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Annual Report and Accounts

**CLERICAL MEDICAL INVESTMENT
GROUP LIMITED**

**For the Year ended
31 December 1999**



Registration No 3196171

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED
DIRECTORS' REPORT AND ACCOUNTS**

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

DIRECTORS

CHAIRMAN

John Wood

CHIEF EXECUTIVE

Robert Walther

OTHER DIRECTORS

Malcolm Argent

Jillian Camm

James Crosby

John Edwards

Michael Moore

Louis Sherwood

Malachy Smith

Roland Ward

SECRETARY

Susan Fogarty

PRINCIPAL PLACES OF BUSINESS

Principal/Registered Office

15 St James's Square

London

SW1Y 4LQ

Bristol Head Office

Narrow Plain

Bristol

BS2 0JH

Clevedon Office

Tickenham Road

Clevedon

BS21 6BD

APPOINTED ACTUARY

Adrian Saunders, FIA

AUDITOR

KPMG Audit Plc

8 Salisbury Square

London

EC4Y 8BB

CLERICAL MEDICAL INVESTMENT GROUP LIMITED

DIRECTORS' REPORT

The Directors present their Report and the audited Accounts for the year ended 31 December 1999.

PRINCIPAL ACTIVITY

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

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

No significant events affecting the Company have occurred since 31 December 1999.

RESULT AND DIVIDEND

The result for the year is shown in the profit and loss account on page 9. No interim dividend was paid during the year (1998 nil) and the Directors recommended that no final dividend be paid (1998 nil).

FUNDS UNDER MANAGEMENT

Group funds under management amounted to £27.7 billion at 31 December 1999 (1998 £21.8 billion).

SUPPLIER PAYMENT POLICY

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

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

The Company had trade creditors outstanding at the year end representing 18 days of purchases.

EMPLOYEES AND REMUNERATION

The average number of persons (including Executive Directors) employed by the Company in each week of 1999 was 1,997 (1998 2,040) and the aggregate remuneration paid to them during the year was £56.8m (1998 £51.8m).

ULTIMATE HOLDING COMPANY

Following a group reconstruction on 1 June 1999, a new ultimate parent undertaking, Halifax Group plc was established which owns all the ordinary share capital of Halifax plc, the previous ultimate parent undertaking.

EMPLOYMENT OF DISABLED PERSONS

The Company operates an equal opportunities policy which 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.

STAFF INVOLVEMENT AND COMMUNICATIONS

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 sought through the Company's communication programme. The programme currently consists of three channels of communication, an in house magazine, TV programmes and interactive discussion groups where staff are actively encouraged to debate issues identified as key to the success of the business strategy. Future plans will include a fourth channel using electronic mail on the 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 Clerical Medical and its parent Halifax. The results of the surveys are fed back and used to promote changes within the Group.

General information on day to day issues is made available through a range of other communication channels which include electronic bulletins and on line guides.

CONSULTATION AND PARTICIPATION

The Company recognises the Independent Union of Halifax Staff 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 matching rewards to the market whilst rewarding personal achievement. A group bonus scheme allows staff to share in success at a corporate level, whilst participation in the Halifax SAYE scheme provides staff with an opportunity to acquire shares in the parent company at a substantial discount. An attractive range of benefits complement and enhance the remuneration package.

The Company operates a performance management process which 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 plan for their personal development and career progression.

YEAR 2000 PROGRAMME

Clerical Medical continues its review of the impact of the Year 2000 on the Group's business.

The Directors are satisfied that to date no major issues have arisen as a result of Year 2000 and that any future impact on the business will not be significant. In the unlikely event of an internal Year 2000 fault still remaining undetected or of a default by a third party, contingency plans remain in place so that Clerical Medical will be able to restore its operation with the minimum of delay and with no significant adverse impact on customers.

The accumulated costs of the Clerical Medical programme to 31 December 1999 are £6.7m. A further budget of £0.3m has been established for costs arising in the first quarter of 2000.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year were as follows:

Malcolm Argent
Gillian Camm
James Crosby
John Edwards
Michael Moore
Louis Sherwood
Malachy Smith
Robert Walther
Roland Ward
John Wood

There were no appointments or resignations during the year.

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

As a consequence of the corporate restructuring on 1 June 1999, the Directors' share of interests in Halifax plc have been exchanged for interests in Halifax Group plc shares, on the basis of 37 shares for every 40 shares previously held. Therefore the table below reflects interests in Halifax Group plc shares at 31 December 1999 and in those of Halifax plc at 1 January 1999.

The interests of the Directors in the shares of the ultimate holding company, including interests in shares held beneficially under the long term and short term bonus schemes, were as follows:

	Number of shares at 31 December 1999	Number of shares at 1 January 1999
Malcolm Argent	1,176	1,243
Robert Walther	45,770	25,793
Gillian Camm	9,633	4,379
John Edwards	12,193	5,473
Roland Ward	13,217	6,130

Under the terms of the Halifax plc Sharesave Scheme 1997, options to acquire shares in the ultimate holding company were granted to or exercised by the following Directors:

	Waived in Year	Lapsed in Year	Options Granted in Year	Exercised in Year
Jillian Camm	1,681	-	1,684	-
John Edwards	1,681	-	1,684	-
Robert Walther	2,974	-	2,980	-
Roland Ward	1,681	-	1,684	-

Where relevant, scheme participants agreed to waive options in Halifax plc shares and were granted replacement options in Halifax Group plc using a basis specified by the Inland Revenue.

J R Crosby and J L Wood are also Directors of the ultimate holding company and their interests in the shares of that company and options to subscribe for shares are therefore disclosed in the holding company's financial statements.

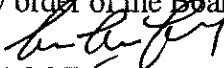
AUDITOR

KPMG Audit Plc, having expressed their willingness to do so, will continue in office as auditor.

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


S A M Fogarty
Secretary

15 St James's Square
London
SW1Y 4LQ
14 February 2000

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ACCOUNTS**

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

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

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

**REPORT OF THE AUDITOR
TO THE MEMBERS OF CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

We have audited the financial statements on pages 8 to 32.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Directors' Report and, as described on page 6, 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. 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 the 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 affairs of the Company as at 31 December 1999 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

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB

14 February 2000

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1999

TECHNICAL ACCOUNT - LONG TERM BUSINESS

Continuing Operations

	Note	1999 £m	1998 £m
<i>Earned premiums, net of reinsurance</i>			
- Gross premiums written	2	2,934.7	2,207.6
- Outward reinsurance premiums		<u>(235.1)</u>	<u>(217.6)</u>
- Net of reinsurance		2,699.6	1,990.0
<i>Investment income</i>	4	1,134.9	813.1
<i>Unrealised gains on investments</i>		1,503.6	903.8
<i>Other technical income, net of reinsurance</i>	5	12.1	1.9
Total Income		<u>5,350.2</u>	<u>3,708.8</u>
<i>Claims incurred</i>			
Claims paid - Gross amount		1,133.6	1,143.3
- Reinsurers' share		<u>-</u>	<u>(1.0)</u>
- Net of reinsurance		1,133.6	1,142.3
Change in provision for claims			
- Gross amount		6.7	(3.5)
- Reinsurer's share		<u>1.4</u>	<u>-</u>
- Net of reinsurance		8.1	(3.5)
Claims incurred, net of reinsurance	6	1,141.7	1,138.8
<i>Change in other technical provisions, net of reinsurance</i>			
Long term business provision			
- Gross amount		2,442.0	2,106.5
- Reinsurers' share		<u>(542.3)</u>	<u>(236.3)</u>
- Net of reinsurance		1,899.7	1,870.2
Provision for linked liabilities, net of reinsurance		239.6	129.9
<i>Net operating expenses</i>	8	223.5	112.7
<i>Investment expenses and charges</i>	9	56.6	56.5
<i>Tax attributable to long term business</i>	13	113.8	63.2
<i>Transfers to the fund for future appropriations</i>	22	1,662.0	347.9
Total Expenditure		<u>5,336.9</u>	<u>3,719.2</u>
Balance on the technical account - long term business		<u>13.3</u>	<u>(10.4)</u>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1999

NON- TECHNICAL ACCOUNT

	Continuing Operations	
	Notes	
	1999	1998
	£m	£m
<i>Balance on the technical account - long term business</i>	13.3	(10.4)
Tax attributable to the balance on the technical account	2.3	0.8
<i>Shareholders' pre-tax profit arising from long term insurance business</i>	15.6	(9.6)
Investment income	-	-
Operating Profit	15.6	(9.6)
Other charges, including value adjustments	-	-
Profit on ordinary activities before taxation	15.6	(9.6)
Tax on profit on ordinary activities	13 (2.3)	(0.8)
Profit for the financial year	13.3	(10.4)
Dividends	-	-
Retained profit for the financial year	13.3	(10.4)

A statement of the movement on reserves is shown in Note 21 to the Accounts on page 28.

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

The notes on pages 12 to 32 form part of these accounts.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
BALANCE SHEET
as at 31 December 1999

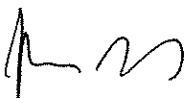
	Note	1999 £m	1998 £m
ASSETS			
<i>Investments</i>	14		
- Land and buildings		1,379.2	1,094.2
- Investment in Group undertakings and participating interests		432.3	275.6
- Other financial investments		15,442.5	11,580.9
		<hr/>	<hr/>
		17,254.0	12,950.7
<i>Assets held to cover linked liabilities</i>	16	1,292.0	1,052.4
<i>Reinsurers' share of technical provisions</i>			
- Long term business provision		1,984.3	1,442.0
- Claims outstanding		1.4	-
		<hr/>	<hr/>
		1,985.7	1,442.0
<i>Debtors</i>			
- Debtors arising out of direct insurance operations	17	17.5	14.7
- Other debtors	17	133.3	98.4
		<hr/>	<hr/>
		150.8	113.1
<i>Other assets</i>			
- Tangible assets	18	15.1	9.1
- Cash at bank and in hand		114.1	22.6
		<hr/>	<hr/>
		129.2	31.7
<i>Prepayments and accrued income</i>			
- Accrued interest and rent		18.0	14.5
- Deferred acquisition costs		159.2	181.2
- Other prepayments and accrued income	19	491.3	525.3
		<hr/>	<hr/>
		668.5	721.0
TOTAL ASSETS		<hr/> <hr/>	<hr/> <hr/>
		21,480.2	16,310.9

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
BALANCE SHEET
as at 31 December 1999

	Note	1999 £m	1998 £m
LIABILITIES			
<i>Capital and reserves</i>			
- Called up share capital	20,21	570.0	70.0
- Profit and loss account	21	26.2	12.8
- General reserves	21	611.7	611.7
<i>Shareholders' funds attributable to equity interests</i>			
		1,207.9	694.5
<i>Subordinated liabilities</i>	31	147.3	-
<i>Fund for future appropriations</i>	22	4,589.8	2,922.8
<i>Technical provisions</i>			
- Long term business provision	23	13,879.8	11,437.8
- Claims outstanding		24.7	16.6
		13,904.5	11,454.4
<i>Technical provisions for linked liabilities</i>	24	1,292.0	1,052.4
<i>Provisions for other risks and charges</i>	25	59.9	42.9
<i>Creditors</i>			
- Creditors arising out of direct insurance operations	26	60.7	25.7
- Other creditors including taxation and social security	27	188.4	100.1
		249.1	125.8
<i>Accruals and deferred income</i>		29.7	18.1
TOTAL LIABILITIES		21,480.2	16,310.9

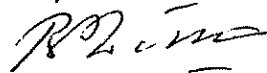
These accounts were approved by the Board of Directors on 14 February 2000 and were signed on its behalf by:

J L Wood



Chairman

K P Walther



Chief Executive

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
NOTES OF THE ACCOUNTS

1 ACCOUNTING POLICIES

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

Basis of Preparation

The accounts have been prepared in accordance with Sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985. The accounts have also been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention, modified to include the revaluation of investments, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers. The Company has adopted the modified statutory solvency basis for determining technical provisions.

The financial statements have been prepared in accordance with the requirements of three new Financial Reporting Standards (12, 15 and 16). There have been no changes to reported figures as a result of adopting the new standards except as reported in notes 4 and 13.

Foreign Currencies

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

Premiums

Premium income is accounted for on a cash basis in respect of single premium business and pensions business not subject to contractual regular premiums. For all other classes of business, premium income is accounted for in the year in which it is due for payment. Outward reinsurance premiums are accounted for when the related premium income is recognised.

Investment income

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

In accordance with the ABI Statement of Recommended Practice, the investment return arising during the accounting period in relation to investment held within the Shareholders' Fund has been included in the long term business technical account.

Unrealised Gains and Losses on Investments

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

Claims and Surrenders

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

Commission

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

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 actual rate of corporation tax applicable for the year.

Deferred taxation is calculated on a discounted basis and provision is made using the liability method at current rates of tax for all material timing differences, where it is considered that a liability will crystallise in the foreseeable future.

Pension Costs

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

Investments

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

- a) Properties are valued on the basis of open market value, at least once a year, 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".
- b) Listed investments other than units in unit trusts are valued at last traded price or middle market price adjusted to include accrued interest. Units in unit trusts are valued at minimum bid price.
- c) All other investments are valued by the Directors at estimated open market values.

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

Deferred Acquisition Costs

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

Tangible Assets

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

Acquisitions

Acquisitions are accounted for in accordance with Financial Reporting Standards 6 and 7 ("Acquisitions and Mergers" and "Fair Values in Acquisition Accounting").

Technical Provisions

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

Long term business provisions include the non unit liabilities in respect of unit linked business.

- b) The technical provisions for linked liabilities are determined by reference to the benefits under the contracts.

Cash Flow Statement

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.

2 PREMIUMS

The value of premiums written was as follows:

	<i>United Kingdom</i>		<i>Other European Community</i>		<i>Other</i>		<i>Total</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<i>Life Insurance Business</i>								
Participating contracts								
single premium	546.5	398.8	-	-	-	-	546.5	398.8
regular premium	408.4	179.0	-	-	6.8	7.6	415.2	186.6
Non participating contracts								
single premium	573.2	439.4	421.7	245.8	96.4	93.9	1,091.3	779.1
regular premium	27.7	28.5	42.1	37.9	8.9	6.0	78.7	72.4
Linked contracts								
single premium	145.4	96.7	2.1	-	-	-	147.5	96.7
regular premium	22.8	20.1	-	-	-	-	22.8	20.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,724.0	1,162.5	465.9	283.7	112.1	107.5	2,302.0	1,553.7
<i>Group Pensions Business</i>								
Participating contracts								
single premium	17.6	7.8	-	-	-	-	17.6	7.8
regular premium	44.2	40.4	-	-	-	-	44.2	40.4
Non participating contracts								
single premium	4.7	3.4	-	-	-	-	4.7	3.4
regular premium	48.6	51.6	-	-	7.5	7.8	56.1	59.4
Linked contracts								
single premium	30.4	21.3	-	-	-	-	30.4	21.3
regular premium	52.2	36.5	-	-	-	-	52.2	36.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	197.7	161.0	-	-	7.5	7.8	205.2	168.8
<i>Individual Pensions Business</i>								
Participating contracts								
single premium	155.4	118.0	-	-	-	-	155.4	118.0
regular premium	44.1	117.1	-	-	5.5	6.4	49.6	123.5
Linked contracts								
single premium	211.3	198.8	-	-	-	-	211.3	198.8
regular premium	11.2	44.8	-	-	-	-	11.2	44.8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	422.0	478.7	-	-	5.5	6.4	427.5	485.1
Less: Reinsurance premiums	230.8	217.6	4.3	-	-	-	235.1	217.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Net Premiums Written	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2,112.9	1,584.6	461.6	283.7	125.1	121.7	2,699.6	1,990.0

3 NEW BUSINESS PREMIUMS

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

	Single		Annualised	
	1999	1998	1999	1998
	£m	£m	£m	£m
United Kingdom				
<i>Life Insurance Business</i>				
Participating contracts	546.5	398.8	8.0	2.4
Non participating contracts	573.2	439.4	1.6	3.0
Linked contracts	145.4	96.7	11.1	3.3
	<hr/>	<hr/>	<hr/>	<hr/>
	1,265.1	934.9	20.7	8.7
 <i>Group Pensions Business</i>				
Participating contracts	17.6	7.8	13.8	10.0
Non participating contracts	4.7	3.4	2.3	1.3
Linked contracts	30.4	21.3	18.6	12.6
	<hr/>	<hr/>	<hr/>	<hr/>
	52.7	32.5	34.7	23.9
 <i>Individual Pensions Business</i>				
Participating contracts	155.4	118.0	1.3	1.8
Linked contracts	211.3	198.8	8.9	12.4
	<hr/>	<hr/>	<hr/>	<hr/>
	366.7	316.8	10.2	14.2
 Less: Reinsurance premiums	(160.1)	(222.1)	(17.1)	(14.9)
	<hr/>	<hr/>	<hr/>	<hr/>
Total United Kingdom	1,524.4	1,062.1	48.5	31.9
	<hr/>	<hr/>	<hr/>	<hr/>
 Other European Community				
<i>Life Insurance Business</i>				
Participating contracts	421.7	245.8	9.9	5.6
Linked contracts	2.1	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	423.8	245.8	9.9	5.6
 Less: Reinsurance premiums	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other European Community	423.8	245.8	9.9	5.6
	<hr/>	<hr/>	<hr/>	<hr/>

Cont'd.....

	Single		Annualised	
	1999	1998	1999	1998
	£m	£m	£m	£m
Other				
<i>Life Insurance Business</i>				
Non participating contracts	96.4	93.9	1.4	1.1
	<hr/>	<hr/>	<hr/>	<hr/>
	96.4	93.9	1.4	1.1
Less: Reinsurance premiums	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other	96.4	93.9	1.4	1.1
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Net New Business Premiums	2,044.6	1,401.8	59.8	38.6
	<hr/>	<hr/>	<hr/>	<hr/>

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

- (a) 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.
- (b) DSS rebates are classified as new single premiums.
- (c) Funds at retirement under individual pension contracts left with the Company and transfers from group to individual contracts are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.
- (d) 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.

4 INVESTMENT INCOME

	Technical Account Long Term Business	
	1999	1998
	£m	Restated £m
Income from participating interests	1.0	6.8
Income from land and buildings	78.3	77.9
Income from other investments		
- listed	411.6	316.3
- other	111.9	130.4
	<hr/>	<hr/>
	602.8	531.4
Net gains on the realisation of investments	532.1	281.7
	<hr/>	<hr/>
	1,134.9	813.1
	<hr/>	<hr/>

The Company has adopted Financial Reporting Standard 16 "Current Tax". Accordingly, dividends received from UK companies are now reported net of attributable tax credits with a consequent reduction in the tax charge. Investment income for 1998 is £17.3m lower than that previously reported to reflect this change in treatment. See also note 13. This change in accounting policy does not impact profit after tax or shareholders' funds in 1999 or 1998.

5 OTHER TECHNICAL INCOME

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

6 CLAIMS INCURRED

	1999	1998
	£m	£m
Deaths	35.5	38.1
Maturities	371.6	387.1
Life and annuity surrenders	67.0	83.4
Unit linked	503.3	478.0
Pension contracts	60.6	43.1
Managed funds	0.7	-
Annuity payments	103.0	109.1
	<hr/>	<hr/>
	1,141.7	1,138.8
	<hr/>	<hr/>

7 STAFF SUPERANNUATION FUND

The Company operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund. For the purposes of SSAP24, the most recent actuarial valuation was conducted as at 1 January 1997 and used the following main assumptions:

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

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

Members' contributions to the fund commenced on 1 January 1998 at the rate of 2% of pensionable earnings.

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

8 NET OPERATING EXPENSES

	1999 £m	1998 £m
Acquisition costs	153.9	91.3
Change in deferred acquisition costs	22.0	(33.4)
Administrative expenses	47.6	54.8
	<hr/>	<hr/>
	223.5	112.7
	<hr/>	<hr/>

Net administrative expenses above include the following amounts:

	1999 £m	1998 £m
Auditor's remuneration (including VAT) paid to the auditor and associated firms:		
Remuneration for audit services	0.2	0.2
Remuneration for non-audit services	0.1	0.3
	<hr/>	<hr/>
	0.3	0.5
	<hr/>	<hr/>

9 INVESTMENT EXPENSES AND CHARGES

	1999 £m	1998 £m
Investment management expenses	17.6	14.9
Interest on Pension Contract business	33.0	37.2
Other Interest	6.0	4.4
	<hr/>	<hr/>
	56.6	56.5
	<hr/>	<hr/>

10 DIRECTORS' EMOLUMENTS

Directors' emoluments for the year amounted to £935,300 (1998 £903,100). The total emoluments of the highest paid Director were £274,500 (1998 £262,600). He is a member of the Clerical Medical Staff Superannuation Fund (a defined benefit scheme). The accrued pension which would be payable on his attaining normal retirement age if he had left the Company's service at the end of the financial year would be £97,844 (1998 £89,100), and his accrued lump sum would be £265,100 (1998 £244,093). Retirement benefits under the Clerical Medical Staff Superannuation Fund were accruing to five Directors as at 31 December 1999 (five Directors as at 31 December 1998).

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 £634,485 (1998 £541,292).

At 31 December 1999, certain related parties (defined as Directors/Principal Officers and their spouses) held insurance policies and other investments managed by the Group and sold on terms available to all employees.

12 EMPLOYEE INFORMATION

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

	1999	1998
Operations	836	850
Marketing and Sales	453	428
Other	708	762
	<hr/>	<hr/>
	1,997	2,040
	<hr/>	<hr/>

Employees costs for the above were as follows:

	1999 £m	1998 £m
Wages and salaries	56.8	51.9
Social security costs	4.8	4.3
Other costs	0.3	0.3
	<hr/>	<hr/>
	61.9	56.5
	<hr/>	<hr/>

13 TAXATION

The charge/(credit) for taxation comprises:

	Technical Account Long Term Business		Non Technical Account	
	1999 £m	1998 Restated £m	1999 £m	1998 £m
<i>UK corporation tax</i>				
Current tax on income for the year	97.6	64.0	2.3	0.8
Adjustments in respect of prior years	(1.9)	(10.0)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	95.7	54.0	2.3	0.8
Double taxation relief	(2.6)	(2.0)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	93.1	52.0	2.3	0.8
<i>Foreign tax</i>				
Current tax on income for the year	3.6	3.3	-	-
Adjustments in respect of prior years	0.1	(0.3)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	96.8	55.0	2.3	0.8
Deferred taxation	17.0	8.2	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	113.8	63.2	2.3	0.8
	<hr/>	<hr/>	<hr/>	<hr/>

The Company has adopted Financial Reporting Standard 16 'Current Tax'. Accordingly, dividends received from UK companies are now reported net of attributable tax credits with a consequent reduction in the tax charge. The taxation charge for 1998 is £17.3m lower than that previously reported to reflect this change in treatment. See also note 4.

The charge for deferred taxation is in respect of:

	1999 £m	1998 £m
Deemed disposal of unit trusts and offshore funds	24.3	8.2
Less: Deferred acquisition expenses	(7.3)	-
	<hr/> 17.0	<hr/> 8.2

14 INVESTMENTS

14.1 Land and buildings:

	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
Valuation				
At 31 December 1999	1,021.1	292.8	65.3	1,379.2
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	788.6	232.3	73.3	1,094.2
	<hr/>	<hr/>	<hr/>	<hr/>
Cost				
At 31 December 1999	847.8	216.1	61.4	1,125.3
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	703.2	208.7	65.4	977.3
	<hr/>	<hr/>	<hr/>	<hr/>

The properties valued by external valuers, which include all those which are held to cover linked liabilities, totalled £1,394.5m (1998 £1,114.6m) representing 99% (1998 99%) of the Company's freehold and leasehold properties. Included in the above figures are land and buildings owned and occupied by the Company at 31 December 1999 of £45.0m (1998 £39.7m). Notional rent of £2.7m (1998 £2.7m), based on market rentals, was charged to net operating expenses and included in investment income.

14.2 Investments in Group undertakings and participating interests:

	Group Undertakings			Participating Interests			Total £m
	Ordinary Shares	Loans	Total	Ordinary Shares	Other Invest- ments	Total	
	£m	£m	£m	£m	£m	£m	
Valuation							
At 31 December 1999	265.8	3.2	269.0	158.3	5.0	163.3	432.3
At 31 December 1998	129.5	19.7	149.2	120.3	6.1	126.4	275.6
Cost							
At 31 December 1999	150.5	3.2	153.7	32.6	4.2	36.8	190.5
At 31 December 1998	118.4	19.7	138.1	69.6	5.2	74.8	212.9

14.3 Other financial investments:

	Valuation 1999 £m	Cost 1999 £m	Valuation 1998 £m	Cost 1998 £m
Shares and other variable yield securities and units in unit trusts	10,600.8	6,135.0	6,344.5	4,392.0
Debt securities and other fixed interest securities	3,129.8	2,958.9	3,044.1	2,629.2
Loans secured by mortgages	0.3	0.3	1.2	1.2
Other loans	19.8	21.0	21.6	22.5
Deposits with credit institutions	1,691.8	1,731.6	2,169.5	2,134.2
	15,442.5	10,846.8	11,580.9	9,179.1

Included in the valuation shown in 14.2 and 14.3 above are the following listed investments:

	Group Undertakings and Participating Interests	Other Investments	Total	Total
	1999	1999	1999	1998
	£m	£m	£m	£m
Shares and other variable yield securities and units in unit trusts	122.3	12,338.2	12,460.5	6,384.6
Debt securities and other fixed income securities	-	3,245.9	3,245.9	3,036.8

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

15 GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

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

	Country of Incorporation or Registration	Nature of Business	% Held
Group Undertakings			
Clerical Medical Managed Funds Limited	England and Wales	Life Insurance	* 100.0
Clerical Medical Unit Trust Managers Limited	England and Wales	Unit Trust Management	* 100.0
CMI Financial Management Services Limited	Isle of Man	Financial Services	* 100.0
CMI Financial Services Limited	England and Wales	Financial Services	100.0
CMI Insurance Company Limited	Isle of Man	Life Insurance	100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company	92.6
Lands Improvement Holdings plc	England and Wales	Investment Company	* 98.5
The CM Institutional Fund	Luxembourg	Open-Ended Investment Company	100.0
Participating Interests			
Brixton Estate plc	England and Wales	Investment Company	22.0
Pharos SA	Luxembourg	Investment Company	31.6

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

On 31 December 1999, the Company increased its stake in Lands Improvement Holdings plc from 48.1% to 98.5%. The consideration was equivalent to the fair value of the assets acquired and the difference has been taken to reserves.

16 ASSETS HELD TO COVER LINKED LIABILITIES

	1999 £m	1998 £m
At valuation	1,292.0	1,052.4
At cost	971.6	863.1

17 DEBTORS

	1999 £m	1998 £m
Debtors arising out of direct insurance operations:		
Amounts receivable from policyholders	16.0	6.8
Reinsurance debtors	1.5	7.9
	17.5	14.7

Other debtors comprise:

	1999 £m	1998 £m
Tax recoverable	3.1	4.1
Outstanding interest, dividends and rents	36.1	35.5
Amounts receivable from Group undertakings	28.9	3.7
Other	65.2	55.1
	133.3	98.4

18 TANGIBLE ASSETS

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

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Total £m
Cost				
At 1 January 1999	6.6	63.8	11.3	81.7
Additions	0.2	10.5	0.9	11.6
Disposals	(3.0)	(27.0)	(3.7)	(33.7)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999	3.8	47.3	8.5	59.6
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 1999	5.4	58.6	8.6	72.6
Charge for year	0.5	4.0	0.8	5.3
Disposals	(2.7)	(27.1)	(3.6)	(33.4)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999	3.2	35.5	5.8	44.5
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 1999	0.6	11.8	2.7	15.1
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 1998	1.2	5.2	2.7	9.1
	<hr/>	<hr/>	<hr/>	<hr/>

At 31 December 1999 total assets held under finance leases were £ nil (1998 £0.1m).

The depreciation charge in respect of assets held under finance leases amounted to £ nil (1998 £0.1m).

19 OTHER PREPAYMENTS AND ACCRUED INCOME

Other prepayments and accrued income include £484.0m (1998 £511.7m), being the value of in-force policies transferred from Clerical, Medical and General Life Assurance Society, less accumulated amortisation.

20 CALLED UP SHARE CAPITAL

	1999 £m	1998 £m
Authorised: 650,000,000 (1998 - 150,000,000) ordinary shares of £1 each	650.0	150.0
Allotted, called up and fully paid: 570,000,000 (1998 - 70,000,000) ordinary shares of £1 each	570.0	70.0

In December 1999, the Company issued 500,000,000 ordinary shares of £1 each at par value.

21 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share Capital £m	Profit and Loss Account £m	General Reserves £m	Total £m
At 1 January 1998	70.0	23.2	611.7	704.9
Profit for the financial year	-	(10.4)	-	(10.4)
	70.0	12.8	611.7	694.5
Issue of share capital	500.0	-	-	500.0
Profit for the financial year	-	13.4	-	13.4
At 31 December 1999	570.0	26.2	611.7	1,207.9

Distributable reserves at 31 December 1999 were £150.5m (1998 £107.9m).

22 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 is transferred to or from the fund on an annual basis.

	1999 £m	1998 £m
At 1 January	2,922.8	2,574.9
Transfer from the Technical Account - Long Term Business	1,662.0	347.9
Transfer from Clerical, Medical and General Life Assurance Society	5.0	-
	<hr/>	<hr/>
At 31 December	4,589.8	2,922.8
	<hr/>	<hr/>

23 LONG TERM BUSINESS PROVISION

Principal assumptions used in calculating the long term business provision were as follows:

Class of Business	Mortality	Interest (%)
Without Profit Life	AM92(x+2)Ult*	3.95
With Profit Life - regular	AM92(x+2)Ult	2.00
- single	AM92(x+2)Ult	2.00
Without Profit Pensions	AM92(x+2)Ult*	5.00
With Profit Pensions Regular	AM92(x+2)Ult	2.25
With Profit Pensions Single	AM92(x+2)Ult	2.00
Personal Pension Contract Regular	AM92(x+2)Ult	2.25
Personal Pension Contract Single	AM92(x+2)Ult	2.00
Life Annuities in Payment	80% IMA92/IFA92 (C=2010)	4.25
Pensions Annuities in Payment	100% PMA92/PFA92 (C=2010)	4.25

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

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

A provision for £40.0m (1998 £35.0m) to cover direct and indirect costs arising from the pensions review is included in the Long Term Business Provision.

24 TECHNICAL PROVISIONS FOR LINKED LIABILITIES

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

25 PROVISIONS FOR OTHER RISKS AND CHARGES

The provision of deferred taxation of £59.9m (1998 £42.9m) comprises:

	1999 £m	1998 £m
Deemed disposal of unit trusts and offshore funds	67.2	42.9
Less: Deferred acquisition expenses	(7.3)	-
	<hr/> 59.9	<hr/> 42.9

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

	1999 £m	1998 £m
Unrealised appreciation of invested assets	185.3	123.8
Other items		
- Excess of interest receivable over interest payable	-	0.7
- Difference between tax allowances and depreciation	5.6	3.8
- Deferred acquisition costs	-	3.0
- Miscellaneous	(0.9)	0.5
	<hr/> 190.0	<hr/> 131.8

26 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1999 £m	1998 £m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	59.4	24.3
Reinsurance creditors	1.3	1.4
	<hr/> 60.7 <hr/>	<hr/> 25.7 <hr/>

27 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1999 £m	1998 £m
Inter fund loans	58.3	23.0
Outstanding purchases of investments	3.7	6.6
Amounts payable to Group undertakings	6.2	23.5
Accounts payable	3.2	-
Taxation payable	72.1	37.3
Other	44.9	9.7
	<hr/> 188.4 <hr/>	<hr/> 100.1 <hr/>

28 CAPITAL COMMITMENTS

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

	1999 £m	1998 £m
Amount contracted	155.2	102.0
Liability on partly paid stocks and shares	22.5	7.3

29 **CONTINGENT LIABILITIES**

	1999 £m	1998 £m
Uncalled capital on certain investments	50.0	26.7

30 **ULTIMATE PARENT UNDERTAKING**

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 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 15 St James's Square, London, SW1Y 4LQ, which is its principal place of business.

Halifax Group 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. Halifax Group plc is registered in England and Wales and operates in the United Kingdom. Copies of the financial statements of Halifax Group plc can be obtained from Trinity Road, Halifax, West Yorkshire HX1 2RG, which is its principal place of business.

31 **SUBORDINATED LIABILITIES**

On 5 November 1999, Clerical Medical Finance plc, a wholly owned subsidiary of Clerical Medical Investment Group (Holdings) Limited, issued £150m of 7 3/8% Undated Subordinated Guaranteed Bonds. Redemption of the undated bonds 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 the issue were loaned to the Company on similar interest, repayment and subordination terms as those applicable to the Bonds.