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SCOTTISH WIDOWS PLC

REPORT OF THE DIRECTORS

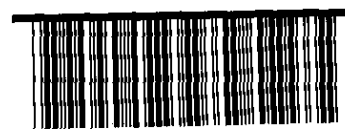
AND

ACCOUNTS

31 DECEMBER 2000

Member of Lloyds TSB Group

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Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Contents

Company Information	2
Directors' Report	3-4
Statement of Directors' Responsibilities	5
Report of the Auditors to the Members of Scottish Widows plc	6
Technical Account – Long term business for the period ended 31 December 2000	7
Non Technical Account for the period ended 31 December 2000	8
Balance Sheet	9-10
Notes to the Accounts	11-26

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Company Information

Board of Directors

L M Urquhart (Chairman)
G J N Gemmell (Deputy Chairman)

M E Fairey
A A Knight
A J Low
J McConville*
W H Main*
A E Moore
M D Ross*
N Scott*
I D Thompson*

Secretary

C M Herd

Reporting Actuary

A M Eastwood

Auditors

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

Registered Office

69 Morrison Street
Edinburgh
EH3 8YF

Company Registration Number

199549

* denotes Executive Director

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Directors' Report

Principal Activity and Review of Business

The principal activity of Scottish Widows plc ("the Company") is the undertaking of ordinary long term insurance business in the United Kingdom.

The Company was originally incorporated as Hatfin No. 3 Limited on 1 September 1999. The name of the Company was changed to Scottish Widows plc by a special resolution dated 28 October 1999.

On 3 March 2000, the Company became the sole member of Scottish Widows' Fund and Life Assurance Society ("the Society").

On the same date, the Company acquired the assets and liabilities relating to the long term business of the Society, with the exception of an element of conventional non-profit pensions business, which was transferred to Scottish Widows Annuities Limited (a subsidiary of the Company). The transfer of business was a result of the demutualisation of the Society, and was effected by a Scheme pursuant to section 49 of, and Part 1 of Schedule 2C to, the Insurance Companies Act 1982. Details of the transfer are shown in note 3 to the accounts.

On 31 March 2000, the Company transferred to Scottish Widows Group Limited its shareholding in Scottish Widows Bank plc, Hill Samuel Asset Management International Limited (at the date of transfer called Scottish Widows Investment Management Limited) and Scottish Widows Fund Management Limited.

The Company commenced writing business on 4 March and the level of new business added from 4 March onwards and the financial position of the Company at the year end are both considered satisfactory.

The Directors consider that the Company's activities will continue unchanged in the foreseeable future.

Results and Dividend

The result for the period ended 31 December 2000 is a loss of £226,900,000 and has been transferred from reserves. The Directors do not recommend the payment of any dividend for the period.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Directors' Report (continued)

Directors

The names of the current Directors are listed on page 2. The Directors who held office during the period are:

R C Carefull (appointed 1.9.99 and resigned 3.3.00)
B H K Jones (appointed 1.9.99 and resigned 3.3.00)
D J Joyce (appointed 1.9.99 and resigned 3.3.00)
G R Taylor (appointed 1.9.99 and resigned 3.3.00)
O L Dudley (appointed 3.3.00 and resigned 30.9.00)
C G Thomson (appointed 3.3.00 and resigned 31.12.00)

L M Urquhart, G J N Gemmell, A A Knight, A J Low, M E Fairey, A E Moore, M D Ross, I D Thompson, N Scott, W H Main were all appointed on 3.3.00. J McConville was appointed on 1.10.00.

Particulars of the Directors' emoluments and interests in shares are given in note 7 to the accounts.

Going Concern

After making enquiries, the Directors are satisfied that the Company has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the accounts on that basis.

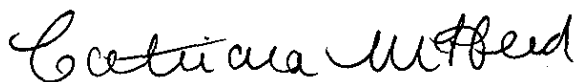
Euro

The Company has reviewed the implications of potential UK entry into the European single currency, and has concluded that the impact on the Company is currently minimal. This situation will continue to be reviewed in light of future Government developments.

Auditors

At a meeting of the Board of Directors on 13 October 1999 a resolution was passed appointing PricewaterhouseCoopers as auditors of the Company. PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

On behalf of the Board of Directors



C M Herd
Edinburgh
12 February 2001

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Statement of Directors' Responsibilities

Company law requires the Directors to have accounts prepared 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 accounts the Directors are required to:

- select suitable accounting policies and 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Report of the Auditors
To the Members of Scottish Widows plc

We have audited the accounts on pages 7 to 26.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 5, this includes responsibility for preparing the accounts, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practice Board, and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31 December 2000 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
12 February 2001

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Technical Account – long term business for the period ended 31 December 2000

	Notes	16 months ending 31/12/00 £m
Earned premiums, net of reinsurance		
Gross premiums written	4(a)	3,014.3
Outward reinsurance premiums		(569.4)
Investment income	5(a)	371.2
Unrealised gains on investments	5(a)	109.9
Other technical income		22.5
		<u>2,948.5</u>
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(1,822.7)
Reinsurers' share		199.7
Change in the provision for claims	15(a)	(19.5)
		<u>(1,642.5)</u>
Change in other technical provisions net of reinsurance		
Long term business provision net of reinsurance:		
Gross amount	15(a)	(2,316.4)
Reinsurers' share	15(b)	199.2
		<u>(2,117.2)</u>
Other technical provisions, net of reinsurance	15	(76.6)
		<u>(2,193.8)</u>
Net operating expenses		
Acquisition costs	6	(216.6)
Change in deferred acquisition costs		(38.9)
Administrative expenses	6	(72.5)
Investment expenses and charges	5(a)	(14.4)
Tax attributable to the long term business	9	(79.0)
Allocated investment return transferred to the non-technical account	2(e)/ 5(c)	109.4
Transfer from the fund for future appropriations	14	1,080.2
		<u>768.2</u>
Balance on the Technical Account – long term business		<u><u>(119.6)</u></u>

All activities are continuing.

The notes on pages 11 to 26 form an integral part of these accounts.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Non-Technical Account for the period ended 31 December 2000

	Notes	16 months ending 31/12/00 £m
Balance on long term business technical account		(119.6)
Investment income	5(a)	3.0
		<u>(116.6)</u>
Allocated investment return transferred from the long term business technical account	2(e)/ 5(c)	(109.4)
Loss on ordinary activities before taxation		<u>(226.0)</u>
Taxation on loss on ordinary activities	9	(0.9)
Retained loss for the financial period	13	<u>(226.9)</u>

Reconciliation of operating loss based on longer term investment return to loss on ordinary activities before tax

Operating loss based on longer term investment return	(116.6)
Short term fluctuation in investment return	(109.4)
Loss on ordinary activities before tax	<u>(226.0)</u>

Statement of total recognised gains and losses for the period ended 31 December 2000

	Notes	16 months ending 31/12/00
Loss for the financial year		(226.9)
Other recognised gains and losses relating to the period		
Surplus reserves acquired under Scheme of Transfer	3	3,270.7
Total recognised gains and losses		<u>3,043.8</u>

All activities are continuing

The notes on pages 11 to 26 form an integral part of these accounts.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Balance Sheet as at 31 December 2000

	Notes	31/12/00 £m
ASSETS		
Investments		
Land and buildings	10(a)	1,870.5
Investment in Group undertakings	10(b)	473.7
Other financial investments	10(c)	20,186.1
		<u>22,530.3</u>
Assets held to cover linked liabilities	11	309.6
Reinsurers' share of technical provisions		
Long term business provision	15(b)	450.1
Technical provisions for linked liabilities	15(b)	2,884.2
		<u>3,334.3</u>
Debtors		
Debtors arising out of direct insurance operations		28.2
Debtors due from Group undertakings		201.4
Other debtors		99.6
		<u>329.2</u>
Cash at bank and in hand		206.0
Prepayments and accrued income		
Accrued interest and rent		171.0
Deferred acquisition costs		583.7
Other prepayments and accrued income		1.2
		<u>755.9</u>
TOTAL ASSETS		<u><u>27,465.3</u></u>

The notes on pages 11 to 26 form an integral part of these accounts.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Balance Sheet as at 31 December 2000

	Notes	31/12/00 £m
LIABILITIES		
Capital and reserves		
Called-up share capital	12	1.0
Other reserves		3,270.7
Profit and loss account		(226.9)
Equity shareholders' funds	13	<u>3,044.8</u>
Fund for future appropriations	14	1,724.9
Technical Provisions		
Long term business provision	15(a)/16	19,208.0
Claims outstanding	15(a)	58.4
Technical provisions for linked liabilities	15(a)	3,193.8
Provisions for other risks and charges	17	29.5
Creditors		
Creditors arising out of direct insurance operations		3.0
Amounts owed to credit institutions		9.0
Other creditors including taxation and social security	18	173.0
		<u>185.0</u>
Accruals and deferred income		6.1
Creditors due after one year		14.8
TOTAL LIABILITIES		<u><u>27,465.3</u></u>

The notes on pages 11 to 26 form an integral part of these accounts.

Approved by the Board on 12 February 2001



M D Ross
Chief Executive

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts

1. Basis of preparation

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 applicable accounting standards and with the recommendations of the Association of British Insurers' Statement of Recommended Practice (SORP) on Accounting for Insurance Business issued in December 1998. As the company is a wholly owned subsidiary undertaking of Lloyds TSB Group plc, registered in the United Kingdom, the Company has taken advantage of the Companies Act 1985 and has not produced consolidated accounts.

The true and fair override provisions of the Companies Act 1985 have been invoked in respect of investment properties. 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 principle set out in Statement of Standard Accounting Practice 19 (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.

The current period of account is from 1 September 1999, the date of incorporation, to 31 December 2000.

2. Accounting policies

a) Premiums

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

b) Investment income

Investment income is included on an accruals basis.

c) 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.

d) 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 arising in the year are shown in the Technical Account.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

e) Allocation of investment return

Investment return relating to investments, which are directly connected with the undertaking of long term business, is initially recorded in the long term business Technical Account. The investment return arising in relation to all other investments is recorded in the Non-technical Account. In accordance with the recommendation of the SORP, an allocation of investment return is made from the long term business Technical Account to the Non-technical Account in order that investment return retained and reported in the Technical Account on investments directly attributable to shareholders reflects the Directors' estimate of the longer term rate of return.

The longer term rate of investment return is an estimate of the long term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations. Actual investment return in excess of / less than the longer term investment return is allocated to / from the Non-technical Account, using the relevant transfer line 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.

h) Deferred acquisition costs

The costs of acquiring new insurance contracts which are incurred during a financial period but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the Balance Sheet and are determined mainly in respect of conventional business by means of an adjustment applied to the net premium valuation of the long term business provision, grossing up for tax where appropriate. Deferred acquisition costs in respect of linked and unitised with-profits business are determined explicitly. The rate of change of the deferred acquisition cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period the relevant contracts are expected to remain in force.

i) Tax

Tax is charged on all taxable profits arising for the accounting period. Deferred taxation is calculated using the liability method but is provided only where the amount is likely to become payable in the foreseeable future. The taxation charge in the Non-technical Account is based on the taxable 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. During the period, the Company has implemented FRS 16; the effect has not been significant.

Notes to the Accounts (continued)

j) Long term reinsurance contracts

Long term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts.

k) 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;
- Listed securities are stated at middle market value;
- Unit trust units are stated at bid value;
- Short-term deposits are included at cost;
- Financial futures and option 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.

l) 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 acquisition and realisation of investments have been translated at rates of exchange ruling at the time of the respective transactions.

m) Long term business provision

The long term business provision for the Company is determined on the basis of recognised actuarial methods.

It includes explicit provision for declared bonuses added up to and including the reporting date. Implicit provision is made for future bonuses through the choice of the valuation rates of interest.

n) Fund for future appropriations

The fund for future appropriations comprises amounts which have yet to be allocated to either participating policyholders or shareholders.

o) 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 22).

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

3. Transfer of business from Scottish Widows' Fund and Life Assurance Society

On 3 March 2000, under a Scheme pursuant to Section 49, and of Part I of Schedule 2C to, the Insurance Companies Act 1982, the Company acquired the majority of the long term business of Scottish Widows' Fund and Life Assurance Society ("the Society"). This consisted of the transfer in of all assets and liabilities in respect of the Society's long term business, with the exception of an element of conventional non-profit pensions business, which was transferred to Scottish Widows Annuities Limited (a subsidiary of the Company).

The following table summarises the assets and liabilities acquired:

	£m
Investments	22,057.6
Assets held to cover linked liabilities	233.0
Debtors	612.4
Prepayments and accrued income	141.0
Other Assets	616.4
	<u>23,660.4</u>
 Provisions for risks and other charges	 40.1
Creditors	661.4
Accruals and deferred income	9.4
Total net assets	<u><u>22,949.5</u></u>
 Represented by:	
Long term business provision net of reinsurance	16,640.7
Technical provisions for linked liabilities net of reinsurance	233.0
Fund for future appropriations	2,805.1
Surplus reserves	3,270.7
	<u><u>22,949.5</u></u>

The assets transferred were valued at their market value or Directors' valuation. The policyholder liabilities acquired were determined on the basis of recognised actuarial methods.

The £119.6m technical loss of the Company for the period ending 31 December 2000 relates solely to the period from 4 March 2000 to 31 December 2000.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

4. Segmental analysis

All premiums relate to continuing operations and to direct business.

	16 months ending 31/12/00 £m
<i>(a) Gross premiums written</i>	
Individual premiums	2,863.9
Premiums under group contracts	150.4
Total	<u>3,014.3</u>
Regular premiums	827.6
Single premiums	2,186.7
Total	<u>3,014.3</u>
Premiums from non profit contracts	307.1
Premiums from with profits contracts	2,216.0
Premiums from linked contracts	491.2
Total	<u>3,014.3</u>
Premiums from life business	1,583.6
Premiums from annuity business	318.4
Premiums from pensions business	1,109.7
Permanent Health Insurance	2.6
Total	<u>3,014.3</u>
<i>(b) Gross new business premiums</i>	
Individual premiums	2,172.6
Premiums under group contracts	147.7
Total	<u>2,320.3</u>
Regular premiums	133.6
Single premiums	2,186.7
Total	<u>2,320.3</u>
Premiums from non profit contracts	231.4
Premiums from with profits contracts	1,682.4
Premiums from linked contracts	406.5
Total	<u>2,320.3</u>
Premiums from life business	1,220.5
Premiums from annuity business	318.4
Premiums from pensions business	779.9
Permanent Health Insurance	1.5
Total	<u>2,320.3</u>

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

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

(c) Geographical analysis

All premiums are written in the United Kingdom.

(d) Reinsurance balance

The outward reinsurance balance amounted to a credit to the long term business Technical Account of £11.6m at 31 December 2000.

5. Investment income

(a) Total investment income

	Technical account long term business 16 months ending 31/12/00 £m	Non- technical account 16 months ending 31/12/00 £m
(i) Investment income:		
Income from Group undertakings	8.2	-
Income from land and buildings	79.1	-
Income from investments		
- listed	487.7	-
- other	58.5	3.0
Losses on the realisation of investments	(262.3)	-
	<u>371.2</u>	<u>3.0</u>
(ii) Unrealised gains on investments	109.9	-
(iii) Investment management expenses, including interest		
Investment management expenses	9.9	-
Interest paid	4.5	-
	<u>466.7</u>	<u>3.0</u>
Net investment return		

(b) Longer term investment return

The principal investment return assumptions used in the calculation of the longer term rate of return are as follows:

	%
Equities	8.00 p.a.
Fixed Interest Stocks	5.25 p.a.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

(c) Comparison of longer term investment return with actual returns

	16 months ending 31/12/00
Actual return attributable to shareholders from the long term business	(229.0)
Less longer term return credited to operating results from the long term business	(119.6)
Shortage of actual returns over longer term returns	<u>(109.4)</u>

6. Net operating expenses

- (a) The administration of the Company is undertaken by Scottish Widows Services Limited. A recharge is levied from this undertaking to the Company in respect of those costs incurred on behalf of the Company.
- (b) Included within acquisition costs and administrative expenses are total commissions paid by the Company of £84.2m.
- (c) Included within administration expenses are costs of £37.8m that relate to the costs of integrating the long term insurance businesses of Scottish Widows and Lloyds TSB.
- (d) The investment management for the Company is provided by Scottish Widows Investment Partnership Limited and fees are included within investment management expenses.
- (e) The Company had no employees during the period.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

7. Directors' emoluments and interests

(a) Directors' emoluments

An apportionment of Directors' emoluments has been made to the Company as follows:

	16 months ending 31/12/00 £000
Aggregate emoluments	811
Compensation payable upon loss of office	719
Sums paid to third parties for Directors' services	74
	<u>1,604</u>

Retirement benefits are accruing to 5 Executive Directors under defined benefit schemes.

(b) Highest paid Director:

	16 months ending 31/12/00 £000
Aggregate emoluments	<u>173</u>
Defined benefits pension scheme accrued benefit at 31 December	<u>232</u>

(c) Directors' interests

M E Fairey, A E Moore, L M Urquhart and M D Ross are also Directors of the Company's ultimate parent company, Lloyds TSB Group plc, and their interests can be found in the accounts of that company.

G J N Gemmell, A A Knight, A J Low, I D Thompson, N Scott, J McConville and W H Main are also Directors of the Company's intermediate parent company, Scottish Widows Group Limited, and their interests are disclosed in the accounts of that company.

None of the Directors who held office during the period ending 31 December 2000 had any interest in the shares of the Company.

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

8. Auditors' remuneration

**16 months
ending
31/12/00
£m**

Remuneration paid to PricewaterhouseCoopers

- as auditors

0.3

- for other services

3.7

9. Taxation on loss on ordinary activities

The Technical Account and Non-technical Account are liable to United Kingdom Corporation Tax and Income Tax on the basis applicable to insurance companies as follows:

	Technical Account long term business 16 months ending 31/12/00 £m	Non- technical Account 16 months ending 31/12/00 £m
UK Corporation tax at 30%	36.7	0.9
Double tax relief	(3.6)	-
	<u>33.1</u>	<u>0.9</u>
Overseas tax	3.6	-
Deferred taxation	(10.6)	-
Corporation tax on realised gains	52.9	-
	<u>79.0</u>	<u>0.9</u>

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

10(a) Land and buildings

	Current value 31/12/00 £m	Cost 31/12/00 £m
Freehold occupied by the Company	27.5	27.3
Freehold	1,624.2	1,577.7
Long leasehold	218.8	220.7
	<u>1,870.5</u>	<u>1,825.7</u>

The Company's properties are valued individually at 31 December each year by independent professional valuers and are included in the accounts of these valuations. The valuations are carried out by Messrs Jones Lang LaSalle on an open market basis less an allowance for expenses of sale.

10(b) Investment in Group undertakings

	Current value 31/12/00 £m	Cost 31/12/00 £m
Shares	410.2	277.7
Loans	63.5	62.9
	<u>473.7</u>	<u>340.6</u>

10(c) Other financial investments

	Market Value 31/12/00 £m	Cost 31/12/00 £m
Shares and other variable yield securities and units in unit trusts	13,563.9	13,779.4
Debt securities and other fixed income securities	5,670.1	5,461.5
Other loans	10.4	10.4
Deposits with credit institutions	941.7	941.7
	<u>20,186.1</u>	<u>20,193.0</u>

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

10(c) Other financial investments (continued)

The market value above includes the following value of investments listed on a recognised stock exchange:

	Market Value 31/12/00 £m
Shares and other variable yield securities and units in unit trusts	12,794.3
Debt securities and other fixed income securities	4,588.2
	<u>17,382.5</u>

11. Assets held to cover linked liabilities

	Market Value 31/12/00 £m	Cost 31/12/00 £m
Assets held to cover linked liabilities	<u>309.6</u>	<u>314.1</u>

12. Called up share capital

	31/12/00 £000
Authorised	
1,080,000 Ordinary Shares of £1 each	<u>1,080</u>
Allotted, called up and fully paid	
1,080,000 Ordinary Shares of £1 each	<u>1,080</u>

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

12. Called up share capital (continued)

Movements in share capital during the year are as follows:

Date	Transaction	Number of ordinary shares	Par value	Total Value £000
01/09/1999	Incorporation	2	£1	-
13/10/1999	Increase in share capital for cash	49,998	£1	50
19/01/2000	Increase in share capital for cash	1,030,000	£1	1,030
		<u>1,080,000</u>	<u>£1</u>	<u>1,080</u>

13. Reconciliation of movements in Shareholders' Funds

	£m
Balance at 1 September 1999	-
Net proceeds of issue of ordinary share capital	1.0
Reserves acquired under Scheme of Transfer	3,270.7
Loss for the financial period	(226.9)
Balance at 31 December 2000	<u>3,044.8</u>

14. Fund for Future Appropriations

	£m
Balance at 1 September 1999	-
Transfer in on 3 March 2000	2,805.1
Movement for the period from 4 March 2000	(1,080.2)
Balance at 31 December 2000	<u>1,724.9</u>

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

15. Technical provisions

	Long term business provision £m	Claims outstanding £m	Technical provision for linked liabilities £m
<i>(a) Gross technical provisions</i>			
Balance at 1 September 1999	-	-	-
Transfer in on 3 March 2000	16,891.6	38.9	2,935.1
Movement for the period from 4 March 2000	2,316.4	19.5	258.7
Balance at 31 December 2000	19,208.0	58.4	3,193.8
<i>(b) Reinsurers' share</i>			
Balance at 1 September 1999	-	-	-
Transfer in on 3 March 2000	250.9	-	2702.1
Movement for the period from 4 March 2000	199.2	-	182.1
Balance at 31 December 2000	450.1	-	2,884.2
<i>(c) Net technical provisions</i>			
Balance at 31 December 2000	18,757.9	58.4	309.6
Balance at 1 September 1999	-	-	-

16. Long term business provision

The principal assumptions underlying the calculation of the long term business provision were as follows:

Class of business	Interest Rate % 2000
<i>Life</i>	
Participating (unitised)	2.25
Participating (conventional)	2.50
Non participating	3.25
<i>Deferred annuities</i>	
Group pensionplaner	4.25
Unitised with profits	3.00
Conventional with profits	
Pre retirement	3.00
Post retirement	4.00
<i>Pension Annuities in payment</i>	
Participating	5.00
Non participating	5.00

Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

16. Long term business provision (continued)

The following mortality assumptions (for the main classes of business) are based on the actual experience of the portfolio as well as relevant industry statistics:

Assurances: AM80 ult for males, AF80 ult for females, both minus 3 years with an addition of 60% to the mortality rates for smokers, and a deduction of 20% for non-smokers.

Deferred annuities:

In deferment A67/70 ult, minus 9 years for males, minus 12 years for females.
 In payment PA(90) minus 6.5 years.

Annuities in Payment:

Purchased (whole-life) 85% IMA92(C=1997) for males, 90% IFA92 (C=1997) for females
 Purchased (term) Valued as annuities certain
 Self employed/ 80%RMV92 (C=1997) for males, 75% RFV92 (C=1997) for females
 personal pensions
 Executive pensions 90% PMA92(C=1997) for males, 90% PFA92 (C=1997) for females
 Group scheme annuities 85% PMA92 (C=1997) for males, 85% PFA92 (C=1997) for females

An explicit allowance has been made for future improvement in annuitant mortality.

Cost of Bonuses

The cost of bonus declared for the year, including terminal bonus, totalled £611.2m.

17. Provisions for other risks and charges

31/12/00
£m

Deferred Tax	
- Deferred acquisition costs	28.1
- Other timing differences	1.4
	<u>29.5</u>

The potential liability for deferred tax not provided on the Balance Sheet is as follows:

31/12/00
£m

Unrealised gains on investments	<u>198.9</u>
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Scottish Widows plc
Report and Accounts for the Period Ended 31 December 2000

Notes to the Accounts (continued)

18. Other creditors including taxation and social security

	31/12/00
	£m
Taxation and social security	61.2
Amounts due to Group undertakings	13.3
Other creditors	98.5
	<u>173.0</u>

19. Subsidiary Undertakings

The following are particulars of the Company's principal subsidiaries:

Name	Class of Share or Stock	Percentage held	Country of Registration or Incorporation	Nature of Business
Scottish Widows Annuities Limited	Ordinary	100	Scotland	Life Insurance
Scottish Widows' Fund and Life Assurance Society	Mutual	Sole member	Scotland	Dormant
Pensions Management (SWF) Limited*	Ordinary	100	Scotland	Life Insurance
Scottish Widows Unit Funds Limited	Ordinary	100	Scotland	Life Insurance
Scottish Widows International Limited	Ordinary	100	Jersey	Life Insurance
Scottish Widows Services Limited	Ordinary	100	Scotland	Management Services

*Limited by guarantee

The above subsidiaries operate in the United Kingdom with the exception of Scottish Widows International Limited which operates in Jersey.
A full list of all subsidiaries is available with the Annual Return.

Notes to the Accounts (continued)

20. Derivative contracts

At 31 December 2000 the Company and certain subsidiary undertakings 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 hedging or efficient portfolio management purposes with the exception of certain contracts used for the purpose of matching contractual liabilities. The use of derivative contracts is monitored against approved limits specified by the Scottish Widows Group Board in relation to total and counterparty exposures, and at all times fulfils the conditions referred to in Regulation 55 of the Insurance Companies Regulations 1994.

21. Related party transactions

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

There were no other material transactions by the Company with related parties for the period ended 31 December 2000.

22. Parent undertaking

The Company's immediate parent undertaking is Scottish Widows Financial Services Holdings Limited, a Company registered in the United Kingdom. Scottish Widows Financial Services Holdings Limited has taken advantage 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, 71 Lombard Street, London, EC3P 3BS.