

**Annual Report and Accounts**  
**CLERICAL MEDICAL FINANCE PLC**  
**31 December 2001**



**Registration No 3850542**

**CLERICAL MEDICAL FINANCE PLC**  
**ANNUAL REPORT AND ACCOUNTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2001**

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**CLERICAL MEDICAL FINANCE PLC**

**BOARD OF DIRECTORS**

Roland G Ward FCT

John S Edwards appointed 24/05/2001

Robert P Walther FIA AIIMR resigned as a director on 31/10/2001

# **CLERICAL MEDICAL FINANCE PLC**

## **DIRECTORS' REPORT**

The Directors have pleasure in submitting their report and the audited accounts for the period to 31 December 2001.

### **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 profit for the period after taxation amounted to £1,000, (2000, £ 34,195)

The Directors recommend that no dividend be paid, (2000, no dividends paid.)

No significant events affecting the Company have occurred since 31 December 2001.

### **ULTIMATE HOLDING COMPANY**

The ultimate holding company is HBOS PLC.

### **DIRECTORS**

The Directors of the Company are named on page 3.

During the period no Director had any interest in the share capital of the company or of any group undertaking other than the ultimate holding company and no rights to subscribe for such interests were granted.

Mr R G Ward and Mr J S Edwards are also directors of the parent undertaking, Clerical Medical Investment Group Limited, and their interest in the shares of the ultimate holding company and options to subscribe for shares are therefore disclosed in the parent undertaking's financial statements.

## 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.

## NOTICE OF MEETING

Notice is given that the Annual General Meeting of Clerical Medical Finance plc will be held at 33 Old Broad Street, London on 20<sup>th</sup> February 2002 for the following purposes:

- 1 To receive the Accounts of the Company for the year ended 31 December 2001 and the Directors' and Auditor's Reports thereon.
- 2 To re-elect a Director.
- 3 To re-appoint KPMG Audit plc as the company's auditors and to authorise the Directors to fix their remuneration.
- 4 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  
John Veale  
Secretary  
Registered Office  
33 Old Broad Street  
London  
EC2N 1HZ

20 February 2002

# CLERICAL MEDICAL FINANCE PLC

## PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 2001

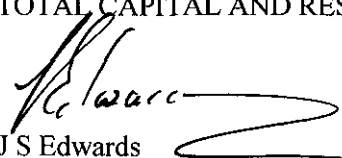
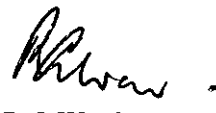
|  | Notes | 2001<br>£000       | 2000<br>£000       |
|--|-------|--------------------|--------------------|
| INCOME FROM CONTINUING OPERATIONS                      |       |                    |                    |
| Interest receivable from fellow subsidiary undertaking |       | 22,603             | 13,398             |
| Other interest receivable                              |       | 1                  | 4                  |
| TOTAL INCOME   |       | <hr/> 22,604 <hr/> | <hr/> 13,402 <hr/> |
| EXPENDITURE  |       |                    |                    |
| Interest paid  |       | 22,394             | 13,173             |
| Amortisation of Subordinated Debt                      |       | 207                | 168                |
| Other expenses   | 2     | 3                  | 11                 |
|  |       | <hr/> 22,604 <hr/> | <hr/> 13,352 <hr/> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION          |       | 0                  | 50                 |
| TAXATION ON PROFIT ON ORDINARY ACTIVITIES              | 8     | 1                  | (16)               |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION           |       | 1                  | 34                 |
| RETAINED PROFIT BROUGHT FORWARD FROM PREVIOUS YEAR     |       | 34                 |                    |
| PROFIT CARRIED FORWARD                                 |       | <hr/> 35 <hr/>     | <hr/> 34 <hr/>     |

There are no recognised gains and losses other than the profit for the period shown above.

The notes on pages 8 to 10 form part of these accounts.

CLERICAL MEDICAL FINANCE PLC

BALANCE SHEET AS AT 31 DECEMBER 2001

|   | Notes | 2001<br>£000 | 2000<br>£000 |
|---|-------|--------------|--------------|
| CURRENT ASSETS  |       |              |              |
| Amounts owed by group undertakings  | 3     | 450,942      | 200,192      |
| Cash at bank and in hand  |       | 13           | 183          |
| Other debtors   |       | 1            | -            |
|   |       | <hr/>        | <hr/>        |
|   |       | 450,956      | 200,375      |
|   |       | <hr/>        | <hr/>        |
| CREDITORS - amounts falling due within one year   |       |              |              |
| Sundry creditors  |       | 10,136       | 2,540        |
| Other creditors including taxation and social security  |       | -            | 16           |
|   |       | <hr/>        | <hr/>        |
|   |       | 10,136       | 2,556        |
|   |       | <hr/>        | <hr/>        |
| NET CURRENT ASSETS  |       | 440,820      | 197,819      |
|   |       | <hr/>        | <hr/>        |
| CREDITORS - amounts falling due after more than one year  |       |              |              |
| Amount owed to bondholders  | 4     | 440,560      | 197,560      |
|   |       | <hr/>        | <hr/>        |
| TOTAL ASSETS LESS LIABILITIES   |       | 260          | 259          |
|   |       | <hr/>        | <hr/>        |
| CAPITAL AND RESERVES  |       |              |              |
| Called up share capital   | 5     | 225          | 225          |
| Profit and loss account   |       | 35           | 34           |
|   |       | <hr/>        | <hr/>        |
| TOTAL CAPITAL AND RESERVES  |       | 260          | 259          |
|   |       | <hr/>        | <hr/>        |
|   |       |              |              |
| J S Edwards   |       | R G Ward     |              |
| Director  |       | Director     |              |
| 20 February 2002  |       |              |              |

# CLERICAL MEDICAL FINANCE PLC

## NOTES TO THE ACCOUNTS – 31 DECEMBER 2001

### 1 ACCOUNTING POLICIES

#### 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.

#### Foreign Currencies

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date.

### 2 OTHER EXPENSES

No emoluments were paid to the Directors of the Company which has no employees, (2000, no employees.)

The remuneration, including VAT, of the Auditor for the period was:

|   | 2001<br>£000 | 2000<br>£000 |
|---|--------------|--------------|
| Audit services                                  | 3            | 11           |
| Non audit services (capitalised as issue costs) | 15           | 35           |
|   | <hr/>        | <hr/>        |
|   | 18           | 46           |
|   | <hr/>        | <hr/>        |

### 3 DEPOSIT WITH PARENT UNDERTAKING

The deposits bear interest between 6.555% and 7.610% depending on the terms of the specific deposit.

### 4 SUBORDINATED LIABILITIES

On 5 July 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 Clerical Medical Investment Group (Holdings) Ltd (the group) 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.

## 5 SHARE CAPITAL AND ULTIMATE PARENT UNDERTAKING

- 5.1 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.
- 5.2 The Company is a wholly owned subsidiary undertaking of Clerical Medical Investment Group (Holdings) Limited, which is registered in England and Wales and operates in the United Kingdom. Clerical Medical Investment Group (Holdings) Limited, which is also registered in England and Wales and operates in the United Kingdom, is the company which heads the smallest higher group for which group accounts are drawn up and of which the company is a member. Copies of the financial statements of Clerical Medical Investment Group (Holdings) Limited can be obtained from 33 Old Broad Street, London, EC2N 1HZ, which is its principal place of business.

The largest Group in which the results of the Clerical Medical Investment Group (Holdings) Ltd are consolidated is that headed by HBOS plc which acquired 100% of the ordinary share capital of Halifax Group on 10 September 2001. Halifax Group plc owns 100% of the ordinary share capital of Halifax plc, the smallest Group in which the Company is consolidated.

Copies of the accounts of HBOS plc and Halifax plc are available from The Mound, Edinburgh, EH1 1YZ.

## 6 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|  | <b>2001</b> |
|--|-------------|
|  | <b>£000</b> |
| Shareholders' funds brought forward          | 259         |
| Profit on ordinary activities after taxation | 1           |
|  | <hr/>       |
| Shareholders' funds carried forward          | 260         |
|  | <hr/>       |

## 7 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.

## 8 TAXATION

The credit/(charge) for taxation comprises:

|                                       | 2001<br>£'000 | 2000<br>£'000 |
|---------------------------------------|---------------|---------------|
| <i>UK corporation tax</i>             |               |               |
| Current tax on income for the year    | -             | (16)          |
| Adjustments in respect of prior years | 1             | -             |
|                                       | <hr/>         | <hr/>         |
|                                       | (1)           | 16            |
|                                       | <hr/>         | <hr/>         |

## **CLERICAL MEDICAL FINANCE PLC**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 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.

## CLERICAL MEDICAL FINANCE PLC

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLERICAL MEDICAL FINANCE PLC

We have audited the financial statements on pages 6 to 10.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors are responsible for preparing the Directors' Report and, as described on page 10, 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 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 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 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

20 February 2002