

Annual Report and Accounts
CLERICAL MEDICAL FINANCE PLC

31 December 2002



Registration No 3850542

CLERICAL MEDICAL FINANCE PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE PERIOD ENDED 31 DECEMBER 2002

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CLERICAL MEDICAL FINANCE PLC

BOARD OF DIRECTORS

Roland G Ward FCT

John S Edwards

CLERICAL MEDICAL FINANCE PLC

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited accounts for the period to 31 December 2002.

CORPORATE GOVERNANCE

The activities of the Company are overseen by the Audit 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 Audit 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 profit for the period after taxation amounted to £ 1,000 (2001, £ 1,000)

The Directors recommend that no dividend be paid, (2001, no dividends paid.)

No significant events affecting the Company have occurred since 31 December 2002.

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.

All the directors are Directors of the intermediate holding company HBOS Insurance & Investments Group Limited and details of their interests in the shares of the ultimate holding company and options to subscribe for shares are therefore disclosed in that company'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 20th February 2003 for the following purposes:

- 1 To receive the Accounts of the Company for the year ended 31 December 2002 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 2003

CLERICAL MEDICAL FINANCE PLC

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 2002

	Notes	2002 £000	2001 £000
INCOME FROM CONTINUING OPERATIONS			
Interest receivable from fellow subsidiary undertaking		31,927	22,603
Other interest receivable			1
TOTAL INCOME		<hr/> 31,927 <hr/>	<hr/> 22,604 <hr/>
EXPENDITURE			
Interest paid		31,629	22,394
Amortisation of Subordinated Debt		294	207
Other expenses	2	3	3
		<hr/> 31,926 <hr/>	<hr/> 22,604 <hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1	0
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	9	-	1
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<hr/> 1 <hr/>	<hr/> 1 <hr/>
RETAINED PROFIT BROUGHT FORWARD FROM PREVIOUS YEAR		35	34
PROFIT CARRIED FORWARD		<hr/> 36 <hr/>	<hr/> 35 <hr/>


There are no recognised gains and losses other than the profit for the period shown above, accordingly no statement of recognised gains and losses has been prepared.

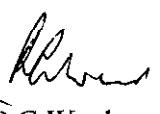
The notes on pages 8 to 11 form part of these accounts.

CLERICAL MEDICAL FINANCE PLC

BALANCE SHEET AS AT 31 DECEMBER 2002

	Notes	2002 £000	2001 £000
CURRENT ASSETS			
Amounts owed by group undertakings	3	467,451	450,942
Other debtors		-	1
Cash at bank and in hand		13	13
		<hr/>	<hr/>
		467,464	450,956
		<hr/>	<hr/>
CREDITORS - amounts falling due within one year			
Amount payable to bondholders		10,428	10,136
Accruals		6	-
		<hr/>	<hr/>
		10,434	10,136
		<hr/>	<hr/>
NET CURRENT ASSETS		457,030	440,820
		<hr/>	<hr/>
CREDITORS - amounts falling due after more than one year			
Amount owed to bondholders	4	456,769	440,560
		<hr/>	<hr/>
TOTAL ASSETS LESS LIABILITIES		261	260
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	6,7	225	225
Profit and loss account		36	35
		<hr/>	<hr/>
TOTAL SHAREHOLDERS FUNDS		261	260
		<hr/>	<hr/>


J S Edwards
Director


R G Ward
Director

20 February 2003

CLERICAL MEDICAL FINANCE PLC

NOTES TO THE ACCOUNTS – 31 DECEMBER 2002

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. Transactions during the period are recorded in the profit and loss account at the exchange rate ruling at the date of the transaction.

2 OTHER EXPENSES

No emoluments were paid to the Directors of the Company which has no employees, (2001, no employees.)

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

	2002 £000	2001 £000
Audit services	3	3
Non audit services (capitalised as issue costs)	-	15
	<hr/>	<hr/>
	3	18
	<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. Debtors are analysed as follows:

	2002 £000	2001 £000
Amounts due within one year	31,927	22,603
Amounts due after one year	<u>435,524</u>	<u>428,340</u>
Amount owed by group undertaking	<u>467,451</u>	<u>450,942</u>

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 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.

Amortisation schedule for subordinated debt

	2002 £000	2001 £000
Nominal value	460,731	444,716
Amortisation in one year	294	289
Amortisation two to five years	1,179	1,158
Amortisation over five years	<u>2,489</u>	<u>2,708</u>
As at 31 Dec	<u>456,769</u>	<u>440,560</u>

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 are 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 £306,000 (2001 £305,000).

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)

	2002 £000	2001 £000
<i>Financial Assets</i>		
Sterling (7.610%)	147,307	147,307
Sterling (7.295)	50,382	50,382
Euro (6.555%)	259,095	243,181
	<u>456,784</u>	<u>440,870</u>
<i>Financial Liabilities (nominal value)</i>		
Sterling (7.375%)	200,000	200,000
Euro (6.450%)	260,731	244,716
	<u>460,731</u>	<u>244,716</u>

Liquidity risk

The Companies 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 £486,940,000 (2001 £450,215,000). This is the open market value of the bonds amortised to maturity. The carrying value in the accounts of £456,769,000 (2001 £440,560,000) 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

- 6.1 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.
- 6.2 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. HBOS plc is the ultimate parent undertaking and heads the largest higher group of undertakings for which group accounts are drawn up and of which the company is a member. Copies of the financial statements of HBOS plc can be obtained from The Mound, Edinburgh, EH1 1YZ, which is its principal place of business.

7 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £000	2001 £000
Shareholders' funds brought forward	260	259
Profit on ordinary activities after taxation	1	1
	<hr/>	<hr/>
Shareholders' funds carried forward	261	260
	<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:

	2002 £'000	2001 £'000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	(1)
	<hr/>	<hr/>
	-	(1)
	<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 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;
- 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 11.

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 AUDITOR

The Directors are responsible for preparing the Directors' Report and, as described on page 12, 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 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

KPMG Audit Plc

20 February 2003