

Registration No 3850542

CLERICAL MEDICAL FINANCE PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2004



CLERICAL MEDICAL FINANCE PLC

ANNUAL REPORT AND ACCOUNTS

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CLERICAL MEDICAL FINANCE PLC

DIRECTORS AND COMPANY INFORMATION

DIRECTORS	J S Edwards K W Abercromby
SECRETARY	P J Veale
REGISTERED OFFICE	33 Old Broad Street London EC2N 1HZ
PRINCIPAL PLACE OF BUSINESS	<i>Bristol Head Office</i> Narrow Plain Bristol BS2 OJH
AUDITORS	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB

CLERICAL MEDICAL FINANCE PLC

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the 5th Annual General Meeting of the Company will be held at 33 Old Broad Street, London, EC2N 1HZ at 10.50 a.m. on Thursday, 24 February 2005 for the following purposes:

1. To receive the Annual Report and Accounts of the Company for the year ended 31 December 2004 and the Directors' and Auditor's Reports thereon.
2. To re-appoint KPMG Audit plc as the company's auditors and to authorise the Directors to fix their remuneration.
3. To transact any other ordinary business of an Annual General Meeting.

Any member entitled to attend and vote at the Meeting may appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.

By Order of the Board
Peter John Veale
Secretary

Registered Office
33 Old Broad Street
London
EC2N 1HZ

2 February 2005

CLERICAL MEDICAL FINANCE PLC

DIRECTORS' REPORT

The directors have pleasure in submitting their report and the audited accounts for the year ended 31 December 2004.

CORPORATE GOVERNANCE

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

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

PRINCIPAL ACTIVITY

The company was incorporated on 24 September 1999. The principal activity of the company is to act as a finance company of Clerical Medical Investment Group Limited.

REVIEW OF ACTIVITIES

The company's loss for the period after taxation amounted to £ 21,023 (2003: profit £ 8,000) as disclosed in the profit and loss account on page 9.

The directors recommend that no dividend be paid (2003: no dividends paid).

No significant events affecting the company have occurred since 31 December 2004.

The directors are satisfied that the group has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts.

ULTIMATE HOLDING COMPANY

The ultimate holding company is HBOS PLC.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year are as follows:

K W Abercromby
J S Edwards

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 31.12.03 or date of appointment if later HBOS plc shares	At 31.12.04 HBOS plc shares
K W Abercromby	22,467	51,550
J S Edwards	134	7,665

CLERICAL MEDICAL FINANCE PLC

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 31.12.04
K W Abercromby	March 2002 March 2003 March 2004	3,462 4,123 3,351
J S Edwards	-	-

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 2004.

	Grant Effective from	At 31.12.03 or date of appointment if later	Granted (G) or lapsed (L) in year	Added as a result of performance	Dividend Reinvestment Shares	Released in year	At 31.12.04
K W Abercromby	Jan 2001 Jan 2002 Jan 2003 Jan 2004	14,885 12,500 18,229 -	- - - 17,201 (G)	16,828 - - -	1,943 - - -	33,656 - - -	- 12,500 18,229 17,201
J S Edwards	Jan 2001 Jan 2002 Jan 2003 Jan 2004	19,460 19,166 25,000 -	- - - 24,174 (G)	22,001 - - -	2,541 - - -	44,002 - - -	- 19,166 25,000 24,174

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2001 grant ended on 31 December 2003 and, in the light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 13% of the original conditional grant were also released to participants in accordance with the rules of the plan.

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.

CLERICAL MEDICAL FINANCE PLC

DIRECTORS' REPORT (CONT'D)

	Options outstanding At 31.12.03 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.04
K W Abercromby	-	-	-
J S Edwards	-	-	-

Sharesave Plan

Share options granted under these plans are set out below.

	Options outstanding At 31.12.03 or date of appointment	Granted (G), lapsed (L) or exercised (E) in year	At 31.12.04
K W Abercromby	4,115	-	4,115
J S Edwards	2,922	-	2,922

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

HBOS plc Inland Revenue Approved Share Option Plan

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

	At 31 December 2003	Grant (G), lapsed (L) or exercised (E)	At 31 December 2004
K W Abercromby	-	-	-
J S Edwards	-	-	-

CREDITOR PAYMENT POLICY

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

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

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

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

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

CLERICAL MEDICAL FINANCE PLC

AUDITORS

KPMG Audit plc having expressed their willingness to act as auditor and a resolution proposing their re-appointment at a remuneration to be fixed by the directors will be submitted at the Annual General Meeting.

By order of the Board


P J VEALE
Secretary

33 Old Broad Street
London
EC2N 1HZ

24 February 2005

CLERICAL MEDICAL FINANCE PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £000	2003 £000
INCOME FROM CONTINUING OPERATIONS			
Interest receivable from fellow subsidiary undertaking		33,011	33,542
Other income		9	-
		<hr/>	<hr/>
TOTAL INCOME		33,020	33,542
		<hr/>	<hr/>
EXPENDITURE			
Interest paid on subordinated debt		32,740	33,223
Amortisation of subordinated debt		306	305
Other expenses		4	3
		<hr/>	<hr/>
		33,050	33,531
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(30)	11
TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES	9	(9)	3
		<hr/>	<hr/>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(21)	8
RETAINED PROFIT BROUGHT FORWARD FROM PREVIOUS YEAR		44	36
		<hr/>	<hr/>
PROFIT CARRIED FORWARD		23	44
		<hr/>	<hr/>

There are no recognised gains and losses other than the loss for the year shown above. Accordingly no statement of recognised gains and losses has been prepared.

All of the above amounts are in respect of continuing operations.

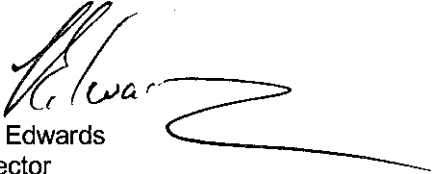
A reconciliation of movement in shareholders' funds can be found in note 7 on page 14.

The notes on pages 11 to 15 form part of these accounts.

CLERICAL MEDICAL FINANCE PLC

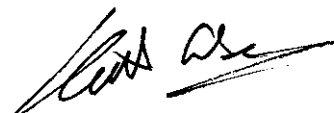
BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 £000	2003 £000
CURRENT ASSETS			
Amounts owed by group undertakings	3	491,065	489,404
Cash at bank and in hand		10	14
		<hr/>	<hr/>
		491,075	489,418
		<hr/>	<hr/>
CREDITORS – amounts falling due within one year			
Amount payable to bondholders		11,133	11,090
Accruals		-	9
		<hr/>	<hr/>
		11,133	11,099
		<hr/>	<hr/>
NET CURRENT ASSETS			
		479,942	478,319
		<hr/>	<hr/>
CREDITORS – amounts falling due after more than one year			
Amount owed to bondholders	4	479,694	478,050
		<hr/>	<hr/>
TOTAL ASSETS LESS LIABILITIES			
		248	269
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	6,7	225	225
Profit and loss account		23	44
		<hr/>	<hr/>
TOTAL SHAREHOLDERS FUNDS			
		248	269
		<hr/>	<hr/>


J S Edwards
Director

24 February 2005

K W Abercromby
Director



CLERICAL MEDICAL FINANCE PLC

NOTES TO THE ACCOUNTS – 31 DECEMBER 2004

1 ACCOUNTING POLICIES

A) BASIS OF PREPARATION

The accounts are prepared under the historical cost convention in accordance with applicable accounting standards. Under Financial Reporting Standard 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.

B) FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Transactions during the period are recorded in the profit and loss account at the exchange rate ruling at the date of the transaction.

C) TAXATION

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.

D) INCOME RECOGNITION

Income receivable is recognised on an accrual basis.

2 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The (Loss)/Profit on ordinary activities is stated after charging:

	2004 £000	2003 £000
Audit Services	4	3

3 OTHER RECEIVABLES

	2004 £000	2003 £000
Deposits with parent undertaking: current	12,642	11,644
Deposits with parent undertaking: non-current	478,414	477,760
Other amounts owed by group undertakings	9	-
	<hr/>	<hr/>
Amount owed by group undertaking	491,065	489,404
	<hr/>	<hr/>

Deposits with parent undertaking relate to funds deposited with Clerical Medical Investment Group Limited (CMIGL). Deposits bear interest between 6.555% and 7.610% depending on the terms of the specific deposit.

CLERICAL MEDICAL FINANCE PLC

NOTES TO THE ACCOUNTS – 31 DECEMBER 2004 (CONT'D)

4 SUBORDINATED LIABILITIES

On 5 July 2001 the company issued €400m of 6.45% dated Subordinated Guaranteed Bonds maturing on 5 July 2023. Redemption of the bonds is at the option of HBOS Financial Services Limited and is generally not allowable prior to July 2013, after which time if the bond has not been redeemed floating rate interest is payable. The company 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 Clerical Medical Investment Group Limited (CMIGL), a wholly owned subsidiary of the Group, after the claims of CMIGL's senior creditors including all policyholders. The proceeds of both were loaned to CMIGL on similar interest, repayment and subordination terms as those applicable to the Bonds.

Amortisation schedule for subordinated debt:

	2004 £000	2003 £000
Nominal value	483,185	481,839
Amortisation in one year	306	305
Amortisation two to five years	1,228	1,224
Amortisation over five years	1,957	2,260
	<hr/>	<hr/>
As at 31 December	479,694	478,050
	<hr/>	<hr/>

5 FINANCIAL INSTRUMENTS

The principal activity of the company is to act as a finance company of Clerical Medical Investment Group Limited, a fellow subsidiary undertaking. In consequence, subordinated debt raised by the company is loaned to Clerical Medical Investment Group Limited on similar interest, repayment and subordinated terms as those applied to the bonds. For further information see Note 4 above.

Market price risk

Market risk results mainly from the uncertainty about the future prices of financial instruments held. It represents the potential loss the company may suffer through holding market positions in the face of price movements and changes in exchange rates.

Currency risk

The interest receivable and payable, and the value of the company's assets and liabilities, can be significantly affected by currency translation movements, as some of the assets and liabilities are denominated in currencies other than sterling, which is the company's functional currency. The directors believe that the impact of such moves is not significant since the assets of the company held in currency are substantially matched by liabilities in the same currency.

The company receives income and pays expenses in currencies other than sterling and the sterling values of these transactions can be affected by movements in exchange rates, likewise however the value of the income and expenses are substantially matched.

The value of the net asset exposure to currencies other than sterling (all Euro) is £9,111,000 (2003: £9,242,000).

CLERICAL MEDICAL FINANCE PLC

NOTES TO THE ACCOUNTS – 31 DECEMBER 2004 (CONT'D)

Interest rate risk profile of financial assets and financial liabilities

The interest rate risk profile is as below – all interest rates are fixed (see Note 4)

	2004 £000	2003 £000
FINANCIAL ASSETS		
Sterling (7.610%)	147,056	147,307
Sterling (7.295)	50,252	50,382
Euro (6.555%)	281,106	280,071
	<hr/>	<hr/>
	478,414	477,760
	<hr/>	<hr/>
FINANCIAL LIABILITIES (NOMINAL VALUE)		
Sterling (7.375%)	200,000	200,000
Euro (6.450%)	283,186	281,839
	<hr/>	<hr/>
	483,186	481,839
	<hr/>	<hr/>

Liquidity risk

The company's assets comprise mainly Subordinated Loans made to Clerical Medical Investment Group Limited, the terms of which are outlined in note 4.

Fair value of financial assets and financial liabilities

The fair value of the subordinated liability is £571,441,000 (2003: £547,842,000). This is the open market value of the bonds amortised to maturity. The carrying value in the accounts of £479,694,000 (2003: £478,050,000) is the nominal value, likewise amortised.

There is no material difference between the value of the financial assets, as shown in the balance sheet, and their fair value.

6 SHARE CAPITAL AND ULTIMATE PARENT UNDERTAKING

Authorised share capital is £225,000 divided into 225,000 shares of £1 each, all of which have been allotted, called up and fully paid.

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

CLERICAL MEDICAL FINANCE PLC

NOTES TO THE ACCOUNTS – 31 DECEMBER 2004 (CONT'D)

7 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £000	2003 £000
Shareholders' funds brought forward	269	261
Loss on ordinary activities after taxation	(21)	8
	<hr/>	<hr/>
Shareholders' funds carried forward	248	269
	<hr/>	<hr/>

8 TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption in Financial Reporting Standard 8 not to report on transactions with entities that are more than 90% controlled by a common parent undertaking.

9 TAXATION

The (credit)/charge for taxation comprises:

	2004 £000	2003 £000
UK CORPORATION TAX		
Current year		
UK corporation tax at 30% on the results for the year (2003: 30%)	-	3
Group relief receivable at 30% (2003:30%) for losses surrendered to fellow group undertakings	(9)	-
	<hr/>	<hr/>
	(9)	3
	<hr/>	<hr/>
	2004 £000	2003 £000
Profit/(loss) on ordinary activities before taxation	(30)	11
	<hr/>	<hr/>
Profit/(loss) multiplied by the standard rate of corporation tax in the UK	(9)	3
	<hr/>	<hr/>
	(9)	3
	<hr/>	<hr/>

The liability for deferred taxation is £nil (2003: £nil)

CLERICAL MEDICAL FINANCE PLC

NOTES TO THE ACCOUNTS – 31 DECEMBER 2004 (CONT'D)

10 DIRECTORS' EMOLUMENTS

No emoluments were paid to the directors of the company (2003: nil), which has no employees (2003: nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 loss of the company for that year. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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 INDEPENDENT AUDITORS TO THE MEMBERS OF CLERICAL MEDICAL FINANCE PLC

We have audited the financial statements on pages 9 to 15.

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

BASIS OF AUDIT OPINION

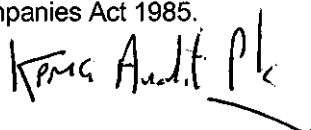
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of significant estimates and judgements 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London



24 February 2005