

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005



Registered Number 3196171

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

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CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' AND COMPANY INFORMATION

CHAIRMAN J S Edwards

MANAGING DIRECTOR J Spellman

OTHER DIRECTORS W A Beadle
M Christophers*
D G R Ferguson*
R A Devey
T A Leonard
P McNamara
R J H Milne
M R N Moore*
K A Nealon*
M S Robinson
P M Smith*
J Dawson

** Non Executive Director*

SECRETARY P J Veale

REGISTERED OFFICE 33 Old Broad Street
London
EC2N 1HZ

PRINCIPAL PLACES OF BUSINESS	<u>Bristol Head Office</u>	<u>Clevedon Head Office</u>	<u>Aylesbury Office</u>
	Narrow Plain Bristol BS2 0JH	Tickenham Road Clevedon BS21 6BD	Walton Street Aylesbury P21 7QW

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 Financial Statements for the year ended 31 December 2005.

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 deposits and net premiums written during the year totalled £1,354.9 million, which compares with £1,299.2 million for the year ended 31 December 2004.

RESULT AND DIVIDEND

The Company has adopted International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board for these financial statements. Further information on the adoption may be found in Note 3 to the Financial Statements.

The Company loss for the year, before taxation, reported in the Income Statement, amounted to £356.1 million (2004 £74.4 million profit), and the loss after tax to £335.9 million (2004 £46.4 million profit).

No interim dividend was paid during the year (2004 nil) and the Directors recommend that no final dividend be paid (2004 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.

On 25 November 2005 the High Court made an order sanctioning a scheme to transfer insurance business under Part VII of the Financial Services and Markets Act 2000. The transfer will take place at 11.59 pm on 26 May 2006 ("the Effective Time") and transfer part of the life and annuity business of Halifax Life Limited, a subsidiary undertaking, (together with all liabilities relating to that business and admissible assets to match the liabilities of that business) to St Andrews Life Assurance plc (also a subsidiary undertaking), with an approximate value of £6.4 billion. At the same time ordinary shares with a total value of £255 million will be issued by St Andrews Life Assurance plc to the Company.

ULTIMATE HOLDING COMPANY

HBOS plc is the ultimate parent undertaking.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

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.

HBOS plc had trade creditors outstanding at 31 December 2005 representing 13 days of purchases.

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.

Further information regarding corporate governance and risk management, including details of the risk management policies for financial instruments, is contained in Note 34.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year were as follows:

K W Abercromby*	<i>resigned 17 October 2005</i>
W A Beadle	<i>appointed 27 October 2005</i>
R A Devey	<i>appointed 18 October 2005</i>
M Christophers	<i>appointed 6 October 2005</i>
J S Edwards*	
D G R Ferguson*	
J P Hiew	<i>resigned 28 September 2005</i>
P Hodgkinson	<i>resigned 28 July 2005</i>
T A Leonard	<i>appointed 25 November 2005</i>
J N Maclean	<i>resigned 24 March 2005</i>
P McNamara	<i>appointed 30 November 2005</i>
M R N Moore*	
R J H Milne	
K A Nealon*	<i>appointed 24 March 2005</i>
M S Robinson	
P M Smith	<i>appointed 14 October 2005</i>
J Spellman*	<i>appointed 10 November 2005</i>
J Dawson	<i>appointed 1 March 2006</i>

* Member of the Long Term Business Governance Committee

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

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:-

	At 31.12.04 or date of appointment if later HBOS plc shares	At 31.12.05 HBOS plc shares
W A Beadle	26,479	26,479
M Christophers	722	722
J S Edwards	7,665	955
D G R Ferguson	7,981	8,444
R A Devey	4,568	14,360
T A Leonard	14,018	12,045
P McNamara	-	-
R J H Milne	4,237	13,563
M R N Moore	-	-
K A Nealon	-	-
M S Robinson	20,199	885
P M Smith	-	-
J Spellman	19,389	9,327

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 31.12.05
W A Beadle	March 2003	4,377
	March 2004	2,917
	March 2005	4,976
M Christophers	-	-
J S Edwards	-	-
D G R Ferguson	-	-
R A Devey	March 2003	1,026
	March 2004	1,243
	March 2005	4,085
T A Leonard	March 2003	884
	March 2004	701
	March 2005	1,050
P McNamara	-	-
R J H Milne	March 2003	701
	March 2004	1,127
	March 2005	1,985
M R N Moore	-	-
K A Nealon	-	-
M S Robinson	-	-
P M Smith	-	-
J Spellman	March 2003	497
	March 2004	2,216
	March 2005	1,784

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

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 2005.

	Grant Effective from	At 31.12.04 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 31.12.05
W A Beadle	Jan 2002	16,666	-	19,177	2,511	38,354	-
	Jan 2003	20,833	-	-	-	-	20,833
	Jan 2004	19,339	-	-	-	-	19,339
	Jan 2005	-	17,301 (G)	-	-	-	17,301
M Christophers	-	-	-	-	-	-	-
J S Edwards	Jan 2002	19,166	-	22,054	2,888	44,108	-
	Jan 2003	25,000	-	-	-	-	25,000
	Jan 2004	24,174	-	-	-	-	24,174
	Jan 2005	-	23,809 (G)	-	-	-	23,809
D G R Ferguson	-	-	-	-	-	-	-
R A Devey	Jan 2002	3,732	-	4,294	562	8,588	-
	Jan 2003	7,291	-	-	-	-	7,291
	Jan 2004	6,694	-	-	-	-	6,694
	Jan 2005	-	11,540 (G)	-	-	-	11,540
T A Leonard	Jan 2002	3,750	-	4,315	565	8,630	-
	Jan 2003	4,791	-	-	-	-	4,791
	Jan 2004	4,509	-	-	-	-	4,509
	Jan 2005	-	4,007 (G)	-	-	-	4,007
P McNamara	-	-	-	-	-	-	-
R J H Milne	Jan 2002	4,484	-	5,159	675	10,318	-
	Jan 2003	5,989	-	-	-	-	5,989
	Jan 2004	5,811	-	-	-	-	5,811
	Jan 2005	-	5,555 (G)	-	-	-	5,555
M R N Moore	-	-	-	-	-	-	-
K A Nealon	-	-	-	-	-	-	-
M S Robinson	Jan 2002	5,416	-	6,232	816	12,464	-
	Jan 2003	7,812	-	-	-	-	7,812
	Jan 2004	8,135	-	-	-	-	8,135
	Jan 2005	-	7,013 (G)	-	-	-	7,013
P M Smith	-	-	-	-	-	-	-
J Spellman	Jan 2004	6,043	-	-	-	-	6,043
	Jan 2005	-	9,582 (G)	-	-	-	9,582

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 2001 grant ended on 31 December 2004 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 13% of the original conditional grant were also released to participants in accordance with the rules of the plan.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

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 31.12.04 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.05
W A Beadle	-	-	-
M Christophers	-	-	-
J S Edwards	-	-	-
D G R Ferguson	-	-	-
R A Devey	-	-	-
T A Leonard	-	-	-
P McNamara	-	-	-
R J H Milne	2,922	-	2,922
M R N Moore	-	-	-
K A Nealon	-	-	-
M S Robinson	-	-	-
P M Smith	-	-	-
J Spellman	-	-	-

Sharesave Plan

Share options granted under these plans are set out below.

	Options outstanding at 31.12.04 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.05
W A Beadle	4,115	-	4,115
M Christophers	-	-	-
J S Edwards	2,922	-	2,922
D G R Ferguson	-	-	-
R A Devey	2,970	-	2,970
T A Leonard	1,607	-	1,607
P McNamara	-	-	-
R J H Milne	1,723	1,723 (E) 1,352 (G)	1,352
M R N Moore	-	-	-
K A Nealon	-	-	-
M S Robinson	-	-	-
P M Smith	-	-	-
J Spellman	1,740	-	1,740

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

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

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 2005 were as follows:

	At 31 December 2004	Grant (G), lapsed (L) or exercised (E)	At 31 December 2005
W A Beadle	-	-	-
M Christophers	-	-	-
J S Edwards	-	-	-
D G R Ferguson	-	-	-
R A Devey	8,323	-	8,323
T A Leonard	5,209	2,722 (G)	7,931
P McNamara	-	-	-
R J H Milne	9,889	2,865 (E)	7,024
M R N Moore	-	-	-
K A Nealon	-	-	-
M S Robinson	12,960	-	12,960
P M Smith	-	-	-
J Spellman	9,257	-	9,257

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

26 April 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position and performance of the Company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and prevent and detect fraud and other irregularities.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

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

We have audited the financial statements of Clerical Medical Investment Group Limited for the year ended 31 December 2005, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors' Responsibilities set out on page 10, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

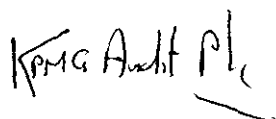
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2005 and of the its loss 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

26 April 2006

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £m	2004 £m
TOTAL REVENUE		3,048.0	3,042.9
Net insurance revenue	4	195.9	1,299.2
Gross earned premiums on insurance contracts		426.8	3,228.4
Less reinsurers' share of gross earned premiums on insurance contracts		(230.9)	(1,929.2)
Other revenue		2,852.1	1,743.7
Investment income	5	920.4	901.5
Net realised gains recorded in the income statement		274.3	159.9
Net fair value gains recorded in the income statement	6	1,657.4	682.3
TOTAL EXPENSES		(3,404.1)	(2,968.5)
Net insurance claims and benefits	7	(65.3)	(2,181.2)
Gross insurance contracts claims and benefits paid		(945.0)	(2,297.5)
Less reinsurers' share of gross insurance contracts		171.4	405.3
Gross change in insurance contracts		902.3	(1,714.8)
Less reinsurers' share of gross change in insurance contracts		(194.0)	1,425.8
Other expenses		(3,338.8)	(787.3)
Change in unallocated surplus		(610.2)	(332.6)
Net change in investment contracts		(2,023.2)	-
Finance costs	8	(59.8)	(32.6)
Fee and commission expenses		(272.4)	(152.1)
Other operating and administration expenses	9	(373.2)	(270.0)
(Loss)/ Profit before taxation		(356.1)	74.4
Total income tax credit / (expense)	10	20.2	(28.0)
Taxation attributable to policyholder returns		(105.3)	(36.5)
Taxation attributable to shareholders		125.5	8.5
(Loss)/ Profit after taxation		(335.9)	46.4

The accounting policies and notes set out on pages 16 to 56 are an integral part of the primary financial statements.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 £m	2004 £m
ASSETS			
Intangible assets	11	442.6	664.0
Property and equipment	12	148.1	197.9
Investment properties	13	2,568.8	2,468.3
Deferred costs	14	231.2	168.0
Investment in Group undertakings and participating interests	15	7,745.5	8,013.3
Assets held for sale		26.1	-
Reinsurance assets	16	9,043.5	7,075.4
Prepayments and accrued income	17	32.1	32.3
Current tax receivable	26	155.6	20.5
Financial assets			
Derivative assets	18	119.8	33.8
Financial assets at fair value through income statement	19		
Equity investments		5,145.3	3,859.9
Debt investments		7,412.2	7,541.7
Insurance receivables	20	35.2	103.7
Other receivables	20	1,188.2	957.2
Cash and cash equivalents	21	122.7	604.4
Total assets		34,416.9	31,740.4
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance contracts liabilities	22, 25	(9,042.1)	(26,894.1)
Unallocated surplus	23	(994.4)	(384.2)
Current tax payable	26	(9.0)	(29.4)
Deferred tax liability	26	(591.0)	(488.6)
Financial liabilities			
Derivative liabilities	18	-	(223.7)
Investment contracts liabilities	24, 25	(20,280.4)	-
Borrowings	27	-	(7.1)
Other insurance financial liabilities	28	(97.0)	(79.5)
Accruals and deferred income	29	(11.0)	(2.5)
Other liabilities	30	(541.2)	(1,055.0)
Subordinated liabilities	31	(977.2)	(479.1)
Total liabilities		(32,543.3)	(29,643.2)
CAPITAL & RESERVES ATTRIBUTABLE TO COMPANY'S EQUITY HOLDERS			
Issued share capital	32	(1,629.0)	(1,629.0)
Share premium account	32	(1.0)	(1.0)
Other reserves	32	(611.7)	(611.7)
Retained earnings		368.1	144.5
Total equity		(1,873.6)	(2,097.2)
Total liabilities and equity		(34,416.9)	(31,740.4)

The accounting policies and notes set out on pages 16 to 56 are an integral part of the primary financial statements.

These accounts were approved and authorised for issue by the Board of Directors on 26 April 2006 and were signed on its behalf by:


W A BEADLE
DIRECTOR


T A LEONARD
DIRECTOR

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Issued Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance as at 1 January 2004	1,629.0	1.0	611.7	177.0	2,418.7
Effect of accounting differences on translation to IFRS	-	-	-	(367.9)	(367.9)
Restated balance as at 1 January 2004	1,629.0	1.0	611.7	(190.9)	2,050.8
Net profit for the year	-	-	-	46.4	46.4
Balance as at 31 December 2004	1,629.0	1.0	611.7	(144.5)	2,097.2
Effect of accounting differences on the adoption of IAS 32, IAS 39 and IFRS 4	-	-	-	112.3	112.3
Restated balance as at 1 January 2005	1,629.0	1.0	611.7	(32.2)	2,209.5
Net loss for the year	-	-	-	(335.9)	(335.9)
Balance as at 31 December 2005	1,629.0	1.0	611.7	(368.1)	1,873.6

The accounting policies and notes set out on pages 16 to 56 are an integral part of the primary financial statements.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £m	2004 £m
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(356.1)	74.4
Depreciation and amortisation		245.1	74.5
Movement in deferred costs		56.1	(14.5)
Movement in deferred income		0.9	-
(Increase) / decrease in insurance contract liabilities		(5,652.3)	1,687.0
Increase in unallocated surplus		627.4	332.6
Increase in investments contract liabilities		7,976.9	-
Increase in reinsurance assets		(1,968.1)	(1,425.8)
Increase in investment property		(100.5)	(184.1)
Increase in equity investments		(1,305.6)	(701.8)
(Decrease) / increase in debt investments		129.5	(111.8)
(Increase) / decrease in derivative investments		(86.9)	190.9
Net decrease / (increase) in other operating assets and liabilities		184.4	(40.0)
Interest paid		-	(0.1)
Taxation paid		(75.5)	(17.4)
Net cash outflow from operating activities		(324.7)	(136.1)
CASH FLOW FROM INVESTING ACTIVITIES			
Loans made to subsidiary undertakings		(100.0)	-
Net cash outflows from investing activities		(100.0)	-
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of contingent loan		(548.0)	-
Proceeds from borrowings		498.1	-
Net cash outflows from financing activities		(49.9)	-
Net decrease in cash and cash equivalents		(474.6)	(136.1)
Cash and cash equivalents at the beginning of the year		597.3	733.4
Cash and cash equivalents at 31 December	21	122.7	597.3

The accounting policies and notes set out on pages 16 to 56 are an integral part of the primary financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. Accounting policies

1.1 Company and its operations

Clerical Medical Investment Group Limited ("the Company") is a limited liability company incorporated in the United Kingdom. The principal activity of the Company is the undertaking of ordinary long term insurance business in the UK and overseas. The Company offers a wide range of life insurance products such as annuities, pensions, whole life, term life and investment type products.

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the directors on 26 April 2006.

1.2 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the International Accounting Standards Board ("IASB"), those parts of the Companies Act 1985 applicable to companies reporting under IFRS and under the historical cost convention model, as modified by the revaluation of investment properties, owner occupied property, investment securities and derivative assets and liabilities. In accordance with IFRS 4 "Insurance contracts", the Company has applied UK GAAP (including, in particular, the requirements of FRS 27) for its long term insurance contracts. The financial statements are also prepared on a going concern basis.

IFRS 7 "Financial instruments: Disclosure" applicable for years commencing on or after 1 January 2007 has not been applied. The application of IFRS 7 in 2005 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure.

1.3 Use of estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reported amounts of assets and liabilities, contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although, the estimates are based on management's best knowledge and judgement of current facts as at the balance sheet date, the actual outcome may differ from these estimates, possibly significantly.

1.4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance and investment liabilities, deferred acquisition costs and the ascertainment of fair values of reinsurance assets, financial assets, liabilities, derivative financial instruments and of investment properties and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgments based on information and financial data that may change in future periods.

Since these involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results.

The significant accounting policies adopted in the preparation of the financial statements are set out below:

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1.4 Summary of significant accounting policies (continued)

(a) Product classification

The Company has classified its Long Term Assurance business in accordance with IFRS 4 "Insurance Contracts" as follows:

- Insurance contracts – all contracts containing significant insurance risk;
- Investment contracts with discretionary participating features ("DPF") – contracts that do not contain significant insurance risk but contain discretionary participating features which are with-profits contracts;
- Investment contracts – contracts that have neither significant insurance risk nor a discretionary participating feature.

Insurance contracts and investment contracts with discretionary participating features

Liabilities on insurance contracts and investment contracts with DPF relating to both traditional and unitised with-profit contracts are calculated with reference to the expected pay out using realistic and where applicable market consistent assumptions in accordance with FRS27. In the case of the former, premiums are recognised as revenue when due from policyholders and claims payable recorded as claims when notified. In the case of the latter, deposits and withdrawals are accounted for directly in the balance sheet as adjustments to the investment contract liability.

Insurance contract liabilities for contracts without DPF are calculated in accordance with the Integrated Prudential Sourcebook ("PRU") issued by the Financial Services Authority. These are adjusted to remove the closure provisions and certain other reserves required under PRU rules. Premiums are recognised as revenue when due from policyholders. Claims are recognised when notified or due.

The accounting policies set out above in respect of the measurement of the policyholder liabilities include liability adequacy testing that meet or exceed the requirements of IFRS 4. This testing considers estimates of all contractual cash flows, related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.

Investment contracts

The Company's investment contracts are purely unit-linked. The liability is measured at fair value, which is estimated using a valuation technique. In accordance with this technique the liability is established as the bid value of assets held to match the liability, less an allowance in relation to deductions made to the liability for capital gains tax on unrealised chargeable gains relating to matching assets.

Deposits and withdrawals are accounted for as adjustments to the investment contract liability.

(b) Revenue recognition

Premium income

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 they are 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.

Investment income

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend. Other investment income, including interest income from fixed interest investments and 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. Rental income from investment properties are also recognised in investment income, it is recognised in the period it is due.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1.4 Summary of significant accounting policies (continued)

Realised gains and losses

Realised gains and losses on the sale of property and equipment is the difference between net sales proceeds and the net realisable value. Realised gains and losses are recognised in the income statement when the sale transaction occurs.

Fee and commission income

Revenue arising from services rendered is recognised in the accounting period in which the services are rendered. Fees received for services to be provided in future periods are deferred and recognised in the income statement as the service is provided over the term of the contract. Initiation and other front end fees are also deferred and recognised over the term of the contract. Regular fees charged at the end of the period in which the related service is performed, are accrued as a receivable.

(c) Expense recognition

Claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Interest paid

Interest paid is recorded in the period in which it is incurred.

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.

Pension Costs

The Company has no direct employees. Employees of HBOS Financial Services Limited provide services to the Company for which a recharge is made. This recharge includes pension costs borne by HBOS Financial Services Limited.

Employees who joined the HBOS plc group before 1 January 2001 are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, HBOS plc.

Employees who joined the HBOS plc group on or after 1 January 2001 are members of a defined contribution pension scheme.

The expense recognised in the income statement for both plans represents the amounts recharged to the Company for the contributions paid during the year.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1.4 Summary of significant accounting policies (continued)

(d) Intangible assets

Costs associated with the development of software for internal use, are capitalised only if the software is considered to be at the required standard technically for sale or use on completion and the Company has both the intent and sufficient resources to complete the development. Additional costs are capitalised only if the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset. The cost is amortised over the expected useful life of the intangible asset on a straight line basis. The useful life is set at 5 years, which is reassessed annually.

Investment contracts acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. Purchased Value of In-Force investment contracts ("PVIF") is amortised over the estimated life of the contract using a systematic basis as the margins emerge.

An impairment review is performed at each reporting date where there is any indication of impairment and the carrying value of intangible assets is written down to the recoverable amount.

(e) Property and equipment

All equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight line basis over the estimated useful lives of the individual significant components of equipment until the assets are written down to nil. The useful lives are generally estimated as being between two and five years.

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.

(f) Investment property

Property held for long term rental yields and for capital appreciation, is classified as investment property. Investment properties are initially measured at cost. Subsequently, at each balance sheet date such properties are carried at fair value. 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.

Investment properties are derecognised when either their use changes or they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

If an item of property and equipment becomes an investment property because its use has changed, any difference arising between the net book value and the fair value of the item at the date of transfer is recognised as a fair value gain in the income statement and is subsequently treated under the normal policies for investment properties.

(g) Deferred costs

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing of existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs ("DAC") are capitalised and are amortised over the life of the contract. All other costs are recognised as an expense when incurred. Commission and other acquisition costs in relation to securing investment contracts are likewise capitalised as deferred origination costs ("DOC") and amortised as the related revenue is recognised.

An impairment review is performed by category of business at each reporting date where there is any indication of impairment and the carrying value is written down to the recoverable amount.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1.4 Summary of significant accounting policies (continued)

(h) Reinsurance contracts

Only contracts that give rise 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. Substantially all the reinsurance is with Group undertakings.

(i) Fair values of financial assets and liabilities

Fair value determinations for financial assets and financial liabilities are based on, if readily available; either bid market prices at the close of business on the balance sheet date for listed instruments, or broker or dealer price quotations, or by reference to current market values of another instrument which is substantially the same. If prices are not readily available, the fair value is based on either internal valuation models or management's estimate of amounts that could be realised under current market conditions, assuming an orderly liquidation over a reasonable period of time. Certain financial instruments, including financial derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and / or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

(j) Derivative financial instruments

Derivative financial instruments are stated at fair value. The Company does not separate embedded derivatives that meet the definition of an insurance contract. All other derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Changes in the fair value are recognised immediately in the income statement. Fair values are obtained from quoted prices prevailing in active markets. For those transactions where there are no readily available quoted prices, which predominantly relate to over the counter transactions, market values are determined by reference to valuation models, including discounted cash flow and options pricing models as appropriate.

(k) Financial assets

All financial assets are initially recognised at cost, being the fair value at the date of acquisition. Subsequently all financial assets are valued at fair value through the income statement. A financial asset is derecognised when the contractual right to receive cash flows expires or when the asset is transferred.

All regular way purchases of financial assets are recognised on the trade date i.e. the date the Company commits to purchase the asset. All regular way sales of financial assets are recognised on the settlement date i.e. the date the asset is delivered to the counterparty. Regular ways of purchase or sale are purchase or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through the income statement have two sub categories; financial assets held for trading and those designated at fair value through the income statement at inception.

The carrying values of all financial assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1.4 Summary of significant accounting policies (continued)

(l) Insurance receivables

Insurance receivables are recognised when due and measured at fair value.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less at the date of placement, free of any encumbrances.

(n) Long term assurance business assets

Assets held and managed in support of the long term assurance liabilities are designated at fair value through the income statement.

(o) Unallocated surplus

The unallocated surplus is accounted for as permitted by IFRS 4. The carrying value of the unallocated surplus is determined as the residual assets of the with-profit fund after providing for traditional and unitised with-profit liabilities in accordance with the policies described above.

(p) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that income taxes relating to items recognised directly in equity are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, together with adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences, carry forward of unused tax assets and unused tax losses, can be utilised. The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

The income tax charge is analysed between tax on equity holders' returns and the balance which represents the tax in respect of policyholders' returns. The income tax charge in respect of policyholders' returns / equity holders' returns reflects the movement in current and deferred income taxes recognised in respect of those items of income, gains and expenses which relate to the benefits of policyholders / equity holders respectively.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

1.4 Summary of significant accounting policies (continued)

(q) Borrowings

All borrowings and loans taken up are initially recognised at cost, being the fair value of the consideration received, net of issue costs associated with such borrowings or loans.

After initial recognition, interest bearing borrowings and loans are subsequently measured at amortised cost, using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(r) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of a past event, which is probable and will result in an outflow of resources, and which can be measured reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessment for the time value of money and, where appropriate, the risks specific to the liability.

The Company recognises provisions for onerous contracts when the expected benefits to be derived from the contracts are less than the unavoidable costs of meeting the obligations under the contracts.

(s) Group undertakings

Investments in Group undertakings are valued at cost.

Where the Company owns a majority holding in a Collective Investment Scheme, held in support of the long term assurance liabilities, the holding has been classified as a group undertaking and fair valued at the balance sheet date with all gains and losses being accounted for through the income statement.

As the Company is a wholly owned subsidiary undertaking of a company registered in England and Wales, group financial statements are not prepared.

(t) Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(u) Current, non current disclosure

For each asset and liability line item that combines amounts expected to be recovered or settled within twelve months after the balance sheet date, those items will be classified as current at the balance sheet date. Amounts expected to be recovered or settled greater than twelve months after the balance sheet date are classified as non current.

(v) Foreign currency

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 income statement.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2. Use of estimates, assumptions and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims.

For life insurance contracts, estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Company's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemic, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure. All of these result in even more uncertainty in estimating the ultimate liability.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability.

(b) Investment contracts fair value

The Company issues investment contracts that are designated at fair value through the income statement. For the financial instruments that are not quoted in active markets, their fair values are determined by using valuation techniques. Such techniques (which are internally generated valuation models), are validated and periodically reviewed by an independently qualified person. A variety of factors are considered in these valuation techniques, including time value of money, credit risk and volatility factors. Changes in assumptions about these factors could have a material impact on the reported fair values of these financial instruments.

(c) Fair value of financial assets at fair value through the income statement

The fair value of quoted investments is their quoted bid prices at the balance sheet date. If the market for a financial asset is not active, the Company establishes fair values by using valuation techniques. These include the use of recent arm's length market transactions, references to another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

3. First time adoption of International Financial Reporting Standards ("IFRS")

(a) Statement of compliance

The Company has adopted International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"), for these financial statements for the year ended 31 December 2005, with the exception of the following standards applicable to comparative information: IAS 32 "Financial Instruments: Disclosure and Presentation", IAS39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance contracts". These Standards did not take effect until 1 January 2005 and statutory comparatives prepared for the 2004 financial year are not required to be and have not been, restated accordingly. The 2004 comparatives which would otherwise fall within the scope of these Standards therefore remain under UK GAAP in accordance with the accounting policies set out below. The Standards adopted by the Company are those endorsed by the European Union ("EU") at the date the IFRS financial statements were approved by the Board.

(b) The following courses of action have been taken under IFRS 1, upon adoption of IFRS

Fair value or revaluation as deemed cost

The Company has elected to use UK GAAP revaluation of owner occupied property, at the date of transition to IFRS, as the deemed cost at the date of the revaluation, due to the reason that the revaluation was performed on the date of transition to IFRS and the revaluation was broadly comparable to the fair value.

Designation of financial assets and financial liabilities

The Company has elected that the requirements of IAS 39: Financial instruments: Recognition and measurement, with respect to designation on initial recognition as financial assets or financial liabilities at fair value through income statement shall be applied prospectively from the date of adoption of IAS 39.

For further details see Note 3 (c) and (d) below.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

3. First time adoption of IFRS (continued)

(c)(i) The table below discloses the effect of adopting IFRS on the balance sheet, including equity, that has previously been reported under UK GAAP, for the year ended 31 December 2004, but it excludes the application of IAS 32, IAS 39 and IFRS 4. A detailed explanation of adjustments follows at the end of the restatement analysis.

	Note	UK GAAP £m	Adjustments £m	IFRS (ex. IAS 39, IAS 32 and IFRS 4) £m
ASSETS				
Intangible assets	11	344.5	319.5	664.0
Property and equipment	12	84.5	113.4	197.9
Investment properties	13	2,616.3	(148.0)	2,468.3
Deferred costs	14	168.0	-	168.0
Investment in Group undertakings	15	1,672.7	6,340.6	8,013.3
Reinsurance assets	16	7,075.4	-	7,075.4
Prepayments and accrued income	17	32.3	-	32.3
Current tax receivable	26	20.5	-	20.5
Financial assets				
Derivative assets	18	33.8	-	33.8
Financial assets at fair value through income statement	19			
Equity investments		10,969.3	(7,109.4)	3,859.9
Debt investments		7,541.7	-	7,541.7
Insurance receivables	20	103.7	-	103.7
Other receivables	20	957.2	-	957.2
Cash and cash equivalents	21	604.4	-	604.4
Total assets		32,224.3	(483.9)	31,740.4
LIABILITIES AND EQUITY				
LIABILITIES				
Insurance contracts liabilities	22	(26,887.9)	(6.2)	(26,894.1)
Unallocated surplus	23	(497.6)	113.4	(384.2)
Current tax payable	26	(29.4)	-	(29.4)
Deferred tax liability	26(b)	(242.0)	(246.6)	(488.6)
Financial liabilities				
Derivative liabilities		(223.7)	-	(223.7)
Investment contracts liabilities	24	-	-	-
Borrowings		(7.1)	-	(7.1)
Other insurance financial liabilities	28	(79.5)	-	(79.5)
Accruals and deferred income	29	(2.5)	-	(2.5)
Other liabilities	30	(1,054.2)	(0.8)	(1,055.0)
Subordinated liabilities	31	(479.1)	-	(479.1)
Total liabilities		(29,503.0)	(140.2)	(29,643.2)
CAPITAL & RESERVES ATTRIBUTABLE TO COMPANY'S EQUITY HOLDERS				
Issued share capital	32	(1,629.0)	-	(1,629.0)
Share premium account		(1.0)	-	(1.0)
Other reserves		(611.7)	-	(611.7)
Retained earnings		(479.6)	624.1	144.5
Total equity		(2,721.3)	624.1	(2,097.2)
Total liabilities and equity		(32,224.3)	483.9	(31,740.4)

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

3. First time adoption of IFRS (continued)

(c)(ii) The table below explains the restatement that will be required to the IFRS restated balance sheet, including equity, at 1 January 2005 to include the impact of IAS 32, IAS 39 and IFRS 4.

	Note	IFRS (ex. IAS 39, IAS 32 and IFRS 4 £m	Adjustments £m	IFRS £m
ASSETS				
Intangible assets	11	664.0	-	664.0
Property and equipment	12	197.9	-	197.9
Investment properties	13	2,468.3	-	2,468.3
Deferred costs	14	168.0	119.3	287.3
Investment in Group undertakings	15	8,013.3	-	8,013.3
Reinsurance assets	16	7,075.4	-	7,075.4
Prepayments and accrued income	17	32.3	-	32.3
Current tax receivable	26	20.5	-	20.5
Financial assets				
Derivative assets	18	33.8	-	33.8
Financial assets at fair value through income statement	19			
Equity investments		3,859.9	(20.2)	3,839.7
Debt investments		7,541.7		7,541.7
Insurance receivables	20	103.7	-	103.7
Other receivables	20	957.2	-	957.2
Cash and cash equivalents	21	604.4	-	604.4
Total assets		31,740.4	99.1	31,839.5
EQUITY AND LIABILITIES				
LIABILITIES				
Insurance contracts liabilities	22	(26,894.1)	12,347.1	(14,547.0)
Unallocated surplus	23	(384.2)	17.2	(367.0)
Current tax payable	26	(29.4)	-	(29.4)
Deferred tax liability	26(b)	(488.6)	(42.6)	(531.2)
Financial liabilities				
Derivative liabilities		(223.7)	-	(223.7)
Investment contracts liabilities	24	-	(12,303.5)	(12,303.5)
Borrowings		(7.1)	-	(7.1)
Other insurance financial liabilities	28	(79.5)	-	(79.5)
Accruals and deferred income	29	(2.5)	(5.2)	(7.7)
Other liabilities	30	(1,055.0)	0.2	(1,054.8)
Subordinated liabilities	31	(479.1)	-	(479.1)
Total liabilities		(29,643.2)	13.2	(29,630.0)
CAPITAL & RESERVES				
ATTRIBUTABLE TO COMPANY'S				
EQUITY HOLDERS				
Issued share capital	32	(1,629.0)	-	(1,629.0)
Share premium account		(1.0)	-	(1.0)
Other reserves		(611.7)	-	(611.7)
Retained earnings		144.5	(112.3)	32.2
Total equity		(2,097.2)	(112.3)	(2,209.5)
Total liabilities and equity		(31,740.4)	(99.1)	(31,839.5)

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

3. First time adoption of IFRS (continued)

(c)(iii) The table below explains the restatement that will be required to the IFRS restated income statement for the year ended 31 December 2004.

	Note	UK GAAP £m	Adjustments £m	IFRS (ex. IAS 39, IAS 32 and IFRS 4) £m
TOTAL REVENUE		3,325.8	(282.9)	3,042.9
Net insurance revenue	4	1,299.2	-	1,299.2
Gross earned premiums on insurance contracts and investment contracts with DPF		3,228.4	-	3,228.4
Less reinsurers' share of gross earned premiums on insurance contracts and investment contracts with DPF		(1,929.2)	-	(1,929.2)
Other revenue		2,026.6	(282.9)	1,743.7
Investment income	5	901.5	-	901.5
Net realised gains recorded in the income statement		159.9	-	159.9
Net fair value gains recorded in the income statement	6	965.2	(282.9)	682.3
TOTAL EXPENSES		(2,961.2)	(7.3)	(2,968.5)
Claims and benefits paid net of recoveries from reinsurers	7	(1,817.3)	(363.9)	(2,181.2)
Gross benefits and claims paid on insurance contracts and investment contracts with DPF		(1,933.6)	(363.9)	(2,297.5)
Less Reinsurers' share of gross benefits and claims paid on insurance contracts and investment contracts with DPF		405.3	-	405.3
Gross change in insurance contracts and investments contracts with DPF liabilities		(1,714.8)	-	(1,714.8)
Less Reinsurers' share of gross change in insurance contracts and investment contracts with DPF liabilities		1,425.8	-	1,425.8
Other expenses		(1,143.9)	356.6	(787.3)
Change in unallocated surplus		(360.4)	27.8	(332.6)
Net change in investment contracts without DPF liabilities		(362.8)	362.8	-
Finance costs	8	(0.1)	(32.5)	(32.6)
Fee and commission expenses		(166.6)	14.5	(152.1)
Other operating and administration expenses		(254.0)	(16.0)	(270.0)
Profit before taxation		364.6	(290.2)	74.4
Total income tax expense	10	(62.0)	34.0	(28.0)
Taxation attributable to policyholder returns		(70.5)	34.0	(36.5)
Taxation attributable to shareholders		8.5	-	8.5
Profit after taxation		302.6	(256.2)	46.4

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

3. First time adoption of IFRS (continued)

- (d) Detailed below are the explanations of the restatement adjustments to the balance sheet, equity and the income statement.

(1) Insurance contracts

Under IFRS 4, those insurance contracts that do not contain significant insurance risk, are reclassified as investment contracts and accounted for as financial instruments under IAS 39. Investment contracts with discretionary participating features will however be accounted for under IFRS 4.

The Company continues to apply the same accounting policies as under local UK GAAP for the recognition and measurement of obligations arising from insurance contracts and investment contracts with DPF that it issues (including related deferred acquisition costs and other related intangible assets for insurance contracts with DPF) and for reinsurance contracts that it holds.

Under IFRS the available amortisation period is longer for deferred costs than for UK GAAP resulting in an increase in assets held.

(2) Investments

From 1 January 2005, financial assets held at fair value through the income statement, and fair values for quoted investments were based on current bid values and no longer current mid values.

Investment in group undertakings are valued at cost, under UK GAAP group undertakings were valued at Directors' valuation.

Where the Company owns a majority holding in a Collective Investment Scheme, held in support of the long term assurance liabilities, the holding has been reclassified as a group undertaking, these are held at fair value.

(3) Investment properties

Investment properties are valued at fair value through the income statement, notional selling costs are no longer deducted from the fair value.

(4) Owner occupied properties

Owner occupied properties recorded which were previously within investment properties have been reclassified under property and equipment. The Company has elected to use the UK GAAP revaluation of owner occupied property, at the date of transition to IFRS, as the deemed cost. Property and equipment are carried at amortised cost, therefore the fair value adjustment recorded under UK GAAP for the year ended 31 December 2004 must be reversed and an amortisation charge has been recognised under IFRS. The first time adoption exception meant that no adjustments were needed on the date of transition.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

4. Net insurance premiums

	2005 £m	2004 £m
Insurance contracts without DPF premium revenue	426.8	3,228.4
Reinsurers' share of life insurance contracts without DPF premium revenue	(230.9)	(1,929.2)
Total net insurance revenue	195.9	1,299.2

As described in Note 3 "First time adoption of IFRS", IAS 32, IAS 39 and IFRS 4 did not take effect until 1 January 2005 and comparatives for the 2004 financial year have not been restated. Premiums for 2004 include premiums received under investment contracts and investment contracts with DPF which are from 1 January 2005 accounted for as deposits within the balance sheet. In 2005 £1,159.0m of premiums have been accounted for as deposits.

5. Investment income

	2005 £m	2004 £m
Financial assets at fair value through income statement		
Interest income	326.0	399.5
Dividend income	378.2	325.1
Cash and cash equivalents interest income	20.1	34.4
Rental income from investment properties	178.0	142.5
Other	18.1	-
Total investment income	920.4	901.5

6. Net fair value gains recorded in the income statement

	2005 £m	2004 £m
Net gain on financial assets at fair value through income statement	1,155.6	765.2
Net gain on investment properties	250.2	107.0
Net gain/(loss) on derivative financial instruments	251.7	(189.9)
Total net fair value gains recorded in the income statement	1,657.4	682.3

7. Net insurance claims and benefits

	2005 £m	2004 £m
Insurance contracts claims and benefits paid	(945.0)	(2,297.5)
Reinsurers' share of insurance contracts claims and benefits paid	171.4	405.3
Total change in insurance contracts liability	(773.6)	(1,892.2)
Total gross change in insurance contracts and investment contracts liabilities	902.3	(1,714.8)
Reinsurers' share of change in life insurance contract liability	(194.0)	1,425.8
Total reinsurers' share of gross change in insurance contracts liabilities	708.3	(289.0)
Total net insurance claims and benefits	(65.3)	(2,181.2)

As described in Note 3 "First time adoption of IFRS", IAS 32, IAS 39 and IFRS 4 did not take effect until 1 January 2005 and comparatives for the 2004 financial year have not been restated. Claims for 2004 include claims paid under investment contracts and investment contracts with DPF which are from 1 January 2005 accounted for as withdrawals within the balance sheet. In 2005 £1,952.3m of claims have been accounted for as deposits.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

8. Finance costs

	2005 £m	2004 £m
Interest expense on bank overdraft	-	0.1
Interest payable on subordinated debt	59.8	32.5
Total finance costs	59.8	32.6

9. Other operating and administration expenses

	2005 £m	2004 £m
Acquisition costs	64.0	90.3
Amortisation of intangible assets	148.5	60.3
Auditors remuneration		
For audit services	0.4	0.4
For non audit services	0.1	0.2
Expenses relating to investment properties generating rental income	17.3	14.8
Expenses relating to investment properties not generating rental income	3.1	2.6
Investment expenses	68.5	57.1
Management fee paid to HBOS plc	71.3	44.3
Total other operating and administration expenses	373.2	270.0

The loss of the Company is stated after charging an amount of £4.3m (2004: £nil) in respect of services received by the Company which have been settled by way of share-based payment arrangements. All staff providing services to the Company are employed by the ultimate parent undertaking, HBOS plc, in whose shares settlement is made. The amount charged is recharged on a proportionate basis from HBOS plc. Details of the share-based payment schemes within the HBOS Group are included on an aggregated basis in the HBOS plc consolidated financial statements.

Costs recharged for staff providing services to the Company include contributions to defined benefit pension schemes. Details of these schemes are included in the financial statements of HBOS Financial Services Limited, the intermediate holding company. Contributions amounted to £8.3m (2004 £4.0m).

10. Tax on loss

(a) Current year tax charge

	2005 £m	2004 £m
Current tax	(80.0)	(25.1)
UK corporation tax (credit)/expense for the period	(22.6)	58.5
UK corporation tax credit in respect of earlier periods	(57.4)	(83.6)
Deferred tax	59.8	53.1
Deferred tax charge for the period	28.8	42.4
Deferred tax charge in respect of earlier periods	31.0	10.7
Total tax (credit)/expense	(20.2)	28.0

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

10. Tax on profit (continued)

(a) Current year tax charge (continued)

	2005 £m	2004 £m
Income tax expense relating to policyholders	105.3	47.9
Income tax credit relating to shareholders	(125.5)	(19.9)
Total income tax (credit)/expense on profit	(20.2)	28.0

(b) Reconciliation of tax on profit

	2005 £m	2004 £m
(Loss)/Profit before taxation	(356.1)	74.4
Tax on (loss)/profit at domestic corporation tax rate of 30%	(106.8)	22.3
Non deductible expenses	1.5	1.6
Effect of tax rates in foreign jurisdictions	(0.6)	(0.7)
Differences in taxable income, deductible expenses due to UK basis of life taxation	(1.2)	(6.5)
Impairment of acquired VIF	(24.7)	-
Prior year movements relating to shareholder tax	6.3	(29.3)
Others	-	(7.3)
Total tax attributable to shareholders	(125.5)	(19.9)
Policyholder tax	105.3	47.9
Total income tax (credit)/expense	(20.2)	28.0

(c) Tax charged to equity

	2005 £m	2004 £m
Current tax	-	-
Deferred tax	(42.6)	-
Total tax charge to equity	(42.6)	-

	2005 £m	2004 £m
Tax charge to equity relating to policyholders	-	-
Tax charge to equity relating to shareholders	(42.6)	-
Total tax charged to equity	(42.6)	-

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

11. Intangible assets

	Software development cost £m	PVIF £m	Total £m
Cost			
At 1 January 2004	1.7	651.4	653.1
Cost capitalised / deferred during the year / additions	33.4	-	33.4
Disposals	(0.1)	-	(0.1)
Impairment adjustments	-	-	-
Reclassification (see Note 12)	44.0	-	44.0
At 31 December 2004	79.0	651.4	730.4
Accumulated amortisation and impairment			
At 1 January 2004	0.3	-	0.3
Change in accounting policy	-	-	-
At 1 January 2004 - restated	0.3	-	0.3
Amortisation	5.8	60.3	66.1
At 31 December 2004	6.1	60.3	66.4
Net book value at 31 December 2004	72.9	591.1	664.0
	Software development cost £m	PVIF £m	Total £m
Cost			
At 1 January 2005	79.0	651.4	730.4
Change in accounting policy	-	-	-
At 1 January 2005 - restated	79.0	651.4	730.4
Disposals	(79.0)	-	(79.0)
At 31 December 2005	-	651.4	651.4
Accumulated amortisation and impairment			
At 1 January 2005	6.1	60.3	66.4
Change in accounting policy	-	-	-
At 1 January 2005 - restated	6.1	60.3	66.4
Amortisation	-	31.2	31.2
Impairment	-	117.3	117.3
Disposals	(6.1)	-	(6.1)
At 31 December 2005	-	208.8	208.8
Net book value at 31 December 2005	-	442.6	442.6

The impairment of PVIF has arisen from the annual reassessment of the carrying value of this asset against its recoverable amount as at 31 December 2005.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

12. Property and equipment

	Property £m	Furniture, fittings and equipment £m	Total £m
Cost			
At 1 January 2004	165.2	92.4	257.6
Additions	21.9	5.3	27.2
Disposals	-	(21.7)	(21.7)
Reclassification (see Note 11)	-	(44.0)	(44.0)
At 31 December 2004	187.1	32.0	219.1
Accumulated depreciation			
At 1 January 2004	0.8	32.2	33.0
Depreciation charge for the year	-	8.3	8.3
Disposals	-	(20.1)	(20.1)
Impairment adjustments	-	-	-
At 31 December 2004	0.8	20.4	21.2
Net book value at 31 December 2004	186.3	11.6	197.9
	Property £m	Furniture, fittings and equipment £m	Total £m
Cost			
At 1 January 2005	187.1	32.0	219.1
Additions	-	-	-
Disposals	(17.1)	(32.0)	(49.1)
Transferred to held for sale	(20.9)	-	(20.9)
At 31 December 2005	149.1	-	149.1
Accumulated depreciation			
At 1 January 2005	0.8	20.4	21.2
Depreciation charge for the year	0.2	-	0.2
Disposals	-	(20.4)	(20.4)
At 31 December 2005	1.0	-	1.0
Net book value at 31 December 2005	148.1	-	148.1

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

13. Investment properties

	2005 £m	2004 £m
Balance at 1 January	2,468.3	2,353.5
Net (disposals)/additions	(149.7)	7.8
Fair Value Adjustments	250.2	107.0
Balance at 31 December	2,568.8	2,468.3

Investment properties are stated at fair values and considered to be realisable with 12 months. Fair value adjustments are recorded in the income statement.

14. Deferred costs

	2005 Deferred acquisition costs £m	2005 Deferred origination costs £m	2005 Total £m	2004 Total £m
At 1 January	168.0	-	168.0	153.5
Change in accounting policy - IFRS4/IAS39	(48.2)	167.5	119.3	-
At 1 January - restated	119.8	167.5	287.3	153.5
Acquisition costs deferred during the year	14.6	57.7	72.3	33.5
Amortisation	(84.5)	(36.3)	(120.8)	(19.0)
Impairment adjustments	(7.6)	-	(7.6)	-
At 31 December	42.3	188.9	231.2	168.0

15. Investment in Group undertakings

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

Group Undertakings	Country of Incorporation or Registration	Type 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
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	96.8
Insight Professional Fund	England and Wales	Open-Ended Investment Company	86.5
Insight Discretionary Fund	England and Wales	Open-Ended Investment Company	84.0
Insight Liquidity Fund	England and Wales	Open-Ended Investment Company	80.9
Insight Fund of Funds	England and Wales	Open-Ended Investment Company	87.2

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

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

15. Investment in Group undertakings (continued)

	Group undertakings			Collective Investment Schemes	
	Ordinary shares	Loans	Total	Total	Total
	£m	£m	£m	£m	£m
Valuation					
31 December 2004	899.3	4.5	903.8	7,109.5	8,013.3
31 December 2005	899.3	-	899.3	6,846.2	7,745.5
Cost					
31 December 2004	899.3	4.5	903.8	7,022.8	7,926.6
31 December 2005	899.3	-	899.3	6,263.2	7,162.5

16. Reinsurance assets

	2005 £m	2004 £m
Reinsurers' share of insurance contracts (note 22)	2,375.3	7,075.4
Reinsurers' share of investment contracts (note 24)	6,668.2	-
Total reinsurance assets	9,043.5	7,075.4
	2005 £m	2004 £m
Current reinsurance assets	9,043.5	7,075.4
Non current reinsurance assets	-	-
Total reinsurance assets	9,043.5	7,075.4

17. Prepayments and accrued income

	2005 £m	2004 £m
Total prepayments	11.8	6.7
Rental prepayments	-	-
Other prepayments	11.8	6.7
Total accrued income	20.3	25.6
Interest	-	0.7
Rent	20.3	24.9
Total prepayments and accrued income	32.1	32.3

The carrying amounts disclosed above reasonably approximate the fair values at year end. It is expected that all prepayments and accrued income will be realised within a year from the balance sheet date.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

18. Derivative financial instruments

The Company's collateralised derivative financial instruments are held for trading. A variety of equity futures are part of the portfolio matching the unit linked investment and insurance liabilities.

The Company has also purchased interest rate swap contracts to match the expected liability duration of fixed and guaranteed insurance and investment contracts, to swap floating rates of the backing assets to the fixed rates required to match the interest cash flows over the mean duration of the related insurance and investment contracts.

The fair values of such arrangements at the year end are as follows:

	2005 £m	2004 £m
Equity / index contracts		
Exchange traded	18.7	-
Interest rate contracts		
OTC swaps	101.1	33.8
Total derivative financial assets	119.8	33.8
Derivative financial instruments liabilities		
Equity / index contracts		
Exchange traded	-	(223.7)
Total net derivative financial instruments	119.8	(189.9)

	Contract amount 2005 £m	Fair value assets 2005 £m	Fair value liabilities 2005 £m
Equity / index contracts			
Exchange traded	67.6	18.7	-
Interest rate contracts			
OTC swaps	90.6	101.1	-
Total derivative financial instruments held for trading	158.2	119.8	-

	2005 £m	2004 £m
Current net derivative financial instruments	119.8	(189.9)
Non current net financial instruments	-	-
	119.8	(189.9)

19. Financial assets

	2005 £m	2004 £m
Financial assets at fair value through income statement		
Equity investments	5,145.3	3,859.9
Debt investments	7,412.2	7,541.7
Total financial assets	12,557.5	11,401.6

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

19. Financial assets (continued)

Financial assets at fair value through income statement

	Fair value through income statement 2005 £m
At fair value	
Equity investments	
Listed	4,992.7
Unlisted	152.6
	5,145.3
Debt investments	
Listed	7,412.2
Unlisted	-
Total financial assets at fair value through income statement at fair value	12,557.5
	o
	Fair value through income statement 2005 £m
At cost	
Equity investments	
Listed	4,873.9
Unlisted	115.7
Debt investments	
Listed	5,549.0
Unlisted	-
Total financial assets at fair value through income statement at cost	10,538.6

The fair value has been determined as follows:

	Fair value through income statement £m
At 1 January 2004	6,316.2
Net additions	4,321.2
Net fair value gains adjustment	764.2
At 31 December 2004	11,401.6
At 1 January 2005	11,401.6
Net additions	0.4
Net fair value gains adjustment	1,155.5
At 31 December 2005	12,557.5

The fair value is based on market prices or broker / dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

20. Insurance and other receivables

Insurance receivables

	2005 £m	2004 £m
Due from policyholders	24.2	25.9
Due from reinsurers	-	-
Due from agents, brokers and intermediaries	11.0	77.8
Total insurance receivables	35.2	103.7

	2005 £m	2004 £m
Current insurance receivables	35.2	103.7
Non current insurance receivables	-	-
	35.2	103.7

Other receivables

	2005 £m	2004 £m
Due from related parties	843.2	774.3
Outstanding interest, dividends and rent	119.2	52.2
Outstanding proceeds from sale of investments	160.3	114.3
Other receivables	65.5	16.4
Total receivables	1,188.2	957.2

	2005 £m	2004 £m
Current other receivables	1,188.2	957.2
Non current other receivables	-	-
	1,188.2	957.2

The carrying amounts disclosed above reasonably approximate fair values at year end.

21. Cash and cash equivalents

	2005 £m	2004 £m
Cash at bank and in hand	27.9	-
Short term deposits	94.8	604.4
Total	122.7	604.4
Bank Overdraft (note 27)	-	(7.1)
Total cash and cash equivalents	122.7	597.3

The effective interest rates on short term bank deposits was 3.25% (2004: 4.40%) and these deposits have an average maturity of 1 day.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

22. Insurance contracts liabilities

		2005 Gross liabilities £m	2005 Reinsurance £m	2005 Net of reinsurance £m
With DPF	(a)	6,256.9	-	6,256.9
Without DPF	(b)	2,785.2	(2,375.3)	409.9
Total insurance contracts liabilities		9,042.1	(2,375.3)	6,666.8

		2005 Gross liabilities £m	2005 Reinsurance £m	2005 Net of reinsurance £m
Current insurance contracts liabilities		208.7	(55.7)	153.0
Non current insurance contracts liabilities		8,833.4	(2,319.6)	6,513.8
		9,042.1	(2,375.3)	6,666.8

(a) Insurance contracts with DPF

	2005 Gross liabilities £m	2005 Reinsurance £m	2005 Net of reinsurance £m
Opening balance	17,059.3	-	17,059.3
Change in accounting policy – IFRS 4 / IAS 39	(9,903.0)	-	(9,903.0)
Opening balance – restated	7,156.3	-	7,156.3
Movement	(889.7)	-	(889.7)
Changes in assumptions	(9.7)	-	(9.7)
Closing balance (net of reinsurance)	6,256.9	-	6,256.9

(b) Insurance contracts without DPF

	2005 Gross liabilities £m	2005 Reinsurance £m	2005 Net of reinsurance £m
Opening balance	9,834.8	(7,075.4)	2,759.4
Change in accounting policy – IFRS 4 / IAS 39	(2,444.1)	2,199.9	(244.2)
Opening balance – restated	7,390.7	(4,875.5)	2,515.2
Movement	(4,625.2)	2,500.2	(2,125.0)
Changes in assumptions	19.7	-	19.7
Closing balance	2,785.2	(2,375.3)	409.9

(c) Summary of (a) and (b)

	2005 Gross liabilities £m	2005 Reinsurance £m	2005 Net of reinsurance £m
Opening balance	26,894.1	(7,075.4)	19,818.7
Change in accounting policy – IFRS 4 / IAS 39	(12,347.1)	2,199.9	(10,147.2)
Opening balance – restated	14,547.0	(4,875.5)	9,671.5
Movement	(5,514.9)	2,500.2	(3,014.7)
Changes in assumptions	10.0	-	10.0
Closing balance	9,042.1	(2,375.3)	6,666.8

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

23. Unallocated surplus

	2005 £m
Opening balance	384.2
Change in accounting policy – IFRS 4 / IAS 39	(17.2)
Opening balance - restated	367.0
Movement	613.6
Changes in assumptions	13.8
Closing balance	994.4

24. Investment contracts liabilities

	2005 Gross liabilities	2005 Reinsurance	2005 Net of reinsurance
	£m	£m	£m
Investment contracts with DPF (a)	10,570.5	-	10,570.5
Investment contracts without DPF (b)	9,709.9	(6,668.2)	3,041.7
Total investment contracts liabilities	20,280.4	(6,668.2)	13,612.2

	2005 Gross liabilities	2005 Reinsurance	2005 Net of reinsurance
	£m	£m	£m
Current investment contracts liabilities	403.0	(133.4)	269.6
Non current investment contracts liabilities	19,877.4	(6,534.8)	13,342.6
	20,280.4	(6,668.2)	13,612.2

(a) Investment contracts with DPF

	2005 Gross liabilities	2005 Reinsurance	2005 Net of reinsurance
	£m	£m	£m
Opening balance	-	-	-
Change in accounting policy – IFRS 4 / IAS 39	9,859.4	-	9,859.4
Opening balance – restated	9,859.4	-	9,859.4
Movement	711.1	-	711.1
Closing balance	10,570.5	-	10,570.5

(b) Investment contracts without DPF

	2005 Gross liabilities	2005 Reinsurance	2005 Net of reinsurance
	£m	£m	£m
Opening balance	-	-	-
Change in accounting policy – IFRS 4 / IAS 39	2,444.1	(2,199.9)	244.2
Opening balance – restated	2,444.1	(2,199.9)	244.2
Movement	7,265.8	(4,468.3)	2,797.5
Closing balance	9,709.9	(6,668.2)	3,041.7

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

25. Insurance and investment contracts liabilities – Terms, assumptions and sensitivities

(a) Long term assurance

The Company principally writes the following contracts which contain insurance risk:

- Life assurance – the policyholder is insured against death or permanent disability usually for pre-determined amounts (principally mortality and disability risk).
- Annuity products – the policy holder is entitled to payments for life and is therefore insured against living longer than expected (principally longevity and market risk).
- Traditional with-profits business – the primary purpose of these products is to provide a long term smoothed investment vehicle to the policyholder, protecting them against short term market fluctuations. The policyholder is also usually insured against death and the policy may carry an annuity option at maturity (principally market risk).
- Unitised business - the primary purpose of these products is to provide an investment vehicle but where the policyholder is also insured against death (principally market risk).

(b) Options and guarantees

The products with the most significant guarantees and options include with-profit bonds, which allow withdrawals to be taken without penalty and bonds encashed at a specific date on guaranteed terms. In addition certain pension contracts contain an option that allows the policyholder to take an annuity benefit at any time between their 60th and 75th birthday at annuity rates that were guaranteed at the outset of the contract.

For contracts where there are guarantees and options the most significant factor determining the cost of the guarantees and options (other than economic conditions in which the option or guarantee has value) is the actual take up rate of options. The most significant factor in determining take up rates is customer behaviour which is influenced by a number of factors, including the value of the contracts, general awareness of financial matters and the quality of advice they obtain. The financial impact is dependent on the value of corresponding investments, interest rates and longevity at the time of the claim.

In order to mitigate the risks of these guarantees the Company makes use of stochastic modelling techniques to determine the possible and most likely ranges of outcomes. Additionally, the Company makes use of matching techniques in order to match part of the expected cashflows arising under contracts with financial instruments.

(i) Assumptions

The key assumptions used in the measurement of liabilities for insurance contracts and investment contracts with DPF are determined by the Board on advice from the Actuarial Function Holder. Material judgement is required in the choice of assumptions relating to insurance contracts and investment contracts with DPF. The assumptions that have the greatest effect on the income statement of the Company are:

Mortality and longevity rates

The process used to determine the Company's mortality and longevity assumptions starts with an internal investigation of the Company's actual mortality experience over the last five years. This investigation is updated regularly. The results of this investigation are considered in the context of a number of factors including the credibility of results (which will be affected by the volume of data available), any exceptional events that have occurred during the period being considered, any known or expected trends in underlying data and relevant published market data.

The rates derived from the Company's experience are adjusted in the light of the factors mentioned above to derive a set of "best estimate" rates. No deliberate margins for prudence are introduced as part of this process. These "best estimate" assumptions will be used in the projections of "best estimate" cashflows. For insurance and investment with DPF contracts within the non profit funds, the liabilities are assessed on a prudent basis and hence the rates used need to include a margin for adverse deviation that will increase liabilities and provide some protection from the risk that actual experience is worse than the "best estimate" assumptions. The intention is that the margin added should be sufficiently prudent that there is no significant foreseeable risk that liabilities to policyholders will not be met as they fall due. Additionally trends in mortality improvement are only anticipated where they will increase the liability, such as for annuities where for males the median cohort mortality projection is used.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

25. Insurance and investment contracts liabilities – Terms, assumptions and sensitivities (continued)

Mortality and longevity rates (continued)

The following assumptions are used:

Portfolio assumptions by type of business impacting net liabilities	Mortality		Valuation rate of interest	
	2005	2004	2005	2004
Non profit Policies				
Pension Annuities				
Males	95% PMA92mc	95% PMA92mc	4.00%	4.75%
Females	80% PFA92 with 75% of mc improvements	80% PFA92	4.00%	4.75%
Term Assurances				
Males	85% AM92 Ult with 1/3 R6A AIDS	85% AM92 Ult with 1/3 R6A AIDS	2.8% - 3.5%	3.2% - 4.0%
Females	100% AF92 Ult with 1/3 R6A AIDS	100% AF92 Ult with 1/3 R6A AIDS	2.8% - 3.5%	3.2% - 4.0%
Conventional With-profit				
Life assurance	75%-85% AM/F92 Ult	85-100% AM/F92	2.70%	3.00%
Pensions	75%-85% AM/F92 Ult	85-100% AM/F92	3.25%	3.75%
Unitised With-profit				
Life assurance	70%-100% AM92(x+2)/AF92(x+3) Ult	70%-100% AM95(x+2)/AF92(x+3)	3.75% Growth Rate	4.25% Growth Rate
Pensions	60%-95% AM/F92 Ult	70%-95% AM/F92 Ult	3.75% Growth Rate	4.25% Growth Rate

For life assurance policies, increased mortality rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for shareholders.

For annuity contracts, lower longevity (or equivalently, increased mortality) would decrease payments thereby reducing expenditure and increasing profits for the shareholders.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

25. Insurance and investment contracts liabilities – Terms, assumptions and sensitivities (continued)

Investment return

Investment Return assumptions based on the long term view of expected returns for each asset class are used to calculate the future projected cashflows relating to insurance and investment contracts with DPF. As a long term view, it necessarily involves the application of judgement. The respective investment returns for each asset class are weighted based on the actual investment portfolio and long term asset allocation strategies as appropriate to produce an investment return assumption for each class of business.

In isolation an increase in the investment return assumption for investment linked policies would lead to increased annual management charges and increased profits for the shareholder. For annuity contracts the assets and liabilities are broadly matched meaning that a change in the long term investment return would have a limited impact on shareholder profits.

Valuation rate of interest

The valuation rate of interest is the rate used to discount the projected cash flows on the contracts in order to determine the value of liabilities as at the date of reporting.

For insurance and investment with DPF contracts in the non profits funds, the liabilities are calculated using a prudent valuation rate of interest determined according to specific rules set out by the Financial Services Authority. These rules specify that the valuation rate of interest should be set by reference to a prudent estimate of the future yield on the assets of the fund with an additional prudent margin being taken to allow for future investment risk. For insurance and investment contracts with DPF in the with-profit funds the liabilities are calculated using a realistic or market consistent valuation rate of interest based on the prevailing economic conditions at the time of the liability assessment without further adjustment.

Generally an increase in the valuation rate of interest would lead to a reduction in shareholder profits.

Expense and expense inflation

Operating expense assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current expenses are analysed having regard to the volume and type of business in-force to derive per policy expense assumptions. These per policy assumptions are assumed to increase over the course of the projections in line with assumed inflation rates. An increase in the level of expenses would reduce profits for the shareholders.

Lapse, paid up and surrender rates (persistency)

A lapse occurs when the termination of a policy results from the non-payment of premiums due under that policy. A surrender occurs when a policyholder decides voluntarily to terminate their policy.

The process used to determine policy lapse and surrender rates is similar to that used to determine mortality and longevity rates. The previous experience of the Company is analysed using statistical techniques. As the experience can vary considerably between different products types and for policies which have been in-force for different periods, the internal analysis breaks the data down into homogeneous groups for the purpose of this analysis. This analysis is updated regularly.

The most recent experience is considered along with the results of previous analyses in order to determine a "best estimate" view of what persistency experience will be in the future. In determining the "best estimate" view a number of factors are considered including the credibility of the results (which will be affected by volume of data available), any exceptional events that have occurred during the period being considered, any known or expected trends in underlying data and relevant published market data.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

25. Insurance and investment contracts liabilities – Terms, assumptions and sensitivities (continued)

(i) Assumptions (continued)

These "best estimate" assumptions will be used in the projection of the "best estimate" cashflows. For insurance and investment with DPF contracts within the non profit fund a "worst case" scenario is assumed. That is, that no lapses occur unless doing so would increase the liabilities thereby ensuring the reserves calculated are sufficiently prudent to allow for reasonably foreseeable experience. For investment with DPF contracts within the with-profit fund, the liabilities are required to be determined using realistic or "best estimate" assumptions.

Lapses and surrenders vary according to both contract type and length of time a contract has been in force. No lapses and surrender rates have been presented because it is impracticable to summarise information in a meaningful way.

The impact of an increase / decrease in lapse and surrender rates on contracts without guarantees and options would most likely result in a decrease / increase in profits as the contract would no longer be / continue to be in force to generate cashflows in the future. However, for certain policies with valuable guarantees and options (principally within the with-profit fund, increased / decreased lapse and surrender rates may be beneficial / detrimental to the Company as the policyholder loses / retains the ability to exercise the potentially valuable guarantee or option when / until their policy terminates.

Discretionary participating bonus rates

The determination of distributions to insurance and investment with DPF contract policyholders is made by the Board based on local regulations and in line with arrangements in individual policy contracts. For contracts with DPF in the with profits fund distributions to policyholders are governed by the principles and practices set out in the fund's Principles and Practices for Financial Management ("PPFM"). No changes were made to the distribution policies for contracts with discretionary participation features during the year under review.

(ii) Sensitivities

In general the liabilities are broadly matched by the backing assets and hence the value of shareholder equity at the valuation date is relatively insensitive to changes in financial conditions and investment markets:

- An increase in interest rates at the valuation date would result in a reduction in shareholder equity due to a fall in the value of fixed interest investments in the shareholder fund and an increase in non-unit reserves on unit-linked insurance contracts.
- A fall in equity and property market values would result in an increase in non-unit reserves on unit-linked insurance business and hence the value of shareholder equity would reduce. Realistic reserves on contracts with DPF would fall.

The value of shareholder equity at the valuation date would also be impacted by changes in future expenses and demographic experience:

- A reduction in future maintenance expenses would increase shareholder equity due to a reduction in non-unit reserves in respect of unit-linked insurance contracts.
- An increase in morbidity and mortality rates would reduce shareholder equity, as there would be an increase in reserves for protection business and an increase in non-unit reserves for insurance contracts
- A reduction in future surrender rates would increase shareholder equity at 31 December 2005, as there is likely to be an increase in the value of DAC. Policy liabilities on contracts without DPF would be unchanged. Realistic reserves on contracts with DPF would be likely to increase (assuming that option take-up rate remains unaltered).

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

26. Tax assets and liabilities

	2005 £m	2004 £m
Tax payable	(9.0)	(29.4)
Tax receivable	155.6	20.5
Total current tax asset/(liability)	146.6	(8.9)
Deferred tax asset	36.8	68.5
Deferred tax liability	(627.8)	(557.1)
Total deferred tax liability	(591.0)	(488.6)

(a) Tax (payable) / receivable

	2005 £m	2004 £m
At 1 January	(8.9)	(51.4)
Amounts charged to the income statement	80.0	25.1
Tax payments made during the year	75.5	17.4
At 31 December	146.6	(8.9)

(b) Deferred assets and tax liability

	At 1 January £m	Charge to income for the year £m	Charge to equity for the year £m	At 31 December £m
Assets				
Expenses deferred for tax purposes	33.3	(7.1)	-	26.2
Tax losses	35.2	(24.6)	-	10.6
Liabilities				
Unrealised gains on investments	(157.5)	(85.8)	-	(243.3)
Accelerated capital allowances	(10.3)	(1.9)	-	(12.2)
Deferred costs	(50.4)	16.9	(35.8)	(69.3)
PVIF	(246.6)	73.1	-	(173.5)
Other insurance related items	(92.3)	(30.4)	(6.8)	(129.5)
	(488.6)	(59.8)	(42.6)	(591.0)

	2005 £m	2004 £m
At 1 January	(488.6)	(435.5)
Amounts (charged) / credited to income statement	(59.8)	(53.1)
Amounts (charged) / credited to equity	(42.6)	-
At 31 December	(591.0)	(488.6)

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

26. Tax assets and liabilities (continued)

(b) Deferred assets and tax liability (continued)

Deferred income tax assets have not been recognised in respect of unrealised capital losses of £3.9m (2004: £2.7m) on the company's Aylesbury offices and in respect of other tax loss carry forwards of £53m (2004: £nil) as there is insufficient certainty as to the availability of future profits. These amounts have no expiry date.

27. Borrowings

	2005 £m	2004 £m
Bank overdraft	-	7.1
Total borrowings	-	7.1

The borrowings as at 31 December 2004 were current and were subject to an average variable interest rate 5.25%.

28. Other insurance financial liabilities

	2005 £m	2004 £m
Insurance business		
Amounts payable on direct insurance business	76.3	63.4
Investment securities and debts		
Outstanding purchases of investment securities	20.7	16.1
Total other insurance financial liabilities	97.0	79.5

The estimated fair values of amounts due are the amounts repayable within the next 12 months and are the amounts as recorded at year end.

29. Accruals and deferred income

	2005 £m	2004 £m
Accruals	4.9	2.5
Deferred income	6.1	-
Total accruals and deferred income	11.0	2.5

	2005 £m	2004 £m
Current accruals and deferred income	4.9	2.5
Non current accruals and deferred income	6.1	-
Total accruals and deferred income	11.0	2.5

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

30. Other liabilities

	2005 £m	2004 £m
Amounts due to related parties	427.2	694.7
Trade payables	-	-
Social security and other taxes	6.2	29.4
Other	107.8	330.9
Total other liabilities	541.2	1,055.0

The estimated fair values of other liabilities are the amounts repayable on demand and are the amounts as recorded at year end.

During 2000 the Company entered into a reinsurance arrangement to assist in the financing of the acquisition costs of new long term business. The deposits are repayable from the establishment charges of specified single premium bond products. The deposits repayable are included in other liabilities and amounted to £3.1m (2004 £25.7m).

31. Subordinated liabilities

In June 2005 Clerical Medical Finance plc, a fellow subsidiary undertaking, issued €750m of 4.25% undated Subordinated Guaranteed Bonds (current sterling value £507.0m). 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 27 June 2015, after which time if the bond has not been redeemed floating rate interest is payable. The effective interest rate of the bond is 4.4%.

In July 2001 Clerical Medical Finance plc, issued €400m of 6.45% dated Subordinated Guaranteed Bonds maturing on 5 July 2023 (current sterling value £272.5m). Redemption of the bonds is at the option of HBOS Financial Services Ltd and is generally not allowable prior to July 2013, after which time if the bond has not been redeemed floating rate interest is payable. The effective interest rate of the bond is 6.6%.

Previously Clerical Medical Finance plc issued £197.7m of 7 3/8% undated Subordinated Guaranteed Bonds the redemption of which is at the option of HBOS Financial Services Ltd and is generally not allowable prior to 5 November 2019. The first tranche of £147.1m was issued in November 1999 and the remainder in December 2000. 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. The effective interest rate of the first tranche is 7.8% and the second is 7.2%.

32. Issued share capital

Ordinary shares	2005 £m	2004 £m
Authorised share capital		
1,709,000,000 ordinary shares of £1 each	1,709.0	1,709.0
Issued share capital		
1,629,000,000 ordinary shares of £1 each	1,629.0	1,629.0

In December 2001 the Company issued 159,000,000 ordinary shares of £1 each at a premium of 0.63 pence, giving rise to a share premium account of £1.0m. All shares issued are fully paid, there are no rights, preferences or restrictions attached to the shares. Other reserves of £611.7m relate to reserves arising on the demutualisation of the Company in 1996.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

33. Loan facility

In January 2003, the Company drew down a contingent loan agreement with HBOS plc, the ultimate parent undertaking, for £500m. Finance was provided for the purpose of maintaining the Required Minimum Margin (Long Term Insurance Capital Component) of the Company. Interest was charged and accrued on the loan at 1% above three month LIBOR. The entire balance (which at 31 December 2004 stood at £532.5m) and all unpaid interest was repaid to HBOS plc in June 2005. The balance in 2004 is included in amounts due to related parties within other liabilities.

In December 2005 the Company provided an upper tier two loan, with a nominal amount of £100m, which was issued to Clerical Medical Managed Funds Limited, a subsidiary undertaking. The loan has no repayment date and interest is charged at 0.25% above base rate. The loan is included on Other receivables within Due from related party.

34. Risk management policies

The Company issues contracts that transfer insurance and financial risk or both. This section summarises these risks and the way the Company manages them.

Balance Sheet relating to insurance and investment business at 31 December 2005	Attributable to the shareholder	Attributable directly to the with profits fund	Attributable to unit linked funds	Total Policyholder Funds *	Total insurance and investment business
	£m	£m	£m	£m	£m
ASSETS					
Intangible assets	442.6	-	-	-	442.6
Property and equipment		148.1	-	148.1	148.1
Investment properties	-	2,200.6	368.2	2,568.8	2,568.8
Deferred costs	231.2	-	-	-	231.2
Investment in Group undertakings and participating interests	1,449.7	5,185.5	1,110.3	6,295.8	7,745.5
Assets held for sale	26.1	-	-	-	26.1
Reinsurance assets	1,645.4	-	7,398.1	7,398.1	9,043.5
Prepayments and accrued income	20.3	11.2	0.6	11.8	32.1
Current tax receivable	155.6	-	-	-	155.6
Financial assets					
Derivative assets	3.9	115.4	0.5	115.9	119.8
Financial assets at fair value through income statement					
Debt investments	1,036.6	4,826.7	1,548.9	6,375.6	7,412.2
Equity investments	-	5,102.3	43.0	5,145.3	5,145.3
Insurance receivables	20.7	3.7	10.8	14.5	35.2
Other receivables	680.8	506.9	0.5	507.4	1,188.2
Cash and cash equivalents	52.8	69.2	0.7	69.9	122.7
Total Assets	5,765.7	18,169.6	10,481.6	28,651.2	34,416.9

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

34. Risk management policies (continued)

Balance Sheet relating to insurance and investment business at 31 December 2005	Attributable to the shareholder	Attributable directly to the with profits fund	Attributable to unit linked funds	Total Policyholder Funds *	Total insurance and investment business
	£m	£m	£m	£m	£m
LIABILITIES					
Insurance contract liabilities	(1,826.7)	(6,256.9)	(958.5)	(7,215.4)	(9,042.1)
Unallocated surplus	-	(994.4)	-	(994.4)	(994.4)
Current tax payable	(9.0)	-	-	-	(9.0)
Deferred tax liability	(360.7)	(230.3)	-	(230.3)	(591.0)
Financial liabilities					
Investment contract liabilities	(238.2)	(10,570.5)	(9,471.7)	(20,042.2)	(20,280.4)
Other insurance financial liabilities	(80.3)	(11.5)	(5.2)	(16.7)	(97.0)
Accruals and deferred income	(11.0)	-	-	-	(11.0)
Other liabilities	(389.0)	(106.0)	(46.2)	(152.2)	(541.2)
Subordinated liabilities	(977.2)	-	-	-	(977.2)
Total Liabilities	(3,892.1)	(18,169.6)	(10,481.6)	(28,651.2)	(32,543.3)
EQUITY					
Issued share capital	(1,629.0)	-	-	-	(1,629.0)
Share premium account	(1.0)	-	-	-	(1.0)
Other reserves	(611.7)	-	-	-	(611.7)
Retained earnings	368.1	-	-	-	368.1
Total equity	(1,873.6)	-	-	-	(1,873.6)
Total liabilities and equity	(5,765.7)	(18,169.6)	(10,481.6)	(28,651.2)	(34,416.9)

* Policyholder funds include the unit linked and with-profit funds where investment risk is for the account of the policyholder and has no direct impact on the shareholder's balance sheet and accordingly have been excluded from the above shareholder analysis.

(a) Unit Linked Funds

For unit linked funds the policyholders carry the investment risk with any changes in the underlying investments being reflected by an equal change in the underlying investment contract liabilities. Accordingly, credit, liquidity, interest and market risks related to the unit linked investments, investment contract liabilities and other related balances are excluded from our assessment of risks and sensitivities impacting on the Company. However, we note that an overall change in the market value of these funds will have an indirect impact on the Company through the collection of annual management and fund related charges. If the market increases these charges increase, if the market falls these charges will fall. These charges typically range between 0.5% and 1.5% per annum.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

34. Risk management policies (continued)

(b) With-Profit Fund

The with-profits fund takes some investment risks with the aim of enhancing policyholder returns but aims to limit that risk to that supportable by the fund's assets. The costs of guarantees are spread across contracts in the fund, but there remains a risk that the shareholder may have to fund in order to meet guarantees on contracts.

For 'unitised' with profit contracts the shareholder receives an annual management charge, typically ranging between 0.5% and 1.5% per annum, so that the risks to the shareholder are similar to unit linked contracts.

For 'traditional' with-profit contracts, which form the minority of the with-profit fund business, the shareholder receives one ninth of bonuses declared to policyholders as long as there is a distributable surplus within the fund.

In other respects, credit, liquidity, interest and market risks have little impact on the shareholders. The impact on profit and equity is via the shareholders' share of bonuses or in extreme scenarios where the fund is unable to meet its capital requirements. Accordingly, the related balances are not considered further in our assessment of financial risks impacting the Company.

The most important measures in controlling the risk within the with-profit fund include the pooling of with-profit risk; having agreed management actions to adjust the level of equity exposure in response to certain investment conditions; by recognising and holding appropriate levels of risk capital; by restricting holdings to assets which meet admissibility criteria; and by using derivative strategies to reduce downside risk. Through these actions, the shareholder is largely protected from an erosion of capital resources within the UK with-profit fund.

The Company has considered the financial risks of the with-profit fund along with the non profit fund and shareholders' assets and liabilities in the tables that follow. All linked and with profit assets are considered to be current.

(c) Non Profit Business

The principal investment risk in the respect of the non profit business is interest rate risk which arises because assets and liabilities may exhibit differing changes in market value as a result of changes in interest rates. These risks are controlled by processes carried out to ensure an appropriate level of matching is maintained in the funds so that changes in fixed interest assets are substantially mitigated by offsetting changes in liabilities as well as through the use of and monitoring against fund mandates.

34.1 Risk Management Framework

34.1 (a) Governance

The Company has established a risk management function with clear terms of reference and with the responsibility for monitoring Companywide policies on insurance and financial risks. The activities of the Company are overseen by the Risk Control Committee and the Long Term Business Governance Committee.

34.1 (b) Capital Management

The Company has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the business is exposed and quantifying their impact on capital. The results of these tests are reported to the Risk and Compliance Committee.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

34. Risk management policies (continued)

34.1 (c) Regulatory

Regulators are interested in protecting the rights of the policyholders and maintaining close attention to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency levels to meet reasonably foreseeable liabilities arising from future adverse events.

The operations of Company are also subject to local regulatory requirements within the jurisdictions where they operate. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies to meet the reasonably foreseeable adverse events as these arise.

34.2 Financial risk

34.2 (a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy. This includes the use of credit ratings from independent rating agencies and where not available, by internal analysis. Additionally, the policy sets out exposure limits for each type of counterparty, product types and business sectors, which at no time during the year were exceeded.

The following table provides information regarding the credit risk exposure of the equity and debt securities within the Company at 31 December 2005 by classifying them according to credit ratings of the counterparties. The credit risk associated with all other assets is not considered significant.

31 December 2005	AAA	AA	A	Other Rated	Not rated	Policyholder	Total
	£m	£m	£m	£m	£m	£m	£m
Financial assets at fair value through income statement							
Equity investments	-	-	-	-	-	5,145.3	5,145.3
Debt investments	946.8	44.8	45.0	-	-	6,375.6	7,412.2
Total	946.8	44.8	45.0	-	-	11,520.9	12,557.5

34.2 (b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; a counterparty failing on repayment of a contractual obligation; an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The Company has determined that liquidity risk does not represent a significant exposure to its long term assurance business. This assessment is based on the fact that the majority of investment and insurance contracts are long term in nature whilst the majority of investments are held in listed, readily realisable debt and equity instruments.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

34. Risk management policies (continued)

34.2 (b) Liquidity risk (continued)

The table below analyses financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates.

31 December 2005	Attributable to the shareholder Up to a year £m	Attributable to the shareholder 1- 5 years £m	Attributable to the shareholder Over 5 years £m	Total attributable to the With Profits fund and Unit Linked fund £m	Total shareholder and Policyholder funds £m
Reinsurance assets	-	-	1,645.4	7,398.1	9,043.5
Prepayments and accrued income	20.3	-	-	11.8	32.1
Investment in Group undertakings and participating interests	1,449.7	-	-	6,295.8	7,745.5
Current tax receivable	155.6	-	-	-	155.6
Deferred tax asset	-	-	-	-	-
Financial assets					
Derivative assets	3.9	-	-	115.9	119.8
Financial assets at fair value through income statement					
Equity investments	-	-	-	5,145.3	5,145.3
Debt investments	546.7	220.8	269.1	6,375.6	7,412.2
Loans and other receivables	-	-	-	-	-
Insurance receivables	20.7	-	-	14.5	35.2
Other receivables	680.8	-	-	507.4	1,188.2
Cash and cash equivalents	52.8	-	-	69.9	122.7
Total	2,930.5	220.8	1,914.5	25,934.3	31,000.1
Insurance contract liabilities	(108.2)	(445.0)	(1,273.6)	(7,215.4)	(9,042.2)
Unallocated surplus	-	-	-	(994.4)	(994.4)
Current tax payable	(9.0)	-	-	-	(9.0)
Deferred tax liability	4.2	(2.1)	(362.8)	(230.3)	(591.0)
Financial liabilities					
Derivative liabilities	-	-	-	-	-
Investment contract liabilities	(1.2)	(9.7)	(227.3)	(20,042.2)	(20,280.4)
Other insurance financial liabilities	(80.3)	-	-	(16.7)	(97.0)
Accruals and deferred income	(11.0)	-	-	-	(11.0)
Other liabilities	(389.0)	-	-	(152.2)	(541.2)
Subordinated liabilities	-	-	(977.2)	-	(977.2)
Total	(594.5)	(456.8)	(2,840.9)	(28,651.2)	(32,543.4)

34.3 Market risk

Market risk is the risk of change in the fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

34. Risk management policies (continued)

34.3 (a) Currency risk

The Company's principal transactions are carried out in Pound Sterling and its exposure to foreign exchange risk arises primarily with respect to the Euro.

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. In addition currency futures are used to further mitigate risk. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

34.3 (b) Interest rate risk

Interest rate risk is the risk that the value / future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and the use of interest rate swaps. The policy also requires it to manage the maturity profile of interest bearing financial assets and interest bearing financial liabilities.

The following table sets out the Company's financial instruments exposed to fixed interest rate risk based on contractual maturities or expected repayment dates.

31 December 2005	Attributable to the shareholder Up to a year £m	Attributable to the shareholder 1 – 5 years £m	Attributable to the shareholder Over 5 years £m	Attributable to the shareholder Non interest bearing items £m	Attributable to the policyholder £m	Total £m
ASSETS						
Intangible assets	-			442.6	-	442.6
Property and equipment	-	-	-	-	148.1	148.1
Investment properties	-	-	-	-	2,568.8	2,568.8
Deferred costs	-	16.1	215.1	-	-	231.2
Investment in Group undertakings and participating interests	-	-	-	1,449.7	6,295.8	7,745.5
Assets held for sale	-	-	-	26.1	-	26.1
Reinsurance assets	-	-	1645.4	-	7,398.1	9,043.5
Prepayments and accrued income	-	-	-	20.3	11.8	32.1
Current tax receivable	155.6	-	-	-	-	155.6
Financial assets						
Derivative assets	3.9	-	-	-	115.9	119.8
Financial assets at fair value through income statement						
Debt investments	546.7	220.8	269.1	-	6,375.6	7,412.2
Equity investments	-	-	-	-	5,145.3	5,145.3
Insurance receivables	-	-	-	20.7	14.5	35.2
Other receivables	-	-	-	680.8	507.4	1,188.2
Cash and cash equivalents	52.8	-	-	-	69.9	122.7
Total Assets	759.0	236.9	2,129.6	2,640.2	28,651.2	34,416.9

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

34. Risk management policies (continued)

31 December 2005	Up to a year	1 – 5 years	Over 5 years	Non interest bearing items	Policyholder	Total
£m	£m	£m	£m	£m	£m	£m
LIABILITIES						
Insurance contract liabilities	-	-	(72.4)	(1,754.3)	(7,215.4)	(9,042.1)
Unallocated surplus	-	-	-	-	(994.4)	(994.4)
Financial liabilities						
Investment contract liabilities	-	-	(11.4)	(226.8)	(20,042.2)	(20,280.4)
Other insurance financial liabilities	-	-	-	(80.3)	(16.7)	(97.0)
Current tax payable	(9.0)	-	-	-	-	(9.0)
Deferred tax liability	-	-	-	(360.7)	(230.3)	(591.0)
Accruals and deferred income	-	-	-	(11.0)	-	(11.0)
Other liabilities	-	-	-	(389.0)	(152.2)	(541.2)
Subordinated liabilities	-	-	(977.2)	-	-	(977.2)
Total Liabilities	(9.0)	-	(1,061.0)	(2,822.1)	(28,651.2)	(32,543.3)

34.4 Price risk

The Company's price risk exposure relates to holding financial assets and liabilities whose values will fluctuate in different ways as a result of changes in market prices other than as a result of interest and foreign exchange fluctuations. This can be due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the Company limits its exposure to any one counterparty as well as the relevant foreign markets (refer to credit and currency exposure disclosures for concentration risks impacting price risks).

For certain long term business classes, the Company aims to hold assets whose values will move in line with the corresponding liabilities so as to limit the overall impact of price risk.

34.5 Long term insurance risk

Insurance risk is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and subsequent development of long term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts. A more diversified portfolio is less sensitive to losses arising due to particular risks in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Company reinsurance policy includes credit risk exposure limits to individual reinsurance groups which are dependent on credit rating and there are defined maximum retention limits for individual lives. In this way concentration of exposure to individual lives and reinsurance groups is controlled.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

35. Contingencies and commitments

There are no contingent liabilities or commitments at the end of year (2004 nil).

36. Related party transactions

The Company is controlled by HBOS plc, a public listed company incorporated in the United Kingdom, whose shares are widely held by the general public.

Relationship	Transactions in the Year		Outstanding Balance at 31 December	
	2005 £m	2004 £m	2005 £m	2004 £m
Parent undertaking				
- Loans granted				
HBOS Financial Services Limited	(103.0)	151.5	93.8	163.7
- Loans payable				
HBOS Financial Services Limited	-	-	(1.7)	(1.7)
Halifax Plc	515.4	28.1	-	(532.5)
- Other payables				
Halifax Plc (recharges)	4.0	23.7	(4.2)	(3.7)
HBOS Financial Services Limited (recharges)	203.6	-	(27.1)	-
Other Group companies				
- Loans payable				
Clerical Medical Finance Plc	(447.3)	32.5	(1,080.1)	(537.6)
- Loans granted				
Clerical Medical Finance Plc	31.6	32.1	78.4	46.8
Clerical Medical International Insurance SA	(42.7)	-	248.0	290.7
Clerical Medical International Group	(1.2)	(0.9)	21.9	19.7
- Other payables				
Bank of Scotland Limited (recharges)	0.6	-	(17.9)	(46.9)
Insight Investment Ltd (investment charges)	18.5	25.1	(7.1)	(4.3)
Halifax Life Limited (reassurance)	(211.5)	138.1	(1.3)	-
Clerical Medical International Group (reassurance)	798.5	431.5	(51.4)	160.7
- Other receivables				
Bank of Scotland Limited (recharges)	(11.4)	-	4.0	-
HECM Limited (recharges)	-	(2.6)	(1.6)	0.9
Subsidiaries				
- Loans granted				
Clerical Medical Managed Funds Ltd	99.7	-	100.3	-
Clerical Medical Properties	0.8	-	-	(0.8)
Lands Improvements	-	-	10.1	-
Clerical Medical Forestry	(0.2)	-	4.7	4.5
- Other receivables				
Clerical Medical Managed Funds Ltd (reassurance)	661.2	895.7	70.0	41.4
CMI Universe Investments (investment charges)	(1.2)	1.3	-	-
Insight Investment Ltd (investment charges)	37.4	37.7	-	-
Total	1,552.8	1,793.8	(561.2)	(399.1)

All the transactions summarised above were entered into on an arm's length basis and settled in cash. The amounts outstanding at the end of the year are included in other receivables / payables and subordinated liabilities as appropriate. The associated repayment terms are set out in note 31 for the loans. All other balances are repayable on demand. No dividends were received from, or paid to, related parties in either 2004 or 2005.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

36. Related party transactions (continued)

Key management personnel and members of their close families have undertaken transactions with the Company and its subsidiary undertakings in the normal course of business details of which are given further below.

The Group's policy in relation to lending to related parties and other product offerings is disclosed in the Group accounts of HBOS plc, the ultimate parent company undertaking of the Company.

	Number of key management personnel	£000
Valuation as at 1 January 2005 or date of appointment, if later	5	1,213.0
Premiums paid/amounts invested during the year	3	166.7
Other movements including investment returns	5	99.0
Balance upon resignation of office	2	1,182.0
Total sum insured/value of investment at 31 December 2005	3	293.1

The emoluments of Directors providing services to the Company are:

	2005 £	2004 £
Total emoluments	312,313	-
Pension contributions and entitlements	99,326	-
Termination benefits	-	-
Share based payments	94,263	-

Retirement benefits are accruing to 6 (2004: 0) directors under a defined benefit scheme.

Highest paid director (included above):	2005 £	2004 £
Emoluments	76,537	-
Pension contributions and entitlements	22,088	-

6 Directors exercised share options during the year and 6 Directors received shares under long-term incentive schemes in respect of their services.

In 2004 no director's emoluments were attributed to this company since it was felt that their time spent on this company was insignificant for disclosure purposes.

Directors sit on several boards and their benefits are allocated to a company depending on the proportion of their time that they spend as a director of that company.

37. Parent undertaking

HBOS Financial Services Limited is the immediate parent undertaking. HBOS plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of the Company. Copies of the HBOS plc accounts in which the Company is consolidated can be obtained from its head office at The Mound, Edinburgh, EH1 1YZ.