding UK)

In Europe, our general insurance businesses produced total operating profit of £153 million (2001: £166 million). In France our business reported an improvement in their underwriting result to a loss of £14 million (2001: loss of £33 million) with a COR of 102% (2001: 104%). The improvement was driven by strong rating action and achieved despite the cost of September floods in Southern France. The longer-term investment return in France was lower at £61 million (2001: £91 million) reflecting the reduced asset base following the disposal of CGU Courtage and the sale of Société Générale shares to effect the early redemption of the debenture bond in July 2002.

The sale of CGU Courtage, our broker distribution business completed in May 2002, generated a profit on disposal of £6 million. In reporting our French results to 31 December, we have excluded the results of CGU Courtage. This reflects the structure of the sale whereby the Group had no economic interest in the operating results after 31 December 2001.

Hibernian, our market leading general insurance business in Ireland, reported an operating profit of £44 million (2001: £48 million) with an improved COR of 100% (2001: 101%). The result includes the impact of an intra-group quota share reinsurance agreement. In the Netherlands operating profit was lower at £13 million (2001: £19 million) following storms in October, the worst for 16 years, and project spend on a new shared service centre. This initiative is expected to provide efficiency and customer service benefits and is targeted for launch by the end of 2003.

International

Our International businesses recorded an operating profit from continuing operations of £117 million (2001: £120 million). Our Canadian general insurance business reported increased operating profits, higher at £80 million (2001: £72 million) and an improved COR of 102% (2001: 107%). This result reflects strong rating increases across the business, particularly our commercial lines, and a focus on disciplined underwriting. This was partially offset by a lower longer-term investment return on a smaller asset base at the beginning of the year following the repatriation of capital in mid-2001.

Our Australian and New Zealand businesses returned an operating profit of £78 million (2001: £69 million) which includes the operating profit of Fortis Australia, acquired in 2001. These results have been treated as discontinued following the disposal of this business at the end of 2002.

Reinsurance

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.

Non-insurance operations

The result of the Group's non-insurance operations fell significantly to a loss of £69 million (2001: profit of £7 million). This primarily reflects a loss of £54 million (2001: £9 million) in our UK Life Services Company. This loss is attributable to one-off investment in systems capability, including the upgrade of our unit-pricing system and compensation costs of £7 million to a small number of unit-linked customers. Further costs of £15 million resulted from the reorganisation of a number of IFA service centres.

Corporate costs

Corporate costs, excluding staff profit share and other incentive plans, were higher at £132 million (2001: £109 million). Higher corporate costs reflect a £26 million (2001: £6 million) spend on a programme to improve the 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. Profit share and other incentive plan costs were higher in the year at £86 million (2001: £78 million) reflecting the extension of these plans across the Group in the latter part of 2001.

Unallocated interest charges

Unallocated interest charges comprise internal and external interest on external borrowings, subordinated debt and intra-group loans not allocated to local business operations. Total interest costs were £434 million (2001: £426 million). External interest costs were higher at £206 million (2001: £179 million), reflecting the interest charges on the hybrid debt issued in November 2001 partially offset by lower interest costs following a reduction in commercial paper rates and repayment of Eurobond debt of £100 million during the year. Internal interest costs fell to £228 million (2001: £247 million) as a result of a lower average level of internal debt during 2002.

Dividend

In line with the Board's announcement in February 2002 to cut the 2002 full year dividend to 23.0 pence net per ordinary share, the Board has recommended a final dividend of 14.25 pence net per share (2001: 23.75 pence) payable on 16 May 2003 to shareholders on the register on 28 March 2003. The dividend cover for the year ended 31 December 2002 is 1.65 times the operating earnings after tax, measured on a modified statutory solvency basis. This is within the Group's stated target range of 1.5 to 2 times. Dividend cover on the basis of continuing operations is 1.51 times.

Group capital and financial strength

Shareholders' funds

Equity shareholders' funds fell to £9.5 billion (31 December 2001: £11.6 billion, restated) primarily reflecting the impact of the sustained falls in equity markets in 2002 and the change in economic assumptions which had a consequent impact on the embedded value of the Group's life operations. Net asset value per ordinary share, based on equity shareholders' funds, fell to 433 pence per share (31 December 2001: 524 pence per share, restated) after adding back the equalisation provision of £314 million (31 December 2001: £272 million).

Our capital position has been affected by the decline in equity markets but remains resilient. 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

The Group's normalised annualised 2002 post-tax return on equity was 10.1% (2001: 9.7%, restated) which reflects the robust results delivered in the year. The normalised return is based on the post-tax operating profit, including life achieved profit, before amortisation of goodwill and exceptional items, expressed as a percentage of the opening equity capital.

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 fundamental to our business. Aviva group had an estimated excess regulatory capital, as measured on the new EU Directive, of some £0.7 billion at 31 December 2002 (31 December 2001: £1.7 billion). This measure represents the excess of the aggregate value of the 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. The reduction in the excess regulatory capital is as a result of the estimated increased required minimum margins of the operations and reduction in the regulatory value of assets of the group.

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) of the combined operations was £2.3 billion at 31 December 2002 (31 December 2001: £3.1 billion) after covering the required minimum margin of £3.2 billion. The reduction in the excess solvency margin is largely as a result of the increased required minimum margin of £0.3 billion and the reduction in the regulatory value of assets. Solvency cover for the CGUII group has been estimated at 4.2 times and for the NUI group at a cover of 2.2 times. 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 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 can benefit these businesses. Another measure that the Group uses to assess its capital requirements is risk-

based capital. 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 sufficient to cover the minimum margins of the overseas life businesses by approximately 1.7 times.

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 large UK life companies was 11.8% at 31 December 2002 (31 December 2001: 14.7%). This has been calculated in accordance with FSA guidance on resilience tests using a 14% fall in equities and a 10% fall in property, and includes implicit items. If these implicit items were excluded then the FAR would be 7.7% (31 December 2001: 10.8%).

The strength of our with-profit funds is underpinned by our UK orphan estate. At 31 December 2002, the orphan estate of £4.3 billion (31 December 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 costs of guarantees and the glide path. The orphan estate is used to support strong business development for the benefit of policyholders and shareholders alike. The orphan estate is estimated on the basis of realistic assumptions, as distinct from statutory free reserves which uses rules specified by statute.

At 31 December 2002, the aggregate value of with-profit funds in our funds in our UK life business invested on behalf of our policyholders amounted to £45 billion. The split of investments as at that date was as follows:

| | | |
|----------------|-----|-------------------------|
| Equity | 35% | (31 December 2001: 54%) |
| Fixed interest | 44% | (31 December 2001: 31%) |
| Property | 17% | (31 December 2001: 14%) |
| Other | 4% | (31 December 2001: 1%) |

Life profits reporting

In reporting the headline operating profit, life profits have been included using the achieved profit basis. This is used throughout the Aviva Group and by many in the investment community to assess performance. We have focused on the achieved profit basis, as we believe life achieved operating profit is a more realistic measure of the performance of life businesses than the modified statutory basis. The modified statutory basis is used in our financial statements and, on this basis, the life operating profit before tax on continuing operations amounted to £1,022 million. The basis used for reporting achieved profit is consistent with the guidance set out by the Association of British Insurers.

Definitions of Group key performance indicators and other terms

| | | |
|---------------------------------------|---|--|
| Achieved operating profit | – | From both continuing and discontinued operations and is stated before amortisation of goodwill and exceptional items. |
| Achieved operating earnings per share | – | Operating profit on an achieved profit basis before amortisation of goodwill and exceptional items, after taxation, attributable to equity shareholders in respect of continuing and discontinued operations. |
| Annual premium equivalent | – | Is the UK industry standard for calculating life, pensions and investments new business levels. It is the total of new regular life premiums and 10% of single life premiums. |
| Modified statutory operating profit | – | From both continuing and discontinued operations, and is stated before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items. |
| Continuing operations | – | Business operations excluding the discontinued Australian, New Zealand and US general insurance operations. |
| Net asset value per ordinary share | – | Is calculated based on equity shareholders' funds, adding back the equalisation provision of £314 million (31 December 2001: £272 million). |
| Assets under management | – | Represents all assets managed by the Group including funds held on behalf of third parties. |
| New business contribution | – | Is calculated using the same economic assumptions as those used to determine the embedded values at the beginning of each year and is stated before tax and the effect of the solvency margin. |
| New business margin | – | The ratio of new business contribution to sales measured on an annual premium equivalent basis. |
| Combined operating ratio | – | The aggregate of incurred claims expressed as a percentage of earned premiums and written expenses and written commissions expressed as a percentage of written premiums. |
| Free asset ratio | – | The excess of the regulatory value of assets over total liabilities divided by the regulatory value of total liabilities, expressed as a percentage. |
| Solvency cover | – | The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin. |
| Orphan estate | – | The assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees. |
| CGUII | – | A principal UK general insurance company and the parent of the majority of the Group's overseas general insurance and life assurance subsidiaries. |
| EU solvency | – | The excess of assets over liabilities and the world-wide minimum solvency margins, excluding goodwill and the additional value of in-force long-term business, and excluding the surplus held in the Group's life funds. The Group solvency calculation is determined according to the UK Financial Services Authority application of EU Insurance Groups Directive rules. |

Summarised consolidated profit and loss account – achieved profit basis

For the year ended 31 December 2002

| Page | 2002 €m | | Restated* | |
|------|----------------|---|----------------|----------------|
| | | | 2002 €m | 2001 €m |
| | | Operating profit | | |
| 9 | 2,419 | Life achieved operating profit | 1,524 | 1,665 |
| 24 | 97 | Health | 61 | 70 |
| 30 | 8 | Fund management | 5 | 29 |
| 25 | 1,398 | General insurance | 881 | 876 |
| 32 | (109) | Non-insurance operations | (69) | 7 |
| 32 | (346) | Corporate costs | (218) | (187) |
| 30 | (689) | Unallocated interest charges | (434) | (426) |
| 32 | (48) | Wealth management | (30) | (99) |
| | 2,730 | Operating profit – continuing operations before tax, amortisation of goodwill and exceptional items | 1,720 | 1,935 |
| 25 | | 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) |
| 22 | (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 | (27) | Preference dividends | (17) | (17) |
| | (3,273) | Loss for the financial year attributable to equity shareholders | (2,062) | (519) |
| 27 | (824) | Ordinary dividends | (519) | (857) |
| | (4,097) | Retained loss | (2,581) | (1,376) |
| | | 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: | | |
| | 76.7 c | Continuing operations | 48.3p | 53.7p |
| | 81.7 c | 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 |

* Restated for the effect of Financial Reporting Standard 19.

** As required by FRS 14 "Earnings per share", the impact of the dilutive effect is not recognised as it would result in a smaller loss.

Basis of preparation – achieved profits basis

The achieved profit statement on page 8 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 16 to 29. In the directors' opinion, the achieved profits 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 13 to 15.

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 16 to 29.

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' on page 8.

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

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 32).

** 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 | 2001 |
|---|--------------|--------------|
| | £m | £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 the 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 | 2001 |
|--|---------------|---------------|
| | £m | £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 businesses 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 (31 December 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 (31 December 2001: £700 million).

Minority interest in life achieved profit

| | 2002 | | 2001 | |
|--|---------------------------------|----------------------------|---------------|---------------|
| | Shareholders' interest £m | Minority interest £m | Group £m | Group £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 of 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% |
| | | | | | | |
| | 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% | | | |

* 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%).

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.

| | <u>New business contribution</u> | | <u>Embedded value</u> | |
|--|----------------------------------|-----------------------------|------------------------------|-----------------------------|
| | 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 expenses.

Summarised consolidated profit and loss account – modified statutory basis

For the year ended 31 December 2002

| Page | 2002 €m | | 2002 £m | Restated* 2001 £m |
|------|----------------|--|----------------|-------------------------|
| | | Premium income (after reinsurance) and investment sales | | |
| | | Continuing operations | | |
| 23 | 28,844 | Life premiums, including share of associates' premiums | 18,172 | 17,590 |
| 23 | 1,632 | Investment sales | 1,028 | 1,475 |
| 24 | 1,473 | Health premiums | 928 | 841 |
| | 31,949 | | 20,128 | 19,906 |
| 25 | 12,389 | General insurance premiums | 7,805 | 7,850 |
| | 44,338 | Total continuing operations | 27,933 | 27,756 |
| | | Discontinued operations | | |
| 25 | 1,098 | Australia and New Zealand general insurance operations | 692 | 583 |
| | - | US general insurance operations | - | 1,103 |
| | 45,436 | Total | 28,625 | 29,442 |
| | | Operating profit | | |
| 24 | 1,622 | Modified statutory life profit | 1,022 | 1,194 |
| 24 | 97 | Health | 61 | 70 |
| 30 | 8 | Fund management | 5 | 29 |
| 25 | 1,398 | General insurance | 881 | 876 |
| 32 | (109) | Non-insurance operations | (69) | 7 |
| 32 | (346) | Corporate costs | (218) | (187) |
| 30 | (689) | Unallocated interest charges | (434) | (426) |
| 32 | (48) | Wealth management | (30) | (99) |
| | 1,933 | Operating profit – 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 |
| 25 | 124 | Discontinued operations | 78 | 69 |
| | - | Australia and New Zealand general insurance operations | - | (21) |
| | - | US general insurance operations | - | (21) |
| | 2,057 | Operating profit – before tax, amortisation of goodwill and exceptional items | 1,296 | 1,512 |
| | (214) | Amortisation of goodwill | (135) | (87) |
| | (221) | Amortisation of acquired additional value of in-force long-term business | (139) | (64) |
| | - | Financial Services Compensation Scheme levy | - | (31) |
| | - | Integration costs | - | (59) |
| | 1,622 | Operating profit before tax | 1,022 | 1,271 |
| | (1,974) | Short-term fluctuation in investment return | (1,243) | (988) |
| | (90) | Change in the equalisation provision | (57) | (56) |
| 22 | (6) | (Loss)/profit on the disposal of subsidiary undertakings | (4) | 287 |
| | (448) | (Loss)/profit on ordinary activities before tax | (282) | 514 |
| 26 | (327) | Tax on (loss)/profit on ordinary activities | (206) | (198) |
| | (775) | (Loss)/profit on ordinary activities after tax | (488) | 316 |
| | (73) | Minority interests | (46) | (57) |
| | (848) | (Loss)/profit for the financial year | (534) | 259 |
| 27 | (27) | Preference dividends | (17) | (17) |
| | (875) | (Loss)/profit for the financial year attributable to equity shareholders | (551) | 242 |
| 27 | (824) | Ordinary dividends | (519) | (857) |
| | (1,699) | Retained loss transferred from reserves | (1,070) | (615) |

* Restated for the effect of Financial Reporting Standard 19.

Earnings per share – modified statutory basis

For the year ended 31 December 2002

| Page | | 2002 | Restated* 2001 |
|-------------|---|-------------|---------------------------|
| 28 | 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 |
| | Continuing and discontinued operations | 38.0p | 42.6p |
| 28 | (Loss)/profit attributable to equity shareholders | (24.4)p | 10.8p |
| 28 | (Loss)/profit attributable to equity shareholders – diluted | (24.4)p | 10.7p |
| 27 | Dividend per share | 23.0p | 38.0p |

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2002

| Page | | 2002 £m | Restated* 2001 £m |
|-------------|--|--------------------|----------------------------------|
| 16 | (Loss)/profit for the financial year | (534) | 259 |
| | Movement in internally-generated additional value of in-force long-term business** | (1,511) | (761) |
| | Foreign exchange gains/(losses) | 179 | (191) |
| | Total recognised losses arising in the year | (1,866) | (693) |

* Restated for the effect of Financial Reporting Standard 19.

** 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

| Page | | 2002 £m | Restated* 2001 £m |
|-------------|---|--------------------|----------------------------------|
| | Shareholders' funds at the beginning of the year, as originally reported | 11,872 | 13,633 |
| | Prior year adjustment** | (120) | (346) |
| | Shareholders' funds at the beginning of the year, as restated | 11,752 | 13,287 |
| | Total recognised losses arising in the year | (1,866) | (693) |
| 27 | Dividends | (536) | (874) |
| | Increase in share capital | 11 | 29 |
| | Goodwill written back and other movements | 308 | 3 |
| | Shareholders' funds at the end of the year | 9,669 | 11,752 |

* Restated for the effect of Financial Reporting Standard 19.

** The prior year adjustment reflects the implementation of Financial Reporting Standard 19 (page 21).

Summarised consolidated balance sheet

As at 31 December 2002

| | 2002 | Restated* |
|--|----------------|------------------|
| | £m | 2001 |
| | | £m |
| Assets | | |
| Goodwill | 1,040 | 1,141 |
| Investments | | |
| Land and buildings | 668 | 857 |
| Investments in associated undertakings and participating interests | 287 | 282 |
| Variable yield securities | 2,603 | 4,168 |
| Fixed interest securities | 7,737 | 9,288 |
| Mortgages and loans, net of non-recourse funding | 1,201 | 1,236 |
| Deposits | 550 | 1,346 |
| Additional value of in-force long-term business | 4,422 | 5,948 |
| | 17,468 | 23,125 |
| Reinsurers' share of technical provisions | 2,882 | 3,543 |
| Assets of the long-term business | 152,887 | 151,003 |
| Other assets | 10,646 | 9,512 |
| Total assets | 184,923 | 188,324 |
| Liabilities | | |
| Shareholders' funds | | |
| Equity | 9,469 | 11,552 |
| Non-equity | 200 | 200 |
| Minority interests | 743 | 651 |
| | 10,412 | 12,403 |
| Subordinated debt | 1,190 | 1,157 |
| Total capital, reserves and subordinated debt | 11,602 | 13,560 |
| Liabilities of the long-term business | 146,930 | 145,644 |
| General insurance liabilities | 16,031 | 17,825 |
| Borrowings | 2,064 | 2,662 |
| Other creditors and provisions | 8,296 | 8,633 |
| Total liabilities | 184,923 | 188,324 |

* Restated for the effect of Financial Reporting Standard 19.

Consolidated cash flow statement

For the year ended 31 December 2002

| | 2002 | 2001 |
|---|--------------|--------------|
| | £m | £m |
| Net cash inflow from operating activities, excluding exceptional items and merger transaction costs** | 1,005 | 701 |
| Net cash outflow from servicing of finance | (265) | (246) |
| Corporation tax received/(paid) | 175 | (39) |
| Net purchases of tangible fixed assets | (102) | (114) |
| | 813 | 302 |
| Exceptional items and merger transaction costs paid** | (523) | (491) |
| Acquisitions and disposals of subsidiary and associated undertakings | 241 | 853 |
| Equity dividends paid | (732) | (856) |
| Proceeds from issue of subordinated debt | - | 1,157 |
| Net cash (outflow)/inflow from other financing activities: | | |
| Issue of share capital | 11 | 29 |
| Net (repayment)/drawdown of loans* | (68) | 313 |
| Net cash flows | (258) | 1,307 |

Cash flows were invested as follows:

| | | |
|---|--------------|--------------|
| Increase/(decrease) in cash holdings | 719 | (69) |
| Net (sales)/purchases of investments* | (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 inflows/(outflows) 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 cashflow statement as they are accounted for within debtors at 31 December 2002 and were received on 2 January 2003.

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

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

1. Basis of preparation – modified statutory solvency basis

- (a) The preliminary announcement for the year to 31 December 2002 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results on the modified statutory basis for 2002 have been taken from the Group's 2002 Report and Accounts. The auditor has reported on the 2002 accounts and their report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Group's 2001 Annual Report and Accounts have been filed with the Registrar of Companies.
- (b) 'Discontinued operations' disclosures in 2002 relate to the disposal of the general insurance businesses in Australia and New Zealand. The 2001 comparative includes 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 entitled 'Continuing operations'.

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

Abridged statement of operating and investment gains

| | Australia & New Zealand | | US General | |
|--|------------------------------------|--------------------|--------------------|--------------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| Underwriting result | 7 | (1) | - | (173) |
| Longer-term investment return | 71 | 70 | - | 152 |
| General insurance operating profit/(loss) | 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.

- (c) The contribution from the Group's share of the alliance with The Royal Bank of Scotland Group (RBSG) is incorporated within the modified statutory life profit. Goodwill amortised in the year in respect of the Group's holding in the associated company, RBS Life Investments Limited, is included within 'Amortisation of goodwill' on page 16.
- (d) Financial Reporting Standard (FRS) 17 'Retirement Benefits' was published by the Accounting Standards Board (ASB) in December 2000. Full implementation of the requirements of FRS17 was expected to be mandatory for the Group for the year ended 31 December 2003, with certain disclosure requirements in the transitional period. In July 2002, the ASB issued an amendment to FRS17 which extended the transitional period through to the year ending 31 December 2005. The table shown in the supplementary analyses on page 34 is an extract from these supplementary memorandum disclosures. The Group has continued to account for pension costs in accordance with SSAP24.
- (e) Financial Reporting Standard (FRS) 19 'Deferred Tax' was published by the ASB in December 2000 and replaced the existing Statement of Standard Accounting Practice (SSAP15) on deferred tax. FRS19 is effective for the year ended 31 December 2002. The principal impact of the change from the accounting policy applied under SSAP15 is to provide additional deferred tax on unrealised appreciation of investments. The additional deferred tax provision results in a reduction in the fund for future appropriations for with-profit life business and a reduction in profit and loss account reserve for general insurance business. In the case of non-profit life business the embedded value incorporates the impact of all future tax charges. As a consequence 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 SSAP15 to FRS19 | 112 | 945 |

- (ii) The implementation of FRS19 has resulted in a decrease in profit after tax of £151 million (2001: decrease of £226 million).

2. Exchange rates

The euro rates employed in this announcement are an average rate of 1 euro = £0.63 (2001: 1 euro = £0.62) and a closing rate of 1 euro = £0.65 (31 December 2001: 1 euro = £0.61).

3. Acquisitions

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 insurance 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.

In January 2002 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.

4. Disposals

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

| | Note | 2002 £m | 2001 £m |
|-------------------------------------|------|------------|------------|
| Long-term savings businesses | | | |
| Canada | | - | (5) |
| General insurance businesses | | | |
| UK | (a) | (20) | - |
| France | (b) | 6 | - |
| New Zealand – State Insurance | | - | 52 |
| Australia and New Zealand | (e) | (66) | - |
| United States | | - | 125 |
| Belgium | | - | 46 |
| Spain | (d) | 94 | - |
| Other businesses | | | |
| France | (c) | 1 | - |
| UK | | - | 70 |
| Other small operations | | (19) | (1) |
| | | (4) | 287 |

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.

5. Geographical analysis of life and pensions and investment sales – new business and total income

| | New business sales | | | | Premium income (after reinsurance) and investment sales | |
|---|------------------------|---------------|-------------------------|--------------|---|---------------|
| | New single premiums | | New regular premiums | | 2002 £m | 2001 £m |
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m | | |
| Life and pensions sales | | | | | | |
| United Kingdom – group | 6,066 | 6,434 | 591 | 591 | 8,800 | 8,913 |
| – associates | 171 | 228 | 16 | 12 | 299 | 361 |
| | 6,237 | 6,662 | 607 | 603 | 9,099 | 9,274 |
| Europe (excluding UK) | | | | | | |
| France | 1,814 | 1,961 | 42 | 37 | 2,081 | 2,185 |
| Ireland | 267 | 468 | 76 | 55 | 469 | 658 |
| Italy | 1,089 | 924 | 44 | 34 | 1,382 | 1,116 |
| Netherlands (including Belgium and Luxembourg) | 709 | 674 | 87 | 103 | 1,300 | 1,290 |
| Poland – Life | 22 | 17 | 24 | 34 | 284 | 295 |
| – Pensions | 9 | 2 | 21 | 24 | 446 | 433 |
| Spain | 1,244 | 885 | 65 | 47 | 1,489 | 1,034 |
| Other | 240 | 188 | 69 | 72 | 548 | 492 |
| International | 863 | 619 | 89 | 70 | 1,074 | 813 |
| Total life and pension sales (including share of associates) | 12,494 | 12,400 | 1,124 | 1,079 | 18,172 | 17,590 |
| Investment sales | | | | | | |
| United Kingdom | 543 | 808 | 13 | 8 | 556 | 816 |
| Netherlands | 119 | 85 | - | - | 119 | 85 |
| Poland | 16 | - | - | - | 16 | - |
| Other Europe | 70 | 227 | - | - | 70 | 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 | 19,200 | 19,065 |

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

6. Geographical analysis of modified statutory life operating profit

| | 2002 | 2001 |
|---|--------------|--------------|
| | £m | £m |
| United Kingdom* | | |
| With-profit | 190 | 275 |
| Non-profit | 436 | 414 |
| 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 | (19) | (21) |
| International | 9 | (5) |
| Total modified statutory life operating profit | 1,022 | 1,194 |

* The other life and savings result has been reclassified to non-insurance (page 32).

7. Geographical analysis of health premiums after reinsurance and operating result**(a) Premiums after reinsurance:**

| | 2002 | 2001 |
|----------------|-------------|-------------|
| | £m | £m |
| United Kingdom | 264 | 242 |
| France | 107 | 100 |
| Netherlands | 557 | 499 |
| | 928 | 841 |

(b) Operating result:

| | <u>Operating profit</u> | | <u>Underwriting result</u> | |
|----------------|-------------------------|-------------|----------------------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| | £m | £m | £m | £m |
| United Kingdom | 9 | 8 | 5 | 4 |
| France | 10 | 9 | (2) | (2) |
| Netherlands | 42 | 53 | (27) | (15) |
| | 61 | 70 | (24) | (13) |

8. Geographical analysis of general insurance premiums after reinsurance and operating result**(a) General insurance premiums after reinsurance:**

| | 2002 | 2001 |
|--------------------------------|--------------|--------------|
| | £m | £m |
| United Kingdom | 4,740 | 4,777 |
| Europe (excluding UK) | | |
| France | 478 | 700 |
| Ireland | 377 | 456 |
| Netherlands | 412 | 387 |
| Other | 408 | 499 |
| International | | |
| Canada | 1,009 | 878 |
| Other | 381 | 153 |
| Continuing operations | 7,805 | 7,850 |
| Australia and New Zealand | 692 | 583 |
| United States | - | 1,103 |
| Discontinued operations | 692 | 1,686 |
| | 8,497 | 9,536 |

(b) Operating result:

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

* The general insurance operating profit and underwriting result are stated before the change in the equalisation provision of £57 million (2001: £56 million) and the Financial Services Compensation Scheme levy of £nil (2001: £31 million).

9. Tax

The tax charge in the profit and loss account comprises:

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

| | 2002 £m | Restated* 2001 £m |
|---|--------------|-------------------------|
| Current tax | | |
| UK corporation tax – current year | 1 | (16) |
| – prior year | (4) | (4) |
| Overseas tax – current year | (66) | (80) |
| – prior year | 6 | 5 |
| Tax attributable to balance on technical account | (299) | (366) |
| | (362) | (461) |
| Deferred tax | | |
| Origination and reversal of timing differences | 177 | 268 |
| Changes in tax rates or law | 5 | - |
| (Decrease) in discount | (26) | (5) |
| | 156 | 263 |
| Total tax charged in the profit and loss account | (206) | (198) |

(b) Tax charge analysed between:

| | 2002 £m | Restated* 2001 £m |
|--|--------------|-------------------------|
| Operating profit before tax, amortisation of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items | | |
| Continuing operations | (370) | (471) |
| Discontinued operations | (6) | (8) |
| Profit on other ordinary activities | 170 | 281 |
| | (206) | (198) |

(c) Factors affecting current tax charge for the year:

The tax charged in the profit and loss account is higher than if the standard UK corporation tax rate were used, because of the following factors:

| | 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 | (362) | (461) |

* Restated for the effect of Financial Reporting Standard 19.

10. Dividends

(a) The preference dividends in the profit and loss account comprise:

| | 2002 £m | 2001 £m |
|-----------------------------|------------|------------|
| Preference dividends | 17 | 17 |

The preference dividends are in respect of the cumulative irredeemable preference shares of £1 each in issue.

(b) The ordinary dividends in the profit and loss account comprise:

| | 2002 £m | 2001 £m |
|--|------------|------------|
| Ordinary dividends | | |
| Interim – 8.75 pence (2001: 14.25 pence) | 197 | 321 |
| Final – 14.25 pence (2001: 23.75 pence) | 322 | 536 |
| Total ordinary dividends | 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.

11. Earnings per share**(a) Basic earnings per share:**

| | 2002 | | | Restated* Full year 2001 | | |
|--|--------------------------|--|----------------------------|-------------------------------------|--|----------------------------|
| | Before tax £m | Net of tax, minorities and preference dividend £m | Per share p | Before tax £m | Net of tax, minorities and preference dividend £m | Per share p |
| Operating profit – 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 |

* Restated for the effect of Financial Reporting Standard 19.

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 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 (31 December 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 |

* Restated for the effect of Financial Reporting Standard 19.

12. Longer-term investment return

The longer-term investment return is calculated separately for each principal general insurance business 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.

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

| | Longer-term rates of return | | | |
|----------------|------------------------------------|------------------|-------------------|------------------|
| | Equities | | 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% |

Statistical supplement

Segmental analysis of Group operating profit* at constant currency – achieved profit basis

| | 2002 | 2001 at 2002 exchange rates | 2001 |
|---|---------------|--|--------------|
| | £m | £m | £m |
| Continuing operations | | | |
| Life achieved operating profit** | | | |
| United Kingdom | 699 | 850 | 850 |
| France | 228 | 230 | 227 |
| Ireland | 75 | 80 | 79 |
| Italy | 52 | 56 | 55 |
| Netherlands (including Belgium and Luxembourg) | 200 | 223 | 221 |
| Poland life and pensions | 111 | 96 | 99 |
| Spain | 83 | 81 | 80 |
| Other Europe | (2) | 19 | 18 |
| International | 78 | 36 | 36 |
| | 1,524 | 1,671 | 1,665 |
| Health | | | |
| United Kingdom | 9 | 8 | 8 |
| France | 10 | 9 | 9 |
| Netherlands | 42 | 54 | 53 |
| | 61 | 71 | 70 |
| Fund Management | | | |
| United Kingdom | (12) | (4) | (4) |
| France | 11 | 13 | 12 |
| Netherlands | 4 | 8 | 8 |
| Other Europe | 2 | 2 | 2 |
| Australia and New Zealand | (1) | 7 | 7 |
| International | 1 | 4 | 4 |
| | 5 | 30 | 29 |
| General insurance | | | |
| United Kingdom | 611 | 590 | 590 |
| France | 47 | 59 | 58 |
| Ireland | 44 | 49 | 48 |
| Netherlands | 13 | 19 | 19 |
| Other Europe | 49 | 40 | 41 |
| Canada | 80 | 68 | 72 |
| Other | 37 | 50 | 48 |
| | 881 | 875 | 876 |
| Non-insurance operations** | (69) | 7 | 7 |
| Corporate costs | (218) | (187) | (187) |
| Unallocated interest charges | – external | (206) | (179) |
| | – intra-group | (228) | (247) |
| Wealth management | (30) | (99) | (99) |
| Group operating profit before tax* – continuing operations | 1,720 | 1,941 | 1,935 |
| Discontinued operations | | | |
| Australia and New Zealand general insurance operations | 78 | 71 | 69 |
| US general insurance operations | - | (20) | (21) |
| Group operating profit before tax* | 1,798 | 1,992 | 1,983 |

* Group operating profit before tax from continuing operations, before amortisation of goodwill and exceptional items.

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

Restating 2001 modified statutory life profits to account for the impact of exchange rate movements in 2002 would result in modified statutory life profits being restated from £1,194 million to £1,201 million for the year to 31 December 2001.

Supplementary analyses**(a) New business contribution – after the effect of solvency margin**

| | 2002 | 2001 |
|--|-------------|-------------|
| | £m | £m |
| United Kingdom | 269 | 315 |
| Europe (excluding UK) | | |
| France | 35 | 44 |
| Ireland | 26 | 29 |
| Italy | 27 | 21 |
| Netherlands (including Belgium and Luxembourg) | 1 | 11 |
| Poland | 7 | 7 |
| Spain | 69 | 50 |
| Other | (8) | (4) |
| International | 26 | 6 |
| | 452 | 479 |

(b) Experience variances – 31 December 2002

Experience variances include the impact of the difference between expense, demographic and persistency assumptions, and actual experience incurred in the period. Also included are variances arising from tax, where such variances are due to management action. The source of profit is included in the table below.

| | Exceptional expenses⁽¹⁾ | Mortality/ morbidity⁽²⁾ | Lapses⁽³⁾ | Other⁽³⁾ | Total |
|--|---|---|-----------------------------|----------------------------|--------------|
| | £m | £m | £m | £m | £m |
| UK | (45) | 35 | (8) | 15 | (3) |
| France | - | 8 | 6 | 9 | 23 |
| Netherlands (including Belgium and Luxembourg) | (55) | 6 | (19) | (45) | (113) |
| Europe | (2) | 10 | (12) | 2 | (2) |
| International | (23) | 2 | 2 | 4 | (15) |
| Total | (125) | 61 | (31) | (15) | (110) |

- (1) Exceptional expenses in the UK reflect one-off project costs including those associated with the pace of regulatory change. In the Netherlands, they relate to the cost of developing the direct operations and start up costs in Belgium. In International they primarily relate to the costs of building infrastructure in the US life operations.
- (2) Actual mortality and morbidity profits in the UK relate to better experience than anticipated by our start of year assumptions.
- (3) In the Netherlands, fiscal changes introduced last year have reduced the levels of personal tax relief available to policyholders investing in basic life annuity products and in group savings schemes. This has led to one-off premium reductions and adverse lapse experience on existing contracts.

(c) Operating assumptions – 31 December 2002

Changes in operating assumptions are made when the assumed future levels of expenses, mortality or other operating assumptions are expected to change permanently. An analysis of operating assumptions is as follows:

| | Maintenance expenses⁽¹⁾ | Mortality/ morbidity⁽²⁾ | Lapses⁽³⁾ | Other⁽⁴⁾ | Total |
|--|---|---|-----------------------------|----------------------------|--------------|
| | £m | £m | £m | £m | £m |
| UK | 5 | (123) | (15) | 5 | (128) |
| France | 7 | - | 24 | (20) | 11 |
| Netherlands (including Belgium and Luxembourg) | 86 | (6) | (3) | 37 | 114 |
| Europe | 33 | 54 | (60) | (35) | (8) |
| International | 5 | - | - | 15 | 20 |
| Total | 136 | (75) | (54) | 2 | 9 |

- (1) In the Netherlands, profits arise partly from a reduction in unit costs secured from cost savings initiatives and partly from changes to the basis of allocation of expenses to life and savings products. In Europe, profits arise from reductions in the unit costs in Poland.
- (2) In the UK, the loss reflects the impact of strengthening annuitant mortality assumptions net of offsetting changes. In Europe, profits arise in Poland following alignment of assumptions with current experience.
- (3) In Europe, the adverse lapse assumption charge arises primarily in Poland where more conservative rates are now adopted reflecting the current economic environment.
- (4) In the Netherlands, increases to annual management fees were effected at the end of 2001. In Europe, reductions in the Polish policy charges have an adverse effect while in the US the reduction in the risk margin assumptions has given rise to profits.

(d) Non-insurance operations – operating result

| | 2002 | 2001 |
|--|-------------|-------------|
| | £m | £m |
| Hill House Hammond | 4 | 4 |
| Norwich Union Equity Release and other personal finance subsidiaries | (6) | (3) |
| Your Move | (9) | (17) |
| Norwich Union Life Services | (54) | 9 |
| Other | (4) | 14 |
| | (69) | 7 |

The operating result from our equity release business in the UK is included within the non-insurance results on a statutory basis. On an achieved profit methodology new business contribution was £27 million before tax (2001: £12 million) and operating profit before tax, including the benefits of the securitisation of our book, was £47 million (2001: £15 million) which is excluded from our results.

(e) Corporate costs

| | 2002 | 2001 |
|--|--------------|--------------|
| | £m | £m |
| Groupwide staff profit share and other incentive plans | (86) | (78) |
| Global finance improvement programme | (26) | (6) |
| Other corporate costs | (106) | (103) |
| | (218) | (187) |

(f) Wealth Management – operating result

| | 2002 | 2001 |
|-------------------------|-------------|-------------|
| | £m | £m |
| United Kingdom | | |
| assertahome | (3) | (18) |
| Other wealth management | (27) | (81) |
| | (30) | (99) |

Supplementary analyses (continued)

(g) General business – investment return information

| | Actual investment return | | Longer-term investment return | |
|--|--------------------------|------------|-------------------------------|--------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| United Kingdom | 534 | 512 | 663 | 671 |
| Europe (excluding UK) | | | | |
| France | 56 | 62 | 61 | 91 |
| Ireland | 53 | 49 | 59 | 55 |
| Netherlands | 30 | 34 | 34 | 33 |
| Other | 34 | 50 | 59 | 66 |
| International | | | | |
| Canada | 91 | 105 | 108 | 128 |
| Other | 35 | 48 | 42 | 55 |
| Total longer-term investment return – continuing operations | | | 1,026 | 1,099 |
| Total actual investment income | 833 | 860 | | |
| Realised gains | 99 | 281 | | |
| Unrealised losses | (992) | (904) | | |
| Total actual investment return – continuing operations | (60) | 237 | | |
| Australia and New Zealand | 33 | 74 | 71 | 70 |
| United States | (1) | 165 | - | 152 |
| Discontinued operations | 32 | 239 | 71 | 222 |
| | (28) | 476 | 1,097 | 1,321 |

Reconciliation between general business investment return information and short-term fluctuation in investment return incorporated in the summarised consolidated profit and loss account – modified statutory basis

For the year to 31 December 2002

| | Actual investment return £m | Longer-term investment return £m | Short-term fluctuation in investment return £m |
|--|--------------------------------|-------------------------------------|---|
| General business | (28) | 1,097 | (1,125) |
| Health business | 26 | 85 | (59) |
| | (2) | 1,182 | (1,184) |
| Life business | | | (59) |
| Total short-term fluctuation in investment return | | | (1,243) |

Supplementary analyses (continued)**(h) Pension schemes**

The effect on the Group 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 restated* | | Profit and loss account reserve restated* | |
|--|----------------------|---------------|---|--------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m |
| Total included in the Group accounts | 10,412 | 12,403 | 1,126 | 1,662 |
| Less: pension asset on a SSAP24 basis | (175) | (143) | (175) | (143) |
| Total 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 |

* Restated for the effect of Financial Reporting Standard 19.

(i) Investments in joint ventures

| | 2002 £m | 2001 £m |
|----------------------------|------------|------------|
| Share of gross assets | 1,242 | - |
| Share of gross liabilities | (1,126) | - |
| | 116 | - |
| Loans to joint ventures | 665 | - |
| | 781 | - |

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 the 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 their 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 depends on the shareholdings in the GPs and the terms in each partnership agreement. Where the partnership is managed by a contractual agreement such that no one party exerts control, the PLPs have been accounted for as joint ventures.

In addition, the Group has invested in a joint venture life assurance company in China which had not commenced operations at 31 December 2002.

General insurance – geographical ratio analysis

| | <u>Claims ratio</u> | | <u>Expense ratio</u> | | <u>Combined operating ratio</u> | |
|------------------------------|---------------------|------------------|----------------------|------------------|---------------------------------|------------------|
| | 2002 % | 2001 % | 2002 % | 2001 % | 2002 % | 2001 % |
| United Kingdom | 70.0% | 71.7% | 10.4% | 10.5% | 101% | 102% |
| France | 71.1% | 71.5% | 13.9% | 13.1% | 102% | 104% |
| Ireland | 85.4% | 81.3% | 13.0% | 9.9% | 100% | 101% |
| Netherlands | 64.6% | 65.7% | 19.6% | 19.0% | 105% | 104% |
| Canada | 74.1% | 78.1% | 11.3% | 12.9% | 102% | 107% |
| Continuing operations | 71.2% | 72.4% | 11.3% | 11.9% | 102% | 103% |
| Discontinued operations | | | | | | |
| Australia and New Zealand | 69.1% | 69.7% | 13.2% | 14.2% | 98% | 99% |
| | 71.0% | 72.3% | 11.5% | 12.0% | 101% | 102% |

The Group withdrew from the US general insurance market in 2000 and the disposal of the operations was completed in 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%.

Ratios are measured in local currency.

The total Group ratios are based on average exchange rates applying to the respective periods.

Definitions:

- Claims ratio – Incurred claims expressed as a percentage of net earned premiums.
- Expense ratio – Written expenses excluding commissions expressed as a percentage of net written premiums.
- Commission ratio – Written commissions expressed as a percentage of net written premiums.
- Combined operating ratio – Aggregate of claims ratio, expense ratio and commission ratio.

General insurance – class of business analyses**(a) United Kingdom – continuing operations**

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|-------------------|-----------------------------|--------------|----------------------------|-------------|---------------------------------|-------------|
| | 2002 £m | 2001 £m | 2002 £m | 2001 £m | 2002 % | 2001 % |
| Personal | | | | | | |
| Motor | 1,255 | 1,442 | (44) | (40) | 103% | 103% |
| Homeowner | 1,005 | 1,037 | 5 | 72 | 99% | 94% |
| Creditor | 465 | 508 | 19 | 21 | 100% | 94% |
| Other | 86 | 89 | 5 | (2) | 98% | 100% |
| | 2,811 | 3,076 | (15) | 51 | 101% | 98% |
| Commercial | | | | | | |
| Motor | 727 | 680 | (11) | (44) | 102% | 105% |
| Property | 692 | 579 | 1 | (26) | 100% | 104% |
| Liability | 314 | 242 | (42) | (64) | 114% | 126% |
| Other | 196 | 200 | 15 | 2 | 90% | 100% |
| | 1,929 | 1,701 | (37) | (132) | 102% | 108% |
| £m | 4,740 | 4,777 | (52) | (81) | 101% | 102% |

During the year to 31 December 2002, annualised rating increases were as follows: commercial liability: 35%; commercial property: 19%; commercial motor: 6%; homeowners: 4%; and personal motor: 2%.

(b) France

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|--------------------|-----------------------------|--------------|----------------------------|-------------|---------------------------------|-------------|
| | 2002 €m | 2001 €m | 2002 €m | 2001 €m | 2002 % | 2001 % |
| Motor | 342 | 409 | (11) | (26) | 103% | 106% |
| Property and other | 417 | 720 | (11) | (27) | 102% | 103% |
| €m | 759 | 1,129 | (22) | (53) | 102% | 104% |
| £m | 478 | 700 | (14) | (33) | 102% | 104% |

The figures for 2001 include the results for CGU Courtage which was disposed in May 2002. In 2002, the figures exclude CGU Courtage reflecting the structure of the sale whereby the Group had no economic interest in the operating result after 31 December 2001.

General insurance – class of business analyses (continued)**(c) Netherlands**

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|-----------|-----------------------------|------------|----------------------------|-------------|---------------------------------|-------------|
| | 2002 €m | 2001 €m | 2002 €m | 2001 €m | 2002 % | 2001 % |
| Property | 256 | 248 | 6 | 17 | 99% | 95% |
| Motor | 258 | 264 | (22) | (34) | 109% | 113% |
| Liability | 59 | 47 | (11) | (8) | 120% | 119% |
| Other | 81 | 65 | (6) | 2 | 107% | 93% |
| €m | 654 | 624 | (33) | (23) | 105% | 104% |
| £m | 412 | 387 | (21) | (14) | 105% | 104% |

(d) Canada

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|-------------|-----------------------------|--------------|----------------------------|--------------|---------------------------------|-------------|
| | 2002 C\$m | 2001 C\$m | 2002 C\$m | 2001 C\$m | 2002 % | 2001 % |
| Automobile | 1,475 | 1,175 | (69) | (43) | 105% | 104% |
| Property | 702 | 591 | 11 | (28) | 98% | 105% |
| Liability | 182 | 163 | (15) | (60) | 108% | 137% |
| Other | 32 | 28 | 7 | 7 | 72% | 72% |
| C\$m | 2,391 | 1,957 | (66) | (124) | 102% | 107% |
| £m | 1,009 | 878 | (28) | (56) | 102% | 107% |

Assets under management

| | Long-term business 2002 £m | General business and other 2002 £m | Group 2002 £m | Restated* Group 2001 £m |
|---|---|---|------------------------------|--|
| Financial investments | | | | |
| Shares, other variable yield securities and units in unit trusts | 20,788 | 2,157 | 22,945 | 37,738 |
| Strategic investments | 1,477 | 446 | 1,923 | 3,849 |
| Debt and fixed income securities at market value | 23,084 | 7,737 | 30,821 | 29,641 |
| Debt and fixed income securities at amortised cost | 42,721 | - | 42,721 | 34,129 |
| Loans secured by mortgages and other loans, net of non-recourse funding | 11,707 | 1,201 | 12,908 | 12,527 |
| Deposits | 2,270 | 550 | 2,820 | 2,149 |
| Total financial investments | 102,047 | 12,091 | 114,138 | 120,033 |
| Investments in joint ventures | 781 | - | 781 | - |
| Investments in associated undertakings and participating interests | 763 | 287 | 1,050 | 1,077 |
| Land and buildings | 8,748 | 668 | 9,416 | 9,041 |
| Total investments | 112,339 | 13,046 | 125,385 | 130,151 |
| Assets held to cover linked liabilities | 29,538 | - | 29,538 | 28,704 |
| Other assets included in the balance sheet | 11,010 | 18,990 | 30,000 | 29,469 |
| Total assets included in the balance sheet | 152,887 | 32,036 | 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 |

* Restated for the effect of Financial Reporting Standard 19.

Strategic investments include the market value of the Group's shareholding in Société Générale, Münchener Rückversicherungs-Gesellschaft and The Royal Bank of Scotland Group.

General insurance and other investments mix

| | United Kingdom £m | Continental Europe £m | International £m | Total 2002 £m |
|--|----------------------------------|--------------------------------------|-----------------------------|------------------------------|
| Shares, other variable yield securities and units in unit trusts and strategic investments | 1,435 | 888 | 280 | 2,603 |
| Debt and fixed income securities at market value | 3,617 | 2,569 | 1,551 | 7,737 |
| Land and buildings | 299 | 332 | 37 | 668 |
| Other | 1,166 | 552 | 320 | 2,038 |
| Total investments | 6,517 | 4,341 | 2,188 | 13,046 |

Group capital structure

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

The Group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is 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.

Capital employed by segment

| | 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 |
| | 17,326 | 19,138 |
| Discontinued operations – Australia and New Zealand | - | 357 |
| Total capital employed | 17,326 | 19,495 |
| Financed by | | |
| Internal debt | 3,671 | 3,284 |
| External debt | 2,053 | 2,651 |
| Subordinated debt | 1,190 | 1,157 |
| Shareholders' funds and minority interests | 10,412 | 12,403 |
| | 17,326 | 19,495 |

* Restated for the effect of Financial Reporting Standard 19.

At 31 December 2002 we had £17.3 billion (31 December 2001: £19.5 billion, restated) of total capital employed in our trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, subordinated debt and internal and external borrowings.

In 2002, the total capital employed in our long-term savings operations fell as a result of the reduction in the future value of inforce business. The disposals of a number of general insurance businesses, including Australia and New Zealand, CGU Courtage and Plus Ultra, and the impact of falling equity markets on the asset base reduced the total capital employed in our general insurance businesses.

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.

The reduction in external debt of £0.6 billion is as a result of the repayment of commercial paper and the early redemption of debenture loans.

Internal debt has increased during 2002 reflecting the impact of two offsetting items. In the early part of 2002 corporate assets were used to pay the third instalment of the Berkshire Hathaway premium, thereby reducing internal debt. During the latter part of the year we formalised a number of intra group arrangements which increased internal debt. On 2 January 2003 we paid the final instalment of the Berkshire Hathaway premium of approximately £0.5 billion which will reduce internal debt by the same amount after the year end.

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

Group capital structure (continued)**Deployment of equity shareholders' funds**

| | 2002 | | | | Restated* 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.

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. During the course of the year, as part of the ongoing portfolio management process, the Group reduced its strategic stakes in Société Générale, Munich Re and The Royal Bank of Scotland Group. The market values of these holdings at the end of 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 capital of these companies.

Return on capital employed

| | 2002 | | | 2001 |
|--|---|---|---|--|
| | Normalised after-tax return £m | Opening equity capital restated* £m | Return on capital (annualised) % | Return on capital restated* % |
| 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% |
| | 1,089 | 11,195 | 9.7% | 11.1% |
| Discontinued operations – Australia and New Zealand – United States | 72 | 357 | 20.2% | 11.1% |
| | - | - | - | - |
| Equity shareholders' funds | 1,161 | 11,552 | 10.1% | 9.7% |

* Restated for the effect of Financial Reporting Standard 19.

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.

Group capital structure (continued)**Capital management**

In managing its capital, the Group aims to:

- (i) match the profile of its assets and liabilities, taking account of the risks inherent in each business. In the case of the Group's life operations, which have long-term liabilities, the majority of capital is held in fixed income securities. A significant proportion of the capital supporting the Group's general insurance and health operations is held in equities, reflecting the relatively low risk profile of these businesses;
- (ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders, regulators and rating agencies;
- (iii) retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit lines, and access to a range of capital markets; and
- (iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

An important aspect of the Group's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders.

Risk based capital

The Group uses risk based capital as one of several measures to assess its capital requirements for its general insurance businesses. Financial modelling techniques enhance our practice of active capital management, ensuring sufficient capital is available to protect against unforeseen events and adverse scenarios, and risk management. Our aim continues to be the optimal usage of capital through appropriate allocation to our businesses.

Our risk based capital model is part of a longer term development programme for more complex risk monitoring techniques in part to meet future industry standards. Within a few years we expect to agree capital requirements with the regulator on the basis of our risk based capital models. This represents the level of capital necessary to enable the general insurance business to meet the statutory minimum solvency margin over a five year period with 99% probability of not requiring further capital.

Our current risk based capital methodology for general insurance business assesses insurance, market and credit risks and makes prudent allowance for diversification benefits. We consider risks over a five year period allowing for planned levels of business growth. Based on our model, our risk based capital requirement may be expressed as 36% of net written premiums.

Capital employed in our general insurance business after goodwill and adding back the claims equalisation reserve was £4 billion at 31 December 2002 and required capital on a risk basis was £3.1 billion, giving a surplus capital position of £0.9 billion.

Sensitivity analysis

The sensitivity of the Group's shareholders' funds at 31 December 2002 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

| 2001 £bn | | 2002 £bn | Equities down 10% £bn | Interest rates up 1% £bn |
|-------------|---|-------------|-----------------------------|-----------------------------------|
| 5.9 | Additional value of in-force ⁽¹⁾ | 4.4 | 4.1 | 4.7 |
| 13.6 | Other net assets | 12.9 | 12.6 | 12.5 |
| (7.1) | Borrowings ⁽²⁾ | (6.9) | (6.9) | (6.9) |
| 12.4 | 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.

Post-tax internal rate of return on life and pensions new business

The total internal rate of return on life and pensions new business for the Group was 16% (2001: 16%). The return is the discount rate at which the present value of the post-tax cash flows expected to be earned over the life time of the business written is equal to the initial capital required to support the writing of the business. The capital includes the statutory minimum solvency margin and amounts to £1,000 million (2001: £800 million). This includes £300 million (2001: £200 million) of solvency requirements.

Group capital structure (continued)**Shareholders' funds, including minority interests**

| 31 December 2002 | Note | Closing shareholders' funds | | | Normalised return (note 1) | |
|--|------|--------------------------------------|---------------------------------------|-------------------------|-------------------------------|-----------------|
| | | MSSB net assets (note 2) £m | Internally generated AVIF £m | Embedded value £m | Before tax £m | After tax £m |
| Life assurance | | | | | | |
| United Kingdom | | 2,514 | 2,498 | 5,012 | 699 | 488 |
| France | | 924 | 297 | 1,221 | 228 | 145 |
| Ireland | | 296 | 176 | 472 | 75 | 66 |
| Italy | | 295 | 54 | 349 | 52 | 31 |
| Netherlands (including Belgium and Luxembourg) | | 1,270 | 536 | 1,806 | 200 | 147 |
| Poland | | 130 | 222 | 352 | 111 | 80 |
| Spain | | 239 | 111 | 350 | 83 | 54 |
| Other Europe | | 157 | 19 | 176 | (2) | (1) |
| International | | 406 | 4 | 410 | 78 | 54 |
| | | 6,231 | 3,917 | 10,148 | 1,524 | 1,064 |
| Participating interests | 3 | 231 | - | 231 | - | - |
| | | 6,462 | 3,917 | 10,379 | 1,524 | 1,064 |
| General insurance and health | | | | | | |
| United Kingdom | 4 | | | 2,052 | 491 | 330 |
| France | 5 | 2,052 | | 481 | 57 | 41 |
| Ireland | | 481 | | 236 | 44 | 37 |
| Netherlands | | 236 | | 275 | 55 | 41 |
| Other Europe | | 275 | | 63 | 49 | 36 |
| Canada | | 63 | | 535 | 80 | 54 |
| Other | | 535 | | 275 | 37 | 30 |
| | | 3,917 | - | 3,917 | 813 | 569 |
| Other business | 5, 6 | 554 | | 554 | (94) | (67) |
| Corporate | | 2,476 | | 2,476 | (89) | (63) |
| External debt | 7 | (2,053) | | (2,053) | (133) | (102) |
| Internal debt | | (3,671) | | (3,671) | (228) | (161) |
| Subordinated debt | | (1,190) | | (1,190) | (73) | (51) |
| | | (3,884) | - | (3,884) | (617) | (444) |
| | | 6,495 | 3,917 | 10,412 | 1,720 | 1,189 |
| Australia and New Zealand | | - | - | - | 78 | 72 |
| Shareholders' funds, including minority interests | | 6,495 | 3,917 | 10,412 | 1,798 | 1,261 |
| Comprising | | | | | | |
| Equities | | 3,126 | | 3,126 | | |
| Debt and fixed income securities | | 6,033 | | 6,033 | | |
| Property | | 496 | | 496 | | |
| Deposits and other investments | | 1,293 | | 1,293 | | |
| Intangible assets | 8 | 1,776 | 3,917 | 5,693 | | |
| Other net assets | | 685 | | 685 | | |
| Borrowings | | (6,914) | | (6,914) | | |
| | | 6,495 | 3,917 | 10,412 | | |

Group capital structure (continued)

Shareholders' funds, including minority interests (continued)

Notes

1. The normalised return is based upon operating profit from continuing operations, including life achieved profit, before amortisation of goodwill and exceptional items.
2. Includes acquired additional value of in-force long-term business of £505 million.
3. The net assets represent the £231 million of goodwill on the RBSG joint venture.
4. The capital employed in the Group's general insurance operations includes £282 million of goodwill.
5. Assets available to shareholders are held by the Group's UK general insurance operations and are available to finance future growth of the Group. Accordingly, for the purposes of preparing this note, these assets together with their associated pre-tax investment return of £129 million (post-tax £90 million) have been reclassified as Corporate.
6. The return before tax of £(89) million comprises investment return £129 million and corporate costs £(218) million.
7. The external borrowings reported in the summary consolidated balance sheet of £2,064 million comprises £11 million of general insurance borrowings (reported within the general insurance and health net assets) and £2,053 million of borrowings by holding companies of the Group not allocated to operating companies (shown as external debt).
8. Comprises acquired additional value of in-force long-term business (£505 million), goodwill arising on acquisitions (£1,040 million) and goodwill on the RBSG joint venture (£231 million).

Group capital structure (continued)**Shareholders' funds, including minority interests (continued)**

| | | Closing shareholders' funds* | | |
|---|-------------|--|---|----------------------------------|
| 31 December 2001 | Note | MSSB net assets (note 1) £m | Internally generated AVIF £m | Embedded value £m |
| Life assurance | | | | |
| United Kingdom | | 2,586 | 3,444 | 6,030 |
| France | | 889 | 354 | 1,243 |
| Ireland | | 256 | 211 | 467 |
| Italy | | 218 | 60 | 278 |
| Netherlands (including Belgium and Luxembourg) | | 983 | 883 | 1,866 |
| Poland | | 117 | 254 | 371 |
| Spain | | 179 | 130 | 309 |
| Other Europe | | 101 | 6 | 107 |
| International | | 385 | 7 | 392 |
| | | 5,714 | 5,349 | 11,063 |
| Participating interests | 2 | 244 | - | 244 |
| | | 5,958 | 5,349 | 11,307 |
| General insurance and health | | | | |
| United Kingdom | 3 | | | 2,043 |
| France | 4 | 2,043 | | 619 |
| Ireland | | 619 | | 200 |
| Netherlands | | 200 | | 430 |
| Other Europe | | 430 | | 276 |
| Canada | | 276 | | 590 |
| Other | | 590 | | 402 |
| | | 4,560 | - | 4,560 |
| Other business | | 324 | | 324 |
| Corporate | 4, 5 | 2,947 | | 2,947 |
| External debt | 6 | (2,651) | | (2,651) |
| Internal debt | | (3,284) | | (3,284) |
| Subordinated debt | | (1,157) | | (1,157) |
| | | (3,821) | - | (3,821) |
| | | 6,697 | 5,349 | 12,046 |
| Australia and New Zealand | 7 | 357 | | 357 |
| Shareholders' funds including minority interests | | 7,054 | 5,349 | 12,403 |
| Comprising | | | | |
| Equities | | 4,947 | | 4,947 |
| Debt and fixed income securities | | 5,063 | | 5,063 |
| Property | | 825 | | 825 |
| Deposits and other investments | | 1,417 | | 1,417 |
| Intangible assets | 8 | 1,984 | 5,349 | 7,333 |
| Other net liabilities | | (90) | | (90) |
| Borrowings | | (7,092) | | (7,092) |
| | | 7,054 | 5,349 | 12,403 |

* Restated for the effect of Financial Reporting Standard 19.

Group capital structure (continued)

Shareholders' funds, including minority interests (continued)

Notes

1. Includes acquired additional value of in-force long-term business of £599 million.
2. The net assets represent the £244 million of goodwill on the RBSG joint venture.
3. The capital employed in the Group's general insurance operations includes £272 million of goodwill.
4. Assets available to shareholders are held by the Group's UK general insurance operations and are available to finance future growth of the Group. Accordingly, for the purposes of preparing this note, these assets together with their associated pre-tax investment return of £107 million (post-tax £72 million) have been reclassified as Corporate.
5. The return before tax of £(80) million comprises investment return £107 million and corporate costs £(187) million.
6. The external borrowings reported in the summary consolidated balance sheet of £2,662 million comprises £11 million of general insurance borrowings (reported within the general insurance and health net assets) and £2,651 million of borrowings by holding companies of the Group not allocated to operating companies (shown as external debt).
7. Included within the net assets of the disposed Australian and New Zealand general insurance business is £44 million of goodwill acquired.
8. Comprises acquired additional value of in-force long-term business (£599 million), goodwill arising on acquisitions (£1,141 million) and goodwill on the RBSG joint venture (£244 million).

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 below, in order to obtain full details and a mandate form. Shareholders who have previously elected to join the Plan need take no further action.

Shareholder enquiries

Shareholders who have any administrative enquiries about their shareholding in Aviva plc should contact the Company's Registrar:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

0870 600 3952

Internet addresses

There are various internet sites within the Group, most of which inter-link to enable quick reference direct to specific sites. Principal UK internet sites are as follows:

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

| | |
|---------------------------|---|
| Aviva plc | |
| Registered in England no: | 2468686 |
| Registered Office: | St Helen's, 1 Undershaft, London EC3P 3DQ |