

Registration No 3196171

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2003



CLERICAL MEDICAL INVESTMENT GROUP LIMITED

ANNUAL REPORT AND ACCOUNTS

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CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS AND COMPANY INFORMATION

CHAIRMAN P A Hodgkinson

MANAGING DIRECTOR J S Edwards

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

*\* Non Executive Director*

SECRETARY P J Veale

REGISTERED OFFICE  
33 Old Broad Street  
London  
EC2N 1HZ

PRINCIPAL PLACES OF BUSINESS	<i>Bristol Head Office</i> Narrow Plain Bristol BS2 0JH	<i>Clevedon Head Office</i> Tickenham Road Clevedon BS21 6BD	<i>Aylesbury Office</i> Walton Street Aylesbury HP21 7QW
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APPOINTED ACTUARY R G Myers

AUDITORS  
KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB

# **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

## **DIRECTORS' REPORT**

The Directors present their Report and the audited Accounts for the year ended 31 December 2003.

### **PRINCIPAL ACTIVITY**

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

### **BUSINESS REVIEW AND SIGNIFICANT EVENTS**

Throughout the year, the Company made its life and pension products available through its appointed representatives and fellow subsidiary undertaking, with and from whom business is also reassured. The value of premiums on new business written during the year totalled £2,927.2 million, which compares with £3,892.4 million for the year ended 31 December 2002. On 31 December 2002 the Company reinsured all of its pension annuity business into Clerical Medical Managed Funds Limited, a subsidiary undertaking. The reinsurance premium for this business amounted to £1,086.8 million.

### **RESULT AND DIVIDEND**

The Company profit for the year, before taxation, reported in the Non Technical Account, amounted to £182.8 million (2002 loss £25.4 million), and the profit after tax to £163.2 million (2002 loss £40.6 million). The rise in equity markets is primarily responsible for the result in the year.

No interim dividend was paid during the year (2002 nil) and the Directors recommend that no final dividend be paid (2002 nil).

### **POST BALANCE SHEET EVENT**

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

### **FUTURE DEVELOPMENTS**

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

### **SUPPLIER PAYMENT POLICY**

It is the Company's policy that payments made to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers.

The Company had trade creditors outstanding at the year end representing 8 days of purchases.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### DIRECTORS' REPORT (CONT'D)

#### EMPLOYEES AND REMUNERATION

The average number of persons (including Executive Directors) employed by the Company during 2003 was 3,562 (2002 4,267) and the aggregate remuneration paid to them during the year was £110.6 million (2002 £118.6 million).

#### 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 Louis Sherwood, 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.

#### ULTIMATE HOLDING COMPANY

HBOS plc is the ultimate parent undertaking.

#### EMPLOYMENT OF DISABLED PERSONS

The Company operates an equal opportunities policy that ensures that all requests for employment from disabled persons are given full and fair consideration. Disabled persons employed within the Company are afforded the same opportunities as their colleagues in respect of access to work, training, career prospects and promotion. Every effort is made to continue the employment of staff who become disabled whilst employed and to provide specialist training and equipment where appropriate. Members of our staff have benefited from this support during the year. In 2002, the Company became a founding partner of the 'Employer Led Development Project (for people with disabilities)' which provides administrative and computer skills training to enhance participants' employment prospects both with the Company and with other organisations in the commercial/financial sector.

#### EMPLOYEE INFORMATION

The Company operates a wide range of formal and informal procedures to ensure information is communicated to all of its staff.

News and information relating to Company activities, and the views of staff on these issues, are provided through the Company's communication programme. The programme consists of a variety of communication channels including an in house magazine, TV programmes and a company intranet. Feedback is captured and documented for use in future communications and, where appropriate, changes in processes and procedures are implemented.

Staff are also encouraged to participate in attitude surveys within both the Company and its parent, HBOS plc. The results of the surveys are fed back and used to promote changes within the Company.

DIRECTORS' REPORT (CONT'D)

COMMUNITY INVOLVEMENT

The company encourages and fully supports the involvement of our staff in their local communities. The 'Right to Read' and 'Number Partners' programmes are a good example. Under these initiatives, in excess of 60 members of staff go into 2 schools in Bristol and Clevedon every week to offer one to one reading help to improve literacy levels, and play number-based games designed to improve numeracy skills. The Company works closely with the Bristol Education Action Zone and Business in the Community on these initiatives to ensure our contribution helps to achieve wider reaching targets – such as key stage attainment targets for schools. During the year, over 900 hours of support was provided to these schemes – time equally donated by the company and the volunteers. By working with the Bristol Education Action Zone, they were able to use this time to leverage matched funding by the DfES – at £25 per hour this amounted to at least £22,500. This money is used to support these schools in other areas such as providing arts or sports programmes, which they may not otherwise be able to afford.

The company is also committed to supporting communities through other volunteering initiatives such as school governors, and membership of Bristol Cares. During the year staff have volunteered their business skills and professional expertise to local charities/community projects. An example of this is a group from the Database Management team have helped a local charity, Childtime, by creating a database to enable them to run more efficiently. As well as offering professional help, personal skills have also been offered. Colleagues spent a Saturday building a disabled ramp and furnishing a new changing room at a Sailing Club for Disabled Sailors.

Our community grants have helped local organisations offer projects that deliver an element of numeracy or money advice. It is in all our interests that people have the confidence and ability to manage money - and this is why Clerical Medical has chosen this as a central theme. The Company aims to make these essential skills both easy and accessible for all. Examples of projects that are supported are:

- After Schools Maths Clubs - funding to help set up and run fun maths clubs to help students in five Bristol secondary schools.
- Bristol Debt Advice Centre - funding to create money advice sessions, working with local community groups.
- Citizen's Advice Bureau - funding to create individual money advice sessions at a local outreach centre.
- Fairbridge Bristol - funding to support a life skills course, for young people. This is tailored to provide help to help the young adults when making choices about returning back to education, or starting paid employment. It can include time with a tutor to help improve numeracy or literacy.

Fundraising for our Charity of the Year – Macmillan Cancer Relief has challenged colleagues to raise money in all sorts of ways – from running marathons, it's a knockout competitions, dress down days, trekking hills and mountains, bike rides and much more. As part of the HBOS group, the Company has helped exceed our fundraising target of £1 million pounds – which will be used to provide 9 Macmillan Cancer Nurses (in perpetuity). One of these posts will be based in Bristol and will be an ongoing reminder of what we can achieve.

CONSULTATION AND PARTICIPATION

The Company recognises the union, Accord, for consultation and negotiation on a wide range of employee related issues. It has a well developed set of procedures, both formal and informal, to assist in the consultative process.

Pay is managed within a comprehensive set of guidelines which give due regard to the relevant salary market. A bonus scheme allows staff to share in success at a corporate level and to be rewarded for personal achievement, whilst participation in a range of HBOS plc share schemes provides staff with an opportunity to acquire equity in the parent company on favourable terms. An attractive range of benefits complement and enhance the remuneration package.

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## DIRECTORS' REPORT (CONT'D)

The Company operates a performance management process that is designed to support delivery of its corporate business objectives. Reviews take place on a regular basis providing an opportunity for staff to receive feedback on their current performance and to plan for their personal development and career progression.

### DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year were as follows:

K W Abercromby	
D S Boyle	resigned 30 September 2003
J S Edwards	
D G R Ferguson	appointed 14 July 2003
D Ferrans	resigned 30 September 2003
J P Hiew	appointed 1 October 2003
P Hodgkinson	
B G Ivory	resigned 30 September 2003
J N Maclean	
M R N Moore	
JR J H Milne	appointed 1 October 2003
P R Moore	resigned 30 September 2003
H M Posner	resigned 30 September 2003
M S Robinson	appointed 1 October 2003
P L M Sherwood	
R G Ward	resigned 27 March 2003

### 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 31.12.02 or date of appointment if later HBOS plc shares	At 31.12.03 HBOS plc shares
K W Abercromby	16,098	22,467
J S Edwards	-	134
D G R Ferguson	7,981	7,981
J P Hiew	200	200
P A Hodgkinson	10,524	28,806
J N Maclean	5,036	5,038
R J H Milne	1,974	1,974
M R N Moore	-	-
M S Robinson	7,469	7,469
P L M Sherwood	2,000	2,000

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## DIRECTORS' REPORT (CONT'D)

## 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 31.12.03
K W Abercromby	March 2001 March 2002 March 2003	2,477 3,462 4,124
J S Edwards	-	-
D G R Ferguson	-	-
J P Hiew	March 2003	100
P A Hodgkinson	March 2002 March 2003	5,163 9,141
J N Maclean	-	-
R J H Milne	March 2003	701
M R N Moore	-	-
M S Robinson	March 2002 March 2003	3,461 4,587
P L M Sherwood	-	-

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

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

	Grant Effective from	At 31.12.02 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 31.12.03
K W Abercromby	Jan 2000 Jan 2001 Jan 2002 Jan 2003	12,414 14,885 12,500 -	- - - 18,229 (G)	12,414 - - -	3,266 - - -	28,094 - - -	- 14,885 12,500 18,229
J S Edwards	Jan 2000 Jan 2001 Jan 2002 Jan 2003	18,252 19,460 19,166 -	- - - 25,000 (G)	18,252 - - -	4,802 - - -	41,306 - - -	- 19,460 19,166 25,000
D G R Ferguson	-	-	-	-	-	-	-
J P Hiew	Jan 2000 Jan 2001 Jan 2002 Jan 2003	2,048 2,827 4,939 7,812	- - - -	2,048 - - -	538 - - -	4,634 - - -	- 2,827 4,939 7,812
P A Hodgkinson	Jan 2001 Jan 2002 Jan 2003	53,435 87,500 -	- - 58,593 (G)	- - -	- - -	- - -	53,435 87,500 58,593
R J H Milne	Jan 2002 Jan 2003	4,484 5,989	- -	- -	- -	- -	4,484 5,989



## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## DIRECTORS' REPORT (CONT'D)

	Grant Effective from	At 31.12.02 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 31.12.03
J N Maclean	-	-	-	-	-	-	-
M R N Moore	-	-	-	-	-	-	-
M S Robinson	Jan 1999	1,450	L	-	-	1,450	-
	Jan 2000	8,112	-	8,112	2,134	18,358	-
	Jan 2001	9,542	-	-	-	-	9,542
	Jan 2002	5,416	-	-	-	-	5,416
	Jan 2003	7,812	-	-	-	-	7,812
P L M Sherwood	-	-	-	-	-	-	-

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

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

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

	Options outstanding At 31.12.02 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.03
K W Abercromby	-	-	-
J S Edwards	-	-	-
D G R Ferguson	-	-	-
J P Hiew	6,983	-	6,983
P A Hodgkinson	-	-	-
J N Maclean	-	-	-
R J H Milne	6,381	-	6,381
M R N Moore	-	-	-
M S Robinson	11,509	-	11,509
P L M Sherwood	-	-	-

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## DIRECTORS' REPORT (CONT'D)

### Sharesave Plan

Share options granted under these plans are set out below.

	Options outstanding At 31.12.02 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.03
K W Abercromby	4,115	-	4,115
J S Edwards	2,362	2,362 (E) 2,922 (G)	2,922
D G R Ferguson	-	-	-
J P Hiew	2,362	611 (G) 2,362 (E)	611
P A Hodgkinson	2,970	-	2,970
J N Maclean	-	-	-
R J H Milne	1,723	-	1,723
M R N Moore	-	-	-
M S Robinson	-	-	-
P L M Sherwood	-	-	-

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

### 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

19 February 2004

## 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

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

We have audited the financial statements on pages 13 to 42.

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

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Directors' Report and, as described on page 11, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

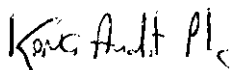
#### BASIS OF OPINION

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

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

#### OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

8 Salisbury Square  
London  
EC4Y 8BB

19 February 2004

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

**PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - LONG TERM BUSINESS  
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	Continuing Operations			
		2003	2002	2003	2002
		£m	£m	£m	£m
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>					
Gross premiums written	2	3,792.9		4,487.2	
Outward reinsurance premiums		(1,778.0)		(2,230.8)	
Net of reinsurance			2,014.9		2,256.4
<b>INVESTMENT INCOME</b>	3		356.0		1,086.9
<b>UNREALISED GAINS ON INVESTMENTS</b>			1,521.6		-
<b>OTHER TECHNICAL INCOME, NET OF REINSURANCE</b>	4		21.9		17.3
<b>TOTAL INCOME</b>			3,914.4		3,360.6
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>					
Claims paid					
Gross amount		(2,606.9)		(2,234.7)	
Reinsurers' share		591.1		391.9	
			(2,015.8)		(1,842.8)
Change in provision for claims, net of reinsurance					
Gross amount		(5.0)		(5.6)	
Reinsurers' share		(0.5)		(0.1)	
			(5.5)		(5.7)
Claims incurred, net of reinsurance	5		(2,021.3)		(1,848.5)
<b>CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE</b>					
Long term business provision, net of reinsurance					
Gross amount		(2,290.0)		(1,135.6)	
Reinsurers' share		1,715.2		1,310.5	
Net of reinsurance	24		(574.8)		174.9
Provision for linked liabilities, net of reinsurance			(545.8)		29.3
<b>NET OPERATING EXPENSES</b>	7		(337.5)		(364.1)
<b>INVESTMENT EXPENSES AND CHARGES</b>	9		(71.4)		(49.7)
<b>UNREALISED LOSSES ON INVESTMENTS</b>			-		(2,595.8)
<b>OTHER TECHNICAL CHARGES, NET OF REINSURANCE</b>	14D		(27.9)		(28.3)
<b>TAX ATTRIBUTABLE TO LONG TERM BUSINESS</b>	13		(126.7)		131.4
<b>TRANSFERS (TO) / FROM THE FUND FOR FUTURE APPROPRIATIONS</b>	23		(137.2)		1,066.3
<b>TOTAL EXPENDITURE</b>			(3,842.6)		(3,484.5)
<b>BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT</b>			71.8		(123.9)

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

PROFIT AND LOSS ACCOUNT – NON-TECHNICAL ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2003

		Continuing Operations	
	Note	2003 £m	2002 £m
<b>BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT</b>		71.8	(123.9)
Tax credit attributable to the balance on the technical account		30.0	24.7
<b>SHAREHOLDERS' PRE-TAX PROFIT / (LOSS) ARISING FROM LONG TERM INSURANCE BUSINESS</b>		101.8	(99.2)
Investment income	3	25.3	9.2
Unrealised gains on investments		89.2	96.6
Investment expenses and charges	9	(33.5)	(32.0)
<b>OPERATING PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		182.8	(25.4)
Tax on profit / (loss) on ordinary activities	13	(19.6)	(15.2)
<b>PROFIT / (LOSS) FOR THE FINANCIAL YEAR</b>		163.2	(40.6)
Dividends		-	-
<b>RETAINED PROFIT / (LOSS) FOR THE FINANCIAL YEAR TRANSFERRED FROM RESERVES</b>		163.2	(40.6)

A statement of the movement on reserves is shown in Note 21 to the Accounts.

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

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

The notes on pages 17 to 42 form part of these accounts.

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	2003		2002	
		£m	£m	£m	£m
<b>ASSETS</b>					
<b>INVESTMENTS</b>					
Land and Buildings	14A	2,289.1		2,097.4	
Investment in Group undertakings and participating interests	14B	1,575.8		1,414.3	
Other financial investments	14C	16,667.4		15,467.6	
Other – present value of in-force business	14D	370.8		398.7	
			20,903.1		19,378.0
<b>ASSETS HELD TO COVER LINKED LIABILITIES</b>	16		1,864.0		1,318.2
<b>REINSURERS SHARE OF TECHNICAL PROVISIONS</b>	24				
Long term business provision		5,652.6		3,937.4	
Claims outstanding		0.8		1.3	
			5,653.4		3,938.7
<b>DEBTORS</b>					
Debtors arising out of direct insurance operations	17	16.2		13.1	
Other debtors	17	549.2		377.2	
			565.4		390.3
<b>OTHER ASSETS</b>					
Tangible assets	18	61.5		37.7	
Cash at bank and in hand		63.3		136.3	
			124.8		174.0
<b>PREPAYMENTS AND ACCRUED INCOME</b>					
Accrued interest and rent		3.0		16.5	
Deferred acquisition costs		153.5		155.0	
Other prepayments and accrued income		3.6		7.1	
			160.1		178.6
<b>TOTAL ASSETS</b>			29,270.8		25,377.8

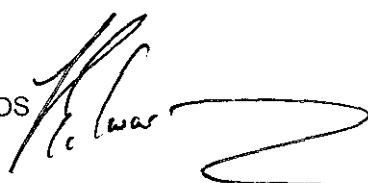
## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2003 (CONT'D)

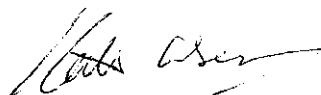
	Note	2003		2002	
		£m	£m	£m	£m
<b>LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b>					
Called up share capital	19,21	1,629.0		1,629.0	
Share premium account	21	1.0		1.0	
Profit and loss account	21	(69.2)		(232.4)	
Merger reserve	20,21	246.2		246.2	
General reserves	21	611.7		611.7	
<b>SHAREHOLDERS' FUNDS ATTRIBUTABLE TO EQUITY INTERESTS</b>			2,418.7		2,255.5
<b>SUBORDINATED LIABILITIES</b>	22		477.8		456.8
<b>FUND FOR FUTURE APPROPRIATIONS</b>	23		137.2		-
<b>TECHNICAL PROVISIONS</b>	24				
Long term business provision		23,267.8		20,977.8	
Claims outstanding		42.5		37.5	
			23,310.3		21,015.3
<b>TECHNICAL PROVISIONS FOR LINKED LIABILITIES</b>	24		1,864.0		1,318.2
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>	25		161.8		72.2
<b>DEPOSITS RECEIVED FROM REINSURERS</b>	26		50.4		83.6
<b>CREDITORS</b>					
Creditors arising out of direct insurance operations	27	29.2		35.3	
Other creditors including taxation and social security	28	794.0		88.7	
			823.2		124.0
<b>ACCRUALS AND DEFERRED INCOME</b>			27.4		52.2
<b>TOTAL LIABILITIES</b>			29,270.8		25,377.8

These accounts were approved by the Board of Directors on 19 February 2004 and were signed on its behalf by:

J S EDWARDS  
DIRECTOR



K W ABERCROMBY  
DIRECTOR





# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003

### 1 ACCOUNTING POLICIES

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

#### 1.1 Basis of Preparation

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

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

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

#### 1.2 Premiums

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

#### 1.3 Investment income, expenses and charges

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

#### 1.4 Unrealised Gains and Losses on Investments

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

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

**1.5 Claims and Surrenders**

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

**1.6 Reassurance**

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

**1.7 Commission**

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

**1.8 Deferred Acquisition Costs**

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

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

**1.9 Taxation**

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

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

**1.10 Pension costs**

Contributions to the Company's defined benefit pension schemes are determined using the attained age method. The schemes are valued every three years by qualified actuaries. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the 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.

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

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

Adoption of FRS 17 (Retirement Benefits) is not required for the current reporting period, however the company has elected to apply the transitional disclosures for its adoption. Accordingly no changes have been made to the accounting policy for retirement benefits, but included in Note 6 are additional disclosures required by FRS 17 as at 31 December 2003.

**1.11 Investments**

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

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

**1.12 Depreciation**

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

**1.13 Present Value of In-Force business**

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

Impairments and amortisation charges are shown as other technical charges.

**1.14 Tangible Assets**

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

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

**1.15 Merger Reserve**

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

**1.16 Technical Provisions**

The Company's long term business provision is based on the Appointed Actuary's annual valuation of the long term liabilities using per plan calculations for the majority of the benefits under the long term contracts. Thus, the valuation takes as its starting point the requirements of the Interim Prudential Sourcebook for Insurers ["IPRU(INS)"]. This is then adjusted to remove the resilience, close-down and certain other reserves required under the IPRU(INS) rules. Adjustments are made to remove some of the additional levels of prudence that are required to be established for regulatory purposes. In particular the assumed take up rate for certain guaranteed benefits has been reduced. This gives an estimation that is more appropriate for financial statement purposes. This adjustment reduced the technical provisions by £345.0m (2002 £538.5m) in comparison to what they would otherwise have been prior to the change. The valuation uses the net premium method in respect of the conventional non-linked business and a gross premium method for unitised business and takes account of the risks and uncertainties of the particular classes of long term business written. Both methods include explicit provision for guaranteed benefits. The gross premium method includes an allowance for some future bonus interest and surrender values on accumulating with profit business and the net premium method makes an implicit allowance for some future bonus.

The assumptions to which the estimates are particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders, which are determined on a prudent basis at the date of valuation and are disclosed in Note 24.

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

**1.17 Fund for Future Appropriations**

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

**1.18 Foreign Currencies**

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

**1.19 Cash Flow Statement**

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

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

1.19 Related Party Transactions

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

2 GROSS PREMIUMS WRITTEN

	2003 £m	2002 £m
Individual Life Insurance	1,736.3	2,878.4
Individual Pensions Business	1,611.9	961.2
Group Pensions Business	444.7	647.6
	<hr/> 3,792.9	<hr/> 4,487.2
Periodic premiums	1,031.5	847.7
Single premiums	2,761.4	3,639.5
	<hr/> 3,792.9	<hr/> 4,487.2
Premiums from non-participating contracts	309.0	141.2
Premiums from participating contracts	1,351.8	2,960.2
Premiums from investment linked contracts	2,132.1	1,385.8
	<hr/> 3,792.9	<hr/> 4,487.2
<b>Geographical split by origin</b>		
In the UK	3,121.8	3,317.5
In other EC member states	612.6	915.2
In other countries	58.5	254.5
	<hr/> 3,792.9	<hr/> 4,487.2

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

The value of new premiums written during the period was:

	2003 £m	2002 £m
Individual Life Insurance	1,371.2	2,564.2
Individual Pensions Business	1,316.7	807.0
Group Pensions Business	239.3	521.2
	<hr/> 2,927.2	<hr/> 3,892.4
Annual premiums	165.9	252.9
Single premiums	2,761.3	3,639.5
	<hr/> 2,927.2	<hr/> 3,892.4
Premiums from non-participating contracts	302.9	100.2
Premiums from participating contracts	1,259.8	2,803.4
Premiums from investment linked contracts	1,364.5	988.8
	<hr/> 2,927.2	<hr/> 3,892.4
<b>Geographical split by origin</b>		
In the UK	2,355.5	2,856.8
In other EC member states	521.6	815.6
In other countries	50.1	220.0
	<hr/> 2,927.2	<hr/> 3,892.4

All figures above are shown gross of reinsurance outwards.

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

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

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

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

3 INVESTMENT INCOME

	2003 £m	2002 £m
<b>(a) Technical account – long term business</b>		
Income from land and buildings	133.3	152.2
Income from other investments		
- listed	636.7	628.5
- other	66.2	82.0
	<hr/>	<hr/>
	836.2	862.7
	<hr/>	<hr/>
Net (losses)/gains on the realisation of investments	(480.2)	224.2
	<hr/>	<hr/>
	356.0	1,086.9
	<hr/>	<hr/>
	2003 £m	2002 £m
<b>b) Non-technical account</b>		
Income from land and buildings	2.6	4.8
Income from other investments		
- listed	7.7	3.0
- other	0.4	0.4
	<hr/>	<hr/>
	10.7	8.2
	<hr/>	<hr/>
Net gains on the realisation of investments	14.6	1.0
	<hr/>	<hr/>
	25.3	9.2
	<hr/>	<hr/>

4 OTHER TECHNICAL INCOME, NET OF REINSURANCE

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

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

**5 CLAIMS INCURRED NET OF REINSURANCE**

	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
Deaths	46.3	43.7
Maturities	364.0	398.0
Life and annuity surrenders	854.2	553.9
Unit linked	666.7	711.9
Pension contracts	47.9	45.1
Annuity payments	42.2	95.9
	<hr/>	<hr/>
	2,021.3	1,848.5
	<hr/>	<hr/>

**6 STAFF SUPERANNUATION FUND**

The Company operates a defined benefit pension scheme that is funded by the payment of contributions to a separately administered trust fund. The scheme closed to new members on 1 January 2001. For the purposes of Financial Reporting Standard 17 ('Retirement Benefits') the most recent actuarial valuation was carried out as at 31 December 2002, by the scheme actuary who is an appropriately qualified employee of the Company. The assumptions used under FRS 17 for calculating the liabilities were as follows:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Inflation	2.8%	2.4%	2.5%
Salary escalation	3.8%	3.4%	3.5%
Discount rate	5.6%	5.8%	6.0%
Increase in deferment	2.8%	2.4%	2.5%
Increase in pension payments	3.3%	3.0%	3.3%

Plus a promotional scale of 1% per year of age (pre and post retirement)

Members' contributions are made at the rate of 2% (2002 2%) of pensionable earnings. Employer's contributions to the fund have been suspended until 1 January 2004. The agreed rate of contributions from that date is 22.3% of pensionable earnings.

The fair value of the assets under FRS 17 as at 31 December and expected rate of return for each is as follows:

	<b>2003</b>		<b>2002</b>		<b>2001</b>	
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Equities	215.6	8.50	181.5	8.50	232.7	7.75
Properties	11.8	6.80	11.4	6.80	12.4	6.50
Bonds	30.4	5.20	30.4	5.00	46.4	5.25
Other	7.1	3.80	7.5	3.80	10.4	4.50



**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

The deficit under FRS 17 at 31 December was £124.5m (2002 £66.4m) being the difference between the fair value of the assets, of £264.9m (2002 £230.8m) and the present value of the liabilities on the above assumptions of £389.4m (2002 £297.2m). The movement in the surplus can be analysed as follows:

	<b>2003</b>		<b>2002</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Deficit as the start of the period		(66.4)		32.2
Current service cost	(10.0)		(9.8)	
Contributions	3.8		-	
Other financial income/(cost)	0.3		4.8	
Actuarial loss	(52.2)		(93.6)	
Deficit as the end of the period		(124.5)		(66.4)

If FRS 17 had been fully adopted in these financial statements, pension costs for defined benefits would have been:

	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
Analysis of other pension costs charged in arriving at operating profit/loss:		
Current service costs	10.0	9.8
	10.0	9.8
Analysis of amounts included in financial income:		
Expected return on pension scheme assets	17.6	21.0
Interest on pension scheme liabilities	(17.3)	(16.2)
	0.3	4.8

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

Analysis of amounts recognised in the statement of total recognised gains and losses:

	<b>2003</b>		<b>2002</b>	
	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>
Actual return less expected return on scheme assets		19.6		(85.1)
Percentage of year end scheme assets	7.4		(36.9)	
Experience gains and losses on scheme liabilities		(16.5)		2.6
Percentage of present value of scheme liabilities	(4.2)		0.9	
Change in assumptions underlying the present value of scheme liabilities		(55.3)		(11.1)
Percentage of present value of scheme liabilities	(14.2)		(3.7)	
		<hr/>		<hr/>
		(52.2)		(93.6)
		<hr/>		<hr/>

The contribution rates for the current service costs for the year are 21.1% of Pensionable Salaries (2002 19.4%). For closed funds and under the projected unit method of valuation this contribution rate will increase as the members of the scheme approach retirement.

For the purpose of SSAP 24 the most recent actuarial valuation was conducted by the scheme actuary as at 1 January 2003. The actuarial value of the assets as at this valuation was £230.8m and represented 69% overall of the benefits that had accrued to members after allowing for assumed future increases in earnings and pensions. It is proposed that the next valuation is as at 1 January 2005.

The pension charge for the year was £19.2m (2002 nil), this included £8.7m in respect of the amortisation of experience deficits that are being recognised over 12 years, the average remaining service lives of the scheme members.

For ex-employees of the Equitable Life Assurance Society, the Company also operates a substantive closed defined benefit contribution scheme – the Equitable Pension Fund and Life Assurance Scheme. For the purposes of FRS 17 the most recent actuarial valuation was carried out as at 31 December 2003, by the scheme actuary who is an appropriately qualified actuary. The assumptions used under FRS 17 for calculating the liabilities were as follows:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Inflation	2.8%	2.4%	2.5%
Salary escalation	3.8%	3.4%	3.5%
Discount rate	5.6%	5.8%	6.0%
Increase in deferment	2.8%	2.4%	2.5%
Increase in pension payments	2.8%	2.4%	2.5%

Members' contributions to the fund have currently been suspended and employer's contributions are at 4% (2002 4%) of pensionable earnings. The total employers contribution for the year amounted to £18.7m including augmentations (2002 £13.9m). The level of contributions will be reviewed when the next full scheme valuation is performed.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

The fair value of the assets under FRS 17 as at 31 December and expected rate of return for each is as follows:

	<b>2003</b>		<b>2002</b>		<b>2001</b>	
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Equities	103.2	8.50	33.2	8.50	14.1	7.75
Properties	6.0	6.80	7.6	6.80	0.9	6.50
Bonds	52.6	5.20	67.9	5.00	3.2	5.25
With profit investments	106.0	3.80	79.2	3.80	113.7	6.25
Cash	3.2	5.60	23.8	5.80	0.6	4.50

The deficit under FRS 17 at 31 December 2003 was £54.8m (2002 £51.0m) being the difference between the fair value of the asset of £271.0m (2002 £211.7m) and the present value of the liabilities on the above assumptions of £325.8m (2002 £262.7m). The movement in the deficit can be analysed as follows:

	<b>2003</b>		<b>2002</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Deficit as the start of the period		(51.0)		(32.5)
Current service cost	(5.1)		(7.1)	
Contributions paid	39.2		32.6	
Past service costs	(14.5)		(5.4)	
Other financial costs	(2.4)		(1.2)	
Actuarial loss	(21.0)		(37.4)	
<hr/>				
Deficit at the end of the period		(54.8)		(51.0)

If FRS 17 had been fully adopted in these financial statements, pension costs for defined benefits would have been:

	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
Analysis of other pension costs charged in arriving at operating profit/loss:		
Current service costs	5.1	7.1
Past service costs	14.5	5.4
	<hr/>	<hr/>
	19.6	12.5
<hr/>		
There would be no amounts included in financial income:		
Expected return on pension scheme assets	(13.0)	(8.5)
Charge to other finance income	2.4	1.2
Interest on pension scheme liabilities	15.4	9.7
	<hr/>	<hr/>
	24.4	13.7

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

Analysis of amounts recognised in the statement of total recognised gains and losses:

	2003 %	2003 £m	2002 %	2002 £m
Actual return less expected return on scheme assets		(20.8)		38.8
Percentage of year end scheme assets	(7.7)		14.7	
Experience gains and losses on scheme liabilities		2.8		(5.9)
Percentage of present value of scheme liabilities	0.9		(2.2)	
Change in assumptions underlying the present value of scheme liabilities		21.0		4.5
Percentage of present value of scheme liabilities	6.5		1.7	
		<hr/>		<hr/>
		3.0		37.4
		<hr/>		<hr/>

The contribution rates for the current service costs for the year are 24.4% of Pensionable Salaries (2002 24.4%). For closed funds and under the projected unit method of valuation this contribution rate will increase as the members of the scheme approach retirement.

For the purposes of SSAP24, the most recent actuarial valuation was conducted by the scheme actuary as at 31 December 2001. The value of the assets at that time was £136.7m, taking the with profits funds at their surrender value. The assets represented 54% of the liabilities determined by the actuary. The next valuation is due to be carried out as at 31 December 2004

For employees joining the group after 1 January 2001 HBOS plc operates a defined contribution pension scheme. Payments to the scheme during the year amounted to less than £0.1m (2002 £0.1m). There were no outstanding or prepaid contributions at the balance sheet date.

**7 NET OPERATING EXPENSES**

	2003 £m	2002 £m
Acquisition costs	203.3	206.6
Change in deferred acquisition costs	1.5	54.7
Administrative expenses	132.7	102.8
	<hr/>	<hr/>
	337.5	364.1
	<hr/>	<hr/>

Administration expenses include £ nil (2002 £23.6m) exceptional costs in relation to the write off of previously capitalised software.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

**8 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

Loss on ordinary activities before taxation is after charging:

	<b>2003 £m</b>	<b>2002 £m</b>
Auditor's remuneration (including VAT) paid to the auditor and associated firms:		
Remuneration for audit services (including regulatory)	0.4	0.3
Remuneration for non-audit services	0.3	0.3
	<hr/> 0.7	<hr/> 0.6

**9 INVESTMENT EXPENSES AND CHARGES**

	<b>2003 £m</b>	<b>2002 £m</b>
<b>(a) Technical account – long term business</b>		
Investment management expenses	31.9	19.9
Interest on pension contract business	15.0	21.3
Interest on bank overdrafts	1.1	0.6
Other interest	23.4	7.9
	<hr/> 71.4	<hr/> 49.7
	<hr/> <b>2003 £m</b>	<hr/> <b>2002 £m</b>
<b>(b) Non Technical account – long term business</b>		
Other interest	33.5	32.0
	<hr/> 33.5	<hr/> 32.0

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

### NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

#### 10 DIRECTORS' EMOLUMENTS

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

#### 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 £0.5m (2002 £0.5m).

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

#### 12 EMPLOYEE INFORMATION

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

	2003	2002
Operations	2,291	2,831
Marketing and Sales	476	555
Other	795	881
	<hr/>	<hr/>
	3,562	4,267
	<hr/>	<hr/>

Employee costs for the above were as follows:

	2003 £m	2002 £m
Wages and salaries	110.6	118.6
Social security costs	8.5	7.8
Other costs	3.1	2.6
	<hr/>	<hr/>
	122.2	129.0
	<hr/>	<hr/>

## CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

## 13 TAXATION

The credit for taxation comprises:

	Technical Account Long Term Business		Non Technical Account	
	2003	2002	2003	2002
	£m	£m	£m	£m
<b>Current tax:</b>				
Corporation tax charge/(credit) for the year	71.4	15.5	0.3	(31.9)
Corporation tax charge/(credit) in respect of earlier years	(30.0)	(20.0)	0.3	-
Relief for overseas taxation	(1.3)	(1.9)	-	-
Overseas taxation	2.0	4.7	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	42.1	(1.7)	0.6	(31.9)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Deferred tax:</b>				
Deferred tax charge/(credit) for the year	44.0	(129.7)	19.0	47.1
Deferred tax charge in respect of earlier years	40.6	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	126.7	(131.4)	19.6	15.2
	<hr/>	<hr/>	<hr/>	<hr/>

The tax credit attributable to exceptional items is £ nil (2002 £7.1m).

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2002 30%)

The differences are explained below:

	2003 £m	2002 £m
(Loss)/Profit on ordinary activities before taxation	182.8	(25.4)
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK	54.9	(7.6)
Effects on:		
UK tax basis for insurance business	(0.2)	60.3
Unrealised movements in the value of investments not recognised for tax purposes	(35.0)	(37.0)
Deferred tax	(19.1)	(47.6)
Current tax charge for the year	0.6	(31.9)

**14 INVESTMENTS**

**14A Land and buildings:**

	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
<b>Valuation</b>				
At 31 December 2003	1,618.5	610.4	60.2	2,289.1
At 31 December 2002	1,410.0	621.8	65.6	2,097.4
<b>Cost</b>				
At 31 December 2003	1,202.0	523.1	65.6	1,790.7
At 31 December 2002	1,115.8	535.5	65.6	1,716.9

The properties valued by external valuers, which include all those which are held to cover linked liabilities, totalled £2,107.0m (2002 £1,955m) representing 91% (2002 93%) of the Company's freehold and leasehold properties. Included in the above figures are land and buildings owned and occupied by the Company of £41.4m (2002 £50.1m) with a cost of £39.0m (2002 £49.7m). Notional rent of £4.2m (2002 £6.5m), based on market rentals, was charged to net operating expenses and included in investment income.



CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

14B Investments in Group undertakings and participating interests:

	Group Undertakings			Participating Interests			
	Ordinary Shares £m	Loans £m	Total £m	Ordinary Shares £m	Other £m	Total £m	Total £m
<b>Valuation</b>							
At 31 December 2003	1,392.8	4.5	1,397.3	173.4	5.1	178.5	1,575.8
At 31 December 2002	1,253.7	5.8	1,259.4	145.2	9.7	154.9	1,414.3
<b>Cost</b>							
At 31 December 2003	910.1	4.5	914.6	33.8	4.2	38.0	952.6
At 31 December 2002	910.1	5.8	915.9	39.3	8.7	48.0	963.9

14C Other financial investments:

	Valuation 2003 £m	Cost 2003 £m	Valuation 2002 £m	Cost 2002 £m
Shares and other variable yield securities	9,240.4	8,714.3	9,647.5	10,430.4
Debt securities and other fixed interest securities	6,652.3	6,510.6	4,463.8	4,209.7
Loans secured by mortgages	0.2	0.2	0.2	0.2
Other loans	10.3	11.3	12.4	13.5
Deposits with credit institutions	764.2	770.4	1,343.7	1,343.0
As at 31 December	16,667.4	16,006.8	15,467.6	15,996.8

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

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

	Group Undertakings & participating Interests 2003 £m	Other 2003 £m	Total 2003 £m	Total 2002 £m
Shares and other variable yield securities and units in unit trusts	143.2	9,211.4	9,354.6	9,650.4
Debt securities and other fixed income securities.	5.0	6,651.0	6,656.0	4,472.0

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

### 14D Other – present value of in-force business:

	2003 £m	2002 £m
At 1 January	398.7	427.0
Additions	-	-
Amortisation	(27.9)	(28.3)
As at 31 December	370.8	398.7

### 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.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

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

	Group Undertakings & participating Interests 2003 £m	Other 2003 £m	Total 2003 £m	Total 2002 £m
Shares and other variable yield securities and units in unit trusts	143.2	9,211.4	9,354.6	9,650.4
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**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.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

<b>Group Undertakings</b>	<b>Country of Incorporation or Registration</b>	<b>Nature of Business</b>	<b>% Held</b>
Clerical Medical Managed Funds Limited	England and Wales	Life Insurance	* 100.0
Insight Investment Management Limited	England and Wales	Fund Management	* 100.0
Halifax Life Limited	England and Wales	Life Insurance	* 100.0
Clerical Medical Forestry Limited	England and Wales	Property Investments	* 100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company	97.0
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	100.0
<b>Participating Interests</b>			
Brixton Estate plc	England and Wales	Investment Company	22.1
Pharos SA	Luxembourg	Investment Company	27.1

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

**16 ASSETS HELD TO COVER LINKED LIABILITIES**

	<b>2003 £m</b>	<b>2002 £m</b>
At valuation	1,864.0	1,318.2
	<hr/>	<hr/>
At cost	1,841.1	1,448.8
	<hr/>	<hr/>

**17 DEBTORS**

	<b>2003 £m</b>	<b>2002 £m</b>
Debtors arising out of direct insurance operations:		
Amounts receivable from policyholders	16.2	13.1
	<hr/>	<hr/>
	16.2	13.1
	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

	2003 £m	2002 £m
Other debtors comprise:		
Tax recoverable	4.0	4.6
Outstanding interest, dividends and rents	50.4	51.3
Outstanding sale of investments	8.5	16.9
Amounts due to settle on outstanding derivative contracts	13.1	-
Amounts receivable from Group undertakings	417.4	238.5
Other	55.8	65.9
	<hr/> 549.2	<hr/> 377.2

Within other debtors is £26.9m (2002 £4.7m) of debts that have been factored on behalf of HECM Customer Services Limited, a fellow subsidiary undertaking of the immediate parent undertaking.

18 TANGIBLE ASSETS

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

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Application Software £m	Total £m
<b>Cost</b>					
At 1 January 2003	1.1	48.3	11.6	1.3	62.3
Additions	0.2	32.1	3.3	0.5	36.1
Disposals	(0.4)	(2.3)	(1.5)	(0.1)	(4.3)
	<hr/> 0.9	<hr/> 78.1	<hr/> 13.4	<hr/> 1.7	<hr/> 94.1
<b>Depreciation</b>					
At 1 January 2003	0.3	19.4	4.9	-	24.6
Charge for year	0.2	7.7	2.6	0.3	10.8
Disposals	(0.1)	(1.8)	(0.9)	-	(2.8)
	<hr/> 0.4	<hr/> 25.3	<hr/> 6.6	<hr/> 0.3	<hr/> 32.6
<b>Net book value</b>					
At 31 December 2003	0.5	52.8	6.8	1.4	61.5
Net book value					
At 31 December 2002	0.8	28.9	6.7	1.3	37.7

At 31 December 2003 total assets held under finance leases were £ nil (2002 £nil).

Following a review, £ nil (2002 £23.6m) of the capitalised software was written off during the year.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

19 CALLED UP SHARE CAPITAL

	2003 £m	2002 £m
Authorised: 1,709,000,000, (2002, 1,709,000,000) £1 ordinary shares	1,709.0	1,709.0
Allotted, called up and full paid: 1,629,000,000 (2002, 1,629,000,000) £1 ordinary shares	1,629.0	1,629.0

20 MERGER RESERVE

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

21 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share Capital £m	Share Premium £m	Profit and Loss Account £m	Merger Reserve £m	General Reserves £m	Total £m
At 1 January 2002	1,029.0	1.0	(191.8)	246.2	611.7	1,696.1
Issue of Share Capital	600.0	-	-	-	-	600.0
Loss for the financial year	-	-	(40.6)	-	-	(40.6)
At 31 December 2002	1,629.0	1.0	(232.4)	246.2	611.7	2,255.5
Issue of Share Capital	-	-	-	-	-	-
Profit for the financial year	-	-	163.2	-	-	163.2
At 31 December 2003	1,629.0	1.0	(69.2)	246.2	611.7	2,418.7

The distributable reserves are £ nil (2002 £ nil).

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

**22 SUBORDINATED LIABILITIES**

During July 2001 Clerical Medical Finance plc, a fellow subsidiary undertaking, issued €400m of 6.45% dated Subordinated Guaranteed Bonds maturing on 5 July 2023 (current sterling value £280.1m). Redemption of the bonds is at the option of HBOS Financial Services Ltd, the Company's parent undertaking, and is generally not allowable prior to July 2013, after which time if the bond has not been redeemed floating rate interest is payable. Clerical Medical Finance plc has previously issued £200m of 7 3/8% undated Subordinated Guaranteed Bonds, the redemption of which is at the option of the Group and is generally not allowable prior to 5 November 2019. The bonds are guaranteed on a subordinated basis by the Company, after the claims of the Company's senior creditors including all policyholders. The proceeds of both were loaned to the Company on similar interest, repayment and subordination terms as those applicable to the Bonds.

**23 FUND FOR FUTURE APPROPRIATIONS**

	<b>2003 £m</b>	<b>2002 £m</b>
At 1 January	-	1,066.3
Transfer from the Technical Account – Long Term Business	137.2	(1,066.3)
	<hr/>	<hr/>
At 31 December	137.2	-
	<hr/>	<hr/>

**24 TECHNICAL PROVISIONS**

	<b>Long term business provisions £m</b>	<b>Claims Outstanding £m</b>	<b>Provision for linked liabilities £m</b>	<b>Total £m</b>
<b>Gross amount</b>				
At 1 January 2003	20,977.8	37.5	1,318.2	22,333.5
Transfer from technical account	2,290.0	5.0	545.8	2,840.8
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	23,267.8	42.5	1,864.0	25,174.3
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Reinsurers' share</b>				
At 1 January 2003	3,937.4	1.3	-	3,938.7
Transfer from technical account	1,715.2	(0.5)	-	1,714.7
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	5,652.6	0.8	-	5,653.4
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net technical provisions</b>				
At 31 December 2003	17,615.2	41.7	1,864.0	19,520.9
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2003	17,076.6	36.2	1,318.2	18,394.8
	<hr/>	<hr/>	<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

The principal methods used in determining the Long Term Business Provision are the net premium valuation for conventional business and gross premium valuation for unitised business. The principal assumptions used were as follows (prior year interest rates are shown in brackets):

Class of business	Mortality	Interest (%)	
Without Profit Life	85% AM92 Ult/ 100% AF92 Ult	3.40	(3.20)
Conventional With Profit Regular Life	85% AM92 Ult / 100% AF92 Ult	3.25	(3.25)
Conventional With Profit Single Life	85% AM92 Ult / 100% AF92 Ult	3.25	(3.25)
Unitised With Profit Life	AM92 (x+2) Ult / AF92 (x+3) Ult	3.30	(3.40)
Without Profit Pensions	AM92 (x+2) Ult / AF92 (x+3) Ult*	4.25	(4.00)
Conventional With Profit Pensions Regular	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00	(4.00)
Conventional With Profit Pensions Single	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00	(3.75)
Personal Pension Contract Regular	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00	(4.00)
Personal Pension Contract Single	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00	(3.75)
Unitised With Profit Pensions	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00	(4.00)
Life Annuities in Payment	90% IMA92 / 90% IFA92	4.50	(4.75)
Pensions Annuities in Payment	95% PMA92 (mc) / 90% PFA92	5.00	(4.75)

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

Explicit provision is made for vested bonuses. The net premium valuation makes no explicit provision for future reversionary or terminal bonuses. Accumulating with profits business includes an allowance for some future bonus interest and surrender values.

A provision of £10m (2002 £15.0m) to cover direct and indirect costs arising from the pensions and free standing AVC review is included in the long term business provision. The provision is based on a prudent estimate of such costs and made at the balance sheet date.

The total cost of reversionary, interim and terminal bonuses attributable in the year ended 31 December 2003 was £569.2m (2002 £801.0m).

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



CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

25 PROVISIONS FOR OTHER RISKS AND CHARGES

	2003 £m	2002 £m
Deferred taxation	156.8	72.2
Provision for restructuring costs	5.0	-
	<hr/> 161.8	<hr/> 72.2

The provision for restructuring costs relates to expected costs to be incurred as part of the reorganisation and restructuring of the Company.

Deferred Taxation is analysed as:

	2003 £m	2002 £m
At 1 January as previously stated	72.2	8.7
Prior year adjustment	-	193.2
	<hr/> 72.2	<hr/> 201.9
Current year charge/(credit)	53.0	(129.7)
Prior year charge/(credit)	31.6	-
	<hr/> 156.8	<hr/> 72.2

Deferred taxation comprises:

Unrealised gains on investments	88.2	34.4
Deferred acquisition expenses	(24.3)	(24.0)
Capital allowances	9.2	11.0
Other timing differences	83.7	50.8
	<hr/> 156.8	<hr/> 72.2

No provision has been made for £44.0m deferred tax on unrealised gains included in the acquisition value of Halifax Life Limited on 31 December 2001.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

**26 DEPOSITS RECEIVED FROM REINSURERS**

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

**27 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	2003 £m	2002 £m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	29.2	35.3
	<hr/>	<hr/>
	29.2	35.3
	<hr/>	<hr/>

**28 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY**

	2003 £m	2002 £m
Loans due to ultimate parent company (see note 31)	504.4	-
Amounts due to Group companies	92.2	-
Outstanding purchase of investments	8.6	7.4
Amounts due to settle on outstanding derivative contracts	18.3	-
Taxation payable	55.4	3.2
Other	115.1	78.1
	<hr/>	<hr/>
	794.0	88.7
	<hr/>	<hr/>

**29 CAPITAL COMMITMENTS**

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

	2003 £m	2002 £m
Amount contracted	134.1	68.5

NOTES OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)

**30 CONTINGENT LIABILITIES**

There are no contingent liabilities at the end of the year (2002 nil).

**31 LOAN FACILITY**

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

As at 31 December 2003 £504.4m (2002 nil) was outstanding under this agreement, this amount includes £500m which was drawn down during January 2003 and unpaid interest as at 31 December 2003 of £4.4m (2002 nil). The balance is included in amounts due to group companies within other creditors.

**32 ULTIMATE PARENT UNDERTAKING**

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