

Registration No 3196171

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2004



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CLERICAL MEDICAL INVESTMENT GROUP LIMITED

ANNUAL REPORT AND ACCOUNTS

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CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' AND COMPANY INFORMATION

CHAIRMAN P A Hodgkinson

MANAGING DIRECTOR J S Edwards

OTHER DIRECTORS K W Abercromby
D G R Ferguson*
J P Hiew
J N Maclean*
R J H Milne
M R N Moore*
M S Robinson
P L M Sherwood*

** Non Executive Director*

SECRETARY P J Veale

REGISTERED OFFICE 33 Old Broad Street
London
EC2N 1HZ

PRINCIPAL PLACES OF BUSINESS	<i>Bristol Head Office</i> Narrow Plain Bristol BS2 0JH	<i>Clevedon Head Office</i> Tickenham Road Clevedon BS21 6BD	<i>Aylesbury Office</i> Walton Street Aylesbury HP21 7QW
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AUDITORS KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT

The Directors present their Report and the audited Accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of the Company is the transaction of long term insurance business and associated investment activities in the United Kingdom and abroad.

BUSINESS REVIEW AND SIGNIFICANT EVENTS

Throughout the year, the Company made its life and pension products available through its appointed representatives and fellow subsidiary undertaking, with and from whom business is also reassured. The value of premiums on new business written during the year totalled £2,313.5 million, which compares with £2,927.2 million for the year ended 31 December 2003.

RESULT AND DIVIDEND

The Company profit for the year, before taxation, reported in the Non Technical Account, amounted to £330.2 million (2003 £182.8 million), and the profit after tax to £302.6 million (2003 £163.2 million). The increases in the valuations of the Company's subsidiaries are primarily responsible for the result in the year.

No interim dividend was paid during the year (2003 nil) and the Directors recommend that no final dividend be paid (2003 nil).

POST BALANCE SHEET EVENT

There are no material events affecting the Company after the balance sheet date.

FUTURE DEVELOPMENTS

The Company will continue to transact long term life assurance business for the foreseeable future.

SUPPLIER PAYMENT POLICY

The Company's suppliers are paid through HBOS plc's centralised Accounts Payable department.

For the forthcoming period HBOS plc's policy for the payment of suppliers will be as follows:

- Payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement;
- Standard payment terms to suppliers of goods and services will be 30 days from receipt of a correct invoice for satisfactory goods or services which have been ordered and received unless other terms are agreed in a contract;
- Payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made; and
- Suppliers will be advised without delay when an invoice is contested and disputes will be settled as quickly as possible.

HBOS plc complies with the Better Payment Practice Code. Information regarding this Code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

The Company had trade creditors outstanding at 31 December 2004 representing 15 days of purchases.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE

The activities of the Company are overseen by the Risk Control Committee of the Insurance & Investment Division of HBOS plc. The Committee, which is chaired by Tony Hobson, reviews all risk and compliance issues affecting the Company, as well as the other companies within the Insurance & Investment Division.

In addition to the Risk Control Committee, there are a number of other committees responsible for different aspects of corporate governance of HBOS plc and its major subsidiaries. Further details of these committees and compliance with the Combined Code on corporate governance are included in the HBOS plc annual report and accounts.

In relation to the With-Profits Fund and the balance of interests between the policyholders and shareholders, there is a Long Term Business Governance Committee whose members are indicated below.

ULTIMATE HOLDING COMPANY

HBOS plc is the ultimate parent undertaking.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year were as follows:

K W Abercromby*	
J S Edwards*	
D G R Ferguson*	
J P Hiew	
P Hodgkinson	
J N Maclean	
M R N Moore*	
R J H Milne	
M S Robinson	
P L M Sherwood	Resigned 31 December 2004

** Member of the Long Term Business Governance Committee*

Directors' beneficial interests in the ordinary shares of HBOS plc

During the year, no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company. References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc.

The beneficial and non-beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below:-

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONT'D)

	At 31.12.03 or date of appointment if later HBOS plc shares	At 31.12.04 HBOS plc shares
K W Abercromby	22,467	51,550
J S Edwards	134	7,665
D G R Ferguson	7,981	7,981
J P Hiew	200	964
P A Hodgkinson	28,806	112,919
J N Maclean	5,038	5,000
R J H Milne	1,974	4,237
M R N Moore	-	-
M S Robinson	7,469	20,199
P L M Sherwood	2,000	2,000

Short-term Incentive Plan – HBOS scheme and former Halifax scheme

Certain Directors have conditional entitlements to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors:

	Grant effective from	Shares as at 31.12.04
K W Abercromby	March 2002 March 2003 March 2004	3,462 4,123 3,351
J S Edwards	-	-
D G R Ferguson	-	-
J P Hiew	March 2003 March 2004	99 328
P A Hodgkinson	March 2002 March 2003 March 2004	5,163 9,141 6,413
J N Maclean	-	-
R J H Milne	March 2003 March 2004	701 1,127
M R N Moore	-	-
M S Robinson	-	-
P L M Sherwood	-	-

Long-term Incentive Plan – HBOS scheme and former Halifax scheme

Details of the shares, which have been conditionally awarded to Directors under the plans, are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2003.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONT'D)

	Grant Effective from	At 31.12.03 or date of appointment if later	Granted (G) or lapsed (L) in year	Added as a result of performance	Dividend Reinvestment Shares	Released in year	At 31.12.04
K W Abercromby	Jan 2001	14,885	-	16,828	1,943	33,656	-
	Jan 2002	12,500	-	-	-	-	12,500
	Jan 2003	18,229	-	-	-	-	18,229
	Jan 2004	-	17,201 (G)	-	-	-	17,201
J S Edwards	Jan 2001	19,460	-	22,001	2,541	44,002	-
	Jan 2002	19,166	-	-	-	-	19,166
	Jan 2003	25,000	-	-	-	-	25,000
	Jan 2004	-	24,174 (G)	-	-	-	24,174
D G R Ferguson	-	-	-	-	-	-	-
J P Hiew	Jan 2001	2,827	-	3,196	369	6,392	-
	Jan 2002	4,939	-	-	-	-	4,939
	Jan 2003	7,812	-	-	-	-	7,812
	Jan 2004	-	8,135 (G)	-	-	-	8,135
P A Hodgkinson	Jan 2001	53,435	-	60,412	6,977	120,824	-
	Jan 2002	87,500	-	-	-	-	87,500
	Jan 2003	58,593	-	-	-	-	58,593
	Jan 2004	-	55,788 (G)	-	-	-	55,788
R J H Milne	Jan 2002	4,484	-	-	-	-	4,484
	Jan 2003	5,989	-	-	-	-	5,989
	Jan 2004	-	5,811 (G)	-	-	-	5,811
J N Maclean	-	-	-	-	-	-	-
M R N Moore	-	-	-	-	-	-	-
M S Robinson	Jan 2001	9,542	-	10,788	1,246	21,576	-
	Jan 2002	5,416	-	-	-	-	5,416
	Jan 2003	7,812	-	-	-	-	7,812
	Jan 2004	-	8,135 (G)	-	-	-	8,135
P L M Sherwood	-	-	-	-	-	-	-

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2000 grant ended on 31 December 2002 and, in the light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 26% of the original conditional grant were also released to participants in accordance with the rules of the plan.

Long-term Incentive Plan - HBOS Scheme, former Bank of Scotland scheme and former Halifax Scheme

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions, which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

	Options outstanding At 31.12.03 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.04
K W Abercromby	-	-	-
J S Edwards	-	-	-
D G R Ferguson	-	-	-
J P Hiew	-	-	-
P A Hodgkinson	-	-	-
J N Maclean	-	-	-
R J H Milne	8,000	5,078 (E)	2,922
M R N Moore	-	-	-
M S Robinson	-	-	-
P L M Sherwood	-	-	-

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONT'D)

Sharesave Plan

Share options granted under these plans are set out below.

	Options outstanding At 31.12.03 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.04
K W Abercromby	4,115	-	4,115
J S Edwards	2,922	-	2,922
D G R Ferguson	-	-	-
J P Hiew	-	1,104 (G)	1,104
P A Hodgkinson	2,970	-	2,970
J N Maclean	-	-	-
R J H Milne	1,723	-	1,723
M R N Moore	-	-	-
M S Robinson	-	-	-
P L M Sherwood	-	-	-

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

HBOS plc Inland Revenue Approved Share Option Plan

Options to subscribe for ordinary shares of HBOS plc under all-employee plans as at 31 December 2004 were as follows:

	At 31 December 2003	Grant (G), lapsed (L) or exercised (E)	At 31 December 2004
K W Abercromby	-	-	-
J S Edwards	-	-	-
D G R Ferguson	-	-	-
J P Hiew	6,983	4,912 (G)	11,895
P A Hodgkinson	-	-	-
J N Maclean	-	-	-
R J H Milne	6,381	3,508 (G)	9,889
M R N Moore	-	-	-
M S Robinson	8,048	4,912 (G)	12,960
P L M Sherwood	-	-	-

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONT'D)

AUDITOR

KPMG Audit Plc, having expressed their willingness to do so, will continue in office as auditor.

REGULATION

The Company is regulated by the Financial Services Authority and is a member of the Association of British Insurers.

ANNUAL GENERAL MEETING

Pursuant to a Resolution passed by the members, the Company has elected to dispense with the holding of Annual General Meetings, of laying accounts before the Company in General Meeting and with the obligation to reappoint auditors annually.

By order of the Board



P J VEALE
Secretary

33 Old Broad Street
London
EC2N 1HZ

28 February 2005

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 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 accounts;*
- prepare the accounts 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 accounts comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CLERICAL MEDICAL INVESTMENT GROUP LIMITED

We have audited the financial statements on pages 12 to 36.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Directors' Report and, as described on page 10, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations that we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company is not disclosed.

BASIS OF 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

28 February 2005

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

**PROFIT AND LOSS ACCOUNT -TECHNICAL ACCOUNT - LONG TERM BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	Continuing Operations			
		2004	2003		
		£m	£m	£m	£m
EARNED PREMIUMS, NET OF REINSURANCE					
Gross premiums written	2	3,228.4		3,792.9	
Outward reinsurance premiums		(1,929.2)		(1,778.0)	
Net of reinsurance			1,299.2		2,014.9
INVESTMENT INCOME	3		1,057.6		356.0
UNREALISED GAINS ON INVESTMENTS			711.6		1,521.6
OTHER TECHNICAL INCOME, NET OF REINSURANCE	4		2.0		21.9
TOTAL INCOME			3,070.4		3,914.4
CLAIMS INCURRED, NET OF REINSURANCE					
Claims paid					
Gross amount		(2,297.6)		(2,606.9)	
Reinsurers' share		409.1		591.1	
			(1,888.5)		(2,015.8)
Change in provision for claims, net of reinsurance					
Gross amount		0.1		(5.0)	
Reinsurers' share		(3.8)		(0.5)	
			(3.7)		(5.5)
Claims incurred, net of reinsurance	5		(1,892.2)		(2,021.3)
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE					
Long term business provision, net of reinsurance					
Gross amount		(1,350.9)		(2,290.0)	
Reinsurers' share		1,425.8		1,715.2	
Net of reinsurance	23		74.9		(574.8)
Provision for linked liabilities, net of reinsurance			(362.8)		(545.8)
NET OPERATING EXPENSES	6		(287.1)		(337.5)
INVESTMENT EXPENSES AND CHARGES	8		(74.8)		(71.4)
OTHER TECHNICAL CHARGES, NET OF REINSURANCE	13D		(26.3)		(27.9)
TAX ATTRIBUTABLE TO LONG TERM BUSINESS	12		(66.6)		(126.7)
TRANSFERS (TO) / FROM THE FUND FOR FUTURE APPROPRIATIONS	22		(360.4)		(137.2)
TOTAL EXPENDITURE			(2,995.3)		(3,842.6)
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT			75.1		71.8

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

PROFIT AND LOSS ACCOUNT – NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Continuing Operations	
		2004 £m	2003 £m
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT		75.1	71.8
Tax attributable to the balance on the technical account		32.2	30.0
		<hr/>	<hr/>
SHAREHOLDERS' PRE-TAX PROFIT ARISING FROM LONG TERM INSURANCE BUSINESS		107.3	101.8
Investment income	3	1.8	25.3
Unrealised gains on investments		253.6	89.2
Investment expenses and charges	8	(32.5)	(33.5)
		<hr/>	<hr/>
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		330.2	182.8
Tax on profit / (loss) on ordinary activities	12	(27.6)	(19.6)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR		302.6	163.2
Dividends		-	-
		<hr/>	<hr/>
RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES		302.6	163.2
		<hr/>	<hr/>

A statement of the movement on reserves is shown in Note 20 to the Accounts.

The Company had no recognised gains or losses other than the profit for the year shown above.

In accordance with the amendment to FRS 3 published in June 1999 no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments.

The notes on pages 16 to 36 form part of these accounts.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 £m	2003 £m
ASSETS			
INVESTMENTS			
Land and Buildings	13A	2,440.3	2,289.1
Investment in Group undertakings and participating interests	13B	1,901.1	1,575.8
Other financial investments	13C	16,869.7	16,667.4
Other – present value of in-force business	13D	344.5	370.8
		<hr/>	<hr/>
		21,555.6	20,903.1
ASSETS HELD TO COVER LINKED LIABILITIES	15	2,226.8	1,864.0
REINSURERS SHARE OF TECHNICAL PROVISIONS	23		
Long term business provision		7,078.4	5,652.6
Claims outstanding		(3.0)	0.8
		<hr/>	<hr/>
		7,075.4	5,653.4
DEBTORS			
Debtors arising out of direct insurance operations	16	25.9	16.2
Other debtors	16	1,055.8	549.2
		<hr/>	<hr/>
		1,081.7	565.4
OTHER ASSETS			
Tangible assets	17	84.5	61.5
Cash at bank and in hand		-	63.3
		<hr/>	<hr/>
		84.5	124.8
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		25.6	3.0
Deferred acquisition costs		168.0	153.5
Other prepayments and accrued income		6.7	3.6
		<hr/>	<hr/>
		200.3	160.1
TOTAL ASSETS		<hr/>	<hr/>
		32,224.3	29,270.8

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004 (CONT'D)

	Note	2004 £m	2003 £m
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	18,20	1,629.0	1,629.0
Share premium account	20	1.0	1.0
Profit and loss account	20	233.4	(69.2)
Merger reserve	19,20	246.2	246.2
General reserves	20	611.7	611.7
SHAREHOLDERS' FUNDS ATTRIBUTABLE TO EQUITY INTERESTS		2,721.3	2,418.7
SUBORDINATED LIABILITIES	21	479.1	477.8
FUND FOR FUTURE APPROPRIATIONS	22	497.6	137.2
TECHNICAL PROVISIONS	23		
Long term business provision		24,618.7	23,267.8
Claims outstanding		42.4	42.5
		24,661.1	23,310.3
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	23	2,226.8	1,864.0
PROVISIONS FOR OTHER RISKS AND CHARGES	25	245.2	161.8
DEPOSITS RECEIVED FROM REINSURERS	26	25.7	50.4
CREDITORS			
Creditors arising out of direct insurance operations	27	71.3	29.2
Bank overdraft	28	7.1	-
Other creditors including taxation and social security	29	1,286.6	794.0
		1,365.0	823.2
ACCRUALS AND DEFERRED INCOME		2.5	27.4
TOTAL LIABILITIES		32,224.3	29,270.8

These accounts were approved by the Board of Directors on 28 February 2005 and were signed on its behalf by


J S EDWARDS
DIRECTOR


K W ABERCROMBY
DIRECTOR

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

1.1 Basis of Preparation

The accounts have been prepared in accordance with Section 255 and 255A of, and Schedule 9A to the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The accounts have also been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention, as modified to include the revaluation to market values of investments, and comply with the Statement of Recommended Practice on Accounting for Insurance Business ("the SORP") issued by the Association of British Insurers in November 2003. Accounting policies are reviewed regularly to ensure they are the most appropriate to the circumstances of the Company for the purposes of giving a true and fair view.

In complying with this SORP the Company has adopted the modified statutory solvency basis in preparing these accounts.

As the Company is a wholly owned subsidiary undertaking of a company registered in England and Wales group financial accounts are not prepared. Accordingly the financial statements present information about the company as an individual undertaking and are not consolidated.

1.2 Premiums

Gross premiums written are accounted for on a cash basis in respect of single premium business and pensions business not subject to contractual regular premiums. For all other classes of business, gross premiums written are accounted for in the year in which it is due for payment. Outward reinsurance premiums are accounted for when the related gross premiums written are recognised. Gross premiums written exclude any taxes or duties based on premiums.

1.3 Investment income, expenses and charges

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend. Other investment income, including rent, is accrued up to the balance sheet date. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

1.4 Unrealised Gains and Losses on Investments

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have previously been re-valued, their valuation at the last balance sheet date less unrealised gains to the last balance sheet date which have been realised during the period

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

1.5 Claims and Surrenders

Death claims are included in the Long Term Business Technical Account upon notification. Surrenders are reported in the period in which payment is made. Maturities and annuity payments are charged in the period in which the payment becomes due.

1.6 Reassurance

Only contracts that give risk to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same period as the related claim and premiums.

1.7 Commission

Commission payable is accounted for on the same basis as the corresponding premiums, except for commission payable under indemnity terms, which is charged when paid.

1.8 Deferred Acquisition Costs

The costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, are spread forward over the term of the contract to the extent that the amounts are recoverable out of future margins.

Deferred acquisition costs are reviewed by category of business at the end of each accounting period. Costs that are assessed to be irrecoverable are written off.

1.9 Taxation

The charge or credit for taxation is based on the result for the year and is determined by reference to the rules applicable to the taxation of life assurance companies. Any balance on the Technical Account – Long Term Business carried forward into the Non Technical Account is grossed up at the effective rate of corporation tax.

Deferred tax is recognised at the standard rate of corporation tax, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, (except as otherwise required by FRS 19) based on the corporation tax rate expected when the timing differences reverse.

1.10 Pension costs

HBOS plc operate a defined contribution pension scheme for the benefit of employees who joined the Group before 1 January 2001. Contributions to the defined benefit pension scheme are determined using the attained age method. The scheme is valued every three years by qualified actuaries. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of scheme members.

For employees joining the Group after 1 January 2001, HBOS plc operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting period. Full disclosures for both schemes are contained in the accounts of HBOS plc.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

1.11 Investments

Investments, which include financial futures and options contracts entered into as part of the Company's overall risk management strategy, are shown in the balance sheet at market value or their equivalents as follows:

- a) Investment properties are valued on the basis of open market value annually, account being taken of the cost of disposal. In all cases, valuations are carried out by persons who are members of the Royal Institute of Chartered Surveyors. The valuations were conducted in accordance with the "RICS Statement of Asset Valuation and Guidance Notes". Owner occupied properties are valued at least every three years. The Directors' estimated open market value is used for any properties not valued at the balance sheet date.
- b) Listed investments are valued at last traded price or middle market price adjusted to include accrued interest.
- c) All other investments, including subsidiary and associated undertakings, are valued by the Directors at estimated open market values.

1.12 Depreciation

In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run as these properties are held for investment. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted principle set out in SSAP 19. Accordingly the Directors have adopted SSAP 19 in order for the accounts to give a true and fair view. In respect of owner-occupied property, the Directors consider that residual values are such that their depreciation is insignificant and is thus not provided.

1.13 Present Value of In-Force business

The net present value of the Company's interest in the expected net present value of in-force policies were purchased from Clerical, Medical and General Life Assurance Society in 1996. The asset is amortised over the expected profit recognition period on a systematic basis over the anticipated lives of the related contracts. The carrying value of the asset is reviewed periodically for impairment.

Impairments and amortisation charges are shown as other technical charges.

1.14 Tangible Assets

The cost of equipment, including fixtures and fittings, vehicles and computer hardware, less estimated residual value, is written off in equal instalments over the expected lives of the assets, generally between two and five years. Software development costs which lead to the creation of a definable software asset, subject to a de minimis limit, are capitalised and depreciated over their expected lives, generally four years. Provision is made for the diminution in value of any tangible fixed asset where impairment is identified. The resulting net book value of the asset is written off over its remaining expected economic life. Impairment charges are included within operating expenses.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

1.15 Merger Reserve

The Company recognises assets acquired on mergers at their fair value and any excess of this value over the consideration paid as a merger reserve. The profit included in the merger reserve will become realised if the assets acquired are subsequently sold or if a realised loss or write down is recognised in the accounts.

1.16 Technical Provisions

The Company's long-term business provision is based on the Directors' annual valuation of the long term liabilities. This has been carried out paying due regard to advice from the head of actuarial function. The valuation takes as its starting point the mathematical reserves calculated in accordance with the requirements of the Prudential Sourcebook for Insurers ["PRU"]. These are adjusted to remove the closure provision and certain other reserves required under the PRU rules.

The assumptions to which the estimates are particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders, which are determined on a prudent basis at the date of valuation and are disclosed in Note 23.

The technical provisions for linked liabilities are equal to the value of the assets to which the contracts are linked.

1.17 Fund for Future Appropriations

The fund for future appropriations comprises all funds, the allocation of which to policyholders or shareholders had not yet been determined by the end of the financial year. Any surplus or deficit arising on the technical account in respect of the with profit fund is transferred to or from the fund on an annual basis to the extent of funds available in the fund for future appropriations. Any deficits over the available fund are transferred to the shareholders through the technical account.

1.18 Foreign Currencies

Transactions in foreign currencies are translated using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

1.19 Cash Flow Statement

Under FRS 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking, and the consolidated accounts of HBOS plc, in which the accounts of the company are included, are publicly available.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

1.19 Related Party Transactions

Advantage has been taken of the exemption in FRS 8 (Related Party Disclosures) not to report on transactions with entities which are more than 90% controlled by a common parent undertaking whose accounts are publicly available and which includes a cash flow statement.

2 GROSS PREMIUMS WRITTEN

	2004 £m	2003 £m
Individual Life Insurance	1,331.8	1,736.3
Individual Pensions Business	1,557.4	1,611.9
Group Pensions Business	339.2	444.7
	<hr/>	<hr/>
	3,228.4	3,792.9
	<hr/>	<hr/>
Periodic premiums	1,043.4	1,031.6
Single premiums	2,185.0	2,761.3
	<hr/>	<hr/>
	3,228.4	3,792.9
	<hr/>	<hr/>
Premiums from non-participating contracts	226.2	309.0
Premiums from participating contracts	849.2	1,351.8
Premiums from investment linked contracts	2,153.0	2,132.1
	<hr/>	<hr/>
	3,228.4	3,792.9
	<hr/>	<hr/>
Geographical split by origin		
In the UK	2,449.3	3,121.8
In other EC member states	778.2	612.6
In other countries	0.9	58.5
	<hr/>	<hr/>
	3,228.4	3,792.9
	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

The value of new premiums written during the period was:

	2004	2003
	£m	£m
Individual Life Insurance	1,147.9	1,371.2
Individual Pensions Business	1,090.1	1,316.7
Group Pensions Business	75.4	239.3
	<hr/>	<hr/>
	2,313.5	2,927.2
	<hr/>	<hr/>
Annual premiums	128.5	165.9
Single premiums	2,185.0	2,761.3
	<hr/>	<hr/>
	2,313.5	2,927.2
	<hr/>	<hr/>
Premiums from non-participating contracts	115.2	302.9
Premiums from participating contracts	680.4	1,259.8
Premiums from investment linked contracts	1,517.8	1,364.5
	<hr/>	<hr/>
	2,313.5	2,927.2
	<hr/>	<hr/>
Geographical split by origin		
In the UK	1,592.9	2,355.5
In other EC member states	720.6	521.6
In other countries	-	50.1
	<hr/>	<hr/>
	2,313.5	2,927.2
	<hr/>	<hr/>

All figures above are shown gross of reinsurance outwards.

There is no material difference between the origin and destination of gross premiums written.

In classifying new business premiums the basis of recognition adopted is as follows:

- New recurrent single premium contracts are classified as regular where they are deemed likely to renew at or above the amount of initial premium. 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 re-invested 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 premiums within gross premiums written.
- Increments under existing group pension schemes are classified as new business premiums.
- Where regular premiums are received other than annually the regular new business premiums are on an annualised basis.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

3 INVESTMENT INCOME

	2004 £m	2003 £m
(a) Technical account – long term business		
Income from land and buildings	139.9	133.3
Income from other investments		
- listed	747.9	636.7
- other	7.9	66.2
	<hr/> 895.7	<hr/> 836.2
Net gains/(losses) on the realisation of investments	161.9	(480.2)
	<hr/> 1,057.6	<hr/> 356.0
	<hr/> 2004 £m	<hr/> 2003 £m
b) Non-technical account		
Income from land and buildings	2.6	2.6
Income from other investments		
- listed	0.5	7.7
- other	0.7	0.4
	<hr/> 3.8	<hr/> 10.7
Net gains/(losses) on the realisation of investments	(2.0)	14.6
	<hr/> 1.8	<hr/> 25.3

4 OTHER TECHNICAL INCOME, NET OF REINSURANCE

Other technical income consists of management fees. These fees are comprised mainly of fees received for the management of insurance funds.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

5 CLAIMS INCURRED NET OF REINSURANCE

	2004	2003
	£m	£m
Deaths	56.9	46.3
Maturities	268.8	364.0
Life and annuity surrenders	247.4	854.2
Unit linked	1,161.9	666.7
Pension contracts	16.6	47.9
Annuity payments	140.6	42.2
	<hr/>	<hr/>
	1,892.2	2,021.3
	<hr/>	<hr/>

6 NET OPERATING EXPENSES

	2004	2003
	£m	£m
Acquisition costs	209.7	203.3
Change in deferred acquisition costs	(14.5)	1.5
Administrative expenses	91.9	132.7
	<hr/>	<hr/>
	287.1	337.5
	<hr/>	<hr/>

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging:

	2004	2003
	£m	£m
Auditor's remuneration (including VAT) paid to the auditor and associated firms:		
Remuneration for audit services (including regulatory)	0.4	0.4
Remuneration for non-audit services	0.2	0.3
	<hr/>	<hr/>
	0.6	0.7
	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

8 INVESTMENT EXPENSES AND CHARGES

	2004 £m	2003 £m
(a) Technical account – long term business		
Investment management expenses	30.6	31.9
Interest on pension contract business	15.9	15.0
Interest on bank overdrafts	0.1	1.1
Other interest	28.2	23.4
	<hr/> 74.8	<hr/> 71.4
	<hr/>	<hr/>
	2004 £m	2003 £m
(b) Non Technical account – long term business		
Other interest	32.5	33.5
	<hr/> 32.5	<hr/> 33.5
	<hr/>	<hr/>

9 DIRECTORS' EMOLUMENTS

Messers PA Hodgkinson and JN Maclean are Directors of the ultimate holding company, HBOS plc, and their emoluments are therefore disclosed in the holding company's report and accounts. Messers KW Abercromby and JS Edwards are Directors of the intermediate holding company, HBOS Insurance & Investment Group Limited and their emoluments are disclosed in this company's report and accounts. The remaining Directors are Directors of the immediate holding company, HBOS Financial Services Limited and their emoluments are disclosed in this company's report and accounts.

10 RELATED PARTY TRANSACTIONS

During the year, certain related parties (being Directors/Principal Officers and their spouses) held insurance policies and other investments managed by the Company and sold on terms available to all employees. Such policies and investments are sold on normal commercial terms except that Directors/Principal Officers and their spouses are entitled to special rates, which are also available to all members of staff. The Board has considered the financial effect of such transactions and has concluded that they are not material to either the Company or to the related parties concerned.

11 EMPLOYEE INFORMATION

The Company employs no permanent staff directly. All staff are employed by HBOS plc, and a recharge is made by HBOS plc to cover the costs of its staff who are engaged in the activities of the Company.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

12 TAXATION

The charge / (credit) for taxation comprises:

	Technical Account Long Term Business		Non Technical Account	
	2004	2003	2004	2003
	£m	£m	£m	£m
Current tax:				
Corporation tax charge/(credit) for the year	63.1	71.4	1.2	0.3
Corporation tax charge/(credit) in respect of earlier years	(83.6)	(30.0)	0.2	0.3
Relief for overseas taxation	(1.1)	(1.3)	-	-
Overseas taxation	3.0	2.0	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(18.6)	42.1	1.4	0.6
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax:				
Deferred tax charge/(credit) for the year	74.5	44.0	26.2	19.0
Deferred tax charge in respect of earlier years	10.7	40.6	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	66.6	126.7	27.6	19.6
	<hr/>	<hr/>	<hr/>	<hr/>

CMIGL sustained a substantial loss for tax purposes in 2002 but no recognition was taken then for the potential tax relief on those losses because of the uncertain application of tax rules which referred back to the demutualisation of the former Clerical Medical Assurance Society in 1996. Agreement was reached in 2004 with the revenue on the application of those rules which has allowed the recognition of the tax relief valued at £41m.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2003 30%)

The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before taxation	330.2	182.8
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK	<u>99.1</u>	<u>54.9</u>
Effects of:		
Unrealised movements in the value of investments not recognised for tax purposes	(71.6)	(35.0)
Other	0.1	(0.2)
Deferred tax	<u>(26.2)</u>	<u>(19.1)</u>
Total current tax (credit) / charge	<u>1.4</u>	<u>0.6</u>

13 INVESTMENTS

13A Land and buildings:

	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
Valuation				
At 31 December 2004	<u>1,712.2</u>	<u>667.7</u>	<u>60.4</u>	<u>2,440.3</u>
At 31 December 2003	<u>1,618.5</u>	<u>610.4</u>	<u>60.2</u>	<u>2,289.1</u>
Cost				
At 31 December 2004	<u>1,314.7</u>	<u>521.8</u>	<u>66.3</u>	<u>1,902.8</u>
At 31 December 2003	<u>1,202.0</u>	<u>523.1</u>	<u>65.6</u>	<u>1,790.7</u>

The properties valued by external valuers, which include all those which are held to cover linked liabilities, totalled £2,408m (2003 £2,107m) representing 92% (2003 91%) of the Company's freehold and leasehold properties. Included in the above figures are land and buildings owned and occupied by the Company of £43.0m (2003 £41.4m) with a cost of £49.7m (2003 £39.0m). Notional rent of £4.2m (2003 £4.2m), based on market rentals, was charged to net operating expenses and included in investment income.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

13B Investments in Group undertakings and participating interests:

	Group Undertakings			Participating Interests			Total £m
	Ordinary Shares £m	Loans £m	Total £m	Ordinary Shares £m	Other £m	Total £m	
Valuation							
At 31 December 2004	1,668.2	4.5	1,672.7	223.4	5.0	228.4	1,901.1
At 31 December 2003	1,392.8	4.5	1,397.3	173.4	5.1	178.5	1,575.8
Cost							
At 31 December 2004	899.3	4.5	903.8	33.9	4.2	38.1	941.9
At 31 December 2003	910.1	4.5	914.6	33.8	4.2	38.0	952.6

13C Other financial investments:

	Valuation 2004 £m	Cost 2004 £m	Valuation 2003 £m	Cost 2003 £m
Shares and other variable yield securities	9,466.3	8,471.9	9,240.4	8,714.3
Debt securities and other fixed interest securities	6,783.4	6,593.3	6,652.3	6,510.6
Loans secured by mortgages	0.1	0.1	0.2	0.2
Other loans	8.4	9.0	10.3	11.3
Deposits with credit institutions	611.5	611.5	764.2	770.4
As at 31 December	16,869.7	15,685.8	16,667.4	16,006.8

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

Included in the valuation shown in the above are the following listed investments:

	Group Undertakings & participating Interests 2004 £m	Other 2004 £m	Total 2004 £m	Total 2003 £m
Shares and other variable yield securities and units in unit trusts	187.8	9,431.0	9,618.8	9,354.6
Debt securities and other fixed income securities.	5.0	6,782.1	6,787.1	6,656.0

At the balance sheet date certain of the Company's investments were on loan to market makers under a stock lending scheme authorised by the Bank of England.

13D Other – present value of in-force business:

	2004 £m	2003 £m
At 1 January	370.8	398.7
Amortisation	(26.3)	(27.9)
	<hr/>	<hr/>
As at 31 December	344.5	370.8
	<hr/>	<hr/>

14 GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

Particulars of the Company's principal Group undertakings and participating interests are shown below. Other holdings in Group undertakings and participating interests are not considered to be material.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

Group Undertakings	Country of Incorporation or Registration	Nature of Business	% Held
Clerical Medical Managed Funds Limited	England and Wales	Life Insurance	* 100.0
Halifax Life Limited	England and Wales	Life Insurance	* 100.0
Clerical Medical Forestry Limited	England and Wales	Property Investments	* 100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company	90.5
CM Venture Investments Limited	Isle of Man	Investment Company	* 100.0
Lands Improvement Holdings plc	England and Wales	Investment Company	* 100.0
The CM Managed Fund	Luxembourg	Open-Ended Investment Company	100.0
Participating Interests			
Brixton plc	England and Wales	Industrial Property Investment Company	22.1
Pharos SA	Luxembourg	Investment Company	27.1

* These subsidiary undertakings are direct subsidiaries of the Company.
All subsidiary shares held are ordinary shares.

15 ASSETS HELD TO COVER LINKED LIABILITIES

	2004 £m	2003 £m
At valuation	2,226.8	1,864.0
	<hr/>	<hr/>
At cost	2,117.6	1,841.1
	<hr/>	<hr/>

16 DEBTORS

	2004 £m	2003 £m
Debtors arising out of direct insurance operations:		
Amounts receivable from policyholders	25.9	16.2
	<hr/>	<hr/>
	25.9	16.2
	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

	2004	2003
	£m	£m
Other debtors comprise:		
Tax recoverable	20.5	4.0
Outstanding interest, dividends and rents	52.2	50.4
Outstanding sale of investments	114.8	8.5
Amounts due to settle on outstanding derivative contracts	-	13.1
Amounts receivable from Group undertakings	774.3	417.4
Other	94.0	55.8
	<hr/>	<hr/>
	1,055.8	549.2
	<hr/>	<hr/>

17 TANGIBLE ASSETS

The net book value of tangible assets is comprised as follows:

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Application Software £m	Premises £m	Total £m
Cost						
At 1 January 2004	0.9	78.1	13.4	1.7	-	94.1
Additions	0.2	0.5	0.2	33.4	4.4	38.7
Disposals	(0.5)	(17.1)	(4.1)	(0.1)	-	(21.8)
Reclassification	-	(44.0)	-	44.0	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	0.6	17.5	9.5	79.0	4.4	111.0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At 1 January 2004	0.4	25.3	6.5	0.3	-	32.5
Charge for year	0.1	6.6	1.6	5.8	-	14.1
Disposals	(0.2)	(16.0)	(3.9)	-	-	(20.1)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	0.3	15.9	4.2	6.1	-	26.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 31 December 2004	0.3	1.6	5.3	72.9	4.4	84.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 31 December 2003	0.5	52.8	6.8	1.4	-	61.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

At 31 December 2004 total assets held under finance leases were £nil (2003 £nil). In 2003 £44.0m of work-in-progress in relation to application software was classified as computer equipment. This has been reclassified in the current year. Premises consist of property under construction and as such there is no depreciation charged until the property is brought into use.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

18 CALLED UP SHARE CAPITAL

	2004 £m	2003 £m
Authorised: 1,709,000,000, (2003, 1709,000,000) £1 ordinary shares	1,709.0	1,709.0
Alotted, called up and full paid: 1,629,000,000 (2003, 1,629,000,000) £1 ordinary shares	1,629.0	1,629.0

19 MERGER RESERVE

On 31 December 2001 the Company acquired the ordinary share capital of Halifax Life Limited from the parent company, for a consideration of 159 million £1 shares at a premium of 0.63 pence per share. The fair value of the acquired assets was £406.2m which gave rise to a merger reserve of £246.2m.

20 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share Capital £m	Share Premium £m	Profit and Loss Account £m	Merger Reserve £m	General Reserves £m	Total £m
At 1 January 2003	1,629.0	1.0	(232.4)	246.2	611.7	2,255.5
Issue of Share Capital	-	-	-	-	-	-
Profit for the financial year	-	-	163.2	-	-	163.2
At 31 December 2003	1,629.0	1.0	(69.2)	246.2	611.7	2,418.7
Issue of Share Capital	-	-	-	-	-	-
Profit for the financial year	-	-	302.6	-	-	302.6
At 31 December 2004	1,629.0	1.0	233.4	246.2	611.7	2,721.3

The distributable reserves are £ nil (2003 £ nil).

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

21 SUBORDINATED LIABILITIES

During July 2001 Clerical Medical Finance plc, a fellow subsidiary undertaking, issued €400m of 6.45% dated Subordinated Guaranteed Bonds maturing on 5 July 2023 (current sterling value £281.4m). Redemption of the bonds is at the option of HBOS Financial Services Ltd, the Company's parent undertaking, and is generally not allowable prior to July 2013, after which time if the bond has not been redeemed floating rate interest is payable. Clerical Medical Finance plc has previously issued £197.7m of 7 3/8% undated Subordinated Guaranteed Bonds, the redemption of which is at the option of the Group and is generally not allowable prior to 5 November 2019. The bonds are guaranteed on a subordinated basis by the Company, after the claims of the Company's senior creditors including all policyholders. The proceeds of both were loaned to the Company on similar interest, repayment and subordination terms as those applicable to the Bonds.

22 FUND FOR FUTURE APPROPRIATIONS

	2004 £m	2003 £m
At 1 January	137.2	-
Transfer from the Technical Account – Long Term Business	360.4	137.2
	<hr/>	<hr/>
At 31 December	497.6	137.2
	<hr/>	<hr/>

23 TECHNICAL PROVISIONS

	Long term business provisions £m	Claims Outstanding £m	Provision for linked liabilities £m	Total £m
Gross amount				
At 1 January 2004	23,267.8	42.5	1,864.0	25,174.3
Transfer from technical account	1,350.9	(0.1)	362.8	1,713.6
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	24,618.7	42.4	2,226.8	26,887.9
	<hr/>	<hr/>	<hr/>	<hr/>
Reinsurers' share				
At 1 January 2004	5,652.6	0.8	-	5,653.4
Transfer from technical account	1,425.8	(3.8)	-	1,422.0
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	7,078.4	(3.0)	-	7,075.4
	<hr/>	<hr/>	<hr/>	<hr/>
Net technical provisions				
At 31 December 2004	17,540.3	45.4	2,226.8	19,812.5
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2004	17,615.2	41.7	1,864.0	19,520.9
	<hr/>	<hr/>	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

The principal methods used in determining the Long Term Business Provision are the net premium valuation for without profit conventional business and gross premium valuation for with profit conventional business and unitised business. The principal assumptions used were as follows:

Class of Business	Mortality
Without Profit Life Savings	85% AM92 Ult/ 100% AF92 Ult
Without Profit Life Term Assurance	85% AM92 Ult/ 100% AF92 Ult *
Conventional With Profit Life	85% AM92 Ult/ 100% AF92 Ult
Unitised Life Regular Premium (inc UWP)	AM92 (x+2) Ult / AF92 (x+3) Ult
Unitised Life Single Premium (inc UWP bonds)	70% AM92 (x+2) Ult / 100% AF92 (x+3) Ult
Without Profit Pensions	85% AM92 Ult/ 100% AF92 Ult
Conventional With Profit Pensions (inc PPC)	85% AM92 Ult/ 100% AF92 Ult
Unitised Pensions Regular Premium	70% AM92 Ult/ 70% AF92 Ult
Unitised Pensions Single Premium	AM92 (x+2) Ult / AF92 (x+3) Ult

*An allowance has been made for additional mortality due to AIDS.

Class of Business	Life		Pensions	
	2003	2004	2003	2004
Conventional With Profits	3.25%	3.00%	4.00%	3.75%
Without Profit	3.40%	3.20%	4.25%	4.00%
Unitised With Profits	3.30%	3.10%	4.00%	3.75%
Sterling Reserves	3.40%	3.20%	4.25%	4.00%
Annuities in Payment	4.50%	4.25%	5.00%	4.75%

Explicit provision is made for vested bonuses, but no provision is made for future bonus interest, reversionary or terminal bonus.

A provision of £5m (2003 £10m) to cover direct and indirect costs arising from the pensions and free standing AVC review is included in the long term business provision. The provision is based on a prudent estimate of such costs and made at the balance sheet date.

The total cost of reversionary, interim and terminal bonuses attributable in the year ended 31 December 2004 was £334.5m (2003 £569.2m).

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

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

25 PROVISIONS FOR OTHER RISKS AND CHARGES

	2004	2003
	£m	£m
Deferred taxation	242.0	156.8
Provision for restructuring costs and onerous leases	3.2	5.0
	<hr/>	<hr/>
	245.2	161.8
	<hr/>	<hr/>

The provision for restructuring costs relates to expected costs to be incurred as part of the reorganisation and restructuring of the Company. The provision for onerous leases has arisen as a result of expected branch closures.

Deferred Taxation is analysed as:

	2004	2003
	£m	£m
At 1 January as previously stated	156.8	72.2
Prior year adjustment	-	-
	<hr/>	<hr/>
	156.8	72.2
	<hr/>	<hr/>
Current year charge/(credit)	74.5	53.0
Prior year charge/(credit)	10.7	31.6
	<hr/>	<hr/>
Balance carried forward	242.0	156.8
	<hr/>	<hr/>

Deferred taxation comprises:

Unrealised gains on investments	157.5	88.2
Deferred acquisition expenses	(23.1)	(24.3)
Capital allowances	10.3	9.2
Other timing differences	97.3	83.7
	<hr/>	<hr/>
Deferred Tax Liability/(Asset)	242.0	156.8
	<hr/>	<hr/>

The company has an unrecognised deferred tax asset of £2.7m (2003 £3.2m) in respect of unrealised capital losses on the company's Aylesbury offices, as this property is held in the shareholder fund which has no unrealised gains on chargeable assets.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

26 DEPOSITS RECEIVED FROM REINSURERS

During 2000 the Company entered into a reinsurance arrangement to assist in the financing of the acquisition costs of new long term business. The net amount of the financing outstanding from reinsurance is included in "Deposits received from reinsurers". The deposits are repayable from the establishment charges of specified single premium bond products.

27 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2004	2003
	£m	£m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	71.3	29.2
	<hr/>	<hr/>
	71.3	29.2
	<hr/>	<hr/>

28 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

The bank overdraft is repayable on demand and attracts interest at market rates.

29 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2004	2003
	£m	£m
Loans due to ultimate parent company (see note 32)	532.5	504.4
Amounts due to Group companies	162.2	92.2
Outstanding purchase of investments	42.0	8.6
Amounts due to settle on outstanding derivative contracts	189.9	18.3
Taxation payable	29.4	55.4
Other	330.6	115.1
	<hr/>	<hr/>
	1,286.6	794.0
	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONT'D)

30 CAPITAL COMMITMENTS

The estimated capital commitments on investments and equipment for which no provision has been made in the accounts is as follows:

	2004 £m	2003 £m
Amount contracted	66.1	134.1

31 CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the year (2003 nil).

32 LOAN FACILITY

In January 2003, the Company drew down a contingent loan agreement with HBOS plc, the ultimate parent undertaking, whereby finance will be provided for the purpose of maintaining the Required Minimum Margin of the Company and if necessary meet liabilities of policyholder as calculated in accordance with FSA regulations. Interest is charged on the loan at 1% above three month LIBOR. The loan principal and any unpaid interest are subsequently repayable to the extent that the Company has a Margin of Solvency for the previous three months, and proceeding six months, and, allowing for realistic assumptions on projected FTSE (100) levels and the anticipated impact of new business (if any), that is equal to or in excess of the Required Minimum Margin plus 8% of the Total Admissible Assets. In addition the Value of the Long Term Business Fund Assets exceeds the Value of the Long Term Business Fund Liabilities by at least the amount of such excess as determined by the Appointed Actuary plus £250 million.

As at 31 December 2004 £532.5m (2003 £504.4) was outstanding under this agreement, this amount includes £500m which was originally drawn down during January 2003 and unpaid interest as at 31 December 2004 of £32.5m (2003 £4.4m). The balance is included in amounts due to group companies within other creditors.

32 ULTIMATE PARENT UNDERTAKING

HBOS Financial Services Limited is the immediate parent undertaking of the Company. HBOS plc is the ultimate parent undertaking and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

SUPPLEMENTARY INFORMATION MEMORANDUM OF UNDERSTANDING CONCERNING FRS 27 (LIFE ASSURANCE)

Introduction

FRS 27 Life Assurance was published in December 2004 and the Accounting Standards Board (ASB) has accepted that it would be unrealistic to mandate full compliance for financial periods ending on 31 December 2004. Accordingly, certain modifications to the disclosure requirements of the Standard have been agreed for this year. The modified disclosure requirements are set out in a Memorandum of Understanding to which the ASB and representatives of the life insurance industry, including HBOS, are signatories. As part of the agreement, HBOS and the other signatories to the Memorandum have committed to complying in full with the requirements of FRS 27 for financial periods ending in 2005 onwards.

The life assurance business of the Clerical Medical Group, which is transacted within the long-term funds of approved insurance companies, comprises unit-linked, other non-profit business and with-profit business. Several companies within the Group transact either unit-linked and / or other non-profit business, but all with-profit business is underwritten by the Company.

The key assumptions used in the measurement of insurance liabilities are determined by the respective Board of Directors of each insurance company on advice from the Head of Actuarial Function of the relevant company. All such values have been determined in accordance with the requirements of the FSA's Integrated Prudential Sourcebook for Insurers.

With-Profits Business

The Company underwrites two main types of with-profits business: conventional with-profits business and unitised with-profits business.

With-profits business is now subject to the "twin peaks" test under the FSA's prudential reporting regime. The capital requirement is based on the higher of the regulatory position and the realistic position. At 31 December 2004 the regulatory peak of the Company with-profits fund exceeded the realistic peak in the "twin-peaks" test. This was due to the nature of the liabilities and the level of prudence assumed in determining the regulatory value of those liabilities.

The regulatory reserve for conventional with-profits policies is calculated using a prospective valuation of future cashflows, taking account of any excess of guaranteed benefits over premiums, and using prudent assumptions for investment return, expenses and mortality. The regulatory reserve for unitised with-profits policies is determined by comparing a projection of the cash flows on the contracts, allowing for guaranteed benefits, with the lower of the value of the with-profits units held and the surrender value payable at the valuation date. The higher of the two values is taken as the reserve.

The realistic reserve for with-profits business is based on the asset share. In addition many with-profits contracts feature options and guarantees whose potential value is affected by the behaviour of certain financial variables. These options and guarantees are reserved for at fair value or a value using models that reflect market conditions at the valuation date.

Specifically, several classes of With-Profit Bonds allow withdrawals to be taken without penalty and the bonds to be encashed at specific dates on guaranteed minimum terms. Also, certain pension contracts contain the option to vest the contracts at any time between the 60th and 75th birthday on annuity rates that were guaranteed at the outset of the contract.

A comparison of the realistic assets and realistic liabilities of the with-profit fund is set out in the table below. For this purpose, the amount of the realistic liabilities (including options and guarantees) has been adjusted to eliminate the shareholders' share of future bonuses, as required by FRS 27.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

SUPPLEMENTARY INFORMATION MEMORANDUM OF UNDERSTANDING CONCERNING FRS 27 (LIFE ASSURANCE) (CONT.)

With-Profits Business	£m
Amount of realistic assets	17,883
Amount of realistic liabilities	(17,278)
	<hr/>
Excess of realistic assets over realistic liabilities	605
	<hr/>

Unit-Linked and Non-Profit Business

For unit-linked policies, the liability is equal to the sum of the value of the assets to which the contracts are linked, plus an additional reserve taking account of the risks and uncertainties for each separate class of business, subject to an overall minimum of the surrender value.

For other non-profit policies, the liability is equal to the discounted value of any excess of contractual benefits over premiums, taking account of expenses and the risks and uncertainties for each separate class of business.

Key Assumptions used in Determining Regulatory Liabilities

The following mortality assumptions and interest rates were used for the key product lines to value the regulatory liabilities.

Business	Mortality	Interest
Unit-Linked Policies		
Life assurance	70-150% AM/F92 ¹	2.6% - 3.75%
Pensions	70-150% AM/F92 ¹	3.25% - 4.75%
Non-Profit Policies		
Pension Annuities		
Males	95 % PMA92mc	Matching assets
Females	80% PFA92	Matching assets
Term Assurances		
Males	43-145% TM92 ²	2.6% - 4%
Females	55-160% TF92 ²	3% - 4%
With-profit		
Life assurance	70-100% AM/F92	3% - 3.75%
Pensions	70-100% AM/F92	3.75%

Note 1 With age adjustments for some classes of business.

Note 2 An AIDS uplift to mortality is assumed in line with FSA guidance.

Mortality and morbidity assumptions are determined following comparison of market data with the actual experience over a period of up to 5 years and contain a margin for prudence. For annuities, valuation rates of interest are closely linked to market returns on the matching assets; allowance is made for credit risk on corporate bonds by considering historic default rates. Expense assumptions are based on company experience together with a prudent margin, and contracts are assumed to remain in force until their natural expiry.