

LLOYDS TSB LIFE ASSURANCE COMPANY LIMITED

REPORT OF THE DIRECTORS

AND

ACCOUNTS

31 DECEMBER 2002

Member of Lloyds TSB Group



Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

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Lloyds TSB Life Assurance Company Limited
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Company Information

Board of Directors

J McConville
I D Thompson
M L Sykes

Secretary

T Nicholls

Reporting Actuary

M R Poulding

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Registered Office

25 Gresham Street
London
EC2V 7HN

Company Registration Number

1132760

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Directors' Report

Principal Activity and Review of Business

The principal activity of Lloyds TSB Life Assurance Company Limited ("the Company") is to transact ordinary long term life assurance, pension business and permanent health insurance.

With effect from 6 March 2000, the Company no longer sold its principal long term life assurance or pension business products.

Results and Dividend

The result for the year ended 31 December 2002 is a profit of £67.2m (2001 : restated profit £116.6m) and this has been transferred to reserves. The Directors do not recommend the payment of any dividend for the period.

Directors

The names of the current Directors are listed on page 2. Particulars of the Directors' emoluments and interests in shares are given in note 7 to the accounts. Changes in directorships during the year are as follows :

M R Poulding (resigned 5 June 2002)
J McConville (appointed 7 August 2002)



T Nicholls
Company Secretary

6 February 2003

Lloyds TSB Life Assurance Company Limited
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Report of the Independent Auditors
To the Members of Lloyds TSB Life Assurance Company Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes which have been prepared under the accounting policies set out in the statement of accounting policies.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the annual report including, as described below, the financial statements. The United Kingdom Companies Act 1985 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Lloyds TSB Life Assurance Company Limited
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Report of the Independent Auditors (continued)
To the Members of Lloyds TSB Life Assurance Company Limited

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
6 February 2003

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Technical Account – long term business

	Notes	2002 £m	(restated) 2001 £m
Earned premiums, net of reinsurance			
Gross premiums written	3(a)	492.8	549.1
Outward reinsurance premiums		(7.3)	(9.4)
Investment income	4(a)	301.9	430.9
		<u>787.4</u>	<u>970.6</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(1,243.4)	(1,449.3)
Less: reinsurers' share		25.0	6.5
Change in the provision for claims		(0.6)	(8.1)
		<u>(1,219.0)</u>	<u>(1,450.9)</u>
Change in other technical provisions net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount		140.4	154.1
Less: reinsurers' share		0.5	(14.7)
		<u>140.9</u>	<u>139.4</u>
Other technical provisions, net of reinsurance			
- Technical provisions for linked liabilities		1,691.7	1,902.5
		<u>1,832.6</u>	<u>2,041.9</u>
Net operating expenses	5	(50.9)	(127.5)
Investment expenses and charges	4(a)	(313.1)	(58.5)
Unrealised losses on investments	4(a)	(959.0)	(1,273.9)
Tax attributable to the long term business	8	(15.6)	2.7
Transfer from the fund for future appropriations		1.7	2.6
		<u>(1,336.9)</u>	<u>(1,454.6)</u>
Balance on the Technical Account – long term business		<u>64.1</u>	<u>107.0</u>

All recognised gains and losses (realised and unrealised) are dealt with in the Technical Account.

The notes on pages 10 to 26 form an integral part of these accounts.

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Non-Technical Account

	Notes	2002 £m	(restated) 2001 £m
Balance on long term business technical account		64.1	107.0
Tax credit attributable to balance on the long term business technical account	8	23.2	38.2
Shareholder's pre tax profit from long term business		87.3	145.2
Investment income	4(b)	4.3	13.6
Profit on ordinary activities before taxation	6	91.6	158.8
Taxation on profit on ordinary activities	8	(24.4)	(42.2)
Retained profit for the financial year		67.2	116.6

All recognised gains and losses relevant to the Non-technical Account are dealt with above and all operations are continuing.

The notes on pages 10 to 26 form an integral part of these accounts.

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Balance Sheet

	Notes	2002 £m	(restated) 2001 £m
ASSETS			
Investments			
Land and buildings	9(a)	0.2	0.2
Other financial investments	9(b)	1,611.3	1,434.7
		<u>1,611.5</u>	<u>1,434.9</u>
Assets held to cover linked liabilities	10	<u>6,137.1</u>	<u>7,828.8</u>
Reinsurers' share of technical provisions			
Long term business provision	16(b)	13.2	12.7
Technical provisions for linked liabilities	16(b)	2.1	19.6
		<u>15.3</u>	<u>32.3</u>
Debtors			
Debtors arising out of direct insurance operations		21.7	14.7
Other debtors	11	100.5	248.1
		<u>122.2</u>	<u>262.8</u>
Other assets			
Tangible assets	12	9.2	13.8
Cash at bank and in hand		32.6	113.8
Other	13	65.3	68.5
		<u>107.1</u>	<u>196.1</u>
Prepayments and accrued income			
Accrued interest and rent		25.0	40.3
Deferred acquisition costs		11.1	17.6
		<u>36.1</u>	<u>57.9</u>
TOTAL ASSETS		<u>8,029.3</u>	<u>9,812.8</u>

The notes on pages 10 to 26 form an integral part of these accounts.

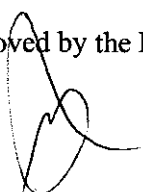
Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Balance Sheet

	Notes	2002 £m	(restated) 2001 £m
LIABILITIES			
Capital and reserves			
Called-up share capital	14	16.0	16.0
Other reserves	15	44.0	44.0
Profit and loss account	15	679.9	612.7
Equity shareholders' funds	16	739.9	672.7
Fund for future appropriations		3.4	5.1
Technical Provisions			
Long term business provision	16(a)/17	1,025.9	1,166.3
Claims outstanding	16(a)	67.3	66.7
Technical provisions for linked liabilities	16(a)	6,139.2	7,848.4
Creditors			
Other creditors including taxation and social security	18	53.6	53.6
TOTAL LIABILITIES		8,029.3	9,812.8

The notes on pages 10 to 26 form an integral part of these accounts.

Approved by the Board on 6 February 2003



I D Thompson
Director

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts

1. Basis of preparation

The accounts have been prepared in accordance with section 255 and Schedule 9A of the Companies Act 1985 which covers the disclosures applicable to insurance companies. The accounts are prepared in accordance with the Association of British Insurers' Statement of Recommended Practice (SORP) on Accounting for Insurance Business issued in December 1998.

The accounts have been prepared in accordance with applicable accounting standards. Compliance with Statement of Standard Accounting Practice 19 "Accounting for Investment Properties" ("SSAP 19") requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the accounting policy note relating to investments below.

Accounting policies are unchanged from 2001, except that the Company has implemented the requirements of Financial Reporting Standard 19 ("FRS 19") "Deferred Tax". Following its implementation, the Company makes full provision for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Previously provision was only made where it was considered that there was a reasonable probability that a liability or asset would crystallise in the foreseeable future. A prior year adjustment has been made increasing shareholders' fund by £46.1 million to reflect the revised policy. The effect of this change on the profit and loss account for the year ended 31 December 2002 has been to increase the tax charge by £5.2 million (2001: reduce the tax charge by £28.1 million). The effect on the Company's balance sheet at 31 December 2002 has been to reduce the deferred tax liability and increase shareholders' funds by £69.0 million (2001: £74.2 million).

2. Accounting policies

a) Financial Reporting Standard 18 "Accounting Policies"

The Company complies with Financial Reporting Standard 18 "Accounting Policies".

b) Premiums

Premiums earned are accounted for in the year in which they fall due. In classifying new business premiums DSS rebates are classified as new single premiums.

c) Investment income

Investment income is included on an accruals basis. UK dividend income is stated at net amount received.

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Notes to the Accounts (continued)

d) Realised gains and losses on investments

Realised gains and losses on investments are calculated as the difference between net sale proceeds and the original cost.

e) Unrealised gains and losses on investments

Unrealised gains and losses on investments are calculated as the difference between the carrying valuation of investments at the Balance Sheet date and the original cost. Movements in unrealised gains and losses on investments arising in the year are shown in the Technical Account.

f) Claims incurred

Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Claims payable include direct costs of settlement. Reinsurance recoveries are accounted for in the same period as their related claims.

g) Deferred acquisition costs

The costs of acquiring new insurance contracts which are incurred during a financial period but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the Balance Sheet and are determined explicitly. The rate of change of the deferred acquisition cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period the relevant contracts are expected to remain in force.

h) Fixed Assets

Expenditure on fixtures and fittings and computer equipment is capitalised and depreciated by equal annual instalments over the expected useful lives of the relevant assets, having regard to expected residual values.

The periods generally applicable are:

- Fixtures and fittings 10 - 15 years
- Office equipment 5 years
- Computer equipment 6 years

i) Tax

Tax is charged on all taxable profits arising for the accounting period. The taxation charge in the Non-technical Account is based on the taxable profit for the year. In the long term business Technical Account, the taxation charge is based on a method of assessing taxation for the long term fund. Any part of the balance on the long term business Technical Account that is computed on an after tax basis is grossed up at the effective rate of taxation in the Non-technical Account.

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Notes to the Accounts (continued)

j) Deferred tax

Full provision is made for deferred tax liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable tax profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

k) Long term reinsurance contracts

Long term business is ceded to reassurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts.

l) Valuation of investments

Investments are stated at current value at the Balance Sheet date, calculated as follows:

- Freehold and leasehold properties are individually valued by external qualified surveyors on the basis of open market value, account being taken of the cost of disposal. The valuation is carried out on an annual basis. Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments. The Directors consider that to depreciate investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations and the amounts which might otherwise have been shown cannot reasonably be separately identified and quantified.
- Listed securities are stated at middle market value;
- Open Ended Investment Company ("OEIC") units are stated at their quoted price;
- Short-term deposits are included at cost;
- Financial futures and option contracts are valued at market rates ruling at the Balance Sheet date and the gain or loss on these contracts is brought into the Technical Account;
- Other investments are stated at Directors' valuation having prudent regard to the likely realisable value.

Lloyds TSB Life Assurance Company Limited
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Notes to the Accounts (continued)

m) Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the Balance Sheet date. Revenue transactions and those relating to the acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

n) Long term business provision

The long term business provision for the Company is determined on the basis of recognised actuarial methods.

It includes explicit provision for declared bonuses added up to and including the reporting date. Implicit provision is made for future bonuses through the choice of the valuation rates of interest.

o) Fund for future appropriations

The fund for future appropriations comprises amounts which have yet to be allocated to either participating policyholders or shareholders. Transfers between the fund for future appropriations and the long-term business Technical Account represent the changes in these unallocated amounts between Balance Sheet dates.

p) Cash Flow Statement

A cash flow statement has not been provided as the Company has taken advantage of the exemption contained in Financial Reporting Standard No 1 (Revised) "Cash Flow Statements" as consolidated accounts, in which the Company is included, are available (see note 23).

Lloyds TSB Life Assurance Company Limited
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Notes to the Accounts (continued)

3. Segmental analysis

	2002	2001
<i>(a) Analysis of gross premiums written</i>	£m	£m
Individual premiums	492.8	549.1
Premiums under group contracts	-	-
Total	<u>492.8</u>	<u>549.1</u>
Regular premium	423.5	491.3
Single premiums	69.3	57.8
Total	<u>492.8</u>	<u>549.1</u>
Premiums from non profit contracts	64.0	81.0
Premiums from with profits contracts	0.8	0.7
Premiums from linked contracts	428.0	467.4
Total	<u>492.8</u>	<u>549.1</u>
Premiums from life business	263.1	304.1
Premiums from annuity business	-	-
Premiums from pensions business	208.4	221.0
Permanent Health Insurance	21.3	24.0
Total	<u>492.8</u>	<u>549.1</u>
<i>(b) Analysis of new business gross written premiums</i>		
Individual premiums	69.3	60.1
Premiums under group contracts	-	-
Total	<u>69.3</u>	<u>60.1</u>
Regular premiums	-	2.3
Single premiums	69.3	57.8
Total	<u>69.3</u>	<u>60.1</u>
Premiums from non profit contracts	-	1.9
Premiums from linked contracts	69.3	58.2
Total	<u>69.3</u>	<u>60.1</u>
Premiums from life business	-	-
Premiums from annuity business	-	-
Premiums from pensions business	69.3	58.2
Permanent Health Insurance	-	1.9
Total	<u>69.3</u>	<u>60.1</u>

Where regular premiums are received other than annually, the regular new business premiums are included on an annualised basis.

Lloyds TSB Life Assurance Company Limited
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Notes to the Accounts (continued)

3. Segmental analysis (continued)

(c) Geographical analysis

All premiums are written in the United Kingdom.

(d) Reinsurance balance

The reinsurance balance amounted to a credit to the long term business technical account of £0.7m at 31 December 2002 (2001 £20.4m debit).

4. Investment income

(a) Technical account	2002	2001
	£m	£m
Investment income:		
Income from Group undertakings	4.2	39.9
Income from land and buildings	20.8	17.1
Income from other investments		
- listed	172.5	211.4
- other	104.4	90.6
Gains on the realisation of investments	-	71.9
	<u>301.9</u>	<u>430.9</u>
Unrealised losses on investments	(959.0)	(1,273.9)
Investment expenses and charges:		
Investment management expenses, including interest	(29.6)	(58.5)
Losses on the realisation of investments	(283.5)	-
	<u>(313.1)</u>	<u>(58.5)</u>
Net investment return	<u>(970.2)</u>	<u>(901.5)</u>
 (b) Non – technical account		
Investment income:		
Income from land and buildings	0.2	0.2
Income from other investments		
- listed	-	-
- other	4.1	13.4
	<u>4.3</u>	<u>13.6</u>
Investment expenses and charges:		
Investment management expenses, including interest	-	-
Net investment return	<u>4.3</u>	<u>13.6</u>
Total net investment return	<u>(974.5)</u>	<u>(887.9)</u>

Lloyds TSB Life Assurance Company Limited
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Notes to the Accounts (continued)

5. Net operating expenses

	2002 £m	2001 £m
Acquisition costs	-	2.2
Change in deferred acquisition costs	6.5	71.1
Administrative expenses	44.4	54.2
	<u>50.9</u>	<u>127.5</u>

- (a) The administration of the Company is undertaken by Scottish Widows Services Limited. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company.
- (b) The Company had no direct employees during the year (2001: nil). The employee costs, including pension costs, are included in the recharge from Scottish Widows Services Limited noted above. The pension scheme operated is primarily a defined benefit scheme, however it is not possible to separately identify the amount of any surpluses or deficits in the scheme which relates to the Company. Details of the pension scheme can be found in the accounts of Scottish Widows Services Limited.
- (c) Included within administrative expenses are total commissions paid by the Company of £0.1m (2001: £0.6m).

6. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

	2002 £m	2001 £m
Depreciation charge for the year:		
Owned assets	4.6	5.0
Auditors' remuneration for:		
Audit services (including VAT)	<u>0.2</u>	<u>0.3</u>

Fees paid to PricewaterhouseCoopers for non audit work amounted to £29,000 (2001 : £21,000).

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts (continued)

7. Directors' emoluments and interests

(a) Directors' emoluments

The apportioned aggregate emoluments of the Directors amounted to £97,049 (2001 : £206,316).

Retirement benefits are accruing to 3 Directors (2001 : 2) under defined benefits schemes.

(b) Directors' interests

Lloyds TSB Group plc shares:

	At 1 January 2002	At 31 December 2002
	Ordinary shares 25p	Ordinary shares 25p
M L Sykes	3,501	6,128

Options to acquire Lloyds TSB Group plc shares:

	At 1 January 2002	Granted (exercisable between 2005 & 2012)	Exercised	At 31 December 2002
M L Sykes	12,607	4,195	(1,658)	15,144

I D Thompson and J McConville are also Directors of Scottish Widows Group Limited and their interests are disclosed in the accounts of that company.

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts (continued)

8. Taxation on loss on ordinary activities

The Technical Account and Non-technical Account are liable to United Kingdom Corporation Tax on the basis applicable to insurance companies as follows:

Technical Account long-term business	2002	(restated)
	£m	2001
		£m
UK corporation tax		
Current tax on profits for the year	13.8	42.5
Adjustments in respect of prior periods	(2.4)	3.2
Double tax relief	1.0	1.0
Current tax charge	<u>12.4</u>	<u>46.7</u>
Deferred taxation	3.2	(49.4)
	<u>15.6</u>	<u>(2.7)</u>
Non-technical Account	2002	2001
	£m	£m
Tax credit attributable to balance on the long-term business		
Technical Account	23.2	38.2
Tax attributable to income arising in the Non-technical		
Account	1.2	4.0
	<u>24.4</u>	<u>42.2</u>

The charge for tax on the profit for the year is based on a UK corporation tax rate of 30 per cent (2001: 30 per cent).

Lloyds TSB Life Assurance Company Limited
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Notes to the Accounts (continued)

8. Taxation on loss on ordinary activities (continued)

A reconciliation of the current tax charge for the year for the Non-technical Account to the charge that would result from applying the standard UK corporation tax rate to profit before tax is given below:

	2002 £m	2001 £m
Tax charge at UK corporation tax rate of 30%	27.5	47.6
Other items – differences in effective rate on insurance results	(3.1)	(5.4)
Current tax charge	<u>24.4</u>	<u>42.2</u>

9. Investments

(a) Land and Buildings

	2002 Current Value £m	2002 Cost £000	2001 Current Value £000	2001 Cost £000
Long leasehold	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>

The valuation included in the balance sheet at the year end was carried out by Lloyds TSB Group's professionally qualified staff, who are members of the Institute of Chartered Surveyors, on the basis of open market value for existing use.

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts (continued)

9(b) Other financial investments

	2002 Market Value £m	2002 Cost £m	2001 Market Value £m	2001 Cost £m
Shares and other variable yield securities and units in OEICs	347.4	347.4	-	-
Debt securities and other fixed income Securities	854.7	813.5	965.8	970.1
Deposits with credit institutions	361.2	361.2	384.0	384.0
Other	48.0	48.0	84.9	84.9
	<u>1,611.3</u>	<u>1,570.1</u>	<u>1,434.7</u>	<u>1,439.0</u>

Market value of other financial investments includes listed investments as follows :

	2002 £m	2001 £m
Shares and other variable yield securities and units in OEICs	<u>347.4</u>	<u>-</u>
Debt securities and other fixed income securities	<u>854.7</u>	<u>965.8</u>

10. Assets held to cover linked liabilities

	2002 Current Value £m	2002 Cost £m	2001 Current Value £m	2001 Cost £m
Assets held to cover linked liabilities	<u>6,137.1</u>	<u>6,958.4</u>	<u>7,828.8</u>	<u>7,598.3</u>

Lloyds TSB Life Assurance Company Limited
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Notes to the Accounts (continued)

11. Other debtors

	2002	2001
	£m	£m
Amounts owed by group undertakings	100.0	200.0
Other debtors	0.5	48.1
	<u>100.5</u>	<u>248.1</u>

12. Tangible Assets

	Computers And equipment £m	Fixtures and Other equipment £m	Total £m
Cost			
At 1 January 2002	31.9	14.5	46.4
Additions	-	-	-
At 31 December 2002	<u>31.9</u>	<u>14.5</u>	<u>46.4</u>
Depreciation			
At 1 January 2002	22.1	10.5	32.6
Charge for the year	4.3	0.3	4.6
At 31 December 2002	<u>26.4</u>	<u>10.8</u>	<u>37.2</u>
Net book value			
At 31 December 2002	<u>5.5</u>	<u>3.7</u>	<u>9.2</u>
At 31 December 2001	<u>9.8</u>	<u>4.0</u>	<u>13.8</u>

Lloyds TSB Life Assurance Company Limited
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts (continued)

13. Other Assets

Other assets consist solely of deferred taxation as follows:

	Pension business losses £m	Deferred acquisition costs £m	Other timing differences £m	Total £m
Balance at 31 January 2002 (restated)	74.2	(5.3)	(0.4)	68.5
Recognised in the year	(5.2)	2.0	0.0	(3.2)
Balance at 31 December 2002	<u>69.0</u>	<u>(3.3)</u>	<u>(0.4)</u>	<u>65.3</u>

14. Called up share capital

	2002 £m	2001 £m
Authorised, allotted and issued fully paid: 16 million ordinary shares of £1 each	<u>16.0</u>	<u>16.0</u>

15. Reconciliation of movement in Shareholder's Funds

	Share Capital £m	Other Reserves £m	Profit and loss Account £m	Total £m
Balance at 1 January 2001 reported prior year annual report	16.0	44.0	450.0	510.0
Prior year restatement (note 1)	-	-	46.1	46.1
Profit for the financial year (restated)	-	-	116.6	116.6
Balance at 31 December 2001	<u>16.0</u>	<u>44.0</u>	<u>612.7</u>	<u>672.7</u>
Profit for the financial year	-	-	67.2	67.2
Balance as at 31 December 2002	<u>16.0</u>	<u>44.0</u>	<u>679.9</u>	<u>739.9</u>

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Notes to the Accounts (continued)

16. Technical provisions

	Claims Outstanding £m	Long term business provision £m	Technical Provisions for linked liabilities £m
(a) Gross technical provisions			
Balance at 1 January 2002	66.7	1,166.3	7,848.4
Movement for the year	0.6	(140.4)	(1,709.2)
At 31 December 2002	<u>67.3</u>	<u>1,025.9</u>	<u>6,139.2</u>
(b) Reinsurers' share			
Balance at 1 January 2002	-	12.7	19.6
Movement for the year	-	0.5	(17.5)
At 31 December 2002	<u>-</u>	<u>13.2</u>	<u>2.1</u>
(c) Net technical provisions			
Balance at 31 December 2002	<u>67.3</u>	<u>1,012.7</u>	<u>6,137.1</u>
Balance at 1 January 2002	<u>66.7</u>	<u>1,153.6</u>	<u>7,828.8</u>

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Notes to the Accounts (continued)

17. Long term business provision

The principal assumptions underlying the calculation of the long term business provision were as follows:

Class of business	Interest rate % 2002	Interest rate % 2001
With profit business:		
Endowment plus assurances	2.80	2.50
Other assurances	2.80	3.00
Non profit business		
Life temporary assurances	3.00	3.20
Pension temporary assurances	3.75	4.00
Endowment assurances	3.00	3.20
Whole of life assurances	3.00	3.20
Guaranteed bonus bonds	3.60	4.10
Pension annuities in payment	4.40	4.81
Permanent health insurance claims in payment	4.19	4.65

The following mortality assumptions (for the main classes of business) are based on the actual experience of the portfolio as well as relevant industry statistics:

Assurances: AM80 ult for males with an addition of 60% to the mortality rate for smokers and a deduction of 20% for non-smokers. AF80 ult for females with an addition of 60% to the mortality rate for smokers and a deduction of 20% for non smokers.

Pensions annuities in payment: 145% PMA92 (entry in 2003) *mc* for males, 85% PFA92 (entry in 2002) *mc* for females.
(2001 : 100% PMA92 (entry in 2002) for males, 80% PFA92 (entry in 2002) for females).

Cost of Bonuses

The cost of bonuses for the year, including terminal bonuses, totalled £0.8m (2001 : £0.9m).

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Notes to the Accounts (continued)

18. Other creditors including taxation and social security

	2002 £m	2001 £m
Amounts owed to Group undertakings	5.4	13.6
Other creditors	48.2	40.0
	<u>53.6</u>	<u>53.6</u>

19. Long term business fund

At 31 December 2002 the total amount of assets representing the long term business fund valued in accordance with the provisions of Schedule 9A to the Companies Act 1985 was £7,314.5m (2001: £9,306.1m).

20. Derivative contracts

At 31 December 2002 the Company had entered into, in the normal course of business, option contracts, index future contracts and forward foreign exchange contracts. All such contracts were undertaken for either hedging or efficient portfolio management purposes with the exception of certain contracts used for the purpose of matching contractual liabilities.

21. Contingent Liabilities

In common with other companies providing savings and investment products to retail consumers, matters arise from time to time as a result of customer complaints or investigations by the regulator requiring remedial action to be taken, which may include the payment of compensation.

One such matter relates to the sale of life assurance products related to the repayment of residential mortgages. Falling investment returns has led to increased concern that the value of some of these policies will be less than the amount required to repay the mortgage. Certain customers have alleged that this risk was not properly explained to them at the time of sale. Complaints are dealt with on a case by case basis and where appropriate compensation is paid. The regulator has not indicated that a more widespread review of these sales is required and accordingly provision has been made for the estimated cost of redress based upon the current level of complaints which is not significant. If the position of the regulator changes, further provisions may be required.

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Notes to the Accounts (continued)

22. Related party transactions

Advantage has been taken of the exemption under Financial Reporting Standard 8 (FRS 8) not to disclose transactions between entities 90% or more of whose voting rights are controlled within the Lloyds TSB group, of which the Company is a member.

No contract of significance existed at any time during the period in which a Director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8 "Related Party Disclosures".

23. Parent undertaking

The Company's immediate parent undertaking is Scottish Widows plc, a Company registered in the United Kingdom. Scottish Widows plc has taken advantage of the provisions of the Companies Act 1985 and has not produced consolidated accounts.

Lloyds TSB Group plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of Lloyds TSB Life Assurance Company Limited. Copies of the Lloyds TSB Group plc accounts, in which the Company is consolidated, can be obtained from the Group Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN.