

# **LLOYDS TSB LIFE ASSURANCE COMPANY LIMITED**

## **REPORT AND ACCOUNTS 1999**

### **Registered Office**

71 Lombard Street  
London EC3P 3BS

### **Registered number**

1132760

### **Directors**

C M Wiscarson (Chairman and Managing Director)

R J Spragg

I D Thompson

G Pigott

D S Gorski

T J Jones

D J Stacey

### **Company Secretary**

S O'Connor



Member of Lloyds TSB Group

# Lloyds TSB Life Assurance Company Limited

## REPORT OF THE DIRECTORS

### Principal activity and review of the business

The principal activity of the company is to transact ordinary long term life assurance, pension business and permanent health insurance.

New business completed by the company before reinsurance ceded was:

	1999	1998
	£m	£m
Regular premiums	74.3	73.3
Single premiums	510.3	276.3

The current year profit and loss account fully incorporates the effect of the merger of TSB Life Limited and TSB Pensions Limited into the Company on 31 December 1998, in accordance with Schedule 2C of the Insurance Companies Act 1982.

All business was transacted in the UK.

With effect from 6 March 2000, the company will no longer be selling its principal long term life assurance or pension business products.

### Results and dividends

The loss after taxation for the year ended 31 December 1999 amounted to £16,544,000 (1998 : profit £184,445,000), as set out in the profit and loss account on pages 5 and 6.

No dividend is proposed for 1999 (1998 : £25,000,000).

### Directors

The names of the present directors of the company are shown on page 1.

Mr. S A Maran retired as a director of the company on 31 December 1999.

Reference is made on page 17 in note 9 to the interests of the directors in the share capital of Lloyds TSB Group, the ultimate parent company, and its subsidiaries.

### Employees

The company is committed to employment policies which follow best practice, based on equal opportunities for all employees irrespective of sex, race, national origin, religion, colour, disability or marital status.

In the UK, the company, as part of the Lloyds TSB Group supports Opportunity Now and Race for Opportunity, campaigns to improve opportunities for women and ethnic minorities in the work place. The Group is a member of the Employers' Forum on Disability in support of employment of people with disabilities. This recognises the need for ensuring fair employment practices in recruitment and selection, and the retention and career development of disabled staff.

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions to ensure that the views of employees are taken into account in reaching decisions.

Profit sharing and share option schemes are available for most staff, to encourage their financial involvement in the Group.

**REPORT OF THE DIRECTORS (continued)**

**Year 2000**

The company recognised the far-reaching implications of the problems which might have arisen from the failure of systems to acknowledge dates before, on or after 1 January 2000, and its policy was to ensure that the systems and business processes were not affected by these problems.

The successful implementation of the company's year 2000 programme represented the culmination of many years work. This comprehensive programme ensured the continued progress of the company's systems, processes and infrastructure.

Costs incurred to the end of 1999 were £822,000.

**Policy and practice of payment of creditors**

The company follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the Department of Trade and Industry, No.1 Victoria Street, London, SW1H 0ET.

The company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The number of days to be shown in this report, to comply with the provisions of the Companies Act 1985, is 8. This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade creditors at 31 December 1999 bears to the aggregate of the amounts invoiced by suppliers during the year.

On behalf of the board



S O'Connor  
Company Secretary

2 February 2000

## **Report of the auditors to the member of Lloyds TSB Life Assurance Company Limited**

We have audited the financial statements on pages 5 to 25 which have been prepared in accordance with the accounting policies set out in note 1.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report, including as described below, the financial statements. Company law 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 and of the profit or loss of the company for that period. 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **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 the company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London

2 February 2000

# Lloyds TSB Life Assurance Company Limited

## Profit and loss account : Technical account - Long term business for the year ended 31 December 1999

		1999		1998	
	Note	£000	£000	£000	£000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	2	1,141,621		635,976	
Outward reinsurance premiums		<u>(7,776)</u>		<u>(5,474)</u>	
			1,133,845		630,502
Investment income	4		1,391,232		430,954
Unrealised gains on investments	4		481,456		219,431
Other technical income, net of reinsurance			-		6,726,062
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		(1,818,022)		(437,385)	
Reinsurers' share		<u>664,815</u>		<u>43,252</u>	
		<u>(1,153,207)</u>		<u>(394,133)</u>	
Change in the provision for claims					
Gross amount		(8,152)		(1,181)	
Reinsurers' share		<u>(9,345)</u>		<u>(636)</u>	
		<u>(17,497)</u>		<u>(1,817)</u>	
Net claims incurred			(1,170,704)		(395,950)
<b>Change in other technical provisions, net of reinsurance</b>					
Long term business provision, net of reinsurance					
Gross amount		9,402		(901,504)	
Reinsurers' share		<u>4,739</u>		<u>(18,418)</u>	
		14,141		(919,922)	
Other technical provisions, net of reinsurance					
Technical provisions for linked liabilities		<u>(1,524,844)</u>		<u>(6,375,900)</u>	
			(1,510,703)		(7,295,822)
Net operating expenses	6		(151,865)		(55,240)
Investment expenses and charges	4		(96,456)		(35,695)
Tax attributable to the long term business	11		(94,769)		(43,869)
Transfers to the fund for future appropriations			<u>(1,947)</u>		<u>(4,636)</u>
<b>Balance on the technical account - long term business</b>			<u>(19,911)</u>		<u>175,737</u>

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

# Lloyds TSB Life Assurance Company Limited

## Profit and loss account : Non-technical account for the year ended 31 December 1999

		1999	1998
	Note	£000	£000
<b>Balance on the long term business technical account</b>		<b>(19,911)</b>	175,737
Tax credit attributable to balance on the long term business technical account	11	-	43,869
Shareholder's pre-tax (loss) / profit from long term business		<b>(19,911)</b>	219,606
Investment income	4	<b>4,827</b>	2,122
Investment expenses and charges	4	-	(12)
Other income		-	7,252
<b>(Loss) / profit on ordinary activities before tax</b>	7	<b>(15,084)</b>	228,968
Tax on (loss) / profit on ordinary activities	11	<b>(1,460)</b>	(44,523)
<b>(Loss) / profit on ordinary activities after tax</b>		<b>(16,544)</b>	184,445
Dividends	12	-	(25,000)
<b>Retained (loss) / profit for the financial year</b>		<b>(16,544)</b>	159,445

All recognised gains and losses are dealt with in the profit and loss account.

All of the above amounts derive from continuing operations.

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

# Lloyds TSB Life Assurance Company Limited

## Reconciliation of movements in shareholder's funds for the year ended 31 December 1999

		1999	1998
	Note	£000	£000
(Loss) / profit for the financial year		(16,544)	184,445
Dividends		-	(25,000)
Other recognised gains and losses relating to the year	19	44,000	-
Net addition to shareholder's funds		<u>27,456</u>	<u>159,445</u>
Opening shareholder's funds		311,671	152,226
Closing shareholder's funds		<u><u>339,127</u></u>	<u><u>311,671</u></u>

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

# Lloyds TSB Life Assurance Company Limited

## Balance Sheet at 31 December 1999

		1999		1998	
	Note	£000	£000	£000	£000
<b>ASSETS</b>					
<b>Investments</b>					
Land and buildings	13		230		230
Other financial investments	13		1,988,406		1,709,179
<b>Assets held to cover linked liabilities</b>	14		11,099,845		9,575,001
<b>Reinsurers' share of technical provisions</b>					
Long term business provision		29,311		24,572	
Claims outstanding		3,500		12,845	
Technical provisions for linked liabilities		<u>30,407</u>		<u>621,440</u>	
			63,218		658,857
<b>Debtors</b>					
Direct insurance operations	15	14,744		624	
Other debtors	16	<u>26,779</u>		<u>86,136</u>	
			41,523		86,760
<b>Other assets</b>					
Tangible assets	17	16,508		15,328	
Cash at bank and in hand		<u>2</u>		<u>24</u>	
			16,510		15,352
<b>Prepayments and accrued income</b>					
Accrued interest and rent		81,102		44,742	
Deferred acquisition costs		100,394		90,656	
Other prepayments and accrued income		<u>955</u>		<u>1,438</u>	
			182,451		136,836
<b>Total Assets</b>			<u><u>13,392,183</u></u>		<u><u>12,182,215</u></u>

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.



# Lloyds TSB Life Assurance Company Limited

## Balance Sheet (continued) at 31 December 1999

		1999		1998	
	Note	£000	£000	£000	£000
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Called up share capital	18	16,000		16,000	
Other reserves	19	44,000		-	
Profit and loss account	19	<u>279,127</u>		<u>295,671</u>	
Shareholder's funds - equity interests			339,127		311,671
Fund for future appropriations			9,051		7,104
<b>Technical provisions</b>					
Long term business provision	20	1,447,542		1,456,944	
Claims outstanding		<u>70,047</u>		<u>61,895</u>	
			1,517,589		1,518,839
Technical provisions for linked liabilities			11,130,252		10,196,441
Provisions for other risks and charges	21		36,660		37,497
<b>Creditors</b>					
Creditors arising out of direct insurance operations		4,359		10,165	
Other creditors including taxation and social security	22	<u>336,344</u>		<u>89,946</u>	
			340,703		100,111
Accruals and deferred income			18,801		10,552
<b>Total Liabilities</b>			<u><u>13,392,183</u></u>		<u><u>12,182,215</u></u>



C M Wiscarson  
Managing Director

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

# **Lloyds TSB Life Assurance Company Limited**

## **Notes to the accounts**

**(Forming part of the financial statements for the year ended 31 December 1999)**

### **1. Accounting policies**

#### **a Basis of preparation**

The financial statements have been prepared in accordance with: the provisions of Section 255 of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985, (with the exception that Statement of Standard Accounting Practice ("SSAP") 19 - Accounting for Investment Properties 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); with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") issued in December 1998; applicable accounting standards; and the historical cost convention modified to include the revaluation of investments.

The company is exempted from producing a cash flow statement since a consolidated cash flow statement, prepared in accordance with the requirements of Financial Reporting Standard 1, (Revised 1996) is included in the accounts of its ultimate parent undertaking. In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with Lloyds TSB Group plc or other group or associated undertakings.

#### **b Premiums**

Premiums are accounted for on a receivable basis. Outward reinsurance premiums are accounted for on a payable basis.

#### **c Investment income and expenses**

Investment income includes dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are recorded on the date on which the shares are quoted ex dividend and include the appropriate imputed tax credits. Interest, rents and expenses are accounted for on an accruals basis.

*Policyholder fund investment income and expenses are dealt with through the technical account, whilst shareholder fund investment income and expenses are dealt with through the non-technical account.*

#### **d Realised and unrealised gains and losses on investments**

Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost. Realised and unrealised gains and losses on policyholder fund investments are dealt with through the technical account.

#### **e Claims**

Claims payable on maturity are accounted for when the claim becomes due for payment and claims payable on death are accounted for on notification. Surrenders are accounted for when paid or, if earlier, when the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities. Where a claim is payable and the policy or contract remains in force, the relevant instalments are accounted for when due for payment.

Claims payable include related claims handling costs.

Reinsurance recoveries are accounted for in the same period as the related claim.

## **Notes to the accounts (continued)**

### **1. Accounting policies (continued)**

#### **f Acquisition costs and deferred acquisition costs**

Acquisition costs comprise direct costs, such as acquisition commissions, and indirect costs of obtaining and processing new business. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year. Such costs are deferred as an explicit deferred acquisition cost asset, gross of tax, which is amortised over the period in which the costs are expected to be recoverable out of future revenue margins from the relevant policies and in accordance with the pattern of such margins.

At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category of policy, against future margins from the related policies in force at the balance sheet date.

#### **g Finance leases**

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease, with an equivalent liability categorised under creditors. Finance charges are allocated to accounting periods over the life of each lease using the sum of the digits method.

#### **h Operating leases**

Payments in respect of operating leases are charged to the profit and loss account in the period to which they relate.

#### **i Pensions**

Pension arrangements for the majority of staff are operated through defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. The pension costs relating to these schemes are assessed in accordance with the advice of independent qualified actuaries, using the projected unit method. Variations from the regular cost are allocated over the average remaining service lives of current employees. Staff not included in defined benefit schemes are members of externally administered defined contribution schemes or are included in the State Pension Scheme.

Contributions to defined benefit schemes are charged to the profit and loss account so as to spread the expected cost of pensions calculated in accordance with actuarial advice on a systematic basis over employees' working lives.

#### **j Investments and assets held to cover linked liabilities**

Listed investments are included in the balance sheet at mid-market value and unlisted investments at directors' valuation. Units in unit trusts are included at bid price. Land and buildings, other than those occupied by the company for its own use, are treated as investment properties and included under assets held to cover linked liabilities, and are valued at open market value, by a firm of independent Chartered Surveyors no more than 3 months prior to the balance sheet date. Land and buildings occupied by the company for its own activities are stated at market value, less accumulated depreciation.

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 the 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 or quantified.

# **Lloyds TSB Life Assurance Company Limited**

## **Notes to the accounts (continued)**

### **1. Accounting policies (continued)**

#### **k Tangible assets**

Tangible assets are stated at cost less accumulated depreciation. Depreciation is charged by equal instalments over the estimated useful lives of the assets or the length of the lease if shorter, as follows:

Computers and equipment	: 6 years
Computers and equipment held under finance leases	: Life of lease
Fixtures and fittings	: 10 to 15 years
Motor vehicles	: Life of lease
Office equipment	: 5 years

#### **l Fund for future appropriations**

The fund for future appropriations incorporates amounts which have yet to be allocated to either participating policyholders or shareholders and includes provision for with-profit contracts to cover future liabilities in the with-profit fund, having regard to the company's current bonus paying philosophy taken in conjunction with the fact that the fund is now closed to new business.

#### **m Long term business provision**

The long term business provision is determined by the company's Appointed Actuary following his annual investigations of the long term assurance business.

It is calculated initially to comply with the reporting requirements under the Insurance Companies Act 1982, principally using the net premium valuation method.

This statutory basis of solvency is then adjusted by eliminating the undistributed surplus determined by that valuation together with certain general reserves. This adjusted basis is referred to as the modified statutory solvency basis.

The long term business provision includes the non-unit liabilities in respect of unit linked business.

#### **n Taxation**

Deferred taxation is provided at appropriate rates of corporation tax in respect of all timing differences, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Appropriate allowance is made in the valuation of the long term assurance business for deferred taxation in respect of the unrealised appreciation of investments.

The after tax balance on the long term business technical account transferred to the non-technical account is grossed up at the underlying rate of tax applicable for the period.

#### **o Foreign currencies**

Transactions are translated into sterling at exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date.

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 1. Accounting policies (continued)

#### p Segmental reporting

In the opinion of the directors, the company operates in one business segment being that of long term insurance business in the United Kingdom.

### 2. Premiums written

	1999	1998
	Total £000	Total £000
Individual business	1,137,105	633,497
Group contracts	4,516	2,479
	<u>1,141,621</u>	<u>635,976</u>
Premiums from non-participating contracts	211,053	95,722
Premiums from participating contracts	910	242
Premiums from investment linked contracts	929,658	540,012
	<u>1,141,621</u>	<u>635,976</u>

Gross premiums written by way of direct insurance were as follows:

	1999			1998		
	Regular premiums £000	Single premiums £000	Total £000	Regular premiums £000	Single premiums £000	Total £000
Life	390,500	329,566	720,066	220,302	234,627	454,929
Pension	209,380	79,008	288,388	113,654	25,950	139,604
PHI	31,462	-	31,462	25,764	-	25,764
Annuity	-	101,705	101,705	-	15,679	15,679
	<u>631,342</u>	<u>510,279</u>	<u>1,141,621</u>	<u>359,720</u>	<u>276,256</u>	<u>635,976</u>

New business premiums written by way of direct insurance were as follows:

	1999		1998	
	Regular premiums (annualised) £000	Single premiums £000	Regular premiums (annualised) £000	Single premiums £000
Life	41,147	329,566	37,523	234,627
Pension	28,236	79,008	31,720	25,950
PHI	4,921	-	4,070	-
Annuity	-	101,705	-	15,678
	<u>74,304</u>	<u>510,279</u>	<u>73,313</u>	<u>276,255</u>
Reinsurance ceded	(505)	-	(521)	-
	<u>73,799</u>	<u>510,279</u>	<u>72,792</u>	<u>276,255</u>

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 2. Premiums written (continued)

	1999			1998		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	ceded £000	£000	£000	ceded £000	£000
<b>Regular premium new business (annualised)</b>						
Individual business	73,216	505	72,711	73,033	521	72,512
Group contracts	1,088	-	1,088	280	-	280
	<u>74,304</u>	<u>505</u>	<u>73,799</u>	<u>73,313</u>	<u>521</u>	<u>72,792</u>
Non-participating contracts	24,928	40	24,888	20,333	197	20,136
Investment linked contracts	49,376	465	48,911	52,980	324	52,656
	<u>74,304</u>	<u>505</u>	<u>73,799</u>	<u>73,313</u>	<u>521</u>	<u>72,792</u>
<b>Single premium new business</b>						
Individual business	507,556	-	507,556	273,893	-	273,893
Group contracts	2,723	-	2,723	2,362	-	2,362
	<u>510,279</u>	<u>-</u>	<u>510,279</u>	<u>276,255</u>	<u>-</u>	<u>276,255</u>
Non-participating contracts	114,156	-	114,156	35,901	-	35,901
Investment linked contracts	396,123	-	396,123	240,354	-	240,354
	<u>510,279</u>	<u>-</u>	<u>510,279</u>	<u>276,255</u>	<u>-</u>	<u>276,255</u>

No new business has been written by way of reinsurance accepted.

All premiums are derived from contracts written in the United Kingdom.

In classifying new business premiums the following bases have been adopted:

- New recurrent single premium contracts are classified as Single Premiums. Incremental increases on existing policies are classified as new business premiums.
- DSS rebates are classified as new single premiums.
- Funds at retirement under individual pension contracts left with the company and transfers from group to individual contracts are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single written gross premiums written.
- Increments under existing group pension schemes are classified as new business premiums.

### 3. Reinsurance balance

The reinsurance receivable in respect of the long term business at 31 December 1999 was £683,863,000 (1998 : £497,356,000).

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 4. Investment activity account

#### (a) Technical account

	1999 £000	1998 £000
<b>Investment income:</b>		
Land and buildings	18,037	3,719
Group undertakings	53,897	33,523
Other investments	370,692	153,413
Gains on the realisation of investments	948,606	240,299
	<u>1,391,232</u>	<u>430,954</u>
<b>Investment expenses and charges:</b>		
Investment management expenses, including interest	(96,456)	(35,695)
<b>Unrealised gains on investments</b>	481,456	219,431
<b>Net investment return</b>	<u>1,776,232</u>	<u>614,690</u>

#### (b) Non - technical account

<b>Investment income:</b>		
Land and buildings	200	-
Other investments	4,627	2,122
	<u>4,827</u>	<u>2,122</u>
<b>Investment expenses and charges:</b>		
Investment management expenses, including interest	-	(12)
<b>Net investment return</b>	<u>4,827</u>	<u>2,110</u>
<b>Total net investment return</b>	<u>1,781,059</u>	<u>616,800</u>

### 5. Policyholders' bonuses

	1999 £000	1998 £000
<b>Total of bonuses attributable to the year</b>	<u>1,097</u>	<u>341</u>

### 6. Net operating expenses

	1999 £000	1998 £000
Acquisition costs	125,882	94,448
Change in deferred acquisition costs	(9,738)	(52,754)
Administrative expenses	36,744	13,848
Reinsurance commissions	(1,023)	(302)
	<u>151,865</u>	<u>55,240</u>

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 7. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

	1999 £000	1998 £000
Commissions accounted for in respect of direct insurance business	5,225	45,188
Depreciation charge for the year:		
Owned assets	3,384	3,013
Assets held under finance leases	794	794
Finance lease charges	27	27
Operating lease charges	304	812
Auditors' remuneration for:		
Audit services (including VAT)	278	157
Other services (including VAT)	88	41
	<u>5,225</u>	<u>45,188</u>

### 8. Staff numbers and costs

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

	Number of employees	
	1999	1998
Head office administration	1,115	619
Sales administration	-	118
	<u>1,115</u>	<u>737</u>

The aggregate payroll costs of these employees were as follows:

	1999 £000	1998 £000
Wages and salaries	29,250	19,536
Social security costs	1,965	1,592
Other pension costs	-	2,173
	<u>31,215</u>	<u>23,301</u>



# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 9. Directors and their interests

The interests of those who were directors of the company at the end of the year but who were not also directors of Lloyds TSB Financial Services Holdings plc in the capital of Lloyds TSB Group plc were:

Shares	At 1 January 1999	At 31 December 1999
D S Gorski	2,597	2,665
G Pigott	35,264	50,745
R J Spragg	23,000	23,000
D J Stacey	45,608	49,307
I D Thompson	11,332	9,705

### Options to acquire shares

	At 1 January 1999	Granted (exercisable between 2002 & 2009)	Exercised/lapsed	At 31 December 1999
D S Gorski	14,687	3,000	-	17,687
G Pigott	50,557	5,593	30,704	25,446
R J Spragg	26,705	6,500	-	33,205
D J Stacey	33,435	11,500	4,729	40,206
I D Thompson	26,196	6,500	3,673	29,023
T J Jones	14,022	4,000	2,004 *	16,018

\* During the year, Mr. Jones applied for repayment of contributions under savings contracts as permitted by the rules of the relevant share option scheme, and 2,004 options lapsed.

D J Stacey had an interest at the year end in the loan capital of Lloyds TSB Group plc as the holder of £65,752 of loan notes (1998: £108,752).

### 10. Directors' emoluments

The aggregate emoluments of the directors were £316,849 (1998: £423,231)

Retirement benefits are accruing to 7 directors (1998 : 7 ) under defined benefit pension schemes.

4 directors exercised share options in 1999 (1998: 2).

### Highest paid director

The apportioned aggregate emoluments of the highest paid director were £150,127 (1998 £122,366).

At the year end his accrued pension totalled £56,958 per annum, being his pension entitlement based on pensionable service with the group to 31 December 1999, but payable at normal retirement age.

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

<b>11. Taxation</b>	<b>1999</b>	<b>1998</b>
	<b>£000</b>	<b>£000</b>

### Technical account

UK corporation tax at 30.25% (1998: 31%)

Current	89,291	17,650
Deferred	5,478	18,419
Tax on franked investment income	-	7,800
Tax attributable to the long term business	<u>94,769</u>	<u>43,869</u>

In accordance with normal actuarial practice, taxation on chargeable gains relating to the net unrealised appreciation of investments within linked and non linked funds, including that relating to the deemed disposal of unit trusts which is deferred, is taken into account in the calculation of mathematical liabilities.

<b>Non-technical account</b>	<b>1999</b>	<b>1998</b>
	<b>£000</b>	<b>£000</b>

Tax credit attributable to balance on the long term business technical account at 30.25% (1998 : 31%)

Tax attributable to income arising in the non-technical account at 30.25% (1998 : 31%)

Tax on profit on ordinary activities

	-	43,869
	1,460	654
	<u>1,460</u>	<u>44,523</u>

<b>12. Dividends</b>	<b>1999</b>	<b>1998</b>
	<b>£000</b>	<b>£000</b>

Paid	-	25,000
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### 13. Investments

Long leasehold land and buildings

Cost

At 1 January and 31 December 1999

Depreciation

At 1 January and 31 December 1999

Net book value

At 1 January and 31 December 1999

	1999
	£000
	<u>236</u>
	<u>6</u>
	<u>230</u>

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 13. Investments (continued)

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. As a result of the valuation, it has been assessed that there is no material movement in the carrying value and consequently, the net book value of the premises has not been amended.

#### Other financial investments

	1999		1998	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable-yield securities and units in unit trusts	58,389	50,788	81,364	64,273
Debt securities and other fixed income securities	1,132,927	1,104,540	1,234,364	1,114,149
Deposits with credit institutions	797,090	798,284	393,451	393,438
	<u>1,988,406</u>	<u>1,953,612</u>	<u>1,709,179</u>	<u>1,571,860</u>

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

	1999 £000	1998 £000
Shares and other variable-yield securities and units in unit trusts	<u>58,389</u>	<u>24,976</u>
Debt securities and other fixed income securities	<u>1,132,927</u>	<u>1,179,493</u>

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

	1999 £000	1998 £000
Call options	-	56,388
Fixed interest deposits	-	54,871
	<u>-</u>	<u>111,259</u>

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 14. Assets held to cover linked liabilities

	1999 £000	1998 £000
Market value	<u>11,099,845</u>	<u>9,575,001</u>
Cost	<u>8,303,051</u>	<u>7,395,074</u>

Market value includes unlisted investments as follows:

	1999 £000	1998 £000
Land and buildings	195,965	214,325
Over the counter derivative contracts	2,437,450	753,756
Fixed interest deposits	89,810	267,810
	<u>2,723,225</u>	<u>1,235,891</u>

Land and buildings were valued for the purposes of the 1998 and 1999 financial statements at open market value. These valuations were made in 1998 and 1999, no more than 3 months prior to the balance sheet date, by a firm of independent Chartered Surveyors.

Other non listed investments which back the guaranteed equity bonds and the guaranteed stock market bonds were valued in 1998 and 1999 by independent parties including the Union Bank of Switzerland, JP Morgan Bank, Swiss Banking Corporation, Merrill Lynch, Morgan Guaranty Trust Company and Lloyds TSB Bank plc on a close out basis at the balance sheet dates.

The main fund assets were valued by the appropriate supplier, at market value at the balance sheet date.

### 15. Debtors arising out of direct insurance operations

	1999 £000	1998 £000
Policyholders	14,722	563
Intermediaries	22	61
	<u>14,744</u>	<u>624</u>

### 16. Other debtors

	1999 £000	1998 £000
Amounts owed by group undertaking	6,709	53,689
Taxation recoverable	-	3,141
Other debtors	20,070	29,306
	<u>26,779</u>	<u>86,136</u>

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 17. Tangible assets

	Computers and equipment £000	Fixtures and other equipment £000	Total £000
<b>Cost</b>			
At 1 January 1999	20,062	13,948	34,010
Additions	4,851	593	5,444
Disposals	(105)	(5)	(110)
<b>At 31 December 1999</b>	24,808	14,536	39,344
<b>Depreciation</b>			
At 1 January 1999	10,208	8,474	18,682
Charge for the year	3,323	855	4,178
Disposals	(20)	(4)	(24)
<b>At 31 December 1999</b>	13,511	9,325	22,836
<b>Net book value</b>			
<b>At 31 December 1999</b>	11,297	5,211	16,508
At 31 December 1998	9,854	5,474	15,328

The net book value of £16,508,000 includes an amount of £331,000 (1998 : £1,125,000) in respect of assets held under finance leases.

### 18. Called up share capital

	1999 £000	1998 £000
Authorised, allotted and issued fully paid: 16 million ordinary shares of £1 each	16,000	16,000

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member. Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the group accounts of both may be obtained from the Company Secretary's Office, Lloyds TSB Group plc, 71 Lombard Street, London, EC3P 3BS.

### 19. Reserves

	Profit & loss account £000	Other Reserves £000	Total reserves £000
At 1 January 1999	295,671	-	295,671
Profit for the financial year	(16,544)	-	(16,544)
Capital Contribution	-	44,000	44,000
<b>At 31 December 1999</b>	279,127	44,000	323,127

Of the profit and loss account balance, £189,874,000 is not regarded as realised.

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 20. Technical provisions

Non linked business	Mortality	Interest rate %
With profit		
'Endowment Plus' assurances	A67/70 Ult	3.25
Other assurances	A67/70 Ult	3.75
Non profit		
Life temporary assurances	90%-120% of A67/70 Ult	4.00
Pension temporary assurances	90%-120% of A67/70 Ult	4.00
Endowment assurances	A67/70 Ult	4.00
Whole of life assurances	A67/70 Ult	4.00
Guaranteed bonus bonds		5.80
Pension annuities in payment	Males: 100% PMA92 (entry in 2000) Females: 80% PFA92 (entry in 2000)	4.91

As regards the with profit business, explicit provision has only been made for vested bonuses and no such provision has been made for future reversionary or terminal bonuses.

Explicit renewal expenses are allowed for as follows:

Guaranteed bonus bonds	£15.00
Annuities in payment	£15.00

The long term business provision includes an amount of £279,900,000 (1998: £251,600,000) in respect of the outstanding cost, including the administrative costs of the third party schemes, of possible redress relating to the sale of certain personal pension policies. This amount has been calculated using actual experience of cost of redress to date and data derived from file reviews of many specific cases and from statistical review of the entire pension related business. The approach adopted is in accordance with the FSA guidelines, where available, both in the analysis of cases into priority categories and in the method of calculation of possible compensation. Where necessary, reasonable estimates have had to be made on the basis of information available to date.

### Linked business

The technical provision in respect of linked business is equal to the value of the assets to which the contracts are linked.

Additional provisions in respect of guaranteed benefits on linked policies, future expenses and mortality are included in the long term business provision.

The principal experience assumptions were as follows:

Investment growth in unit funds:	an initial 25% fall in unit values and thereafter, 5% per annum compound unit growth before tax and charges.
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# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 20. Technical provisions (continued)

#### Linked business (continued)

Life Fund tax rate:	20%
Fund annual management charges:	1% per annum for contracts issued on or after 29 July 1991.
Interest on non unit reserves:	4.0% per annum compound before tax.
Expense inflation:	3.5% per annum compound.
Mortality:	90% - 120% of A67/70 depending on smoker status.

Allowance for AIDS using 1/3 of basis R6A (unadjusted) for males and 1/6 of basis R6A (unadjusted) for females lives except for contracts where the company has the right to increase mortality charges in line with experience.

Morbidity:	Experienced based tables
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Renewal expenses per policy per annum:

#### Life Contracts:

Income Protection Plan	
- Level Benefit	£32.91
- Increasing Benefit	£38.97
Other Regular Premium	£25.00
Guaranteed Equity Bonds	£15.00
Other Single Premium	£20.00
Paid up policies and policies valued on a paid up basis	67% of the renewal expense above

#### Pension Contracts:

Regular Premium	£27.50
Single Premium	£20.00
Paid up policies and policies valued on a paid up basis	67% of the renewal expense above

# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 21. Provisions for other risks and charges

	Vacant Property £000	Other £000	Deferred tax £000	Total £000
At 1 January 1999	1,119	12,527	23,851	37,497
Charge for the year	376	1,160	5,478	7,014
Utilised in the year	(124)	(7,727)	-	(7,851)
At 31 December 1999	<u>1,371</u>	<u>5,960</u>	<u>29,329</u>	<u>36,660</u>
Deferred tax is in respect of:			1999 £000	1998 £000
Deferred acquisition costs			30,118	27,197
Accelerated capital allowances			977	1,561
Short term timing differences			(1,766)	(4,907)
			<u>29,329</u>	<u>23,851</u>

A vacant property provision of £1,371,000 has been recognised for a leased property currently not utilised by the company. The provision reflects the future discounted costs to the lease termination in 2008.

Other provisions include costs relating to business amalgamation and development. In 1997 the company established a provision for a 3 year programme of business amalgamation and development. The programme consisted of achieving efficiencies in resource deployment, harmonising business processes and systems infrastructure development. The programme is scheduled for completion in the forthcoming 2000 financial year.

### 22. Other creditors including taxation and social security

	1999 £000	1998 £000
Amounts owed to parent and fellow subsidiary undertakings	286,064	80,946
Other creditors	50,280	9,000
	<u>336,344</u>	<u>89,946</u>

### 23. Long term business fund

At 31 December 1999 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 £12,645.1 million (1998: £11,334.3 million).



# Lloyds TSB Life Assurance Company Limited

## Notes to the accounts (continued)

### 24. Obligations under finance leases

The minimum finance lease payments to which the company was committed at 31 December 1999 were as follows:

	1999 £000	1998 £000
Payable within one year	449	852
Payable in the second to fifth years inclusive	-	236
	<u>449</u>	<u>1,088</u>
Less finance charges allocated to future periods	(30)	(78)
	<u>419</u>	<u>1,010</u>

### 25. Contingent liabilities

The company has contracted to underwrite new share issues, the contingent liability as at 31 December 1999 being £756,000.

### 26. Commitments

The company had £895,000 capital commitments at the end of the financial year (1998 : nil).

### 27. Pensions costs

On 15 March 1999, the members and assets of the Black Horse Group Pension Scheme, a funded defined benefit scheme operated by the company and fellow subsidiaries, were transferred to the Lloyds TSB Group Pension Scheme.

No pension contributions were made into the Black Horse Group Pension Scheme up to the date of transfer (1998 : £2,173,000).

Details of the contributions across the group to the Lloyds TSB Group Pension Scheme together with the last actuarial valuation can be found in the accounts of Lloyds TSB Group plc.

### 28. Investment management

The company's investments are managed by Hill Samuel Asset Management Limited, a fellow subsidiary undertaking of Lloyds TSB Group plc.

### 29. Date of approval

The directors approved the accounts on 2 February 2000.