

**PENSIONS MANAGEMENT  
(SWF) LIMITED**

SC 45361

REPORT OF THE DIRECTORS

AND

ACCOUNTS

31 DECEMBER 2002

Member of Lloyds TSB Group



**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Company Information**

**Board of Directors**

J McConville (Chairman)

A M Eastwood  
S P Skinner

**Secretary**

T Nicholls

**Reporting Actuary**

K Doerr

**Auditors**

PricewaterhouseCoopers LLP  
Erskine House  
68-73 Queen Street  
Edinburgh  
EH2 4NH

**Registered Office**

69 Morrison Street  
Edinburgh  
EH3 8YF

**Company Number**

45361

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Directors' Report**

**Principal Activity and Review of the Business**

Pensions Management (SWF) Limited ("the Company") is a life insurance company limited by guarantee. It is a wholly owned subsidiary of Scottish Widows plc ("Scottish Widows") and provides management services for pension funds. No change in this activity is anticipated.

**Results and Dividend**

The result for the year ended 31 December 2002 is a profit of £59,000 (2001: £33,000) and has been transferred to reserves. The Directors do not recommend the payment of a dividend for the year (2001: £nil).

**Directors**

The names of the Directors are listed on page 2. Particulars of the Directors' emoluments and interests in shares are given in note 6 to the accounts. Changes in directorships during the year are as follows:

J McConville	(appointed 31 July 2002)
S P Skinner	(appointed 31 July 2002)
W H Main	(resigned 01 August 2002)
A R Porte	(resigned 14 August 2002)

On behalf of the Board of Directors



T Nicholls  
Company Secretary  
Edinburgh  
25 March 2003

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Report of the Independent Auditors**  
**To the Members of Pensions Management (SWF) Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes which have been prepared under the accounting policies set out in the statement of accounting policies.

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing the annual report including, as described below, the financial statements. The United Kingdom Companies Act 1985 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 as at the end of the year and of the profit or loss 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 accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Report of the Independent Auditors**  
**To the Members of Pensions Management (SWF) Limited (continued)**

**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 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 2002 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Edinburgh  
25 March 2003

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Technical Account – long term business**

	Notes	2002 £000	2001 £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	131,411	139,523
Outward reinsurance premiums		(397)	-
		<u>131,014</u>	<u>139,523</u>
Investment income	4(a)	78,047	88,710
		<u>209,061</u>	<u>228,233</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid:			
Gross amount		(507,256)	(572,254)
Reinsurer's share		1,350	1,386
		<u>(505,906)</u>	<u>(570,868)</u>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
Gross amount	12(a)	2,338	778
Reinsurer's share	12(b)	(2,338)	(778)
		<u>-</u>	<u>-</u>
Other technical provisions, net of reinsurance	12	737,396	752,827
		<u>737,396</u>	<u>752,827</u>
Net operating expenses	5	(3,298)	(3,415)
Investment expenses and charges	4(a)	(118,429)	(74,112)
Unrealised losses on investments	4(a)	(317,836)	(331,264)
Tax attributable to the long term business	7	(988)	(1,401)
<b>Balance on the Technical Account – long term business</b>		<u>-</u>	<u>-</u>

The notes on pages 10 to 18 form an integral part of these accounts.

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Non-Technical Account**

	Notes	2002 £000	2001 £000
Balance on the long term business Technical Account		-	-
Investment income	4(b)	30	231
Unrealised gains on investments	4(b)	41	-
		71	231
Unrealised losses on investments	4(b)	-	(185)
<b>Profit on ordinary activities before tax</b>		71	46
Tax on profit on ordinary activities	7	(12)	(13)
<b>Retained profit for the financial year</b>		59	33

There are no gains and losses arising other than those reported in the Technical and Non-technical Accounts.

All activities are continuing.

The notes on pages 10 to 18 form an integral part of these accounts.



**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Balance Sheet**

	Notes	2002 £000	2001 £000
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	8	1,207	1,166
<b>Assets held to cover linked liabilities</b>	9	1,961,495	2,698,891
<b>Reinsurer's share of technical provisions</b>			
Long term business provision	12/13	9,896	12,234
Technical provisions for linked liabilities	12	1,169	393
<b>Debtors</b>			
Other debtors		-	24
<b>Other assets</b>			
Cash at bank and in hand		226	181
<b>TOTAL ASSETS</b>		1,973,993	2,712,889

The notes on pages 10 to 18 form an integral part of these accounts.

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Balance Sheet**

	Notes	2002 £000	2001 £000
<b>LIABILITIES</b>			
<b>Capital and Reserves</b>			
7.5% Debenture issued to parent	10	50	50
Profit and Loss Account		1,421	1,362
Equity shareholders' funds	11	<u>1,471</u>	<u>1,412</u>
<b>Technical provisions</b>			
Long term business provision	12/13	9,896	12,234
<b>Technical provisions for linked liabilities</b>	12	1,962,614	2,699,234
<b>Creditors</b>			
Other creditors including taxation and social security	14	12	9
<b>TOTAL LIABILITIES</b>		<u><u>1,973,993</u></u>	<u><u>2,712,889</u></u>

The notes on pages 10 to 18 form an integral part of these accounts.

Approved by the Board on 25 March 2003



J McConville  
Chairman

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Notes to the Accounts**

**1. Basis of presentation**

The accounts have been prepared in accordance with section 255 and Schedule 9A of the Companies Act 1985 which covers the disclosures applicable to insurance companies. The accounts are prepared in accordance with the Association of British Insurers' Statement of Recommended Practice (SORP) on Accounting for Insurance Business issued in December 1998.

Accounting policies are unchanged from 2001, except that the Company has implemented the requirements of Financial Reporting Standard 19 ("FRS 19") "Deferred Tax". Following its implementation, the Company makes full provision for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Previously provision was only made where it was considered that there was a reasonable probability that a liability or asset would crystallise in the foreseeable future. There is no prior year restatement required as a result of this change in policy.

**2. Accounting policies**

**(a) Financial Reporting Standard 18 "Accounting Policies"**

The Company complies with Financial Reporting Standard 18 "Accounting Policies".

**(b) Premiums**

Premiums earned are accounted for in the year in which they fall due.

**(c) Investment Income**

Dividends are included as investment income on the date that the shares become quoted ex-dividend. Interest and rent are included on an accruals basis.

**(d) Realised gains and losses on investments**

Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original costs.

**(e) Unrealised gains and losses on investments**

Unrealised gains and losses on investments are calculated as the difference between the carrying valuation of investments at the Balance Sheet date and the original cost. Movements in unrealised gains and losses on investments attributable to policyholders arising in the year are shown in the Technical Account.

**(f) Claims incurred**

Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Claims payable include direct costs of settlement. Reinsurance recoveries are accounted for in the same period as their related claims.

**(g) Commission**

Commission is accounted for in the Technical Account in the year in which it falls due to be paid.

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Notes to the Accounts (continued)**

**(h) Tax**

Tax is charged on all taxable profits arising for the accounting period. The taxation charge in the Non-technical Account is based on the technical profit for the period. In the long term business Technical Account, the taxation charge is based on a method of assessing taxation for the long term fund. Any part of the balance on the long term business Technical Account that is computed on an after tax basis is grossed up at the effective rate of taxation in the Non-Technical Account.

**(i) Valuation of investments**

Investments are stated at current value at the Balance Sheet date, calculated as follows:

- Freehold and leasehold properties are individually valued by external qualified surveyors on the basis of open market value, account being taken of the cost of disposal. The valuation is carried out on an annual basis. Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principles set out in SSAP 19, that no depreciation should be provided in respect of such investments. The Directors consider that to depreciate investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations and the amounts which might otherwise have been shown cannot reasonably be separately identified and quantified;
- Listed securities are stated at the middle market value;
- Unit trust units are stated at bid value;
- Open Ended Investment Company ("OEIC") units are stated at their quoted price;
- Short-term deposits are included at cost;
- Financial futures and options contracts are valued at market rates ruling at the Balance Sheet date and the gain or loss on these contracts is brought into the Technical Account.
- Other investments are stated at Directors' valuation having prudent regard to the likely realisable value.

**(j) Foreign currency translation**

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the Balance Sheet date. Revenue transactions and those relating to the acquisitions and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

**(k) Long Term Business Provision**

The annuities in payment have been valued by taking the present value of the projected annuity payments and related costs. Since the annuities are fully reinsured, with the reinsurer bearing all relevant costs, the valuation assumptions are those adopted by the reinsurer. The interest rates used to discount future payments reflect the return on the matching assets, and the mortality assumptions used are based on the reinsurer's actual experience as well as relevant industry statistics.

No provision is required for expenses associated with the property-linked benefits since investment management is provided by Scottish Widows Investment Partnership Limited and other services by Scottish Widows Services Limited, in return for the relevant future management charges.

**(l) Cash flow statement**

A cash flow statement has not been provided as the Company has taken advantage of the exemption contained in Financial Reporting Standard No.1 (Revised) "Cash Flow Statements", as consolidated accounts, in which the Company is included, are available (see note 17).

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Notes to the Accounts (continued)**

**3. Segmental analysis**

(a) Analysis of gross premiums written:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Regular premiums	102,311	106,678
Single premiums	29,100	32,845
Gross premiums written	<u>131,411</u>	<u>139,523</u>

Gross premiums written are all in respect of pension business linked contracts.

(b) Analysis of new business gross premiums written:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Regular premiums	12,251	10,135
Single premiums	29,100	32,845
Total	<u>41,351</u>	<u>42,980</u>

Where regular premiums are received other than annually, the regular new business premiums are included on an annualised basis.

(c) Business segment analysis

In the opinion of the Directors the company operates in a single business segment, that being the provision of management services for pension funds.

(d) Geographical analysis

All premiums are written in the United Kingdom.

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Notes to the Accounts (continued)**

**4. Investment Return**

**(a) Technical Account long term business**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Investment Income		
Income from land and buildings	4,346	8,727
Income from other investments - listed	67,961	70,174
- other	5,740	9,809
	<u>78,047</u>	<u>88,710</u>
Unrealised losses on investments	(317,836)	(331,264)
Investment expenses and charges		
Investment management expenses	(3,288)	(7,071)
Losses on the realisation of investments	(115,097)	(66,544)
Interest paid	(44)	(497)
Net investment return included in the long term business Technical Account	<u>(358,218)</u>	<u>(316,666)</u>

**(b) Non-technical Account**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Investment Income		
Income from other listed investments	30	35
Gains on the realisation of investments	-	196
	<u>30</u>	<u>231</u>
Unrealised gains on investments	41	-
Unrealised losses on investments	-	(185)
Net investment return included in the Non-Technical Account	<u>71</u>	<u>46</u>

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Notes to the Accounts (continued)**

**5. Net Operating Expenses**

- (a) The administration of the Company is undertaken by Scottish Widows Services Limited. The cost of this activity is recovered through management charges.
- (b) The Company had no direct employees during the year (2001: nil). The employee costs, including pension costs, are included in the recharge from Scottish Widows Services Limited noted above. The pension scheme operated is primarily a defined benefit scheme, however it is not possible to separately identify the amount of any surpluses or deficits in the scheme which relates to the Company. Details of the pension scheme can be found in the accounts of Scottish Widows Services Limited.
- (c) Included within acquisition costs and administrative expenses are total commissions paid by the Company of £101,000 (2001: £114,000).
- (d) The investment management for the Company is provided by Scottish Widows Investment Partnership Limited and fees are included within investment management fees.
- (e) The remuneration of the Auditors in respect of audit work is borne by Scottish Widows plc. There were no fees relating to non-audit services paid to the Auditors during the period (2001: £nil).

**6. Directors emoluments and interests**

- (a) Directors' emoluments

None of the Directors receive any remuneration from the Company for their services (2001: £nil.).

- (b) Directors' interests

J McConville is also a Director of the Company's intermediate parent company, Scottish Widows Group Limited, and his interests are disclosed in the accounts of that company.

The interests of the other Directors at the end of the year were:

- (i) Number of Lloyds TSB Group plc shares:

	<b>At 1 January 2002 (or later date of appointment) Ordinary shares 25p</b>	<b>At 31 December 2002 Ordinary Shares 25p</b>
A M Eastwood	1,076	2,155
S P Skinner	1,064	1,064

- (ii) Number of options to acquire Lloyds TSB Group plc shares:

	<b>At 1 January 2002 (or later date of appointment)</b>	<b>Granted (exercisable Between 2005&amp; 2012)</b>	<b>Exercised</b>	<b>At 31 December 2002</b>
A M Eastwood	11,641	7,692	-	19,333
S P Skinner	8,229	6,993	-	15,222

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Notes to the Accounts (continued)**

**6. Directors emoluments and interests (continued)**

None of the Directors who held office during the year ended 31 December 2002 had any interest in the shares of the Company (2001: none).

**7. Taxation**

Provision has been made in the Technical Account and Non-Technical Account for the estimated liability in respect of United Kingdom Corporation Tax and Income Tax on the basis applicable to insurance companies as follows:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
<b>Technical Account long term business</b>		
Overseas with-holding tax	988	1,401
	<u>988</u>	<u>1,401</u>
<b>Non-technical Account</b>		
Tax on unfranked income	12	13
	<u>12</u>	<u>13</u>

The calculation of tax for the year is based on a UK corporation tax rate of 30% (2001: 30%).

A reconciliation of the current tax charge for the year for the Non-technical Account to the charge that would result from applying the standard UK corporation tax rate to the profit before tax is given below:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before taxation	<u>71</u>	<u>46</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	21	14
Effects of:		
Adjustments in respect of prior periods	-	4
Indexation	(9)	(5)
Current tax charge	<u>12</u>	<u>13</u>



**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Notes to the Accounts (continued)**

**8. Other Financial Investments**

	Current Value 2002 £000	Cost 2002 £000	Current Value 2001 £000	Cost 2001 £000
Shares and other variable yield securities and units in unit trusts	<u>1,207</u>	<u>994</u>	<u>1,166</u>	<u>1,178</u>

All assets are listed on a recognised stock exchange.

**9. Assets held to cover Linked Liabilities**

	Current value 2002 £000	Cost 2002 £000	Current value 2001 £000	Cost 2001 £000
Assets held to cover linked liabilities	<u>1,961,495</u>	<u>2,223,264</u>	<u>2,698,891</u>	<u>2,644,825</u>

**10. 7½ Per Cent Debenture**

Scottish Widows plc holds £50,000 7½% Debenture Stock in the Company. The debenture would be repayable at par only in the event of the Company going into liquidation.

**11. Reconciliation of Movements in Shareholders' Funds**

	2002 £000	2001 £000
Opening balance	1,412	1,379
Profit for the financial year	59	33
Balance at 31 December	<u>1,471</u>	<u>1,412</u>

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

**Notes to the Accounts (continued)**

**12. Technical provisions**

	<b>Long term business provision £000</b>	<b>Technical provisions for linked liabilities £000</b>
(a) Gross technical provisions		
Balance at 1 January 2002	12,234	2,699,234
Movement for the year	(2,338)	(736,620)
Balance at 31 December 2002	<u>9,896</u>	<u>1,962,614</u>
(b) Reinsurers' share		
Balance at 1 January 2002	12,234	393
Movement for the year	(2,338)	776
Balance at 31 December 2002	<u>9,896</u>	<u>1,169</u>
(c) Net technical provisions		
Balance at 31 December 2002	<u>-</u>	<u>1,961,445</u>
Balance at 1 January 2002	<u>-</u>	<u>2,698,841</u>

**13. Long Term Business Provision**

The non-linked annuities in payment have been valued at a rate of interest of 5.05% (2001: 5.8%) per annum. The rate of interest is that used by the reinsurers to value their liabilities in connection with these annuities.

The mortality assumed was 100% of PMA92 (C=1992) (2001: 85% of PMA92 (C=1999)) for male lives and 130% of PFA92 (C=1992) (2001: 115% of PFA92 (C=1999)) for female lives. The mortality assumptions used are based on the reinsurer's actual experience as well as relevant industry statistics. An explicit allowance has been made for future improvement in mortality by applying the CMI "Medium Cohort" projection factors to the 1992 base tables. Improvement in mortality at end-2001 was allowed for by applying standard CMIR17 improvement.

**Pensions Management (SWF) Limited**  
**Report and Accounts for the Year Ended 31 December 2002**

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**Notes to the Accounts (continued)**

**14. Creditors**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Taxation and social security	12	-
Other creditors	-	9
	<u>12</u>	<u>9</u>

All creditors are due within one year.

**15. Derivative contracts**

At 31 December 2002 the Company had entered into, in the normal course of business, option contracts, index futures contracts and forward foreign exchange contracts. All such contracts were undertaken for either risk reduction or efficient portfolio management purposes.

**16. Related party transactions**

Advantage has been taken of the exemption under Financial Reporting Standard 8 "Related Party Disclosures", not to disclose transactions between entities, 90% or more of whose voting rights are controlled within the Lloyds TSB Group plc, of which the Company is a member.

No contract of significance existed at any time during the period in which a Director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8.

There were no material transactions by the Company with related parties for the period ended 31 December 2002.

**17. Parent Undertaking**

The Company's immediate parent undertaking is Scottish Widows plc, a Company registered in the United Kingdom. Scottish Widows plc has taken advantage of the provisions of the Companies Act 1985 and has not produced consolidated accounts.

Lloyds TSB Group plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of Scottish Widows plc. Copies of the Lloyds TSB Group plc accounts in which the company is consolidated can be obtained from the Group Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN.