

## Principal activities and business review

The principal activities of Royal London are the transaction of the main classes of life insurance business.

The principal activities of the subsidiary undertakings are as outlined in note 22 to the financial statements.

The Chairman's statement and the Chief Executive's review on pages 2 to 12 contain a review of the group's operating and financial results.

## Directors

The directors of Royal London are as set out on page 14. With the exception of Tim Melville-Ross, who was appointed a director on 1 June 1999, they were directors for the whole of the year. The only other persons to have served as directors during the year were Tom Slee, who resigned on 30 April 1999, and Michael Pickard who resigned on 9 July 1999.

In accordance with the Articles of Association Tim Melville-Ross, Hubert Reid and Barry Fitzgerald retire at the annual general meeting and being eligible, offer themselves for re-election.

The details of the executive directors' service contracts are set out in the board's report on directors' remuneration on pages 18 and 19.

None of the directors has or has had an interest in the shares of any group undertaking.

## Charitable donations

Charitable donations amounted to £88,060 (1998 £49,455).

## Equal opportunities

The group is committed to providing equal opportunities to all employees irrespective of sex, marital status, creed, colour, race, ethnic origin or disability. This commitment extends to recruitment, training, career development, promotion and performance appraisal. If any member of staff becomes disabled, the group will arrange for retraining or consider an application for retirement on disability pension, as appropriate.

## Employee involvement

The group has effective communication channels through which employees are provided with information, and their views are sought, on matters of concern to them.

This has been enhanced by Team Talk, a monthly briefing document which reviews performance and operational issues, and

Connections, the bi-monthly magazine which gives business and social news and is sent to all employees, including retired employees.

The group has consulted with employee representatives of the two recognised unions, MSF and NUIW, on issues of interest.

No employee share scheme is operated because Royal London is a mutual but arrangements exist enabling remuneration to reflect individual and group performance.

## Supplier payment policy

The group does not follow any code or standard on payment practice with its suppliers but it is the policy of the group to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

The ratio of the amount owed to trade creditors at the end of the year to the amounts invoiced by suppliers during the year, expressed in days is seven.

## Institutional shareholders' voting rights

As an institutional investor, Royal London uses its voting rights positively and regularly.

## Corporate governance

The Principles of Governance and Code of Best Practice (the Combined Code) were published in June 1998. Guidance on the internal control aspects of the Combined Code has now been provided by the publication in September 1999 of Internal Control: Guidance for Directors on the Combined Code (the Turnbull Guidance).

## The Turnbull Guidance

The directors confirm that they have adopted the transitional approach available to listed companies and have established procedures necessary to implement the Turnbull Guidance. These procedures will enable the group to comply with the Turnbull Guidance for the accounting period ending 31 December 2000.

## The Combined Code

Subject to two exceptions, the board has complied with those aspects of the Combined Code that applied to listed companies during the year ended 31 December 1999.

The posts of chairman and chief executive are held by different persons and there is a strong and independent non-executive element on the board, although no non-executive director, other than the chairman, is formally recognised as the

senior member of the non-executive element.

The Combined Code requires directors to submit themselves for re-election at regular intervals, and at least every three years. The current Articles of Association require one-third of the directors to retire from office at each annual general meeting, and to seek re-election. The current Articles, however, also provide for the number of directors retiring for this reason to be reduced by the number of directors (if any) who have been appointed by the board during the year, and who thus must retire and seek re-election at the next annual general meeting. It is therefore possible for the number of directors retiring by rotation not to comply strictly with the requirements of the Combined Code.

The board does not consider these two exceptions to be material departures from the principles of the Combined Code.

## Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. Any such system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that the directors review the effectiveness of the group's system of internal controls. This extended the previous requirement in respect of internal financial controls to cover all controls, including financial, operational, compliance and risk management.

In adopting the London Stock Exchange's transitional rules, the directors have continued to review and report upon internal financial controls in accordance with Internal Control and Financial Reporting, the 1994 guidance from the Institute of Chartered Accountants in England and Wales.

Key elements of the group's system of internal financial controls are as follows:

## Control environment and structure

Royal London is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. The board meets monthly, determines the objectives and strategy and has defined the matters that must be referred to it for decision. The board has established a number of committees

(audit, remuneration, nominations and investment) the responsibilities of which are defined.

Royal London has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve group objectives. Lines of responsibility and delegations of authority are documented.

#### Risk identification

Management is responsible for the identification and evaluation of key risks applicable to the areas of business. These risks are assessed on a continual basis. The risk management function (incorporating internal audit) is responsible for co-ordinating the corporate approach to the identification and management of risk.

#### Information and communication

Business units participate in periodic reviews that include consideration of long-term objectives and prepare annual plans and budgets, performance against which is monitored at the board and function level.

These mechanisms allow for the continual monitoring of group performance, early identification of risks and their financial implications and corrective action to be agreed and implemented.

#### Control procedures

Royal London has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management and risk management, and external audit to the extent necessary to arrive at their audit opinion.

An ongoing process of risk self-assessment and hierarchical reporting has been established which provides for a documented, auditable trail of accountability. This process is in place throughout the group and provides for assurances to be given to the board.

#### Monitoring and corrective action

Risk management independently reviews the ongoing risk self-assessments undertaken by each operating area. Planned corrective actions are monitored. This independent assessment is communicated to the board. There are clear and consistent procedures in place for

monitoring the system of internal controls. The audit committee meets at least three times a year and, within its remit, reviews the effectiveness of the group's system of internal financial and operational controls. The committee receives reports from group compliance, risk management, management and external auditors. Tony Percival was appointed chairman of the audit committee with effect from 1 May 1999 following the resignation of Tom Slee.

#### Treasury policy

Treasury's primary role is to manage liquidity and funding at optimum cost to the group. Policies are set by the board and are subject to regular review by internal and external auditors. Counterparty credit risk is closely managed by reference to criteria set by the board and is monitored against assessments issued by the major credit rating agencies. The day-to-day operations are directly controlled by senior management.

Treasury does not engage in speculative activity and deals are only authorised with banks with which dealing mandates have been agreed.

#### Going concern

The directors confirm that they are satisfied that Royal London has sufficient resources to meet all operational needs for the foreseeable future. It is, therefore, appropriate to continue to adopt the going concern basis in preparing the financial statements.

#### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of Royal London will be proposed at the annual general meeting.

By order of the board

#### Murray Ross

Secretary

29 February 2000

# The board's report on directors' remuneration

For the year ended 31 December 1999

The remuneration committee reviews executive directors' salaries annually. It considers it is in policyholders' interests for remuneration packages to be competitive in order to attract and retain people of the required calibre. The policy aims to provide median basic salaries with incentive opportunities which could provide upper quartile total cash earnings for outstanding performance. The committee obtains independent advice on pay and benefits of executive directors and other senior executives.

## Remuneration package

### Salaries

The salary of directors is determined by considering the individual's responsibility and performance and the remuneration paid in companies of comparable size and nature. It is also recognised that although the board acts collectively on matters of policy, individual executive directors operate in different fields which are subject to different marketplace comparators.

### Annual incentive plan

The annual plan is designed to focus participants on the results that need to be achieved to meet Royal London's strategic objectives. It forms the basis of incentive arrangements introduced for all staff. It is capped at 40% of salaries earned in the year.

### Long term incentive plan (LTIP)

The LTIP was introduced with effect from 1 January 1998 and rewards increases in Royal London's policyholder value over the longer term. The value of any award is based on Royal London's value added over a three-year period and will also depend on achievement of specific targets set for investment performance, customer generated income, expenses and customer satisfaction. A new plan commences annually and is capped at 40% of salary at the end of a three-year period. No value has accrued to the LTIP as at 31 December 1999.

### Benefits

Benefits are a company car, including all running costs, and private medical insurance.

### Pensions

Executive directors are members of the company's pension scheme, which is a funded non-contributory defined benefits arrangement.

The accrual rate for each year of service is 1/45ths except for Barry Fitzgerald's, which

is 1/60ths. The retirement age is 60, except Barry Fitzgerald's, which is 65.

Two executive directors, Murray Ross and Stephen Shone, are affected by the Inland Revenue earnings cap on approved pension benefits. In respect of service after 1 October 1999, the company will provide the benefits above the cap on an unapproved basis. Prior to this date a salary supplement was paid on earnings above the cap to reflect the fact that basic salaries are determined as if the whole amount were pensionable.

Life assurance cover for death in service is four times pensionable earnings. Cover for capped executive directors is increased by individual arrangements to four times final year's salary. Spouses' or dependants' pensions are payable on death based on number of years' service.

Increases in vested pensions, other than the guaranteed minimum pension element, are at the discretion of the board and are currently granted at the lower of the annual increase in the retail price index or 5%.

### Notice period

The period of notice required to be given to the company by executive directors varies from three months, in the case of Murray Ross and Barry Fitzgerald to six months for Mike Yardley and Stephen Shone.

Notice periods to be given by the company to executive directors are standardised at one year, except that Mike Yardley has a two years' notice period, which reduces to one year in April 2000, and Barry Fitzgerald has a two years' notice period, reducing to one year at age 59.

In the event of early termination, the policy is to make payments within the contractual entitlement. Barry Fitzgerald's contract provides that, if notice is given by Royal London, he may elect for an immediate accrued pension from the scheme in lieu of any other compensation.

### Non-executive directors

The committee does not consider the remuneration of the non-executive directors. This is determined by the executive members of the board in accordance with the provisions of the Articles of Association. The principles adopted by the board in determining the fees are that they should be competitive, appropriate to attract and retain non-executive directors of the necessary calibre and reflect the responsibilities and time involved in Royal London matters.

	1999	1998
	£000	£000
<b>Directors' emoluments</b>		
Salaries and benefits	706	688
Performance related bonuses	20	-
Fees and benefits to the chairman and non-executive directors	189	165
Compensation for loss of office	-	163
	<b>915</b>	<b>1,016</b>

	Salary or fees		Performance related bonus		Taxable benefits		Compensation for loss of office			Total
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Chairman</b>										
Hubert Reid, from 10.7.99	38	-	-	-	-	-	-	-	38	-
Michael Pickard, to 9.7.99	45	117	-	-	8	12	-	163*	53	292
<b>Executive directors</b>										
Barry Fitzgerald	126	120	-	-	13	10	-	-	139	130
Murray Ross	135	129	-	-	17	15	-	-	152	144
Stephen Shone, appointed 1.1.99	154	-	20	-	10	-	-	-	184	-
Mike Yardley	238	209	-	-	13	13	-	-	251	222
Brian Jones, resigned 31.10.98	-	126	-	-	-	11	-	-	-	137
<b>Non-executive directors</b>										
Hubert Reid, to 9.7.99	18	34	-	-	-	-	-	-	18	34
Barry Skipper	25	24	-	-	-	-	-	-	25	24
Tony Percival, appointed 1.1.99	28	-	-	-	-	-	-	-	28	-
Tim Melville-Ross, appointed 1.6.99	17	-	-	-	-	-	-	-	17	-
Tom Slee, resigned 30.4.99	10	33	-	-	-	-	-	-	10	33
	<b>834</b>	<b>792</b>	<b>20</b>	<b>-</b>	<b>61</b>	<b>61</b>	<b>-</b>	<b>163</b>	<b>915</b>	<b>1,016</b>

\*£58,737 of this sum was paid in monthly instalments during 1999 and the total cost has reduced by £14,626 compared with the figure reported in the 1998 accounts.

	Age at	Pensionable	Additional pension	Pension	Pension
	31.12.99	service at	earned (excluding	accrued at	accrued at
		31.12.99	inflation)	31.12.99	31.12.98
			during 1999	£000	£000
			£000		
<b>Staff pension fund</b>					
Barry Fitzgerald	55	27 yrs 8 mths	2	56	53
Murray Ross	52	5 yrs 8 mths	2	9	7
Stephen Shone	42	1 yr 0 mths	2	2	-
Mike Yardley	43	21 yrs 1 mth	5	78	71

By order of the board

Tim Melville-Ross  
Chairman of the remuneration committee  
29 February 2000

# Statement of directors' responsibilities

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 parent company and group and of the result 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.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of Royal London and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## Auditors' report

to the members of The Royal London Mutual Insurance Society Limited

We have audited the financial statements on pages 21 to 31.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described above this includes responsibility for preparing 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, the Listing Rules of the London Stock Exchange, 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. 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 or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 16 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### 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 group'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 and the group as at 31 December 1999 and of the result of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

29 February 2000

# Consolidated profit & loss account

For the year ended 31 December 1999

		1999 £m	1998 £m Restated
<b>Technical account – long term business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	386.2	481.3
<b>Investment income</b>	3	<b>798.3</b>	512.0
<b>Unrealised gains on investments</b>	3	<b>441.2</b>	288.0
<b>Other technical income, net of reinsurance</b>	4		
Continuing		9.8	5.6
Discontinued		8.5	1.1
		<b>18.3</b>	<b>6.7</b>
<b>Total technical income</b>		<b>1,644.0</b>	<b>1,288.0</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid	2	518.2	529.5
Changes in the provision for claims	13	3.7	0.1
		<b>521.9</b>	<b>529.6</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision	13	29.0	870.9
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities		6.1	1.5
		<b>35.1</b>	<b>872.4</b>
<b>Net operating expenses</b>	5	<b>150.2</b>	165.6
<b>Investment expenses and charges</b>	3	<b>15.9</b>	25.4
<b>Other technical charges, net of reinsurance</b>	4	<b>6.5</b>	4.6
<b>Tax attributable to the long term business</b>	8	<b>67.6</b>	35.4
<b>Total technical charges</b>		<b>797.2</b>	<b>1,633.0</b>
<b>Excess/(deficit) of total technical income over total technical charges</b>		<b>846.8</b>	(345.0)
<b>Transfer (to)/from the fund for future appropriations</b>		<b>(846.8)</b>	345.0
<b>Balance on the technical account – long term business</b>		<b>-</b>	<b>-</b>

The overall results of the group are reflected in the technical account – long term business. As a mutual company all earnings are retained for the benefit of policyholders and are carried forward within the fund for future appropriations. Accordingly there is no balance at the foot of the technical account – long term business. In accordance with the amendment to FRS3, 'Reporting Financial Performance', no note of historical cost profit has been prepared as the group's only material gains and losses relate to the holding and disposal of investments. There are no gains and losses other than those included in the profit and loss account.

All of the above amounts derive from continuing activities, except for the portion of the 'other technical income' which relates to the group's discontinued general business activities and is analysed in note 4 to the financial statements. The group ceased to write new general insurance business on 30 November 1999. As a result of this, no technical account – general business or non-technical account has been presented for 1999. 1998 comparatives have been restated as further detailed in note 1a to the financial statements.

# Balance sheet

As at 31 December 1999

	Notes	Group		Parent company	
		1999 £m	1998 £m	1999 £m	1998 £m
<b>Assets</b>					
<b>Investments</b>					
Land and buildings	10	851.3	730.8	848.5	728.5
Investments in group undertakings		-	-	44.2	45.8
Other financial investments		6,617.6	6,107.5	6,545.8	6,031.3
		<b>7,468.9</b>	<b>6,838.3</b>	<b>7,438.5</b>	<b>6,805.6</b>
<b>Assets held to cover linked liabilities</b>					
<b>Reinsurers' share of technical provisions</b>					
Long term business	10	0.7	0.7	0.7	0.7
General business		11.8	23.1	-	-
		<b>12.5</b>	<b>23.8</b>	<b>0.7</b>	<b>0.7</b>
<b>Debtors</b>					
Direct insurance operations	11	24.6	31.2	16.3	21.6
Reinsurance operations		1.8	2.2	-	-
Other debtors	11	21.2	62.8	37.0	66.5
		<b>47.6</b>	<b>96.2</b>	<b>53.3</b>	<b>88.1</b>
<b>Other assets</b>					
Tangible assets	12	18.5	25.9	18.2	25.8
Cash at bank and in hand		182.3	63.3	162.4	55.5
		<b>200.8</b>	<b>89.2</b>	<b>180.6</b>	<b>81.3</b>
<b>Prepayments and accrued income</b>					
Accrued interest and rent		16.8	20.7	16.7	19.6
Deferred acquisition costs - general business		2.3	3.8	-	-
Other prepayments and accrued income		2.7	2.9	1.6	1.8
		<b>21.8</b>	<b>27.4</b>	<b>18.3</b>	<b>21.4</b>
<b>Total assets</b>		<b>7,788.7</b>	<b>7,105.0</b>	<b>7,728.5</b>	<b>7,027.2</b>
<b>Liabilities</b>					
<b>Fund for future appropriations</b>	13	<b>2,518.6</b>	<b>1,671.8</b>	<b>2,518.8</b>	<b>1,673.4</b>
<b>Technical provisions</b>					
Long term business	13, 19	4,859.4	4,830.4	4,859.4	4,830.4
Claims outstanding	13	15.7	12.0	15.7	12.0
General business	13	45.4	75.3	-	-
		<b>4,920.5</b>	<b>4,917.7</b>	<b>4,875.1</b>	<b>4,842.4</b>
<b>Technical provisions for linked liabilities</b>	13	<b>35.4</b>	<b>29.3</b>	<b>35.4</b>	<b>29.3</b>
<b>Provisions for other risks and charges</b>	14	<b>229.1</b>	<b>232.6</b>	<b>222.1</b>	<b>228.6</b>
<b>Creditors</b>					
Direct insurance operations		1.5	2.3	1.3	1.3
Reinsurance operations		5.6	0.8	-	0.1
Other creditors including taxation and social security	15	69.3	235.5	68.2	238.3
		<b>76.4</b>	<b>238.6</b>	<b>69.5</b>	<b>239.7</b>
<b>Accruals and deferred income</b>					
		<b>8.7</b>	<b>15.0</b>	<b>7.6</b>	<b>13.8</b>
<b>Total liabilities</b>		<b>7,788.7</b>	<b>7,105.0</b>	<b>7,728.5</b>	<b>7,027.2</b>

The financial statements on pages 21 to 31 were approved by the board of directors and signed on its behalf on 29 February 2000.

**Hubert Reid**  
Chairman

**Mike Yardley**  
Chief Executive

**Stephen Shone**  
Group Finance Director

## 1 Accounting policies

### a. Basis of presentation and consolidation

The group financial statements, which consolidate the financial statements of The Royal London Mutual Insurance Society Limited (the parent company) and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of Sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 with the exception that, in accordance with Statement of Standard Accounting Practice No. 19, no depreciation is provided in respect of freehold and leasehold investment properties with over 20 years to expire as set out in note 1e (iii) below. The financial statements have also been prepared in accordance with applicable accounting standards and with the Association of British Insurers' statement of recommended practice on Accounting for Insurance Business issued in December 1998. The financial statements have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The results of the group's general insurance business, being of insufficient materiality in relation to the group as a whole, is consolidated in the technical account – long term business. This represents a change in presentation over that adopted in previous years. Accordingly, the presentation of the prior year technical account – long term business has been restated and both the technical account – general business and the non-technical account have been deleted.

In accordance with FRS 16, 'Current Tax', the presentation of incoming dividends received and receivable has been adjusted to show them net of any attributable tax credits. The presentation of the prior year investment income and taxation charge in the profit and loss account has been restated accordingly. This represents an early adoption of the accounting standard.

The changes to presentation referred to above have no effect on the amount to be transferred to or from the fund for future appropriations.

### b. Premiums

#### (i) Long term business

Written premiums are accounted for when due for payment and are stated net of taxes and duties. New business premiums are accounted for when the policy liability is recognised and the premium is due for payment. New regular premiums reflect the premiums payable in a full year.

#### (ii) General business

General business written premiums are included in other technical income in the profit and loss account, gross of commission payable to financial advisers, and comprise the premiums due on contracts entered into during a financial year, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

### c. Claims

#### (i) Long term business

Death claims are accounted for when notified, surrenders when paid out and maturity claims when due for payment. Claims payable include related claims handling costs.

#### (ii) General business

Provision is made for claims admitted or intimated but not paid by the balance sheet date and for claims incurred but not reported together with related claims handling costs. Anticipated reinsurance recoveries are stated separately.

### d. Deferred acquisition costs

The gross premium valuation method used in determining the long term business provision makes implicit allowance for the deferral of acquisition costs on non-linked business. Deferral of costs is limited to the extent that there are available future margins.

### e. Investments

#### (i) Investment income, expenses and charges

Dividend income is recognised when the related investment goes ex-dividend. Interest, rents, expenses and charges are accounted for on an accruals basis.

#### (ii) Realised and unrealised investment gains and losses

Realised gains and losses are calculated as the difference between the net sale proceeds and the original cost and are included in investment income or investment expenses. Unrealised gains and losses are calculated as the difference between the current valuation of investments and their valuation at the last balance sheet date or subsequent acquisition.

## 1 Accounting policies (continued)

### (iii) Investment valuations

All investments, including those classified as assets held to cover linked liabilities, are stated at their current value. Listed securities are valued at middle market price. All freehold and leasehold properties, including those occupied by the group, are regarded as investment properties. These are valued annually, on the basis of open market value, by independent professional valuers who are members of the Royal Institution of Chartered Surveyors.

In accordance with Statement of Standard Accounting Practice No. 19, no depreciation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to expire. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated. However, these properties are not held for consumption but for investment and the directors consider that systematic depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

Other investments are valued by the directors on the basis of their estimated open market value. Investments in group undertakings are valued annually by the directors based on each company's net book value.

Investment futures contracts are valued at market prices at the year end and, to the extent that the contracts have been entered into for specific market exposure purposes, have been reflected in the financial statements on the basis of the underlying economic exposure. All gains and losses on open contracts are treated as unrealised.

### f. Fund for future appropriations

The fund for future appropriations represents all funds whose allocation between specific policyholders has not been determined at the balance sheet date. Any surplus or deficit arising in the technical account – long term business is transferred to or from the fund on an annual basis.

### g. Long term business provision

The long term business provision has been calculated using a gross premium valuation method. The method values all guaranteed benefits and terminal bonuses allocated to date, makes explicit allowance for anticipated future expenses and provides for future bonus additions supportable on the valuation assumptions.

### h. Tangible assets and depreciation

Tangible assets are capitalised and depreciated on a straight line basis over their estimated useful lives which range from three to five years.

### i. Taxation

Provision is made for taxation at current rates on the excess of investment income and realised gains over expenses and relief for overseas taxation is taken where appropriate. Deferred taxation is provided on the liability method on unrealised gains and timing differences to the extent that they are likely to crystallise in the foreseeable future.

### j. Pension contributions

Charges in respect of employers pension contributions are charged to the profit and loss account so as to spread the cost of pensions over the service lives of scheme members.

### k. Foreign currency translation

Assets and liabilities in foreign currencies are expressed in sterling at the exchange rates ruling on the balance sheet date. Revenue transactions and those relating to the acquisition and realisation of investments have been translated into sterling at rates of exchange ruling at the time of the respective transactions.

	1999 £m	1998 £m
<b>2 Segmental analysis</b>		
<b>(i) Gross premiums written</b>		
Regular premiums	304.3	302.8
Single premiums	81.9	178.5
	<b>386.2</b>	<b>481.3</b>
Non-linked life and annuity	272.1	367.4
Non-linked personal pension	111.5	110.2
Linked life	1.6	3.0
Linked personal pension	1.0	0.7
	<b>386.2</b>	<b>481.3</b>
Gross premiums relate to direct business of continuing operations written in the United Kingdom. The above amounts are stated net of outward reinsurance of <b>£0.3m</b> (1998 £0.4m).		
<b>(ii) New business premiums</b>		
Insurance regular premiums:		
Non-linked life	11.2	34.6
Non-linked personal pension	3.1	9.6
	<b>14.3</b>	<b>44.2</b>
Insurance single premiums:		
Non-linked life and annuity	45.6	136.1
Linked life	0.9	2.4
Non-linked personal pension	35.4	40.0
	<b>81.9</b>	<b>178.5</b>
Unit trust regular business	0.6	-
Unit trust single business	6.6	-
Funds under management in respect of the unit trust business are held in authorised trusts and are not consolidated.		
<b>(iii) Claims</b>		
Deaths	49.5	50.9
Maturities	385.0	364.8
Surrenders	65.4	93.1
Annuities	12.5	9.9
	<b>512.4</b>	<b>518.7</b>
Claims handling expenses	9.5	10.9
	<b>521.9</b>	<b>529.6</b>
	<b>1999</b>	<b>1998</b>
	<b>£m</b>	<b>£m</b>
<b>3 Investment return summary</b>		
<b>(i) Investment income</b>		
Income from investments:		
Land and buildings	52.4	45.8
Other financial investments	204.8	198.6
	<b>257.2</b>	<b>244.4</b>
Gains on the realisation of investments	541.1	267.6
	<b>798.3</b>	<b>512.0</b>
<b>(ii) Investment expenses and charges</b>		
Investment management expenses	11.5	12.1
Interest payable on bank loans and overdrafts	0.7	0.7
Interest payable on other borrowings	3.7	12.6
	<b>15.9</b>	<b>25.4</b>
<b>(iii) Movement in unrealised investment gains</b>		
	<b>441.2</b>	<b>288.0</b>
<b>Net investment return</b>	<b>1,223.6</b>	<b>774.6</b>

#### 4 Other technical income and charges

Other technical income includes the results of discontinued general business, management fees received and non-insurance subsidiary income. Other technical charges includes the expenses and other outgoings of non-insurance subsidiary undertakings.

The discontinued general business result included within other technical income is analysed as follows:

	1999 £m	1998 £m Restated
Premiums	32.2	31.4
Investment return	7.5	7.6
<b>Total income</b>	<b>39.7</b>	<b>39.0</b>
Claims	13.1	23.0
Other expenditure	15.3	14.8
Tax	2.8	0.1
<b>Total charges</b>	<b>31.2</b>	<b>37.9</b>
<b>Net profit</b>	<b>8.5</b>	<b>1.1</b>

#### 5 Net operating expenses

	1999 £m	1998 £m
Acquisition costs	55.3	61.2
Exceptional sales force training costs	21.9	-
Administrative expenses	73.0	104.4
	<b>150.2</b>	<b>165.6</b>

Expenses include:

	Group		Parent company	
	1999 £m	1998 £m	1999 £m	1998 £m
Depreciation of tangible assets	10.6	9.9	10.5	9.9
Operating lease rentals – land and buildings	4.0	4.2	4.0	4.0
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Auditors' remuneration (gross of VAT):				
Audit fees	184	192	116	116
Audit of regulatory returns	28	28	9	9
Fees for other non-audit services paid to the auditor and its associate firm	2,186	83	2,186	83

#### 6 Particulars of staff

The average number of persons (including executive directors) employed by the group during the year was:

	1999 Number	1998 Number
Sales and support	2,386	2,595
Administration	924	970
	<b>3,310</b>	<b>3,565</b>

The aggregate remuneration payable in respect of the above employees was:

	1999 £m	1998 £m
Wages and salaries	74.6	87.5
Social security costs	6.0	6.8
Other pension costs	6.7	7.5
	<b>87.3</b>	<b>101.8</b>

## 7 Staff pension contributions

Royal London operates a funded, defined benefits scheme for all eligible permanent employees. During the year, the group's total pension costs amounted to **£6.7m** (1998 £7.5m).

The actuary to the scheme, who is an employee of the parent company, carried out a valuation on a prospective benefits basis as at 31 March 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on future investments, and the rates of increase in earnings and pensions. It was assumed that the real rate of return on future investments, relative to general increases in salaries and earnings, would be approximately 2.5% per annum. Separate allowances were made for promotions and other special salary increases. It was further assumed that present and future pensions (excluding guaranteed minimum pensions) would increase at the rate of 2.7% per annum.

The market value of the fund as at 31 March 1999 was £436.6m and the actuary's valuation report showed that the market value of the fund plus the present value of future contributions at the current rates, represented 108.2% of the present value of the members' prospective benefits, after allowing for the expected future increases in earnings and pensions.

	1999 £m	1998 £m Restated
<b>8 Tax charge</b>		
Tax on the investment income of the year less allowable expenses has been provided as follows:		
UK corporation tax	3.8	2.7
Foreign tax relieved against UK corporation tax	0.7	0.8
Deferred tax	4.2	(0.5)
Adjustment for earlier years	6.3	3.7
Tax on realised capital gains	52.6	28.7
	<b>67.6</b>	<b>35.4</b>

## 9 Parent company profit and loss account

The parent company has taken advantage of the exemptions under Section 230 of the Companies Act 1985 not to include a parent company profit and loss account. The parent company is a mutual society and consequently the result for the year is reported as nil after a transfer to or from the fund for future appropriations.

	Group		Parent company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>10 Investments</b>				
<b>(i) Land and buildings</b>				
At valuation:				
Freehold	779.8	658.0	777.0	655.7
Long leasehold	71.5	72.8	71.5	72.8
	<b>851.3</b>	<b>730.8</b>	<b>848.5</b>	<b>728.5</b>
At cost:	<b>654.4</b>	579.2	<b>649.3</b>	574.1
Value of properties occupied by the group or parent company for its own activities	<b>25.2</b>	24.1	<b>22.4</b>	21.8
			<b>Parent company</b>	
			1999	1998
			£m	£m
<b>(ii) Investments in group undertakings</b>				
At valuation:				
Shares in subsidiary undertakings			41.5	42.5
Loans to subsidiary undertakings			2.7	3.3
			<b>44.2</b>	<b>45.8</b>
At cost:				
Shares in subsidiary undertakings			38.5	34.5
Loans to subsidiary undertakings			2.7	3.3
			<b>41.2</b>	<b>37.8</b>

## Notes to the financial statements continued

10 Investments (continued)	Group		Parent company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>(iii) Other financial investments</b>				
At market value:				
Shares and other variable-yield securities and units in unit trusts	5,385.7	4,824.9	5,352.3	4,792.6
Debt securities and other fixed income securities	1,141.8	1,078.7	1,106.6	1,036.9
Loans secured by mortgages	0.4	176.9	0.4	176.9
Loans secured by policies	24.3	23.6	24.3	23.6
Deposits with credit institutions	63.5	0.6	61.8	-
Other	1.9	2.8	0.4	1.3
	<b>6,617.6</b>	<b>6,107.5</b>	<b>6,545.8</b>	<b>6,031.3</b>
At cost:				
Shares and other variable-yield securities and units in unit trusts	2,624.5	2,565.1	2,600.3	2,539.6
Debt securities and other fixed income securities	1,148.2	973.1	1,111.3	932.1
Loans secured by mortgages	0.4	176.9	0.4	176.9
Loans secured by policies	24.3	23.6	24.3	23.6
Deposits with credit institutions	63.5	0.6	61.8	-
Other	1.3	2.2	0.4	1.3
	<b>3,862.2</b>	<b>3,741.5</b>	<b>3,798.5</b>	<b>3,673.5</b>
Listed investments at market value (included in the above):				
Shares and other variable-yield securities and units in unit trusts	5,384.8	4,824.0	5,351.4	4,791.7
Debt securities and other fixed income securities	1,140.6	1,077.5	1,105.4	1,035.7
<b>(iv) Assets held to cover linked liabilities</b>				
Cost of assets held to cover linked liabilities	17.3	18.5	17.3	18.5

11 Debtors	Group		Parent company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>(i) Direct insurance operations</b>				
Amounts due from the Department of Social Security	6.3	11.8	6.3	11.8
Amounts owed by policyholders	18.3	19.4	10.0	9.8
	<b>24.6</b>	<b>31.2</b>	<b>16.3</b>	<b>21.6</b>
<b>(ii) Other debtors</b>				
Amounts owed by group undertakings	-	-	17.5	5.5
Tax recoverable	1.6	6.2	1.0	5.5
Outstanding sales of investments	-	31.3	-	31.3
Dividends receivable	10.7	12.0	10.7	11.8
Other	8.9	13.3	7.8	12.4
	<b>21.2</b>	<b>62.8</b>	<b>37.0</b>	<b>66.5</b>

12 Tangible assets	Group		
	Computer equipment £m	Motor vehicles £m	Total £m
Cost, 1 January 1999	21.5	24.4	45.9
Additions	4.3	0.6	4.9
Disposals	-	(3.6)	(3.6)
Cost, 31 December 1999	<b>25.8</b>	<b>21.4</b>	<b>47.2</b>
Depreciation, 1 January 1999	11.5	8.5	20.0
Charge for the year	4.7	5.9	10.6
Disposals	-	(1.9)	(1.9)
Depreciation, 31 December 1999	<b>16.2</b>	<b>12.5</b>	<b>28.7</b>
Net book value, 31 December 1999	<b>9.6</b>	<b>8.9</b>	<b>18.5</b>
Net book value, 31 December 1998	10.0	15.9	25.9

The net book value of tangible fixed assets of the parent company at the balance sheet date was **£18.2m** (1998 £25.8m).

### 13 Technical provisions & fund for future appropriations

	Long term business provision £m	Claims out-standing £m	Linked liabilities £m	General business provisions £m	Fund for future appropriations £m
<b>Group</b>					
At 1 January 1999	4,830.4	12.0	29.3	75.3	1,671.8
Change in the year	29.0	3.7	6.1	(29.9)	846.8
At 31 December 1999	4,859.4	15.7	35.4	45.4	2,518.6
<b>Parent company</b>					
At 1 January 1999	4,830.4	12.0	29.3	-	1,673.4
Change in the year	29.0	3.7	6.1	-	845.4
At 31 December 1999	4,859.4	15.7	35.4	-	2,518.8

### 14 Provisions for other risks and charges

	Group			Parent company		
	Deferred tax £m	Other £m	Total £m	Deferred tax £m	Other £m	Total £m
At 1 January 1999	217.3	15.3	232.6	215.2	13.4	228.6
Charge/(credit) for the year*	4.8	(8.3)	(3.5)	4.2	(10.7)	(6.5)
At 31 December 1999	222.1	7.0	229.1	219.4	2.7	222.1

\*£0.6m of the group deferred tax charge for the year is in respect of the discontinued general business and is included therefore in other technical income in the technical account - long term business.

	Group		Parent company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>(i) Deferred tax provided in the financial statements comprises:</b>				
Capital allowances	0.3	0.4	0.3	0.4
Short term timing differences	(13.7)	(8.0)	(13.7)	(8.0)
Revaluation of investments	189.9	200.7	187.2	198.6
Capital gains tax on unit trust deemed disposals	45.6	24.2	45.6	24.2
	222.1	217.3	219.4	215.2

#### (ii) Unprovided deferred tax

Deferred tax is provided in respect of all unrealised capital gains to the extent that such gains are expected to crystallise in the foreseeable future. The potential liability in respect of gains for which no provision has been made is **£133.8m** (1998 £83.5m). All of these gains arise in the parent company.

	Redundancy/ discontinued activities £m	Surplus offices £m	Total £m
	<b>(iii) Other provisions</b>		
<b>Group</b>			
At 1 January 1999	6.4	8.9	15.3
Costs incurred and charged against the provision	(6.4)	(0.8)	(7.2)
Movement in provisions charged/(released) to the profit and loss account	3.3	(4.4)	(1.1)
At 31 December 1999	3.3	3.7	7.0
<b>Parent company</b>			
At 1 January 1999	6.4	7.0	13.4
Costs incurred and charged against the provision	(6.4)	(0.6)	(7.0)
Movement in provisions charged/(released) to the profit and loss account	-	(3.7)	(3.7)
At 31 December 1999	-	2.7	2.7

The provisions for redundancies/discontinued activities include the costs of redundancy and other closure costs related to the discontinuance, during the year, of the group's general insurance business. The provision for surplus offices is in respect of sales/administration offices which have been closed and for which the group retains lease commitments. These commitments will not be closed out in full for a number of years and the provision therefore represents the discounted value of the expected future payments. Of the £3.7m movement in the provision released to the profit and loss account, £3.0m relates to the application of the discount.

## Notes to the financial statements continued

	Group		Parent company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>15 Other creditors including taxation and social security</b>				
Bank loans and overdrafts	–	4.7	–	4.3
Commercial paper	–	177.1	–	177.1
Amounts owed to subsidiary undertakings	–	–	3.0	6.8
Tax payable	47.3	28.5	44.8	26.3
Outstanding purchases of investments	–	3.0	–	3.0
Other creditors including social security	22.0	22.2	20.4	20.8
	<b>69.3</b>	<b>235.5</b>	<b>68.2</b>	<b>238.3</b>

All the above are due within five years.

### 16 Stock lending

At the year end, the parent company had entered into various contractual arrangements whereby certain of its investments with a value of **£752.8m** (1998 £875.7m) were on loan to market makers on a temporary basis in return for the payment of interest. Collateral held exceeded the value of the stocks loaned. Income arising from such activities amounted to **£1.0m** (1998 £1.0m).

### 17 Loans to directors

Secured loans made to directors (who were directors during the year) under the group's employee house purchase scheme:

	Amount outstanding			Rate of interest %	Out-standing term
	1.1.99 £	Maximum £	31.12.99 £		
Barry Fitzgerald	46,000	46,000	–	4.0 to 7.35	11 years
Murray Ross	80,000	80,000	–	4.0 to 7.35	7 years
Mike Yardley	102,300	102,300	–	4.0 to 7.35	4-15 years

The group's staff mortgage portfolio was transferred to Scarborough Building Society on 1 May 1999.

### 18 Cost of bonuses

Total surplus arising in the year, in the parent company, which has been allocated by way of reversionary bonuses, valued on the assumptions set out in note 19 or paid out as interim and terminal bonuses on claims amounted to **£252.6m** (1998 £274.7m).

### 19 Long term business provision

The principal assumptions used in valuing the main classes of business were as follows:

Class of business	Mortality	Interest % per annum	Allowance for future expenses* % per annum	Allowance for future bonuses % per annum
<b>1999</b>				
<b>Ordinary long term</b>				
Regular premium life	AM80 minus two years and AF80 minus one year	3.85	12.0	2.0 simple
Single premium life	AM80 minus two years and AF80 minus one year	3.85	10.0	nil
Regular premium pension	AM80 minus two years and AF80 minus one year	4.65	15.5	2.1 compound
Single premium pension	AM80 minus two years and AF80 minus one year	4.65	12.5	2.9 compound
<b>Industrial assurance</b>	ELT15 (males) minus three years	3.85	29.0	0.25 simple
<b>1998</b>				
<b>Ordinary long term</b>				
Regular premium life	AM80 minus two years and AF80	3.4	11.5	1.8 simple
Single premium life	AM80 minus two years and AF80	3.4	9.0	nil
Regular premium pension	AM80 minus two years and AF80	4.1	15.0	1.8 compound
Single premium pension	AM80 minus two years and AF80	4.1	12.0	2.3 compound
<b>Industrial assurance</b>	ELT14 (males) minus five years	3.4	29.0	0.25 simple

The long term business provision includes **£300m** (1998 £350m) in respect of guarantees and redress payments outstanding under the Pensions Review.

\*For regular premium policies, expense allowances are a percentage of the annual premium; for single premiums they are a percentage of the single premium amount divided by the policy term. For industrial assurance contracts of term five years, a lower figure of 20.0% applies for 1999 and 1998.

---

## 20 Capital commitments

Capital expenditure relating to investment properties contracted for but not provided for at the balance sheet date amounted to **£17.7m** (1998 £67.0m).

---

## 21 Directors' emoluments

Full details of the directors' emoluments are included in the board's report on directors' remuneration on pages 18 and 19. The information included therein encompasses that required by the Companies Act 1985.

---

## 22 Principal subsidiary undertakings

The following represent the parent company's principal subsidiary undertakings as at 31 December 1999. All undertakings shown are wholly owned, are incorporated in Great Britain and have been included in the group's consolidation. A full list of wholly owned subsidiaries is included in the company's annual return.

	Nature of business
Royal London Asset Management Limited	Investment management
Royal London Savings Limited	ISA management
The Royal London Unit Trust Managers Limited	Unit trust management
The Royal London General Insurance Company Limited	General insurance

---

## 23 Post balance sheet event

On 22 February 2000, the boards of The Royal London Mutual Insurance Society Limited (the Society) and United Assurance Group plc (UAG) announced that they had reached agreement on the terms of recommended offers, to be made on behalf of RLM Finance plc, a wholly owned subsidiary of the Society from February 2000, to acquire the whole of the issued and to be issued share capital of UAG. The offer values the issued ordinary share capital of UAG at approximately £1.5 billion.

## Additional information

For the year ended 31 December 1999

<b>Five year review</b>	<b>1999</b>	1998	1997	1996	1995
Consolidated figures	£m	£m	£m	£m	£m
<b>Group</b>					
Investments at market value at 31 December	<b>7,506.0</b>	6,868.4	6,363.7	5,478.2	5,027.4
<b>Long term business</b>					
New business annual premium value*	<b>14.9</b>	44.2	43.6	48.8	46.4
Single premiums*	<b>88.5</b>	178.5	142.4	142.1	102.9
Annualised new business*	<b>23.8</b>	62.1	57.8	63.0	56.7
Total premium income	<b>386.2</b>	481.3	446.1	444.4	399.6
Claims incurred	<b>521.9</b>	529.6	443.3	378.7	318.8
Long term business provision (gross) including unit linked liabilities	<b>4,894.8</b>	4,859.7	3,987.2	3,263.1	2,957.7

\*Includes unit trust business.

## Annual general meeting

The annual general meeting of The Royal London Mutual Insurance Society Limited will be held at Royal London House, Middleborough, Colchester on 25 April 2000, at 5.00 p.m. for the following purposes:

- 1 To receive the directors' report and audited financial statements for the year ended 31 December 1999;
- 2 By separate resolutions, to re-elect as directors:
  - a) Tim Melville-Ross
  - b) Hubert Reid
  - c) Barry Fitzgerald
 who are retiring as directors in accordance with the Articles of Association and who, being eligible, offer themselves for re-election;
- 3 To reappoint KPMG Audit Plc as auditors to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which financial statements are laid, at a remuneration to be fixed by the directors.

The Royal London Mutual Insurance Society Limited  
Registered Office: Royal London House, Middleborough,  
Colchester, Essex CO1 1PP.  
Registered No. 99064

Tel: 01206 761761  
[www.royal-london.co.uk](http://www.royal-london.co.uk)

