

Registered Number 3196171

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 1997**



# **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

## **DIRECTORS' REPORT AND ACCOUNTS**

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**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**  
**DIRECTORS AND COMPANY INFORMATION**

**DIRECTORS**

**CHAIRMAN**

John Wood

**CHIEF EXECUTIVE**

Robert Walther

**OTHER DIRECTORS**

Malcolm Argent

Mike Blackburn (resigned 1 January 1997)

Gillian Camm (appointed 20 January 1998)

Douglas Claisse (resigned 23 April 1997)

James Crosby

John Edwards (appointed 20 January 1998)

Sir John Hoskyns

Michael Moore

Ralph Quartano

Russell Rees

Louis Sherwood

Roland Ward

**SECRETARY**

Susan Fogarty

**PRINCIPAL PLACES OF BUSINESS**

*Principal/Registered Office*

15 St James's Square

London

SW1Y 4LQ

*Bristol Head Office*

Narrow Plain

Bristol

BS2 0JH

*Clevedon Office*

Tickenham Road

Clevedon

BS21 6BD

**APPOINTED ACTUARY**

Adrian Saunders, FIA

**AUDITOR**

KPMG Audit Plc

8 Salisbury Square

London

EC4Y 8BB

## **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

### **DIRECTORS' REPORT**

The Directors present their Report and the audited Accounts for the year ended 31 December 1997.

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company was the transaction of long term insurance business and associated investment activities.

The Company is regulated by the Personal Investment Authority and Investment Management Regulatory Organisation and is a member of the Association of British Insurers.

Following the conversion of Halifax Building Society to a public limited company on 2 June 1997, ultimate ownership of the Company was transferred from Halifax Building Society to Halifax plc.

No significant events affecting the Company have occurred since 31 December 1997.

#### **RESULT AND DIVIDEND**

The result for the period is shown in the profit and loss account on page 10. The Directors do not recommend the payment of a dividend.

#### **FUNDS UNDER MANAGEMENT**

Group funds under management amounted to £18.1 billion at 31 December 1997.

#### **SUPPLIER PAYMENT POLICY**

The Company's policy with regards to the payment of its suppliers is as follows:

- payment terms are agreed at the start of the relationship with the supplier;
- any changes in terms are fully discussed and agreed with the supplier;
- standard payment terms to suppliers of goods and services are thirty days after the invoice date, subject to the quality of goods and services and the accuracy of billing;
- non-standard payment terms apply where an alternative contract or agreement exists, whereby Clerical Medical Investment Group Limited agrees to meet all payments under that arrangement, subject to a satisfactory invoice or statement being received.
- The actual supplier payment period as at 31 December 1997 was 30 days.

#### **EMPLOYEES AND REMUNERATION**

The average number of persons (including Executive Directors) employed by the Company and its subsidiaries in each week of 1997 was 2,160 (1996 nil) and the aggregate remuneration paid to them during the year was £50.4m (1996 £nil).

The Company had no employees until 31 December 1996 when the business of Clerical, Medical and General Life Assurance Society (and its subsidiaries) was transferred to it along with the contracts of employment of employees at that time (2,438 people).

## **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

### **DIRECTORS' REPORT**

continued

#### **EMPLOYMENT OF DISABLED PERSONS**

In line with the Group's Equal Opportunities policy, all requests by disabled persons are given full and fair consideration based on suitability for the job, taking account of the aptitudes and abilities of the applicants. Disabled persons employed by the Group enjoyed the same opportunities as their colleagues in respect of training, career development and general conditions of employment. Every effort is made to continue employment of persons who become disabled whilst employed by the Group and to provide specialised training in appropriate cases.

#### **STAFF INVOLVEMENT**

The Company operates a wide range of formal and informal procedures to ensure the provision of information to all its employees.

News and information relating to all of the Halifax Group is provided through Halifax Television News and the monthly in-house magazine - the Fax. In addition, Clerical Medical news is provided through Clerical Medical Television News and Clerical Medical 'Issues' published periodically on specific topics.

Regular discussion meetings take place including 'Teamtalks'. Teamtalks form the basis of a monthly team briefing process for all levels of staff. They begin with the Chief Executive and are designed to up-date staff on plans and progress. Feedback in the form of comments and questions is actively encouraged.

Day to day information is passed around the Company through a range of different communications, including bulletins, handbooks, computerised guides and on notice boards.

#### **CONSULTATION AND PARTICIPATION**

The Group systematically consults with the Clerical Medical Staff Association on matters affecting staff.

Clerical Medical manages pay within a comprehensive set of guidelines which include reward for performance. Staff are eligible to take part in bonus arrangements which encourage involvement in ensuring the Company's success. All Clerical Medical staff were also invited to take part in the Halifax Sharesave Scheme.

Clerical Medical has introduced a new performance management process which includes regular performance reviews. This process has been designed to support the delivery of business objectives and provides the opportunity for regular personal development planning and review.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### DIRECTORS' REPORT

continued

#### DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year, together with the dates of appointments and resignations, were as follows:

	Date of appointment	Date of resignation
John Wood	1 January 1997	
Robert Walther	1 January 1997	
Malcolm Argent	1 January 1997	
Mike Blackburn		1 January 1997
Douglas Claisse	1 January 1997	23 April 1997
James Crosby		
Sir John Hoskyns	1 January 1997	
Michael Moore	1 January 1997	
Ralph Quartano	1 January 1997	
Russell Rees	1 January 1997	
Louis Sherwood	1 January 1997	
Roland Ward	1 January 1997	

No Director had any beneficial interest in the share capital of the Company or any other Group undertaking other than the ultimate parent company, and no right to subscribe for such interests were granted other than for the ultimate parent company.

The interest of the Directors in the shares of the ultimate parent company, Halifax plc, were as follows:

	Number of shares as at 31 December 1997	Number of shares as at 1 January 1997
Malcolm Argent	1,243	-
James Crosby	400	-
Robert Walther	800	-
John Wood	1,646	-

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## DIRECTORS' REPORT

continued

### DIRECTORS AND DIRECTORS' INTERESTS continued

The following Directors hold options in the shares of Halifax plc under the terms of the Halifax Sharesave Scheme:

	Number of options as at 31 December 1997	Number of options as at 1 January 1997	Price at which option is exercisable	Date from which option is exercisable
James Crosby	2,974	-	£5-80	1 September 2002
Robert Walther	2,974	-	£5-80	1 September 2002
Roland Ward	1,681	-	£5-80	1 September 2000

These options are ordinarily exercisable within six months from the date stated above.

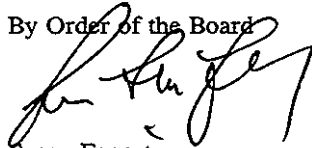
### AUDITOR

KPMG Audit Plc, having consented to act, will continue in office as auditor.

### ANNUAL GENERAL MEETINGS

Pursuant to the Elective Resolution of the Company passed on 4 October 1996, the Company has dispensed with the need to hold Annual General Meetings. Any member of the Company is entitled to require the laying of the accounts before a general meeting on giving due notice to that effect in accordance with Section 253 of the Companies Act 1985.

By Order of the Board



Susan Fogarty  
Secretary

15 St James's Square  
London  
SW1Y 4LQ

17 February 1998

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

**IN RESPECT OF THE ACCOUNTS**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **REPORT OF THE AUDITOR**

### **TO THE MEMBERS OF CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

We have audited the financial statements on pages 9 to 30.

#### **Respective Responsibilities of Directors and Auditor**

As described on page 7 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

#### **Basis of Opinion**

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

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

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

8 Salisbury Square  
London  
EC4Y 8BB

17 February 1998

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**PROFIT AND LOSS ACCOUNT**

*for the year ended 31 December 1997*

**TECHNICAL ACCOUNT - LONG TERM BUSINESS**

		Continuing operations		Continuing operations	
		1997		2 May 1996 to	
	Notes	£m	£m	31 Dec 1996	£m
<i>Earned premiums, net of reinsurance</i>					
- Gross premiums written	2	1,539.4		-	
- Outward reinsurance premiums		(157.4)		-	
- Net of reinsurance			1,382.0		-
<i>Investment income</i>	4		817.5		-
<i>Unrealised gains on investments</i>			934.4		-
<i>Other technical income, net of reinsurance</i>	5		7.4		-
<b>Total Income</b>			<u>3,141.3</u>		<u>-</u>
<i>Claims incurred</i>					
Claims paid					
- Gross amount		968.6		-	
- Reinsurers' share		(0.8)		-	
- Net of reinsurance			967.8		-
Change in provision for claims					
- Gross amount		2.9		-	
- Reinsurers' share		-		-	
- Net of reinsurance			2.9		-
Claims incurred, net of reinsurance	6		<u>970.7</u>		<u>-</u>
<i>Change in other technical provisions, net of reinsurance</i>					
Long term business provision					
- Gross amount		1,364.9		-	
- Reinsurers' share		(85.9)		-	
- Net of reinsurance			1,279.0		-
Provision for linked liabilities, net of reinsurance			63.0		-
<i>Net operating expenses</i>	8		133.3		-
<i>Investment expenses and charges</i>	9		52.5		-
<i>Tax attributable to long term business</i>	13		93.5		-
<i>Transfers to/(from) the fund for future appropriations</i>	23		493.3		-
<b>Total Expenditure</b>			<u>3,085.3</u>		<u>-</u>
<b>Balance on the technical account - long term business</b>			<u>56.0</u>		<u>-</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## PROFIT AND LOSS ACCOUNT

*for the year ended 31 December 1997*

### NON TECHNICAL ACCOUNT

	Notes	Continuing Operations	
		1997 £m	2nd May 1996 to 31st Dec 1996 £m
<i>Balance on the technical account - long term business</i>		56.0	-
Tax attributable to the balance on the technical account		(6.6)	-
<i>Shareholders' pre-tax profit arising from long term insurance business</i>		<u>49.4</u>	<u>-</u>
Investment income	4	4.9	1.5
Unrealised gains on investments		-	-
Investment expenses and charges		-	-
Other income		-	-
Other charges, including value adjustments		(37.1)	-
<i>Profit on ordinary activities before taxation</i>		<u>17.2</u>	<u>1.5</u>
Tax on profit on ordinary activities	13	5.0	(0.5)
<i>Profit for the financial period</i>		<u><u>22.2</u></u>	<u><u>1.0</u></u>

A statement of the movement on reserves is shown in Note 22 to the Accounts on page 27.

The Group had no recognised gains or losses other than the profit for the period shown above. The inclusion of unrealised gains and losses to reflect the marking to market of investments is not deemed to be a departure from the unmodified historical cost basis of accounting, and a separate note of historical cost profits and losses is therefore unnecessary.

The notes on pages 13 to 30 form part of these accounts.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**BALANCE SHEET**

*as at 31 December 1997*

		1997		1996 (as restated)	
	Notes	£m	£m	£m	£m
<b>ASSETS</b>					
<b>Investments</b>	<b>14</b>				
Land and buildings		1,009.1		700.7	
Investments in Group undertakings and participating interests		361.0		333.1	
Other financial investments		9,414.5		7,841.1	
			10,784.6		8,874.9
<b>Assets held to cover linked liabilities</b>	<b>16</b>		922.5		859.5
<b>Reinsurers' share of technical provisions</b>					
Long term business provision		1,205.7		1,119.8	
Claims outstanding		-		-	
			1,205.7		1,119.8
<b>Debtors</b>					
Debtors arising out of direct insurance operations	17	13.2		11.9	
Other debtors	17	147.1		113.3	
			160.3		125.2
<b>Other assets</b>					
Tangible assets	18	9.3		11.7	
Cash at bank and in hand		10.7		21.9	
			20.0		33.6
<b>Prepayments and accrued income</b>					
Accrued interest and rent		11.4		5.5	
Deferred acquisition costs		147.8		151.1	
Other prepayments and accrued income	19	544.7		580.7	
			703.9		737.3
<b>TOTAL ASSETS</b>			13,797.0		11,750.3

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

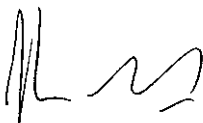
**BALANCE SHEET**

*as at 31 December 1997*

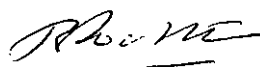
		1997		1996 (as restated)	
	Notes	£m	£m	£m	£m
<b>LIABILITIES</b>					
<i>Capital and reserves</i>					
Called up share capital	21,22	70.0		70.0	
Profit and loss account	22	23.2		1.0	
General reserves	22	611.7		611.7	
<i>Shareholder's funds attributable to equity interests</i>		<hr/>	704.9	<hr/>	682.7
<i>Fund for future appropriations</i>	23		2,574.9		2,061.6
<i>Technical provisions</i>					
Long term business provision	24	9,331.3		7,966.4	
Claims outstanding		20.1		17.2	
		<hr/>	9,351.4	<hr/>	7,983.6
<i>Technical provisions for linked liabilities</i>	25		922.5		859.5
<i>Provisions for other risks and charges</i>	26		34.7		23.5
<i>Creditors</i>					
Creditors arising out of direct insurance operations	27	27.7		24.5	
Other creditors including taxation and social security	28	159.8		96.5	
		<hr/>	187.5	<hr/>	121.0
<i>Accruals and deferred income</i>			21.1		18.4
<b>TOTAL LIABILITIES</b>			<hr/> <b>13,797.0</b> <hr/>		<hr/> <b>11,750.3</b> <hr/>

These accounts were approved by the Board of Directors on 17 February 1998 and were signed on its behalf by:

J L Wood



Chairman



R P Walther

Chief Executive

The notes on pages 13 to 30 form part of these accounts.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### NOTES TO THE ACCOUNTS

#### 1 ACCOUNTING POLICIES

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

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

The accounts have been prepared in accordance with Sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985. The accounts have also been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention as modified to include the revaluation to market values of investments. The Group has adopted the modified statutory solvency basis for determining technical provisions.

##### **Foreign currencies**

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Revenue transactions and those relating to the acquisition and realisation of investments are converted at rates of exchange ruling at the time of the respective transactions.

##### **Premiums**

Premium income is 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, premium income is accounted for in the year in which it is due for payment. Outward reinsurance premiums are accounted for when the gross premium is recognised.

##### **Investment income**

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend, and is accounted for gross of the related tax credits. Other investment income, including rents, 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.

##### **Unrealised gains and losses on investments**

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date.

##### **Claims and surrenders**

All claims and surrenders notified for the period are included in the accounts. Reinsurance recoveries are recognised in the period in which the claim is reported.

##### **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.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### NOTES TO THE ACCOUNTS

continued

#### 1 ACCOUNTING POLICIES continued

##### Deferred acquisition costs

For regular premium contracts where a series of future premiums is expected to be received, and single premium contracts where a series of future charges in respect of acquisition costs is expected to be received, only a proportion of the acquisition costs incurred in the year of sale are covered by the premium loadings received in that year. The balance, to the extent that it is recoverable out of future revenue margins, is deferred. Such deferred costs are disclosed as an asset in the balance sheet and amortised in accordance with a prudent assessment of the expected pattern of receipt of future revenue margins over the period during which the relevant contracts are expected to remain in force. For other single premium contracts acquisition costs are covered by the premium loadings in the year of sale. There is, therefore, no deferral of costs on these contracts.

##### Taxation

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

Deferred taxation is calculated on a discounted basis and is provided at current rates of tax only in respect of liabilities which can reasonably be expected to arise in the foreseeable future.

##### Pension costs

Contributions to the Company's defined benefit pension scheme are determined using the attained age method. The scheme is valued every three years by a qualified actuary who is an employee of the Company. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of scheme members.

##### Investments

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

- (i) Properties are valued on the basis of open market value, account being taken of the cost of disposal. In all cases valuations are carried out by persons who are members of the Royal Institution of Chartered Surveyors.
- (ii) Listed investments other than units in unit trusts are valued at last traded price or middle market price adjusted to include accrued interest. Units in unit trusts are valued at minimum bid price. Unlisted investments and shares in and loans to group undertakings are valued by the Directors at estimated open market values.

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

##### Tangible assets

The cost of tangible fixed assets is written off over their estimated useful lives in equal annual instalments. Provision is made for the diminution in value of any fixed asset where the reduction is expected to be permanent. The resulting net book value of the asset is written off over its remaining expected economic life. Computers and motor vehicles are depreciated over periods of up to five years. No charge is made in respect of properties owned and occupied by the Company.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### NOTES TO THE ACCOUNTS

continued

#### 1 ACCOUNTING POLICIES continued

##### Acquisitions

Acquisitions are accounted for in accordance with Financial Reporting Standards 6 and 7 ("Acquisitions and Mergers" and "Fair Values in Acquisition Accounting"). The value of in force policies acquired is recognised and amortised on a basis consistent with the emergence of associated profit. Any excess contribution arising as the difference between the fair value of the net identifiable assets acquired and the fair value of the contribution is written off immediately to reserves.

##### Technical provisions

- (i) The Company's long term business provision is determined by the Appointed Actuary following his annual valuation of the long term liabilities. The valuation is carried out in accordance with the requirements of the Insurance Companies Act 1982 using the net premium method adjusted as follows:
  - (a) any resilience, close-down and certain other reserves required under the Insurance Companies Regulations are deducted from the mathematical reserves; and
  - (b) the Zillmer adjustment to make allowance in the valuation for margins in future premiums which will be used as a means of recovering the acquisition expenses is included.Long term business provisions include the non unit liabilities in respect of unit linked business.
- (ii) The technical provisions for linked liabilities are determined by reference to the benefits under the contracts.

##### Cash flow statement

Under FRS1 (revised 1996) which the Company has adopted, it is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.



# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 2 Premiums

The value of premiums written was as follows:

	United Kingdom		Other European Community		Other		Total	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
<i>Life Insurance Business</i>								
Participating contracts								
single premium	328.1	-	-	-	-	-	328.1	-
regular premium	228.7	-	-	-	7.3	-	236.0	-
Non participating contracts								
single premium	212.1	-	117.7	-	16.0	-	345.8	-
regular premium	6.4	-	28.9	-	11.1	-	46.4	-
Linked contracts								
single premium	84.2	-	-	-	-	-	84.2	-
regular premium	20.1	-	-	-	-	-	20.1	-
	<u>879.6</u>	<u>-</u>	<u>146.6</u>	<u>-</u>	<u>34.4</u>	<u>-</u>	<u>1,060.6</u>	<u>-</u>
<i>Group Pensions Business</i>								
Participating contracts								
single premium	10.3	-	-	-	-	-	10.3	-
regular premium	43.2	-	-	-	-	-	43.2	-
Non participating contracts								
single premium	5.1	-	-	-	-	-	5.1	-
regular premium	49.0	-	-	-	6.2	-	55.2	-
Linked contracts								
single premium	25.7	-	-	-	-	-	25.7	-
regular premium	25.8	-	-	-	-	-	25.8	-
	<u>159.1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6.2</u>	<u>-</u>	<u>165.3</u>	<u>-</u>
<i>Individual Pensions Business</i>								
Participating contracts								
single premium	116.9	-	-	-	0.4	-	117.3	-
regular premium	77.4	-	-	-	5.2	-	82.6	-
Linked contracts								
single premium	97.2	-	-	-	-	-	97.2	-
regular premium	16.4	-	-	-	-	-	16.4	-
	<u>307.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5.6</u>	<u>-</u>	<u>313.5</u>	<u>-</u>
Less: Reinsurance premiums	157.3	-	-	-	0.1	-	157.4	-
<b>Total Net Premiums Written</b>	<u>1,189.3</u>	<u>-</u>	<u>146.6</u>	<u>-</u>	<u>46.1</u>	<u>-</u>	<u>1,382.0</u>	<u>-</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 3 New Business Premiums

Single premiums and the annualised values of new regular premiums included in Note 2 are:

	<i>Single</i>		<i>Annualised</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>United Kingdom</b>				
<i>Life Insurance Business</i>				
Participating contracts	328.1	-	1.2	-
Non participating contracts	212.1	-	3.5	-
Linked contracts	84.2	-	1.5	-
	<u>624.4</u>	<u>-</u>	<u>6.2</u>	<u>-</u>
<i>Group Pensions Business</i>				
Participating contracts	10.3	-	8.3	-
Non participating contracts	5.1	-	0.9	-
Linked contracts	25.7	-	9.3	-
	<u>41.1</u>	<u>-</u>	<u>18.5</u>	<u>-</u>
<i>Individual Pensions Business</i>				
Participating contracts	116.9	-	2.1	-
Linked contracts	97.2	-	15.6	-
	<u>214.1</u>	<u>-</u>	<u>17.7</u>	<u>-</u>
Less: Reinsurance premiums	(130.2)	-	(14.2)	-
<b>Total United Kingdom</b>	<u>749.4</u>	<u>-</u>	<u>28.2</u>	<u>-</u>
<b>Other European Community</b>				
<i>Life Insurance Business</i>				
Non participating contracts	117.7	-	4.0	-
	<u>117.7</u>	<u>-</u>	<u>4.0</u>	<u>-</u>
Less: Reinsurance premiums	-	-	-	-
<b>Total Other European Community</b>	<u>117.7</u>	<u>-</u>	<u>4.0</u>	<u>-</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 3 New Business Premiums continued

	<i>Single</i>		<i>Annualised</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Other</b>				
<i>Life Insurance Business</i>				
Non participating contracts	16.0	-	1.6	-
<i>Individual Pensions Business</i>				
Participating contracts	0.4	-	0.1	-
	<u>16.4</u>	<u>-</u>	<u>1.7</u>	<u>-</u>
Less: Reinsurance premiums	-	-	-	-
<b>Total Other</b>	<u>16.4</u>	<u>-</u>	<u>1.7</u>	<u>-</u>
<b>Total Net New Business Premiums</b>	<u>883.5</u>	<u>-</u>	<u>33.9</u>	<u>-</u>

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

- New recurrent single premium contracts are classified as regular where they are deemed likely to renew at or above the amount of initial premium. Incremental increases on existing policies are classified as new business premiums.
- DSS rebates are classified as new single premiums.
- Funds at retirement under individual pension contracts left with the Company and transfers from group to individual contracts are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.
- Increments under existing group pension schemes are classified as new business premiums.

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

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 4 INVESTMENT INCOME

	<i>Technical account long term business</i>		<i>Non technical account</i>	
	<i>1997 £m</i>	<i>1996 £m</i>	<i>1997 £m</i>	<i>2 May 1996 to 31 Dec 1996 £m</i>
Income from participating interests	0.6	-	-	-
Income from land and buildings	51.3	-	-	-
income from other investments				
- listed	318.2	-	-	-
- other	126.3	-	4.9	1.5
	<u>496.4</u>	<u>-</u>	<u>4.9</u>	<u>1.5</u>
Net gains on the realisation of investments	321.1	-	-	-
	<u>817.5</u>	<u>-</u>	<u>4.9</u>	<u>1.5</u>

### 5 OTHER TECHNICAL INCOME

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

### 6 CLAIMS INCURRED

	<i>1997 £m</i>	<i>1996 £m</i>
Deaths	35.0	-
Maturities	297.9	-
Life and annuity surrenders	55.5	-
Unit linked	434.8	-
Pension contracts	25.9	-
Managed funds	-	-
Annuity payments	121.6	-
	<u>970.7</u>	<u>-</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 7 STAFF SUPERANNUATION FUND

The Company operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund. For the purposes of SSAP 24, the most recent actuarial valuation was conducted as at 1 January 1997 and used the following main assumptions:

Investment return	9.0% per annum
Salary increases	7.0% per annum
Future pensions increases	5.0% per annum

The valuation showed that the market value of the scheme's assets at that date amounted to £230.7m and the actuarial value of those assets represented 166% overall of the benefits that had accrued to members, after allowing for assumed future increases in earnings and pensions.

Members' contributions to the fund will commence from 1 January 1998 at the rate of 2% of pensionable earnings.

Employer's contributions to the fund have currently been suspended. This decision will be reviewed when the next valuation as at 1 January 2000 is available. The surplus is being spread over the expected remaining service lives of current employees by a straight line apportionment.

### 8 NET OPERATING EXPENSES

	1997 £m	1996 £m
Acquisition costs	99.7	-
Change in deferred acquisition costs	3.3	-
Administrative expenses	30.3	-
	<u>133.3</u>	<u>-</u>

Net administrative expenses above include the following amounts:

	1997 £m	1996 £m
Auditor's remuneration (including VAT) paid to the auditor and associated firms:		
Remuneration for audit services	0.2	-
Remuneration for non-audit services	0.1	-
	<u>0.3</u>	<u>-</u>

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### NOTES TO THE ACCOUNTS

continued

#### 9 INVESTMENT EXPENSES AND CHARGES

	1997 £m	1996 £m
Investment management expenses	12.9	-
Interest on Pension Contract business	35.4	-
Other Interest	4.2	-
	<u>52.5</u>	<u>-</u>

#### 10 DIRECTORS' EMOLUMENTS

Directors' emoluments for the year amounted to £670,200 (1996 nil). The total emoluments of the highest paid Director were £225,700 (1996 nil). He is a member of Clerical Medical's staff superannuation fund (a defined benefit scheme) under which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end would be £78,500, and his accrued lump sum would be £217,700. Retirement benefits under Clerical Medical's staff superannuation fund were accruing to 6 Directors as at 31 December 1997 (7 Directors as at 31 December 1996).

#### 11 RELATED PARTY TRANSACTIONS

The Company recharges the Clerical Medical Staff Superannuation Fund with the costs of administration borne by the Company. The total amount recharged in the year was £496,218 (1996 £nil).

At 31 December 1997, certain related parties (defined as Directors/Principal Officers and their spouses) held insurance policies and other investments managed by the Group and sold on terms available to all employees.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**  
**NOTES TO THE ACCOUNTS**

continued

**12 EMPLOYEE INFORMATION**

The average number of employees, including Executive Directors, during the year was as follows:

	1997	1996
Operations	753	-
Marketing and Sales	413	-
Other	676	-
	<u>1,842</u>	<u>-</u>

Employee costs for the above were as follows:

	1997 £m	1996 £m
Wages and salaries	44.4	-
Social security costs	5.1	-
	<u>49.5</u>	<u>-</u>

**13 TAXATION**

The charge/(credit) for taxation comprises:

	<i>Technical account long term business</i>		<i>Non technical account 2 May 1996 to 31 Dec 1996</i>	
	1997 £m	1996 £m	1997 £m	1996 £m
UK Corporation tax	58.0	-	(5.0)	0.5
Less: Double taxation relief	(0.9)	-	-	-
	<u>57.1</u>	<u>-</u>	<u>(5.0)</u>	<u>0.5</u>
Tax on franked investment income	24.4	-	-	-
Overseas taxation	2.5	-	-	-
Deferred taxation	11.2	-	-	-
	<u>95.2</u>	<u>-</u>	<u>(5.0)</u>	<u>0.5</u>
Less: Prior year adjustment	(1.7)	-	-	-
	<u>93.5</u>	<u>-</u>	<u>(5.0)</u>	<u>0.5</u>

The charge for deferred taxation is in respect of:

	1997 £m	1996 £m
Deemed disposal of unit trusts and offshore funds	11.2	-

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES TO THE ACCOUNTS**

continued

**14 INVESTMENTS**

(a) Land and buildings:

	<i>Freehold £m</i>	<i>Long Leasehold £m</i>	<i>Short Leasehold £m</i>	<i>Total £m</i>
<b>Valuation</b>				
At 31 December 1997	725.1	219.2	64.8	1,009.1
At 31 December 1996	560.6	81.5	58.6	700.7
<b>Cost</b>				
At 31 December 1997	683.5	210.8	63.7	958.0
At 31 December 1996	560.6	81.5	58.6	700.7

Some £339.0m (1996 £211.0m) representing some 34% (1996 30%) of the above properties were valued by external valuers. Included in the above figures are land and buildings owned and occupied by the Company at 31 December 1997 of £34.4m (1996 £34.8m).

(b) Investments in Group undertakings and participating interests:

	<i>Group Undertakings</i>			<i>Participating Interests</i>			
	<i>Ordinary Shares £m</i>	<i>Loans £m</i>	<i>Total £m</i>	<i>Ordinary Shares £m</i>	<i>Other Investments £m</i>	<i>Total £m</i>	<i>Total £m</i>
<b>Valuation</b>							
At 31 December 1997	223.0	5.0	228.0	127.9	5.1	133.0	361.0
At 31 December 1996	193.0	5.5	198.5	129.3	5.3	134.6	333.1
<b>Cost</b>							
At 31 December 1997	193.7	5.0	198.7	106.0	5.0	111.0	309.7
At 31 December 1996	193.0	5.5	198.5	129.3	5.3	134.6	333.1

(c) Other financial investments:

	<i>Valuation 1997 £m</i>	<i>Cost 1997 £m</i>	<i>Valuation 1996 £m</i>	<i>Cost 1996 £m</i>
Shares and other variable yield securities and units in unit trusts	5,203.6	4,417.8	4,146.5	4,146.5
Debt securities and other fixed income securities	2,281.6	2,210.8	2,112.3	2,112.3
Loans secured by mortgages	1.5	1.5	1.6	1.6
Other loans	23.1	23.6	24.8	24.8
Deposits with credit institutions	1,904.7	1,905.6	1,555.9	1,555.9
	<u>9,414.5</u>	<u>8,559.3</u>	<u>7,841.1</u>	<u>7,841.1</u>

Included in the valuations shown in (b) and (c) above are the following listed investments:

	<i>Group Undertakings and Participating Interests 1997 £m</i>	<i>Other Investments 1997 £m</i>	<i>Total 1997 £m</i>	<i>Total 1996 £m</i>
Shares and other variable yield securities and units in unit trusts	19.0	5,163.8	5,182.8	4,383.7
Debt securities and other fixed income securities	-	2,209.9	2,209.9	2,060.8

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



# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 15 GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

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

	Country of Incorporation or Registration	Nature of Business		% Held
<b>Group Undertakings</b>				
Clerical Medical Managed Funds Limited	England	Life Insurance	*	100.0
Clerical Medical Unit Trust Managers Limited	England	Unit Trust Management	*	100.0
CMI Financial Management Services Limited	Isle of Man	Financial Services	*	100.0
CMI Financial Services Limited	England	Financial Services		100.0
CMI Insurance Company Limited	Isle of Man	Life Insurance		100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company		82.3
The CMI Managed International Company	Luxembourg	Open-Ended Investment Company		96.2
<b>Participating Interests</b>				
Brixton Estate plc	England	Property Investment Company		22.1
Pharos SA	Luxembourg	Investment Company		27.1

\* These subsidiary undertakings are direct subsidiaries of the Company.

### 16 ASSETS HELD TO COVER LINKED LIABILITIES

	1997 £m	1996 £m
At valuation	922.5	859.5
At cost	859.1	859.5

### 17 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1997 £m	1996 £m
Amounts receivable from policyholders	10.2	10.0
Amounts receivable from intermediaries	-	0.2
Reinsurance debtors	3.0	1.7
	13.2	11.9

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 17 DEBTORS continued

Other debtors comprise:

	1997 £m	1996 £m
Tax recoverable	3.7	9.1
Outstanding interest, dividends and rents	20.8	18.9
Amount receivable from group undertakings	17.8	63.2
Other	104.8	22.1
	<u>147.1</u>	<u>113.3</u>

### 18 TANGIBLE ASSETS

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

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Total £m
<b>Cost</b>				
At 1 January 1997	10.2	57.5	8.8	76.5
Additions	1.2	3.0	1.0	5.2
Disposals	(3.3)	(0.6)	-	(3.9)
<b>At 31 December 1997</b>	<u>8.1</u>	<u>59.9</u>	<u>9.8</u>	<u>77.8</u>
<b>Depreciation</b>				
At 1 January 1997	6.0	51.5	7.3	64.8
Charge for year	1.1	4.4	0.6	6.1
Disposals	(1.4)	(1.0)	-	(2.4)
<b>At 31 December 1997</b>	<u>5.7</u>	<u>54.9</u>	<u>7.9</u>	<u>68.5</u>
<b>Net book value at 31 December 1997</b>	<u>2.4</u>	<u>5.0</u>	<u>1.9</u>	<u>9.3</u>
Net book value at 31 December 1996	<u>4.2</u>	<u>6.0</u>	<u>1.5</u>	<u>11.7</u>

At 31 December 1997 total assets held under finance leases were £0.4m (1996 £3.4m)

The depreciation charge in respect of assets held under finance leases amounted to £0.3m (1996 nil).

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 19 OTHER PREPAYMENTS AND ACCRUED INCOME

Other prepayments and accrued income include £539.3m (1996 £572.1 as restated), being the value of in-force policies transferred from Clerical, Medical and General Life Assurance Society, less accumulated amortisation.

### 20 ACQUISITION OF CLERICAL, MEDICAL AND GENERAL LIFE ASSURANCE SOCIETY

On 31 December 1996, the long term assurance business of Clerical, Medical and General Life Assurance Society was transferred to Clerical Medical Investment Group Limited under Schedule 2C of the Insurance Companies Act 1982. The contribution to be made to Clerical Medical Investment Group Limited in connection with this transfer was provisionally valued in the 1996 accounts of the Company. Following completion of the valuation of the business transferred, amendments to the provisional fair values of the total assets acquired were made.

	<i>Amended Fair Value 1996 £m</i>	<i>Adjustments on Revaluation £m</i>	<i>Provisional Fair Value 1996 £m</i>
Value of in-force business	572.1	24.3 (1)	596.4
Other financial investments	23.6	-	23.6
	<u>595.7</u>	<u>24.3</u>	<u>620.0</u>
Other assets	22.8	(2.8) (2)	20.0
Net assets transferred	<u>618.5</u>	<u>21.5</u>	<u>640.0</u>
Pre-acquisition costs	(6.8)	0.8	(6.0)
Contribution	(778.4)	(1.6) (3)	(780.0)
Excess contribution (4)	<u>(166.7)</u>	<u>20.7</u>	<u>(146.0)</u>

Note 1) A more detailed investigation into the future cashflows of the in-force business as at 31 December 1996 was carried out taking account of the bases used in the statutory valuation as at that date and the finalisation of the contribution, both of which were concluded after the date of signing of the accounts.

Note 2) Net adjustments to the provisional fair values of net assets.

Note 3) Small adjustment on finalisation of the contribution, including attributable costs.

Note 4) The excess contribution adjustment is a reflection of the amended fair values and contribution.

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 21 CALLED UP SHARE CAPITAL

	1997 £m	1996 £m
Authorised: 150,000,000 ordinary shares of £1 each	150.0	150.0
Allotted, called up and fully paid: 70,000,000 ordinary shares of £1 each	70.0	70.0

### 22 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share capital £m	Profit and loss account £m	General reserves £m	Total £m
At 1 January 1996	-	-	-	-
Issue of share capital	70.0	-	-	70.0
Profit for the financial year	-	1.0	-	1.0
Capital contribution from parent	-	-	780.0	780.0
Excess contribution	-	-	(146.0)	(146.0)
At 31 December 1996 (as previously reported)	70.0	1.0	634.0	705.0
Restatement of fair values	-	-	(22.3)	(22.3)
At 31 December 1996 (restated)	70.0	1.0	611.7	682.7
Profit for the financial period	-	22.2	-	22.2
At 31 December 1997	70.0	23.2	611.7	704.9

Distributable reserves at 31 December 1997 were £634.9m (1996 £612.7 as restated).

### 23 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds which have yet to be allocated to policyholders or shareholders.

	1997 £m	1996 £m
At 1 January 1997	2,061.6	-
Transfer from the Technical Account - Long Term Business	493.3	-
Transfer from Clerical, Medical and General Life Assurance Society	20.0	1,384.1
Contribution from shareholders	-	778.4
Book value of assets allocated to shareholders	-	(15.3)
Write off of deferred acquisition costs relating to purchased value of in force policies	-	(85.6)
At 31 December 1997	2,574.9	2,061.6

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 24 LONG TERM BUSINESS PROVISION

The principal assumptions used in calculating the long term business provisions were as follows:

Class of business	Mortality	Interest (%)
Without Profit Life	A67/70 (x-3) Ult*	4.55
With-Profit Life - regular	A67/70 (x-3) Ult*	3.00
- single	A67/70 (x-3) Ult*	2.75
Without Profit Pensions	A67/70 (x-3) Ult*	5.75
With-Profit Pensions Regular	A67/70 (x-3) Ult*	3.25
With-Profit Pensions Single	A67/70 (x-3) Ult*	2.50
Personal Pension Contract Regular	A67/70 (x-3) Ult*	3.50
Personal Pension Contract Single	A67/70 (x-3) Ult*	3.25
Life Annuities in Payment	a (90) Ult (x-8)	5.25
Pensions Annuities in Payment	90% PMA80/PFA80 (C=2020)	5.25

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

Explicit provision is made for vested bonuses. No such provision is made for future reversionary or terminal bonuses.

### 25 TECHNICAL PROVISIONS FOR LINKED LIABILITIES

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

### 26 PROVISIONS FOR OTHER RISKS AND CHARGES

The balance of £34.7m (1996 £23.5m) is comprised of deferred tax on the deemed disposal of unit trusts and offshore funds.

The potential liability for deferred taxation not provided is as follows:

	1997 £m	1996 £m
Unrealised appreciation of invested assets	106.4	80.2
Other items		
Excess of interest receivable over interest payable	0.5	1.3
Difference between tax allowances and depreciation	2.1	2.1
Deferred acquisition costs	2.0	4.4
Miscellaneous	0.5	0.4
	<u>111.5</u>	<u>88.4</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 27 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1997 £m	1996 £m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	25.6	23.1
Reinsurance creditors	2.1	1.4
	<u>27.7</u>	<u>24.5</u>

### 28 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1997 £m	1996 £m
Inter fund loans	51.3	24.1
Outstanding purchases of investments	46.6	7.5
Amounts payable to parent undertaking	5.6	6.8
Accounts payable	3.1	8.1
Taxation payable	46.0	31.5
Other	7.2	18.5
	<u>159.8</u>	<u>96.5</u>

### 29 CAPITAL COMMITMENTS

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

	1997 £m	1996 £m
Amount contracted	25.1	61.4
Liability on partly paid stocks and shares	4.9	1.4

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### NOTES TO THE ACCOUNTS

continued

#### 30 CONTINGENT LIABILITIES

	1997	1996
	£m	£m
Uncalled capital on certain investments	29.1	22.7
Underwriting liabilities on certain investments	0.5	13.8

#### 31 ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary undertaking of Clerical Medical Investment Group (Holdings) Limited. The ultimate parent company is Halifax plc, which is registered in England and Wales and operates within the United Kingdom. Copies of the accounts of Halifax plc may be obtained from Trinity Road, Halifax, West Yorkshire, HX1 2RG, which is its principal place of business.

The smallest group in which the results of the Company are consolidated is Clerical Medical Investment Group (Holdings) Limited. The largest group in which the results of the Company are consolidated is Halifax plc.