



Annual Report & Accounts 2002

Consolidated Profit and Loss Account Technical Account – General Business

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Gross premiums written		11,959	11,167
Outward reinsurance premiums		(3,324)	(2,354)
Premiums written, net of reinsurance		8,635	8,813
Change in the gross provision for unearned premiums		(368)	(595)
Change in the provision for unearned premiums, reinsurers' share		140	116
Earned premiums, net of reinsurance	10	8,407	8,334
Allocated investment return transferred from the Non-Technical Account	12	962	1,142
Claims paid			
Gross amount		(8,382)	(7,941)
Reinsurers' share		1,886	1,484
		(6,496)	(6,457)
Change in the provision for claims			
Gross amount		(601)	(1,569)
Reinsurers' share		342	1,023
		(259)	(546)
Unwind of discount in respect of claims outstanding		(53)	(47)
Claims incurred, net of reinsurance		(6,808)	(7,050)
Acquisition costs		(2,382)	(2,237)
Change in deferred acquisition costs		83	88
Administrative expenses		(810)	(832)
Reinsurance commissions and profit participation		566	457
Net operating expenses	3	(2,543)	(2,524)
Amortisation of goodwill in acquired claims provisions	17	(25)	(37)
Underwriting result		(916)	(1,230)
Longer term investment return allocated to the General Business Technical Account		962	1,142
Unwind of discount in respect of claims outstanding		(53)	(47)
Balance on the technical account before change in the equalisation provisions		(7)	(135)
Change in the equalisation provisions	9	1	(46)
Balance on the Technical Account for General Business		(6)	(181)

Current year discontinued and acquired operations do not form a material part of the figures above.

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.

Consolidated Profit and Loss Account

Technical Account – Long Term Business

For the year ended 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Gross premiums written		2,289	2,991
Outward reinsurance premiums		(407)	(92)
Earned premiums, net of reinsurance		1,882	2,899
Investment Income	11	1,460	2,170
Total technical income		3,342	5,069
Claims paid			
Gross amount		(3,822)	(3,335)
Reinsurers' share		76	58
		(3,746)	(3,277)
Change in the provision for claims			
Gross amount		3	(20)
Reinsurers' share		9	4
		12	(16)
Claims Incurred, net of reinsurance		(3,734)	(3,293)
Change in long term business provision			
Gross amount		118	1,115
Reinsurers' share		486	(209)
		604	906
Change in technical provisions for linked liabilities, net of reinsurance		1,331	572
Change in other technical provisions, net of reinsurance		1,935	1,478
Acquisition costs		(219)	(278)
Change in deferred acquisition costs		(58)	(39)
Administrative expenses		(207)	(197)
Net operating expenses	3	(484)	(514)
Investment expenses and charges	11	(68)	(63)
Unrealised losses on investments		(1,851)	(3,642)
Tax attributable to the long term business	14	(4)	162
Other technical charges – amortisation of acquired value of in-force business	19	(13)	(13)
Total technical charges		(4,219)	(5,885)
Technical Income less charges		(877)	(816)
Allocated investment return transferred to the Non-Technical Account		22	4
Transfers from the fund for future appropriations		999	923
Balance on the Technical Account for Long Term Business	5	144	111

Current year discontinued and acquired operations do not form a material part of the figures above.

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Consolidated Profit and Loss Account

Non-Technical Account

For the year ended 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Balance on the General Business Technical Account		(6)	(181)
Balance on the Long Term Business Technical Account		144	111
Tax credit attributable to balance on the Long Term Business Technical Account		65	62
Balance on the Long Term Business Technical Account gross of tax		209	173
Investment income	11	1,146	1,275
Allocated investment return transferred from the Long Term Business Technical Account		(22)	(4)
Investment expenses and charges	11	(146)	(134)
Unrealised losses on investments		(638)	(1,013)
Allocated investment return transferred to the General Business Technical Account	12	(962)	(1,142)
Income from other activities		215	269
Charges from other activities	2, 3	(241)	(286)
Central expenses	3	(48)	(37)
Amortisation and impairment of goodwill	17	(713)	(58)
Total Group operating loss		(1,202)	(1,158)
Share of results of associated undertakings		(4)	20
		(1,206)	(1,138)
Analysis of loss on ordinary activities before exceptional items and tax			
General business result	31	89	(11)
Long term business result	5, 44	227	186
Other activities (including associated undertakings)		(90)	(159)
Group operating result (based on longer term investment return)		226	16
Interest on dated loan capital		(52)	(58)
Change in the equalisation provisions	9	1	(46)
Amortisation and impairment of goodwill	17	(713)	(58)
Amortisation of goodwill in acquired claims provisions	17	(25)	(37)
Reorganisation costs and other items	2	(92)	(110)
Group operating loss (based on longer term investment return)		(655)	(293)
Short term investment fluctuations		(551)	(845)
Loss on ordinary activities before exceptional items and tax		(1,206)	(1,138)
Profit/(loss) on disposal of subsidiary undertakings	24	184	(172)
Provision for loss on disposal of subsidiary undertakings utilised		-	63
Profit/(loss) on disposal of subsidiary undertakings		184	(109)
Loss on ordinary activities before tax		(1,022)	(1,247)
Tax credit on loss on ordinary activities	14	91	353
Loss on ordinary activities after tax		(931)	(894)
Attributable to equity minority interests		(9)	5
Loss for the financial year attributable to shareholders		(940)	(889)
Dividends	15	(95)	(236)
Transfer from retained profits		(1,035)	(1,125)
Earnings per ordinary share	16	(66.5)p	(63.1)p
Diluted earnings per ordinary share	16	(66.5)p	(63.1)p
Group operating earnings after tax per ordinary share			
(based on longer term investment return)	16	5.7p	(4.1)p

Current year discontinued and acquired operations do not form a material part of the figures above.

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2002

	Notes	Other reserves £m	Profit and loss account £m	2002 £m	Restated 2001 £m
Loss for the financial year		–	(940)	(940)	(889)
Movement in value of long term business (other than on acquisition)		(351)	–	(351)	(333)
Exchange:					
Group		(4)	(253)	(257)	(34)
Share of associates		–	(8)	(8)	(35)
Shareholders' consolidated recognised losses arising in the year		(355)	(1,201)	(1,556)	(1,291)
Prior year adjustment	1	–	(79)	(79)	
Shareholders' consolidated recognised losses since 31 December 2001		(355)	(1,280)	(1,635)	

Exchange includes a gain of £11m (2001: £nil) on exchange relating to foreign currency borrowings.

Movements in Shareholders' Funds

For the year ended 31 December 2002

	Notes	Share capital/ premium £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	2002 £m	Restated 2001 £m
Shareholders' funds at 1 January (as reported)		730	8	1,236	2,796	4,770	6,463
Prior year adjustment	1	–	–	–	(79)	(79)	(427)
Shareholders' funds at 1 January (as restated)		730	8	1,236	2,717	4,691	6,036
Shareholders' recognised losses		–	–	(355)	(1,201)	(1,556)	(1,291)
Issue of share capital		–	–	–	–	–	1
Increase in share premium	28	2	–	–	–	2	13
Goodwill written back	24	–	–	–	1	1	168
Dividends	15	–	–	–	(95)	(95)	(236)
Shareholders' funds at 31 December		732	8	881	1,422	3,043	4,691

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2002

	Notes	Shareholder consolidated		Combined consolidated	
		2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
ASSETS					
Intangible assets	17	306	1,086	306	1,086
Investments					
Land and buildings	18	483	521	2,975	2,937
Interests in associated undertakings	22	166	233	166	233
Other financial investments					
Shares and other variable yield securities and units in unit trusts		1,775	3,448	5,888	11,632
Debt securities and other fixed income securities		10,832	10,063	29,878	26,967
Loans and deposits with credit institutions		1,079	1,514	1,607	2,056
	18	13,686	15,025	37,373	40,655
Value of long term business	19, 45	898	1,335	898	1,335
Deposits with ceding undertakings		166	91	179	91
Total Investments		15,399	17,205	41,591	45,251
Assets held to cover linked liabilities	18	–	–	4,169	7,631
Reinsurers' share of technical provisions					
Provision for unearned premiums		654	575	654	575
Long term business provision		–	–	820	334
Claims outstanding	31	4,425	4,435	4,493	4,496
Technical provisions for linked liabilities		–	–	6	12
		5,079	5,010	5,973	5,417
Debtors					
Debtors arising out of direct insurance operations	20	2,919	3,076	2,980	3,140
Debtors arising out of reinsurance operations		1,072	884	1,090	905
Deferred taxation		145	97	207	97
Other debtors	20	1,489	1,972	539	896
		5,625	6,029	4,816	5,038
Other assets					
Tangible assets	21	193	226	221	258
Cash at bank and in hand		525	407	957	784
Own shares	28	15	51	15	51
		733	684	1,193	1,093
Prepayments and accrued income					
Accrued interest and rent		201	197	517	486
Deferred acquisition costs – long term		–	–	254	373
Deferred acquisition costs – general		972	946	972	946
Other prepayments and accrued income		137	142	155	181
		1,310	1,285	1,898	1,986
Total assets		28,452	31,299	59,946	67,502

The Shareholder Consolidated Balance Sheet represents the shareholder and general insurance business assets and liabilities. The Combined Consolidated Balance Sheet includes long term business assets and liabilities relating to long term business policyholders.

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.

LIABILITIES	Notes	Shareholder consolidated		Combined consolidated	
		2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Capital and reserves					
Ordinary share capital		396	396	396	396
Preference share capital		125	125	125	125
Called up share capital	28	521	521	521	521
Share premium account		211	209	211	209
Other reserves		881	1,236	881	1,236
Capital redemption reserve		8	8	8	8
Profit and loss account		1,422	2,717	1,422	2,717
Equity shareholders		2,918	4,566	2,918	4,566
Non-equity shareholders		125	125	125	125
Shareholders' funds		3,043	4,691	3,043	4,691
Equity minority interests in subsidiary undertakings		405	399	405	399
Subordinated liabilities					
Dated loan capital	29	773	784	773	784
Total capital, reserves and dated loan capital		4,221	5,874	4,221	5,874
Fund for future appropriations		-	-	1,669	2,642
Technical provisions					
Provision for unearned premiums		5,155	5,087	5,155	5,087
Long term business provision	30	-	-	24,661	25,101
Claims outstanding	31	15,123	15,368	15,371	15,625
Equalisation provisions	9	293	331	293	331
		20,571	20,786	45,480	46,144
Technical provisions for linked liabilities		-	-	4,168	7,619
Provisions for other risks and charges	32	286	397	389	605
Deposits received from reinsurers		137	129	137	130
Creditors					
Creditors arising out of direct insurance operations		429	313	463	359
Creditors arising out of reinsurance operations		800	836	834	857
Debenture loans	33	103	117	105	119
Amounts owed to credit institutions	33	597	964	597	965
Other creditors including taxation and social security	34	831	1,298	1,361	1,530
Proposed dividend	15	29	101	29	101
		2,789	3,629	3,389	3,931
Accruals and deferred income		448	484	493	557
Total liabilities		28,452	31,299	59,946	67,502

Except for certain debenture loans and amounts owed to credit institutions shown in [note 33](#), all creditors are payable within a period of five years.

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.

Parent Company Balance Sheet

As at 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Fixed assets			
Tangible assets	21	20	40
Investments	25	3,460	5,222
		3,480	5,262
Current assets			
Amounts owed by Group undertakings		1,326	618
Other debtors		5	154
Cash at bank and in hand		5	2
		1,336	774
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		(591)	(420)
Amounts owed to credit institutions		(256)	–
Other creditors including taxation and social security		(124)	(40)
Proposed dividend	15	(29)	(101)
		(1,000)	(561)
Net current assets		336	213
Total assets less current liabilities		3,816	5,475
Creditors – amounts falling due after more than one year			
Dated loan capital	29	773	784
Capital and reserves			
Ordinary share capital		396	396
Preference share capital		125	125
Called up share capital	27, 28	521	521
Share premium account	27	211	209
Revaluation reserve	27	2,290	3,745
Capital redemption reserve	27	8	8
Profit and loss account	27	13	208
Equity shareholders		2,918	4,566
Non-equity shareholders		125	125
Shareholders' funds		3,043	4,691
Total capital, reserves and dated loan capital		3,816	5,475

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.

The financial statements were approved on 5 March 2003 by the Board of Directors and are signed on its behalf by:

JULIAN HANCE
Group Finance Director

Consolidated Shareholders' Cash Flow Statement

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Operating activities			
Net cash inflow from general business		63	50
Shareholders' net cash inflow from long term business		94	92
Contingent loan finance to long term business funds		(160)	–
Other operating cash flows attributable to shareholders		(6)	(26)
Net cash (outflow)/inflow from operating activities		(9)	116
Dividends from associates		3	24
Servicing of finance			
Dividends paid on non-equity shares		(9)	(9)
Dividends paid to minorities		–	(8)
Interest paid on dated loan capital		(58)	(61)
		(67)	(78)
Taxation refunded		53	80
Capital expenditure			
Purchases less sales of tangible assets		(63)	(98)
Acquisitions and disposals			
Acquisition of interests in associated undertakings		(1)	(40)
Disposal of interests in associated undertakings		9	–
Acquisition of subsidiary undertakings	23, 42	(32)	(139)
Acquisition of minority interests in subsidiary undertakings	23	(2)	(4)
Disposal of subsidiary undertakings	43	666	378
Disposal of minority interests in subsidiary undertakings		–	1
		640	196
Dividends paid on equity shares		(160)	(370)
Financing			
Issue of ordinary share capital	28, 41	2	14
Cash available for investment		399	(116)
Cash flows were invested as follows:			
Movement in cash holdings	41	108	(28)
Net portfolio investments	39, 40, 41		
Land and buildings		(30)	4
Shares and other variable yield securities		(1,006)	(635)
Loans, debt securities and other fixed income securities		1,143	578
Deposits with credit institutions		(196)	666
Borrowings		380	(701)
		291	(88)
Net investment of cash flows		399	(116)

The Cash Flow Statement does not include any amounts relating to the long term business except cash transactions between the long term business and shareholders.

[The Accounting Policies](#) and the [Notes on the Accounts](#) form part of these financial statements.