

**CAPITAL BANK INSURANCE SERVICES LIMITED**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2002**



**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2002**

The Directors hereby submit their Report and the accounts for the year ended 31 December 2002.

<b>Results</b>	<b>(£000)</b>
The accounts of the company show a loss for the financial year of	(13)
The balance brought forward at 1 January 2002 was	51
Leaving a balance to be carried forward of	<u>38</u>

**Activities of the company**

The principal activity of the company is the provision of finance and associated services. The company has conducted its activities throughout the year in a satisfactory manner.

The company has ceased to write new business from 30 November 2000 and no significant change in the company's activities is foreseen at the present time

**Directors**

The Directors of the company as at 31 December 2002 were:-

I.S. Black  
H.M. Posner

Mr. R.J. Mee and Mr. C.A. Shearer were Directors during the year and resigned as Directors on 14 January 2002 and 31 March 2002 respectively.

Mr. I.S Black and Mr H.M Posner were appointed as Directors on 27 March 2002.

During the year no director had any beneficial interest in the share capital of the company or of any group undertaking other than in HBOS plc, the ultimate holding company, details of which are set out below.

Directors' beneficial interests in the ordinary shares of HBOS plc were as follows: -

**Ordinary shares of 25p each**

	At 27 March 2002	Acquired in the year	At 31 December 2002
Mr H M Posner	-	9,324	9,324
Mr I S Black	-	5,493	5,493

**Short-term Incentive Plan**

Certain Directors have a conditional entitlement to shares arising from the annual incentive. Where the annual incentive for 2000/2001 was taken in shares and these shares are retained in trust for 3 years, the following shares will also be transferred to the Directors.

**REPORT OF THE DIRECTORS (continued)****Ordinary shares of 25p each**

	At 27 March 2002	Shares granted in year	At 31 December 2002
Mr H M Posner	5,999	-	5,999
Mr I S Black	2,746	-	2,746

Long-term Incentive Plan-Former Bank of Scotland/Bank of Scotland subsidiaries' Directors

Options to subscribe for ordinary shares of HBOS plc were exercised by Directors to 31 December 2002 as follows:-

**Ordinary shares of 25p each**

	At 27 March 2002	Options granted	Options exercised or lapsed	At 31 December 2002
Mr H M Posner	67,210	29,166	-	96,376
Mr I S Black	25,184	8,082	-	33,266

Sharesave Plan

Options to subscribe for ordinary shares of HBOS plc under sharesave plans as at 31 December 2002 were as follows:-

**Ordinary shares of 25p each**

	At 27 March 2002	Options granted	Options exercised or lapsed	At 31 December 2002
Mr H M Posner	4,115	-	-	4,115
Mr I S Black	4,115	-	-	4,115

HBOS plc Inland Revenue Approved Share Option Plan

Options in ordinary shares of HBOS plc, held under HBOS Inland Revenue Approved Share Option Plan as at 31 December 2002 were as follows:-

**Ordinary shares of 25p each**

	At 27 March 2002	Options granted	Options exercised or lapsed	At 31 December 2002
Mr I S Black	2,582	-	-	2,582

Under the HBOS Inland Revenue Approved Share Option Plan, shares are granted to all HBOS employees, except certain senior executives.

Full details of the Directors' shareholdings and options are contained in the Register of Directors' Interests which is available for inspection.

**REPORT OF THE DIRECTORS (continued)**

The Articles of Association do not provide for the retirement of Directors by rotation.

**Auditors**

Our auditors KPMG Audit Plc, have expressed their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

**Statement of Directors' responsibilities in respect of the accounts**

Company Law requires the directors to prepare accounts 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 for that period. In preparing those accounts, 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 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 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 accounts comply with the Companies Act 1985. They have a general responsibility 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.

BY ORDER OF THE BOARD



J. Butler  
Company Secretary

C/o Halifax plc  
Trinity Road  
Halifax  
HX1 2RG

18th September 2003

We have audited the financial statements on pages 5 to 8.

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 reason. 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 Annual Report and Accounts. As described on page 3, this includes responsibility for preparing the accounts 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 Practises Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and have been 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 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 with the company 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 financial statements.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of the Company's affairs 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*

*21 September 2003*

**KPMG Audit Plc**  
**Chartered Accountants**  
**Registered Auditor**

**St James Square**  
**Manchester**  
**M2 6DS**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	<u>Notes</u>	<u>Year ended 31/12/02 (£000)</u>	<u>10 mths to 31/12/01 (£000)</u>
TURNOVER	2	8	44
Finance and trading costs		(27)	-
GROSS (LOSS)/PROFIT		<u>(19)</u>	<u>44</u>
Administrative expenses		<u>-</u>	<u>(2)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,3	(19)	42
Tax credit/(charge) on profit on ordinary activities	4	<u>6</u>	<u>(12)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(13)	30
Balance brought forward		51	21
BALANCE CARRIED FORWARD		<u>38</u>	<u>51</u>

There are no recognised gains and losses other than those shown above.

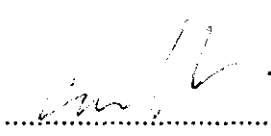
The notes on pages 7 to 8 form part of the accounts.

## BALANCE SHEET AS AT 31 DECEMBER 2002

	Notes	<u>31/12/02</u> <u>(£000)</u>	<u>31/12/01</u> <u>(£000)</u>
CURRENT ASSETS			
DEBTORS: receivable within one year	5	<u>76</u>	<u>149</u>
		76	149
CREDITORS: payable within one year	6	<u>(36)</u>	<u>(96)</u>
NET CURRENT ASSETS		<u>40</u>	<u>53</u>
CAPITAL AND RESERVES			
Called up share capital	7	2	2
Profit and loss account		38	51
EQUITY SHAREHOLDERS' FUNDS	8	<u>40</u>	<u>53</u>

The notes on pages 7 to 8 form part of the accounts.

Approved by the Board of Directors on 18th September 2003 and signed on its behalf by

 DIRECTOR  
H.M Posner

18th September 2003

## NOTES ON THE ACCOUNTS

## 1. ACCOUNTING POLICIES

**Accounting convention**

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable Accounting Standards and with S226 of, and schedule 4 to, the Companies Act 1985.

**Cashflow Statement**

As a wholly owned subsidiary undertaking the company is exempt from including a statement of cash flows in its accounts. HBOS plc has included a consolidated statement of cash flows in its accounts. Copies of HBOS plc's accounts can be obtained from The Mound, Edinburgh.

## 2. TURNOVER

Turnover, all of which arose from activities within the United Kingdom, represents commission earned together with income from inter-company current accounts and associated services less compensation payments made to customers.

## 3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>Year ended</u> <u>31/12/02</u> <u>(£000)</u>	<u>10 mths to</u> <u>31/12/01</u> <u>(£000)</u>
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Profit is stated after crediting:

Commission received	27	38
Interest receivable from Capital Bank plc	<u>4</u>	<u>5</u>

and after charging:

Compensation payments arising from pension reviews	87	-
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The company's audit fee will be paid by its immediate parent undertaking.

The company has no employees. It uses the services of its immediate parent undertaking for which a management charge, included in administrative expenses, is made.

## 4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>Year ended</u> <u>31/12/02</u> <u>(£000)</u>	<u>10 mths to</u> <u>31/12/01</u> <u>(£000)</u>
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Taxation credit based on the result for the year is made up as follows:

Corporation tax at a composite rate of 30.0% (2000:30.08%)	<u>(6)</u>	<u>12</u>
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No reconciliation of the current tax charge has been disclosed as there are no reconciling items.



## NOTES ON THE ACCOUNTS (continued)

## 5. DEBTORS: receivable within one year

	<u>31/12/02</u> <u>(£000)</u>	<u>31/12/01</u> <u>(£000)</u>
Amount owed by Capital Bank plc	70	124
Corporation tax	6	-
Bank balance at Bank of Scotland	-	25
	<u>76</u>	<u>149</u>

## 6. CREDITORS: payable within one year

	<u>31/12/02</u> <u>(£000)</u>	<u>31/12/01</u> <u>(£000)</u>
Corporation tax	-	17
Bank overdraft at Bank of Scotland	18	-
Other creditors	18	79
	<u>36</u>	<u>96</u>

## 7. SHARE CAPITAL

	<u>31/12/02</u>	<u>31/12/01</u>
Ordinary shares of £1 each		
Authorised, allotted, called up and fully paid	<u>2,500</u>	<u>2,500</u>

## 8. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>31/12/02</u> <u>(£000)</u>	<u>31/12/01</u> <u>(£000)</u>
Shareholders' funds brought forward	53	23
Profit/(loss) for the financial year	(13)	30
Shareholders' funds carried forward	<u>40</u>	<u>53</u>

## 9. ULTIMATE PARENT UNDERTAKING

HBOS plc is the company's ultimate parent undertaking and the parent of the largest group of undertakings for which group accounts (including the company's results) are drawn up. The Governor and the Company of Bank of Scotland is the parent of the smallest group of undertakings for which group accounts (include the company's results) are drawn up.

Copies of HBOS plc's accounts and The Governor and Company of Bank of Scotland's accounts can be obtained from The Mound, Edinburgh, EH1 1YZ.

## 10. RELATED PARTY TRANSACTIONS

Under FRS 8 Related Party Disclosures, the company is exempt from disclosing transactions with other companies within the HBOS plc group where 90% or more of the voting rights are held within the HBOS plc group.

## 11. POST BALANCE SHEET EVENTS

The final case arising from the pension reviews was settled in January 2003. The final amount paid was £11,998. A £5,000 insurance excess applies.

**TRADING ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	<i>Yr to 2002 (£)</i>	<i>10 mths 2001 (£)</i>
<b>Income</b>		
Insurance commission received	(23,808)	37,727
Intra group interest	<u>4,462</u>	<u>5,396</u>
	(19,346)	43,123
Less:		
Insurance commission payable	<u>-</u>	<u>(101)</u>
	-	(101)
<b>NET INCOME/(EXPENDITURE)</b>	<u>(19,346)</u>	<u>43,022</u>
Less:		
<b>Expenses</b>		
Intra group management charge	-	(1,500)
<b>OPERATING PROFIT/(LOSS)</b>	<u>(19,346)</u>	<u>41,522</u>

**ANALYSIS OF PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 28 FEBRUARY 2001**

	<i>2002</i>	<i>2001</i>
<b>Turnover</b>	<b>(£)</b>	<b>(£)</b>
Insurance commission received	(23,808)	37,727
Bank interest		
Intra group interest	4,462	5,396
	<u>(19,346)</u>	<u>43,123</u>
 <b>Finance and trading costs</b>		
Insurance commission payable	-	(101)
	<u>-</u>	<u>(101)</u>
 <b>Administrative expenses</b>		
Intra group management charge	-	(1,500)
	<u>(19,346)</u>	<u>41,522</u>