

SA 59

SCOTTISH WIDOWS' FUND AND LIFE ASSURANCE SOCIETY

REPORT OF THE DIRECTORS

AND

ACCOUNTS

31 DECEMBER 2002

Member of Lloyds TSB Group



Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Contents

Company Information	2
Directors' Report	3
Report of the Independent Auditors to the Member of Scottish Widows' Fund and Life Assurance Society	4-5
Technical Account – Long-term business for the year ended 31 December 2002	6
Balance Sheet	7
Notes to the Accounts	8-10

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Company Information

Board of Directors

G J N Gemmell – Chairman
A A Knight – Deputy Chairman
A J Low
W H Main
M D Ross

Secretary

C M Herd

Reporting Actuary

A Eastwood

Auditors

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

Registered Office

15 Dalkeith Road
Edinburgh
EH16 5BU

Company Registration Number

Z2

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Directors' Report

Principal activity and review of the business

Scottish Widows' Fund and Life Assurance Society ("the Company") operated as a mutual life assurance society until 3 March 2000. Its principal activity was the undertaking of ordinary long term insurance business in the United Kingdom. It is not intended that the Company will recommence trading in the foreseeable future.

Directors

The names of the Directors at the balance sheet date are listed on page 2. Changes in directorships during the year are as follows:

L M Urquhart (resigned 12 March 2002)
N Scott (resigned 30 June 2002)

Particulars of the Directors' emoluments and interests in shares are given in note 3 to the accounts.

On behalf of the Board of Directors

C M Herd
Edinburgh
11 March 2003

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Report of the Independent Auditors

To the Member of Scottish Widows' Fund and Life Assurance Society

We have audited the financial statements which comprise the Technical Account, Balance Sheet and related notes which have been prepared under the accounting policies set out in the statement of accounting policies.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the annual report including, as described below, the financial statements. The United Kingdom Companies Act 1985 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

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

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Report of the Independent Auditors

To the Member of Scottish Widows' Fund and Life Assurance Society (continued)

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its result for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
11 March 2003

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Technical Account – long-term business

	Notes	2002 £000	2001 £000
Investment expenses and charges			
Realised losses on investments		(4)	-
Unrealised losses on investments		-	(9)
Transfer from the fund for future appropriations	6	4	9
Balance on the Technical Account – long-term business		<u>-</u>	<u>-</u>

All recognised gains and losses (realised and unrealised) are dealt with in the Technical Account.

The notes on pages 8 to 10 form an integral part of these accounts.

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Balance Sheet

	Notes	2002 £000	2001 £000
ASSETS			
Investments			
Other financial investments	5	487	491
TOTAL ASSETS		<u>487</u>	<u>491</u>
LIABILITIES			
Fund for future appropriations	6	487	491
TOTAL LIABILITIES		<u>487</u>	<u>491</u>

The notes on pages 8 to 10 form an integral part of these accounts.

Approved by the Board on 11 March 2003

M D Ross
Chief Executive

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

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.

2. Accounting policies

a) Investment income

All investment income is passed to the Company's immediate parent undertaking, Scottish Widows plc.

b) 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.

c) 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.

d) Valuation of investments

Listed securities are stated at middle market value as at the Balance Sheet date.

e) Fund for future appropriations

The fund for future appropriations represents assets which are in excess of those required to cover policyholder liabilities.

f) Cash Flow Statement

A cash flow statement has not been provided as the Company has taken advantage of the exemptions contained in Financial Reporting Standard No 1 (Revised) "Cash Flow Statements" as consolidated accounts, in which the Company is included, are available (see note 8).

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts (continued)

3. Directors emoluments and interests

(a) Directors' emoluments

The Chairman and Directors consider that they receive no remuneration for their services to the Company. The Chairman and Directors are also Directors of certain key operating companies within the Lloyds TSB Group, of which the Company is a member. The emoluments of the Chairman and Directors are disclosed in the accounts of those companies.

(b) Directors' interests

G J N Gemmell 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.

A A Knight, A J Low and W H Main are also Directors of the Company's intermediate holding company, Scottish Widows Group Limited, and their interests are disclosed in the accounts of that company.

4. Auditors' remuneration

(a) The remuneration of the Auditors for audit work is borne by Scottish Widows plc.

(b) There were no other fees paid to the Auditors during the year (2001: £nil).

5. Investments

Other financial investments	Market Value		Cost	
	2002	2001	2002	2001
	£000	£000	£000	£000
Debt securities and other fixed income securities	487	491	487	491

The market value above entirely comprises investments listed on a recognised stock exchange.

6. Fund for future appropriations

	2002	2001
	£000	£000
Balance at 1 January	491	500
Movement for the year	(4)	(9)
Balance at 31 December	<u>487</u>	<u>491</u>

Scottish Widows' Fund and Life Assurance Society
Report and Accounts for the Year Ended 31 December 2002

Notes to the Accounts (continued)

7. Related party transactions

Advantage has been taken of the exemption under FRS 8 "Related Party Disclosures" 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 year in which a director or key manager was materially interested or which requires disclosure as a related party transaction as defined under FRS 8.

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

8. Parent undertaking

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

Lloyds TSB Group plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of Scottish Widows' Fund and Life Assurance Society. 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.