

Annual Report and Accounts
CLERICAL MEDICAL INVESTMENT
GROUP LIMITED

For the Year ended
31 December 2002



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

Philip Hodgkinson

CHIEF EXECUTIVE

John Edwards

OTHER DIRECTORS

Keith Abercromby

David Boyle *

Douglas Ferrans

Brian Ivory *

John Maclean *

Michael Moore *

Howard Posner

Louis Sherwood *

Roland Ward

** Non Executive Director*

SECRETARY

John Veale

PRINCIPAL PLACES OF BUSINESS

Registered Office
33 Old Broad Street
London
EC2N 1HZ

Bristol Head Office
Narrow Plain
Bristol
BS2 0JH

Clevedon Office
Tickenham Road
Clevedon
BS21 6BD

Aylesbury Office
Walton Street
Aylesbury
HP21 7QW

APPOINTED ACTUARY

Adrian Saunders FLA

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 2002.

PRINCIPAL ACTIVITY

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

The Company is regulated by the Financial Services Authority and is a member of the Association of British Insurers.

RESULT AND DIVIDEND

The Company loss for the year, before taxation, reported in the Non Technical Account, amounted to £25.4 million (2001 £188.8 million restated), and the loss after tax to £40.6 million (2001 loss £179.8 million restated). The prudent valuation of guaranteed liabilities in the with profit sub fund together with the significant fall in equity markets is primarily responsible for the loss in the year.

No interim dividend was paid during the year (2001 nil) and the Directors recommend that no final dividend be paid (2001 nil).

REINSURANCE OF PENSION ANNUITY BUSINESS

On 31 December 2002 the Company reinsured all of its pension annuity business into Clerical Medical Managed Funds Limited, a subsidiary undertaking. The reinsurance premium for this business amounted to £1,086.8 million.

POST BALANCE SHEET EVENT

Subsequent to the year end a contingent loan facility with HBOS plc was enacted which enabled the transfer of funds totalling £500m to the Company.

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 8 days of purchases.

EMPLOYEES AND REMUNERATION

The average number of persons (including Executive Directors) employed by the Company during 2002 was 4,631 (2001 4,040) and the aggregate remuneration paid to them during the year was £118.6 million (2001 £119.9 million).

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.

ULTIMATE HOLDING COMPANY

HBOS plc is the ultimate parent undertaking.

EMPLOYMENT OF DISABLED PERSONS

The Company operates an equal opportunities policy that 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. Members of our staff have benefited from this support during the year. In 2002, the Company became a founding partner of the 'Employer Led Development Project (for people with disabilities)' which provides administrative and computer skills training to enhance participants' employment prospects both with the Company and with other organisations in the commercial/financial sector.

EMPLOYEE INFORMATION

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 provided through the Company's communication programme. The programme consists of a variety of communication channels including an in house magazine, TV programmes and a 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 the Company and its parent, HBOS plc. The results of the surveys are fed back and used to promote changes within the Company.

STAFF INVOLVEMENT

The Company encourages and fully supports the involvement of our staff in their local communities. The 'Right to Read' scheme is a good example of this. Under this initiative, in excess of 70 members of staff go into two schools in the Bristol and Clevedon areas to help under 11's with their reading. During the year, 944 hours of support was provided to the 'Right to Read' scheme, half donated by the Company and half by the staff themselves. We plan to extend participation in this scheme to other communities where the Company has a large representation.

The Company supports staff who wish to help their communities in other ways such as School Governors. During the year staff have volunteered their business skills and the Company has donated professional expertise to local charities/community projects.

CONSULTATION AND PARTICIPATION

The Company recognises the union, Accord, 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 the relevant salary market. A bonus scheme allows staff to share in success at a corporate level and to be rewarded for personal achievement, whilst participation in a range of HBOS plc share schemes provides staff with an opportunity to acquire equity in the parent company on favourable terms. An attractive range of benefits complement and enhance the remuneration package.

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

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year were as follows:

Keith Abercromby	<i>Appointed 31 January 2002</i>
David Boyle	
John Edwards	
Douglas Ferrans	<i>Appointed 31 January 2002</i>
Philip Hodgkinson	
Brian Ivory	<i>Appointed 31 January 2002</i>
John Maclean	<i>Appointed 31 January 2002</i>
Michael Moore	
Howard Posner	<i>Appointed 31 January 2002</i>
Louis Sherwood	
Roland Ward	

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.

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.

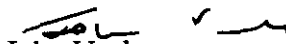
AUDITOR

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


John Veale
Secretary

33 Old Broad Street
London
EC2N 1HZ

20 February 2003

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.

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

We have audited the financial statements on pages 8 to 36.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
20 February 2003

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Continuing Operations			
		2002	2001		
	Note	£m	£m	Restated £m	£m
<i>Earned premiums, net of reinsurance</i>					
- Gross premiums written	2	4,487.2		4,943.0	
- Outward reinsurance premiums		<u>(2,230.8)</u>		<u>(1,096.6)</u>	
- Net of reinsurance			2,256.4		3,846.4
<i>Investment income</i>	4		1,086.9		874.6
<i>Other technical income, net of reinsurance</i>	5		17.3		9.9
Total Income			<u>3,360.6</u>		<u>4,730.9</u>
<i>Claims incurred, net of reinsurance</i>					
Claims paid - Gross amount		(2,234.7)		(1,673.0)	
- Reinsurers' share		<u>391.9</u>		<u>85.0</u>	
			(1,842.8)		(1,588.0)
Change in provision for claims, net of reinsurance					
- Gross amount		(5.6)		(2.0)	
- Reinsurer's share		<u>(0.1)</u>		<u>0.1</u>	
			<u>(5.7)</u>		<u>(1.9)</u>
Claims incurred, net of reinsurance	6		(1,848.5)		(1,589.9)
<i>Change in other technical provisions, net of reinsurance</i>					
Long term business provision, net of reinsurance					
- Gross amount		(1,135.6)		(3,112.6)	
- Reinsurers' share		<u>1,310.5</u>		<u>301.3</u>	
Change in other technical provisions, net of reinsurance			174.9		(2,811.3)
Provision for linked liabilities, net of reinsurance			29.3		10.3
<i>Net operating expenses</i>	8		(364.1)		(268.9)
<i>Investment expenses and charges</i>	9		(49.7)		(78.4)
<i>Unrealised losses on investments</i>			(2,595.8)		(2,437.4)
<i>Other technical charges, net of reinsurance</i>	14		(28.3)		(27.7)
<i>Tax attributable to long term business</i>	13		131.4		191.3
<i>Transfers from the fund for future appropriations</i>	23		1,066.3		2,200.5
Total Expenditure			<u>(3,484.5)</u>		<u>(4,811.5)</u>
Balance on the long term business technical account			<u><u>(123.9)</u></u>		<u><u>(80.6)</u></u>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

NON - TECHNICAL ACCOUNT

Continuing Operations			
	Notes	2002 £m	2001 Restated £m
<i>Balance on the technical account - long term business</i>		(123.9)	(80.6)
Tax attributable to the balance on the technical account		24.7	(2.5)
<i>Shareholders' pre-tax loss arising from long term insurance business</i>		(99.2)	(83.1)
Investment income	4	9.2	64.0
Unrealised gain/ (loss) on investments		96.6	(144.4)
Investment expenses and charges	9	(32.0)	(25.3)
<i>Operating loss on ordinary activities before taxation</i>		(25.4)	(188.8)
Tax on loss on ordinary activities	13	(15.2)	9.0
<i>Loss for the financial year</i>		(40.6)	(179.8)
Dividends		-	-
<i>Retained Loss for the financial year</i>		(40.6)	(179.8)

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

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

In accordance with the amendment to FRS 3 published in June 1999 no note of historical cost profits has been prepared as the company's only material gains and losses on assets relate to the holding and disposal of investments.

The notes on pages 12 to 36 form part of these accounts.

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
BALANCE SHEET
as at 31 December 2002

		2002	2001
	Note	£m	Restated £m
ASSETS			
<i>Investments</i>	14		
- Land and buildings		2,097.4	1,976.3
- Investment in Group undertakings and participating interests		1,414.3	995.8
- Other financial investments		15,467.6	16,808.9
- Other - present value of in-force business		398.7	427.0
		<hr/>	<hr/>
		19,378.0	20,208.0
<i>Assets held to cover linked liabilities</i>	16	1,318.2	1,347.5
<i>Reinsurers share of technical provisions</i>			
- Long term business provision		3,937.4	2,626.9
- Claims outstanding		1.3	1.2
		<hr/>	<hr/>
		3,938.7	2,628.1
<i>Debtors</i>			
- Debtors arising out of direct insurance operations	17	13.1	29.2
- Other debtors	17	377.2	453.7
		<hr/>	<hr/>
		390.3	482.9
<i>Other assets</i>			
- Tangible assets	18	37.7	48.9
- Cash at bank and in hand		136.3	155.0
		<hr/>	<hr/>
		174.0	203.9
<i>Prepayments and accrued income</i>			
- Accrued interest and rent		16.5	5.4
- Deferred acquisition costs		155.0	209.7
- Other prepayments and accrued income		7.1	-
		<hr/>	<hr/>
		178.6	215.1
TOTAL ASSETS		<hr/>	<hr/>
		25,377.8	25,085.5
		<hr/>	<hr/>

CLERICAL MEDICAL INVESTMENT GROUP LIMITED
BALANCE SHEET
as at 31 December 2002

	Note	2002 £m	2001 Restated £m
LIABILITIES			
<i>Capital and reserves</i>			
- Called up share capital	19,21	1,629.0	1,029.0
- Share premium account	21	1.0	1.0
- Profit and loss account	21	(232.4)	(191.8)
- Merger reserve	20,21	246.2	246.2
- General reserves	21	611.7	611.7
<i>Shareholders' funds attributable to equity interests</i>			
		2,255.5	1,696.1
<i>Subordinated liabilities</i>	22	456.8	440.8
<i>Fund for future appropriations</i>	23	-	1,066.3
<i>Technical provisions</i>			
- Long term business provision	24	20,977.8	19,842.2
- Claims outstanding		37.5	31.8
		21,015.3	19,874.0
<i>Technical provisions for linked liabilities</i>	25	1,318.2	1,347.5
<i>Provisions for other risks and charges</i>	26	72.2	201.9
<i>Deposits received from reinsurers</i>	27	83.6	79.5
<i>Creditors</i>			
- Creditors arising out of direct insurance operations	28	35.3	56.4
- Other creditors including taxation and social security	29	88.7	280.5
		124.0	336.9
<i>Accruals and deferred income</i>		52.2	42.5
TOTAL LIABILITIES		25,377.8	25,085.5

These accounts were approved by the Board of Directors on 20 February 2003 and were signed on its behalf by:

Philip Hodgkinson
Chairman

John Edwards
Chief Executive

P.A. Hodgkinson

John Edwards

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.

Financial Reporting Standard ("FRS") 19 (Deferred Taxation) has become effective for accounting periods ending on or after 23 January 2002.

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.

As the Company is a wholly owned subsidiary undertaking of a company registered in England and Wales group financial accounts are not prepared. Accordingly the financial statements present information about the company as an individual undertaking and are not consolidated.

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. Premiums exclude any taxes or duties based on premiums.

Investment income

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend. Other investment income, including rent, 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.

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 or due for the period are included in the accounts. Reinsurance recoveries are recognised in the period in which the claim is reported or due

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 effective rate of corporation tax applicable for the year.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences that have arisen but not reversed at the balance sheet date. In previous years' financial statements provision was only made for deferred tax on timing differences that were considered likely to reverse in the foreseeable future. This change has been made in order to comply with FRS 19 (Deferred Taxation) and the accounts for the year restated accordingly – see note 32.

Pension costs

Contributions to the Company's defined benefit pension schemes are determined using the attained age method. The schemes are valued every three years by qualified actuaries. 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.

For employees joining the Company after 1 January 2001, HBOS plc operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting period.

Adoption of FRS 17 (Retirement Benefits) is not required for the current reporting period, however the company has elected to apply the transitional disclosures for its adoption. Accordingly no changes have been made to the accounting policy for retirement benefits, but included in Note 7 are additional disclosures required by FRS 17 as at 31 December 2002.

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) Investment properties are valued on the basis of open market value annually, 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". Owner occupied properties are valued at least every three years. The Directors' estimated open market value is used for any properties not valued at the balance sheet date.
- b) Listed investments are valued at last traded price or middle market price adjusted to include accrued interest.
- c) All other investments, including subsidiary and associated undertakings, 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. 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. Accordingly the Directors have adopted SSAP 19 in order for the accounts to give a true and fair view. In respect of owner-occupied property, the Directors consider that residual values are such that their depreciation is insignificant and is thus not provided.

Present Value of In-Force business

The net present value of the Company's interest in the expected net present value of in-force policies transferred from Clerical, Medical and General Life Assurance Society in 1996 were purchased. The asset is amortised over the expected profit recognition period on a systematic basis over the anticipated lives of the related contracts. The carrying value of the asset is reviewed periodically for impairment.

Impairments and amortisation charges are shown as other technical charges.

Deferred Acquisition Costs

The costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, are spread forward over the term of the contract to the extent that the amounts are recoverable out of future margins.

Tangible Assets

The cost of tangible fixed assets is written off over their estimated useful lives in equal annual instalments. Write off periods range from two to five years depending on the asset. 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.

Costs that are directly attributable to the development of business application software and which are incurred during the period prior to the date that the software is placed into operational use are capitalised to the extent that they enhance the economic benefit of the business.

Merger Reserve

The Company recognises assets acquired on mergers at their fair value and any excess of this value over the consideration paid as a merger reserve. The profit included in the merger reserve will become realised if the assets acquired are subsequently sold or if a realised loss or write down is recognised in the accounts.

Technical Provisions

The Company's long term business provision is based on the Appointed Actuary's annual valuation of the long term liabilities using per plan calculations for the majority of the benefits under the long term contracts. Thus, the valuation takes as its starting point the requirements of the Interim Prudential Sourcebook for Insurers ["IPRU(INS)"]. This is then adjusted to remove the resilience, close-down and certain other reserves required under the IPRU(INS) rules. Following a review of the basis used in providing for options and guarantees, this year adjustments have also been made to remove some of the additional levels of prudence that are required to be established for regulatory purposes. In particular the assumed take up rate for certain guaranteed benefits has been reduced. This gives a basis which is more appropriate for financial statement purposes. This change has reduced the technical provisions by £538.5m in comparison to what they would otherwise have been prior to the change. The valuation uses the net premium method in respect of the conventional non-linked business and a gross premium method for unitised business and takes account of the risks and uncertainties of the particular classes of long term business written. Both methods include explicit provision for guaranteed benefits. The gross premium method includes an allowance for some future bonus interest and surrender values on accumulating with profit business and the net premium method makes an implicit allowance for some future bonus.

The assumptions to which the estimates are particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders, which are determined on a prudent basis at the date of valuation and are disclosed in Note 24.

The technical provisions for linked liabilities are equal to the value of the assets to which the contracts are linked.

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 in respect of the with profit fund is transferred to or from the fund on an annual basis to the extent of funds available in the fund for future appropriations. Any deficits over the available fund are transferred to the shareholders through the technical account.

Cash Flow Statement

Under FRS 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 that is included within the consolidated financial statements of its ultimate parent company which produces a cash flow statement and whose financial statements are publicly available.

Related Party Transactions

Advantage has been taken of the exemption in FRS 8 (Related Party Disclosures) not to report on transactions with entities which are more than 90% controlled by a common parent undertaking whose accounts are publicly available and which includes a cash flow statement.

2 GROSS PREMIUMS WRITTEN

	2002 £m	2001 £m
Life Insurance	2,878.4	3,610.3
Individual Pensions Business	961.2	789.3
Group Pensions Business	<u>647.6</u>	<u>543.4</u>
	<u>4,487.2</u>	<u>4,943.0</u>
Periodic premiums	847.7	847.9
Single premiums	<u>3,639.5</u>	<u>4,095.1</u>
	<u>4,487.2</u>	<u>4,943.0</u>
Premiums from non-participating contracts	1,529.0	2,034.7
Premiums from participating contracts	1,572.4	1,878.5
Premiums from investment linked contracts	<u>1,385.8</u>	<u>1,029.8</u>
	<u>4,487.2</u>	<u>4,943.0</u>
Geographical Split by origin		
In the UK	3,317.5	3,769.2
In other EC member states	915.2	749.0
In other countries	<u>254.5</u>	<u>424.8</u>
	<u>4,487.2</u>	<u>4,943.0</u>

All figures above are shown gross of reinsurance outwards.

There is no material difference between the origin and destination of gross premiums written.

3 NEW BUSINESS PREMIUMS

	2002 £m	2001 £m
Life Insurance	2,564.2	3,283.4
Individual Pensions Business	807.0	686.1
Group Pensions Business	<u>521.2</u>	<u>276.0</u>
	<u>3,892.4</u>	<u>4,245.5</u>
Annual premiums	252.9	150.4
Single premiums	<u>3,639.5</u>	<u>4,095.1</u>
	<u>3,892.4</u>	<u>4,245.5</u>
Premiums from non-participating contracts	1,421.8	1,801.3
Premiums from participating contracts	1,481.8	1,782.0
Premiums from investment linked contracts	<u>988.8</u>	<u>662.2</u>
	<u>3,892.4</u>	<u>4,245.5</u>
Geographical Split by origin		
In the UK	2,856.8	3,157.2
In the EC member states	815.6	720.3
In other countries	<u>220.0</u>	<u>368.0</u>
	<u>3,892.4</u>	<u>4,245.5</u>

All figures above are shown gross of reinsurance outwards.

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

- 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.
- DSS rebates are classified as new single premiums.
- Funds at retirement under individual pension contracts re-invested 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.
- 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		Non Technical Account	
	2002 £m	2001 £m	2002 £m	2001 £m
Income from land and buildings	152.2	85.9	4.8	-
Income from other investments				
- listed	628.5	503.3	3.0	7.2
- other	82.0	86.1	0.4	0.4
	<hr/>	<hr/>	<hr/>	<hr/>
	862.7	675.3	8.2	7.6
Net gains on the realisation of investments	224.2	199.3	1.0	56.4
	<hr/>	<hr/>	<hr/>	<hr/>
	1,086.9	874.6	9.2	64.0
	<hr/>	<hr/>	<hr/>	<hr/>

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 NET OF REINSURANCE

	2002 £m	2001 £m
Deaths	43.7	39.1
Maturities	398.0	551.8
Life and annuity surrenders	553.9	170.8
Unit linked	711.9	672.4
Pension contracts	45.1	61.3
Annuity payments	95.9	94.5
	<hr/>	<hr/>
	1,848.5	1,589.9
	<hr/>	<hr/>

7 STAFF SUPERANNUATION FUND

Clerical Medical operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund. The scheme closed to new members on 1 January 2001. For the purposes of Financial Reporting Standard 17 ('Retirement Benefits') the most recent actuarial valuation was carried out as at 31 December 2002, by the scheme actuary who is an appropriately qualified employee of the Company. The assumptions used under FRS 17 for calculating the liabilities were as follows:

	2002	2001
Inflation	2.4%	2.5%
Salary escalation	3.4%	3.5% plus a promotional scale of 1% per year of age
Discount rate	5.8%	6.0% (pre and post retirement)
Increase in deferment	2.4%	2.5%
Increase in pension payments	3.0%	3.25%

Members' contributions are made at the rate of 2% (2001 2%) of pensionable earnings.

Employer's contributions to the fund have currently been suspended. This decision will be reviewed when the next full scheme valuation is performed.

The fair value of the assets under FRS 17 as at 31 December and expected rate of return for each is as follows:

	2002		2001	
	£m	%	£m	%
Equities	181.5	8.50	232.7	7.75
Properties	11.4	6.80	12.4	6.50
Bonds	30.4	5.00	46.4	5.25
Other	7.5	3.80	10.4	4.50

The deficit under FRS 17 at 31 December was £66.4m (2001 surplus £32.2m) being the difference between the fair value of the assets, of £230.8m (2001 £301.9m) and the present value of the liabilities on the above assumptions of £297.2m (2001 £269.7m). The movement in the surplus can be analysed as follows:

	2002 £m
Surplus as the start of the period	32.2
Current service cost	(9.8)
Other financial income / (cost)	4.8
Actuarial loss	(93.6)
Deficit at the end of the period	<u>(66.4)</u>

If FRS 17 had been fully adopted in these financial statements, pension costs for defined benefits would have been:

	2002 £m
Analysis of other pension costs charged in arriving at operating profit / loss:	
Current service costs	9.8
	<u>9.8</u>
Analysis of amounts included in financial income:	
Expected return on pension scheme assets	21.0
Interest on pension scheme liabilities	(16.2)
	<u>4.8</u>

Analysis of amounts recognised in the statement of total recognised gains and losses:

	2002 %	2002 £m
Actual return less expected return on scheme assets		(85.1)
Percentage of year end scheme assets	(36.9)	
Experience gains and losses on scheme liabilities		2.6
Percentage of present value of scheme liabilities	0.9	
Change in assumptions underlying the present value of scheme liabilities		(11.1)
Percentage of present value of scheme liabilities	(3.7)	
		<u>(93.6)</u>

The contribution rates for the current service costs for the year are 19.4% of Pensionable Salaries (2001 n/a). For closed funds and under the projected unit method of valuation this contribution rate will increase as the members of the scheme approach retirement.

For the purpose of SSAP 24 the most recent actuarial valuation was conducted by the scheme actuary as at 1 January 2000, the actuarial value of the assets as at this valuation was £357.7m and represented 153% overall of the benefits that had accrued to members after allowing for assumed future increases in earnings and pensions. The next valuation, as at 1 January 2003, will be performed during the year.

For ex-employees of the Equitable Life Assurance Society, the Company also operates a substantive closed defined benefit contribution scheme – the Equitable Pension Fund and Life Assurance Scheme. For the purposes of FRS 17 the most recent actuarial valuation was carried out as at 31 December 2001, by the scheme actuary who is an appropriately qualified actuary. The assumptions used under FRS 17 for calculating the liabilities were as follows:

	2002	2001
Inflation	2.4%	2.5%
Salary escalation	3.4%	3.5%
Discount rate	5.8%	6.0%
Increase in deferment	2.4%	2.5%
Increase in pension payments	2.4%	2.5%

Members' contributions to the fund have currently been suspended and employer's contributions are at 4% (2001 4%) of pensionable earnings. The total employers contribution for the year amounted to £13.9m including augmentations (2001 £1.3m). The level of contributions will be reviewed when the next full scheme valuation is performed.

The fair value of the assets under FRS 17 as at 31 December and expected rate of return for each is as follows:

	2002		2001	
	£m	%	£m	%
Equities	33.2	8.50	14.1	7.75
Properties	7.6	6.80	0.9	6.50
Bonds	67.9	5.00	3.2	5.25
With profit investments	79.2	3.80	113.7	6.25
Cash	23.8	5.80	0.6	4.50

The deficit under FRS 17 at 31 December 2002 was £51.0m (2001 £32.5m) being the difference between the fair value of the asset of £211.7 (2001 £132.5m) and the present value of the liabilities on the above assumptions of £262.7m (2001 £165.0m). The movement in the deficit can be analysed as follows:

	2002 £m
Deficit as the start of the period	(32.5)
Current service cost	(7.1)
Contributions paid	32.6
Past service costs	(5.4)
Other financial costs	(1.2)
Actuarial loss	(37.4)
Deficit at the end of the period	<u>(51.0)</u>

If FRS 17 had been fully adopted in these financial statements, pension costs for defined benefits would have been:

	2002 £m
Analysis of other pension costs charged in arriving at operating profit / loss:	
Current service costs	7.1
Past service costs	5.4
	<u>12.5</u>
There would be no amounts included in financial income:	
Expected return on pension scheme assets	(8.5)
Charge to other finance income	1.2
Interest on pension scheme liabilities	9.7
	<u>13.7</u>

Analysis of amounts recognised in the statement of total recognised gains and losses:

	2002 %	2002 £m
Actual return less expected return on scheme assets		38.8
Percentage of year end scheme assets	14.7	
Experience gains and losses on scheme liabilities		(5.9)
Percentage of present value of scheme liabilities	(2.2)	
Change in assumptions underlying the present value of scheme liabilities		4.5
Percentage of present value of scheme liabilities	1.7	
		<u>37.4</u>

The contribution rates for the current service costs for the year are 24.4% of Pensionable Salaries (2001 n/a). For closed funds and under the projected unit method of valuation this contribution rate will increase as the members of the scheme approach retirement.

For the purpose of SSAP 24 the most recent actuarial valuation was conducted by the scheme actuary as at 1 January 2000, the actuarial value of the assets as at this valuation was £167.5m and represented 96% of the liabilities determined. The next valuation, as at 1 January 2003, will be performed during the year.

For employees joining the group after 1 January 2001 HBOS plc operates a defined contribution pension scheme. Payments to the scheme during the year amounted to less than £0.1m (2001 £0.1m). There were no outstanding or prepaid contributions at the balance sheet date.

8 NET OPERATING EXPENSES

	2002 £m	2001 £m
Acquisition costs	206.6	236.7
Change in deferred acquisition costs	54.7	(18.8)
Administrative expenses	102.8	51.0
	<hr/>	<hr/>
	364.1	268.9
	<hr/>	<hr/>

Administration expenses include £23.6m exceptional costs in relation to the write off of previously capitalised software.

Net administrative expenses above include the following amounts:

	2002 £m	2001 £m
Auditor's remuneration (including VAT) paid to the auditor and associated firms:		
Remuneration for audit services (including regulatory)	0.3	0.2
Remuneration for non-audit services	0.3	0.3
	<hr/>	<hr/>
	0.6	0.5
	<hr/>	<hr/>

9 INVESTMENT EXPENSES AND CHARGES

	Technical Account Long Term Business		Non Technical Account	
	2002 £m	2001 £m	2002 £m	2001 £m
Investment management expenses	19.9	34.8	-	-
Interest on pension contract business	21.3	27.5	-	-
Interest on bank overdrafts	0.6	4.7	-	-
Other interest	7.9	11.4	32.0	25.3
	<hr/>	<hr/>	<hr/>	<hr/>
	49.7	78.4	32.0	25.3
	<hr/>	<hr/>	<hr/>	<hr/>

10 DIRECTORS' EMOLUMENTS

All the directors are Directors of the intermediate holding company HBOS Insurance & Investments Group Limited and details of their emoluments are disclosed in that company's financial statements.

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 £0.5m (2001 £0.5m).

During the year, certain related parties (being Directors/Principal Officers and their spouses) held insurance policies and other investments managed by the Company and sold on terms available to all employees. Such policies and investments are sold on normal commercial terms except that Directors/Principal Officers and their spouses are entitled to special rates which are also available to all members of staff. The Board has considered the financial effect of such transactions and has concluded that they are not material to either the Company or to the related parties concerned.

12 EMPLOYEE INFORMATION

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

	2002	2001
Operations	2,831	2,688
Marketing and Sales	555	535
Other	1,245	817

	4,631	4,040
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Employees costs for the above were as follows:

	2002 £m	2001 £m
Wages and salaries	118.6	119.9
Social security costs	7.8	10.4
Other costs	2.6	1.5
	129.0	131.8

13 TAXATION

The credit for taxation comprises:

	Technical Account Long Term Business		Non Technical Account	
	2002	2001 Restated	2002	2001 Restated
<i>Current Tax:</i>				
Corporation tax charge/(credit) for the year	15.5	24.6	(31.9)	(5.5)
Corporation tax charge/(credit) in respect of earlier years	(20.0)	(14.0)	-	(1.0)
Relief for overseas taxation	(1.9)	(1.6)	-	-
Overseas taxation	4.7	3.8	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(1.7)	12.8	(31.9)	(6.5)
<i>Deferred Tax:</i>				
Deferred tax charge/(credit) for the year	(129.7)	(204.1)	47.1	(2.5)
Deferred tax charge/(credit) in respect of earlier years	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(131.4)	(191.3)	15.2	(9.0)
	<hr/>	<hr/>	<hr/>	<hr/>

The tax credit attributable to exceptional items is £7.1m (2001 nil).

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30% (2001 30%)

The differences are explained below:

	2002 £m	2001 £m
(Loss) / Profit on ordinary activities before taxation	(25.4)	(188.8)
(Loss) / Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK	(7.6)	(56.7)
Effects of:		
UK tax basis for insurance business	60.3	13.7
Unrealised movements in the value of investments not recognised for tax purposes	(37.0)	34.0
Deferred tax	(47.6)	2.5
Current tax charge for the year	(31.9)	(6.5)

Comparative figures for 2001 have been restated for the implementation of FRS19 on deferred taxation – see note 32.

14 INVESTMENTS

14.1 Land and buildings:

	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
Valuation				
At 31 December 2002	1,410.0	621.8	65.6	2,097.4
At 31 December 2001	1,402.6	508.8	64.9	1,976.3
Cost				
At 31 December 2002	1,115.8	535.5	65.6	1,716.9
At 31 December 2001	1,110.8	437.9	61.4	1,610.1

The properties valued by external valuers, which include all those which are held to cover linked liabilities, totalled £1,955m (2001 £1,885.5m) representing 93% (2001 94%) of the Company's freehold and leasehold properties. Included in the above figures are land and buildings owned and occupied by the Company of £50.1m (2001 £20.1m) with a cost of £49.7m (2001 £19.7m). Notional rent of £6.5m (2001 £1.6m), 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 2002	1,253.7	5.8	1,259.4	145.2	9.7	154.9	1,414.3
At 31 December 2001	852.4	5.8	858.2	132.6	5.0	137.6	995.8
Cost							
At 31 December 2002	910.1	5.8	915.9	392.9	8.7	401.5	1,317.4
At 31 December 2001	613.5	3.0	616.5	32.5	4.2	36.7	653.2

14.3 Other financial investments:

	Valuation 2002 £m	Cost 2002 £m	Valuation 2001 £m	Cost 2001 £m
Shares and other variable yield securities	9,647.5	10,430.4	10,861.6	9,037.3
Debt securities and other fixed interest securities	4,463.8	4,209.7	4,724.0	4,568.9
Loans secured by mortgages	0.2	0.2	0.2	0.2
Other loans	12.4	13.5	15.0	16.2
Deposits with credit institutions	1,343.7	1,343.0	1,208.1	1,206.4
	15,467.6	15,996.8	16,808.9	14,829.0

Included in the valuation shown in the above are the following listed investments:

	Group Undertakings and Participating Interests 2002 £m	Other Investments 2002 £m	Total 2002 £m	Total 2001 £m
Shares and other variable yield securities and units in unit trusts	119.4	9,531.0	9,650.4	10,867.6
Debt securities and other fixed income securities	9.7	4,462.3	4,472.0	4,727.8

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.

14.4 Other – present value of in-force business:

	Purchased 2002 £m	2001 £m
At 1 January	427.0	454.7
Additions	-	-
Amortisation	(28.3)	(27.7)
	<hr/>	<hr/>
At 31 December	398.7	427.0
	<hr/>	<hr/>

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.

Group Undertakings	Country of Incorporation or Registration	Nature of Business	% Held
Clerical Medical Managed Funds Limited	England and Wales	Life Insurance	* 100.0
Insight Investment Management Limited	England and Wales	Fund Management	* 100.0
Halifax Life Limited	England and Wales	Life Insurance	* 100.0
Clerical Medical Forestry Limited	England and Wales	Property Investments	* 100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company	98.0
CM Venture Investments limited	Luxembourg	Investment Company	* 100.0
Lands Improvement Holdings plc	England and Wales	Investment Company	* 100.0
The CM Institutional Fund	Luxembourg	Open-Ended Investment Company	100.0
Participating Interests			
Brixton Estate plc	England and Wales	Investment Company	22.1
Pharos SA	Luxembourg	Investment Company	27.1

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

16 ASSETS HELD TO COVER LINKED LIABILITIES

	2002 £m	2001 £m
At valuation	1,318.2	1,347.5
At cost	1,448.8	1,298.3

17 DEBTORS

	2002 £m	2001 £m
Debtors arising out of direct insurance operations:		
Amounts receivable from policyholders	13.1	29.2
	13.1	29.2

	2002 £m	2001 £m
Other debtors comprise:		
Tax recoverable	4.6	4.0
Outstanding interest, dividends and rents	51.3	48.6
Outstanding sale of investments	16.9	112.0
Amounts receivable from Group undertakings	238.5	214.2
Other	65.9	74.9
	<hr/>	<hr/>
	377.2	453.7
	<hr/>	<hr/>

Within other debtors is £4.7m (2001 nil) of debts that have been factored on behalf of HECM Customer Services Limited, a fellow subsidiary undertaking of the immediate parent undertaking.

18 TANGIBLE ASSETS

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

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Application Software £m	Total £m
Cost					
At 1 January 2002	1.1	38.3	10.0	26.9	76.3
Additions	0.4	22.4	2.9	-	25.7
Disposals	(0.4)	(12.4)	(1.3)	(25.6)	(39.7)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	1.1	48.3	11.6	1.3	62.3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2002	0.4	20.2	3.5	3.3	27.4
Charge for year	0.2	4.6	2.1	6.8	13.7
Disposals	(0.3)	(5.4)	(0.7)	(10.1)	(16.5)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	0.3	19.4	4.9	0.0	24.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2002	0.8	28.9	6.7	1.3	37.7
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2001	0.7	18.1	6.5	23.6	48.9
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

At 31 December 2002 total assets held under finance leases were £ nil (2001 £nil).
Following a review, £23.6m of the capitalised software was written off during the year.

19 CALLED UP SHARE CAPITAL

	2002 £m	2001 £m
Authorised: 1,709,000,000 (2001 1,109,000,000) ordinary shares of £1 each	1,709.0	1,109.0
	<hr/>	<hr/>
Allotted, called up and fully paid: 1,629,000,000 (2001 1,029,000,000) ordinary shares of £1 each	1,629.0	1,029.0
	<hr/>	<hr/>

In July 2002 the Company issued 600,000,000 ordinary shares of £1 each at par value.

20 MERGER RESERVE

On 31 December 2001 the Company acquired the ordinary share capital of Halifax Life Limited from the parent company, for a consideration of 159 million £1 shares at a premium of 0.63 pence per share. The fair value of the acquired assets was £406.2m which gave rise to a merger reserve of £246.2m.

21 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share Capital	Share Premium	Profit and Loss Account	Merger Reserve	General Reserves	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2001	570.0	-	26.3	-	611.7	1,208.0
Issue of Share Capital	459.0	1.0	-	-	-	460.0
Merger Reserve arising out of the issue of share capital	-	-	-	246.2	-	246.2
Prior year adjustment for change in accounting policy (see note 32)	-	-	(38.3)	-	-	(38.3)
Restated profit for the financial year (see note 32)	-	-	(179.8)	-	-	(179.8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	1,029.0	1.0	(191.8)	246.2	611.7	1,696.1
Issue of Share Capital	600.0	-	-	-	-	600.0
Loss for the financial year	-	-	(40.6)	-	-	(40.6)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	1,629.0	1.0	(232.4)	246.2	611.7	2,255.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

22 SUBORDINATED LIABILITIES

During July 2001 Clerical Medical Finance plc, a fellow subsidiary undertaking, 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), the Company's parent undertaking, and is generally not allowable prior to July 2013, after which time if the bond has not been redeemed floating rate interest is payable. Clerical Medical Finance plc 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 the Company, after the claims of the Company's senior creditors including all policyholders. The proceeds of both were loaned to the Company on similar interest, repayment and subordination terms as those applicable to the Bonds.

23 FUND FOR FUTURE APPROPRIATIONS

	2002 £m	2001 Restated £m
At 1 January	1,066.3	3,266.8
Transfer from the Technical Account - Long Term Business	(1,066.3)	(2,200.5)
	<hr/>	<hr/>
At 31 December	-	1,066.3
	<hr/>	<hr/>

24 LONG TERM BUSINESS PROVISION

The principal methods used in determining the Long Term Business Provision are the net premium valuation for conventional business and gross premium valuation for unitised business. The principal assumptions used were as follows (prior year interest rates are shown in brackets):

Class of business	Mortality	Interest (%)
Without Profit Life	85% AM92 Ult / 100% AF92 Ult *	3.20 (3.40)
Conventional With Profit Regular Life	85% AM92 Ult / 100% AF92 Ult	3.25 (3.00)
Conventional With Profit Single Life	85% AM92 Ult / 100% AF92 Ult	3.25 (3.00)
Unitised With Profit Life	AM92 (x+2) Ult / AF92 (x+3) Ult	3.40 (3.60)
Without Profit Pensions	AM92 (x+2) Ult / AF92 (x+3) Ult*	4.00 (4.25)
Conventional With Profit Pensions Regular	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00 (3.75)
Conventional With Profit Pensions Single	AM92 (x+2) Ult / AF92 (x+3) Ult	3.75 (3.50)
Personal Pension Contract Regular	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00 (3.75)
Personal Pension Contract Single	AM92 (x+2) Ult / AF92 (x+3) Ult	3.75 (3.50)
Unitised With Profit Pensions	AM92 (x+2) Ult / AF92 (x+3) Ult	4.00 (4.25)
Life Annuities in Payment	90% IMA92 / 90% IFA92	4.75 (4.75)
Pensions Annuities in Payment	95% PMA92 (mc) / 95% PFA92	4.75 (4.75)

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

Explicit provision is made for vested bonuses. The net premium valuation makes no explicit provision for future reversionary or terminal bonuses. Accumulating with profits business includes an allowance for some future bonus interest and surrender values.

A provision of £15.0m (2001 £25.0m) to cover direct and indirect costs arising from the pensions and free standing AVC review is included in the long term business provision. The provision is based on a prudent estimate of such costs and made at the balance sheet date.

The total cost of reversionary, interim and terminal bonuses attributable in the year ended 31 December 2002 was £801.0m (2001 £1,034.1m).

25 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.

26 PROVISIONS FOR OTHER RISKS AND CHARGES

Deferred Taxation:

	2002	2001 Restated
At 1 January 2002 as previously stated	8.7	
Prior year adjustment	193.2	
	—	
	201.9	
Current year charge/(credit)	(129.7)	(204.1)
Prior year charge/(credit)	-	406.0
	—	—
Balance carried forward	72.2	201.9
	—	—
Deferred taxation comprises:		
Unrealised gains on investments	34.4	204.6
Deferred acquisition expenses	(24.0)	(19.0)
Capital allowances	11.0	11.3
Other timing differences	50.8	5.0
	—	—
Deferred Tax Liability/(Asset)	72.2	201.9
	—	—

No provision has been made for £44.0m deferred tax on unrealised gains included in the acquisition value of Halifax Life Limited on 31 December 2001 as disclosed in note 20.

Comparative figures for 2001 have been restated for the implementation of FRS 19 on deferred taxation see note 32.

27 DEPOSITS RECEIVED FROM REINSURERS

During 2000 the Company entered into a reinsurance arrangement to assist in the financing of the acquisition costs of new long term business. The net amount of the financing outstanding from reinsurance is included in "Deposits received from reinsurers". The deposits are repayable from the establishment charges of specified single premium bond products.

28 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2002 £m	2001 £m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	35.3	56.4
	<hr/> 35.3	<hr/> 56.4

29 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2002 £m	2001 £m
Accounts payable	-	14.0
Outstanding purchase of investments	7.4	67.3
Taxation payable	3.2	8.6
Other	78.1	190.6
	<hr/> 88.7	<hr/> 280.5

30 CAPITAL COMMITMENTS

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

	2002	2001
	£m	£m
Amount contracted	68.5	89.9
Liability on partly paid stocks and shares	-	0.8

31 CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the year (2001 nil).

32 PRIOR YEAR ADJUSTMENT

In the current year, the Company has also implemented FRS 19 "Deferred Tax". The cumulative impact on the taxation charges relating to previous years have been recognised in the accounts as prior period adjustments and the prior year results have been restated. The impact on the shareholders' funds is to reduce the opening reserves on 1 January 2001 by £38.3m. The impact on the Long Term Business Fund is to reduce the Fund for Future Appropriations on 1 January 2001 by £329.3m and to reduce it on 1 January 2002 by £150.5m. The impact on the tax charge for 2002 is to increase it by £47.3m (2001 decrease £2.5m) in the Non Technical Account and reduce it by £100.7m (2001 £174.4m) in the Technical Account – Long Term Business. This is mainly due to the recognition in full of deferred tax on unrealised gains on invested assets.

33 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. 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.