

## Directors' report for the year ended 31 December 2002

### Principal activities and business review

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

The principal activities of the subsidiary undertakings are as outlined in note 24 to the financial statements.

The Chairman's statement, Group Chief Executive's and Group Finance Director's reviews on pages 2 to 17 contain a review of the Group's business.

### Going concern

After making enquiries the directors are satisfied that the company and the group have adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis.

### Directors

The directors of Royal London as at the date of this report are set out on pages 18 and 19. With the exception of Fields Wicker-Miurin, who was appointed a director on 1 January 2003, they all held office throughout the period under review. The only other director who held office during the period was Andrew Longhurst, who resigned on 31 May 2002.

In accordance with the Articles of Association Fields Wicker-Miurin, Stephen Shone and Tim Melville-Ross 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 remuneration report on pages 22 and 23.

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

### Charitable donations

Charitable donations amounted to £59,912 (2001 £34,524)

### Equal opportunities

The Group is committed to providing equal opportunities to all employees irrespective of sex, marital status, creed, colour, race, religion, ethnic origin, sexual orientation, age or disability. Royal London recognises that valuing diversity brings benefits to business performance and to employee satisfaction. The Group is committed to recruiting, developing, promoting and training employees on the basis of their individual competencies and performance.

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 continued to seek to involve and inform its employees on a regular basis on all developments affecting the Group and its business. The Group's 'Connections' magazine has been supplemented by business unit publications, such as the Royal London Retail news sheet 'Team Advantage'.

The past year has seen major developments in the restructuring of the Group and all employees have been involved in this, both by initial presentations and subsequently by briefings within functions and representative bodies. These representative bodies have included Amicus-MSF, representative forums and the Scottish Life Staff Central Committee. Work with this committee covered not only the Group structure and development of the business units and support functions, but also the Group's proposals on harmonised terms and conditions in Scottish Life.

The Royal London and Scottish Life intranets have been used for several purposes including answering questions from employees, detailing policies and procedures and giving business unit information and updates.

A new on-line appraisal system, 'e-volution', was introduced for performance discussions between employees and their managers.

An employee survey was undertaken across the Group and software purchased to enable internal surveys to be carried out on specific issues.

The Going for Gold recognition scheme has been utilised throughout the year and has now been expanded.

Employee representatives took part in the quarterly Health and Safety Committees for Royal London and Scottish Life.

### Environment

The Environment Committee met twice during the year to review issues affecting the Group and developed a new Group Policy.

The Green Commuter Policy continued at Wilmslow to provide alternatives to commuting by car. Environmental issues are a major consideration for the organisation in the acquisition and disposal of property. The Group's policy is to dispose of plastic cups, paper, light bulbs, toner cartridges and IT equipment through specialist recycling companies.

### 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, equates to a 38 day average payment period (2001 38).

### Institutional shareholders' voting rights

As an institutional investor, Royal London uses its voting rights positively and regularly. Royal London supports the principles for good corporate governance embodied by the Association of British Insurers' guidelines for institutional investors.

### Corporate governance

The Board is committed to a high standard of corporate governance and with one exception complied during the period under review with The Combined Code ('the Code') as amplified by Internal Control: Guidance for Directors on the Combined Code (the Turnbull Guidance). The posts of chairman and chief executive are held by different persons. There is a strong and independent non-executive element on the Board and the deputy chairman is recognised as the senior member of the non-executive element.

The 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 thus who 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 Code. The Board does not consider this exception to be a material departure from the principles of the Code.

### Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. The system in place is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board held 13 scheduled meetings last year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. This has been in place for the period under review. The process is regularly reviewed by the Board and accords with the Guidance.

The Board has reviewed the effectiveness of the system of internal control. Management is responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. A report on these is prepared within each business unit and support function, with the material risks being reported to the Group Chief Executive and Board.

The risks are constantly reviewed by an independent risk management function that reports to the Board monthly on key risks and control breakdowns and the corrective action being taken by management. This serves to provide a degree of assurance as to the operation and validity of the system of internal control.

The Group Risk Committee (which replaced the Compliance Risk Committee) meets not less than four times a year. It is responsible for ensuring that adequate risk management systems are in place throughout the Group, and that key risks are being properly managed or mitigated. The chairman of the Committee is the Group Legal Director and its members include the Group Chief Executive, the Group Finance Director, the Appointed Actuary, the Group Risk and Audit Director and the Group Compliance Director.

The Audit Committee meets not less than four times a year. Its responsibilities include monitoring the integrity of the annual report and accounts, reviewing the internal controls and risk management systems and making recommendations to the Board about the appointment of, monitoring the independence and objectivity of, and considering reports from the external auditors.

In his monthly report to the Board, the Group Chief Executive refers to the significant risks facing the Group and the action being taken to manage or mitigate them. This is augmented by reports to the Audit Committee from the Group Risk and Audit Director and the Group Compliance Director.

### Auditors

From 1 January PricewaterhouseCoopers, our auditors, transferred substantially all their business to PricewaterhouseCoopers LLP. PricewaterhouseCoopers resigned as auditors with effect from 26 February 2003 and invited the Board to appoint PricewaterhouseCoopers LLP to fill the vacancy. They deposited a statement, as required by Section 394 of the Companies Act 1985, that indicated that there were no circumstances in connection with their ceasing to hold office that they considered should be brought to the attention of Royal London's members or creditors.

The Board appointed PricewaterhouseCoopers LLP to fill that vacancy under Section 388(1) of the Act. It noted that the change to limited liability brings PricewaterhouseCoopers into line with comparable firms and was satisfied that the Society's interests were adequately protected.

In accordance with Section 385 of the Act, a resolution for reappointment of PricewaterhouseCoopers LLP as auditors of Royal London will be proposed at the annual general meeting. Special notice will be given of this resolution, as required by Section 388(3)(b) of the Act.

By order of the Board

Murray Ross  
Secretary  
26 March 2003

## The Board's report on directors' remuneration for the year ended 31 December 2002

This report has been prepared in accordance with the requirements of the Directors' Remuneration Report Regulations 2002. No total shareholder return performance graph is provided because of the Society's mutual status.

The Remuneration Committee is composed of the Chairman and non-executive directors, and is chaired by Tim Melville-Ross. The other members during 2002 were Hubert Reid, Tom Ross and until his resignation on 31 May 2002, Andrew Longhurst.

In March 2002, the committee appointed Hay Group to succeed Watson Wyatt in providing independent advice on pay and benefits of executive directors and senior executives. Watson Wyatt continue to provide specialist pension advice.

### Policy

The Remuneration Committee reviews executive directors' salaries annually. It considers it is in members' interests for remuneration packages to be competitive in order to attract and retain people of the required calibre. The policy aims to provide basic salaries with incentive opportunities which provide upper quartile total cash earnings for outstanding performance. Bonus plans are designed to encourage and reward increases in the value of the business for the benefit of members.

### Remuneration package

#### Salaries

The salary of directors is determined by considering the individual's responsibility, performance and the remuneration paid in companies of comparable size and nature.

#### Performance related bonus plans

- **Short Term Incentive Plan (STIP)**  
This annual plan is designed to focus participants on the results that need to be achieved to meet Royal London's strategic objectives and forms the basis of incentive arrangements introduced for all staff. The target and cap are 25% and 50% respectively of the salary at the end of the year. In line with practice in the investment field, Christopher Phillips participates in a scheme with a target and cap of 50% and 100% of salary respectively.
- **Long Term Incentive Plan (LTIP)**  
The LTIP schemes reward increases in Royal London's value over the long term.  
  
The 2000 to 2002 scheme had a target payment of 30% and a cap of 60% of basic salary at the end of the three-year period.  
  
A new scheme was introduced for 2001 to 2003 under which participants are granted options over notional units in the value of the Royal London Group and may exercise those options between the third and tenth anniversary of their grant, provided that the value of the Group has increased by at least 15%. The plan has been designed to deliver a payment of 30% of basic salary after three years, if growth targets are achieved, with no upper limit. A new plan commences annually.

Under the 2002 to 2004 scheme, Brian Duffin, Mike Yardley, Christopher Phillips and Stephen Shone have an additional award of options under which payments are based only on the increase in value in excess of 16% (5% per annum compound over the three-year period). The plan aims to produce a payment of 15% of salary after three years, if growth targets are achieved, with no upper limit. This scheme is renewed annually.

Christopher Phillips participates in a scheme introduced for Royal London Asset Management (RLAM) under which he is allocated a notional share in the business of RLAM and accrues benefits based on the growth in value of the business. The first plan covers the two-year period 2002 to 2003 and the second plan covers the three-year period 2002 to 2004. This scheme is renewed annually. Christopher Phillips is the only director to participate in the plan. As Chief Executive of RLAM and a director of Royal London, his LTIP is split between a major award in the RLAM plan and a minor award in the Royal London plan.

### Benefits

Benefits offered are private medical insurance, medical screening, mortgage subsidy and either a company car, including all running costs, or an annual company car cash allowance.

### Pensions

The executive directors are members of the Company's pension schemes, which are funded non-contributory defined benefits arrangements. Christopher Phillips and Stephen Shone are affected by the Inland Revenue earnings cap on approved pension benefits. The company provides benefits above the cap on an unapproved basis.

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

### Notice periods

The period of notice required to be given to the Company by executive directors is three months in the case of Barry Fitzgerald and six months from Brian Duffin, Christopher Phillips, Stephen Shone and Mike Yardley.

All executive directors are on one year's notice from the Company with the exception of Barry Fitzgerald, who has been given notice in accordance with his contractual entitlement of two years.

### Chairman and Non-Executive Directors

The remuneration of the Chairman and non-executive directors is determined by the Board. The principles adopted by the board in determining the fees are that they should be competitive, appropriate to attract and retain directors of the necessary calibre and reflect the responsibilities and time involved in Royal London matters.

**DIRECTORS' EMOLUMENTS**

	2002 £000	2001 £000
Salaries and benefits	1,333	1,211
Performance related bonuses	201	582
Fees to the Chairman and non-executive directors	242	244
	<b>1,776</b>	<b>2,037</b>

	Salary or fees		Performance related bonus		Taxable benefits		Total	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
<b>Chairman</b>								
Hubert Reid	138	124	-	-	-	-	138	124
<b>Executive directors</b>								
Brian Duffin – appointed 1.7.01	238	115	36	23	17	12	291	150
Barry Fitzgerald	158	147	24	79	14	14	196	240
Christopher Phillips – appointed 1.4.01	218	158	22	90	12	7	252	255
Stephen Shone	255	230	49	136	14	10	318	376
Mike Yardley	390	347	70	215	17	13	477	575
Alan Frost – resigned 31.3.01	-	75	-	-	-	4	-	79
Murray Ross – resigned 30.6.01	-	72	-	39	-	7	-	118
<b>Non-executive directors</b>								
Andrew Longhurst – resigned 31.5.02	19	44	-	-	-	-	19	44
Tim Melville-Ross	44	38	-	-	-	-	44	38
Tom Ross – appointed 1.7.01	41	20	-	-	-	-	41	20
Tony Percival – resigned 30.6.01	-	18	-	-	-	-	-	18
	<b>1,501</b>	1,388	<b>201</b>	582	<b>74</b>	67	<b>1,776</b>	2,037

Performance related bonuses for 2001 include amounts in respect of the 1999-2001 LTIP for Barry Fitzgerald, Stephen Shone, Mike Yardley and Murray Ross which were £15,000, £24,000, £36,000 and £7,500 respectively. There was no payment from the 2000-2002 LTIP.

**Pension entitlements**

The executive directors are members of defined benefit pension arrangements. The table below sets out the disclosures of these benefits in accordance with the Stock Exchange Listing Rules and the Directors' Remuneration Report Regulations 2002.

Name	Age	Accrued pension 31.12.02 <sup>1</sup> £000 pa	Increase in accrued pension during the year £000 pa	Increase in accrued pension during the year (net of inflation) £000 pa	Transfer value of accrued pension at 31.12.02 <sup>2</sup> £000	Transfer value of accrued pension at 31.12.01 <sup>2</sup> £000	Change in transfer value over the year net of director's contributions <sup>3</sup> £000
B Duffin	47	105	8	5	874	951	(77)
B Fitzgerald	58	82	8	5	1,232	1,106	126
C Phillips	46	13	5	5	100	85	15
S Shone	45	23	9	9	170	144	26
M Yardley	46	174	28	24	1,108	1,292	(184)

For each of the directors, the main terms applying to their final salary pensions accrued since 30 November 2001 are:

- payable from normal retirement age of 60
  - spouse's pension payable on death of 55% of the director's pension
  - pensions increase in payment in line with inflation, to a maximum of 7.5% each year.
- (The main terms applying to final salary pensions accrued before 30 November 2001 varied by director).

**Notes:**

1 The accrued pensions are the amounts which the directors would be entitled to from normal retirement age if they left service at the relevant date.

2 The transfer values have been calculated in accordance with the guidance note "GN11" published by the Institute of Actuaries and Faculty of Actuaries.

3 No contributions were payable by the directors over the year to 31 December 2002.

By order of the board  
Tim Melville-Ross  
Chairman of the Remuneration Committee  
26 March 2003

## 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;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of 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.

The maintenance and integrity of the Royal London website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Membership of Board Committees

### Investment Committee

Brian Duffin  
 Andrew Longhurst (Chairman, resigned May 2002)  
 Tim Melville-Ross  
 Hubert Reid (Chairman June 2002-January 2003)  
 Tom Ross  
 Stephen Shone  
 John Tovey (Appointed Actuary)  
 Fields Wicker-Miurin (Chairman, appointed January 2003)  
 Mike Yardley

### Audit Committee

Andrew Longhurst (resigned May 2002)  
 Tim Melville-Ross  
 Hubert Reid  
 Tom Ross (Chairman)  
 Fields Wicker-Miurin (appointed January 2003)

### Remuneration Committee

Andrew Longhurst (resigned May 2002)  
 Tim Melville-Ross (Chairman)  
 Hubert Reid  
 Tom Ross  
 Fields Wicker-Miurin (appointed January 2003)

### Nomination Committee

Andrew Longhurst (resigned May 2002)  
 Tim Melville-Ross  
 Hubert Reid (Chairman)  
 Tom Ross  
 Mike Yardley

# Auditors' report

## **Independent auditors' report to the members of The Royal London Mutual Insurance Society Limited**

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets and the related notes and the accounting policies set out in the statement of accounting policies.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

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 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 other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, Group Chief Executive's review, Group Finance Director's review and the directors' report.

We also, at the request of the directors (because the Company applies the Financial Services Authority Listing rules as if it were a listed company) review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the combined codes specified by the Financial Services Authority for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

### **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 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 at 31 December 2002 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
26 March 2003

## Accounts Contents

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# Consolidated profit and loss account for the year ended 31 December 2002

<b>TECHNICAL ACCOUNT – LONG TERM BUSINESS</b>	Notes	2002 £m	2001 £m
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2(i)	2,058.6	1,397.2
Outward reinsurance premiums		(6.2)	(5.7)
		<b>2,052.4</b>	1,391.5
<b>Investment income</b>			
	3(i)	930.2	786.5
<b>Other technical income, net of reinsurance</b>			
	4	39.8	42.2
<b>Total technical income</b>		<b>3,022.4</b>	2,220.2
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
– Gross amount		2,187.9	1,658.1
– Reinsurers' share		(2.3)	(3.5)
		<b>2,185.6</b>	1,654.6
Change in the provision for claims			
– Gross amount		0.9	1.7
– Reinsurers' share		(0.7)	0.4
		<b>2,185.8</b>	1,656.7
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision, net of reinsurance			
– Gross amount	15	(519.4)	(355.2)
– Reinsurers' share		0.3	1.1
		<b>(519.1)</b>	(354.1)
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities			
– Gross amount	15	(397.5)	(158.5)
– Reinsurers' share		(0.2)	(2.0)
		<b>(397.7)</b>	(160.5)
<b>Change in other technical provisions, net of reinsurance</b>		<b>(916.8)</b>	(514.6)
<b>Net operating expenses</b>			
	5		
– Ongoing expenditure		388.8	273.9
– Exceptional expenditure/(income)		21.6	(112.3)
		<b>410.4</b>	161.6
<b>Investment expenses and charges</b>			
	3(ii)	481.8	41.6
<b>Unrealised losses on investments</b>			
	3(iii)	2,427.5	2,887.7
<b>Other technical charges, net of reinsurance</b>			
	4	286.4	253.5
<b>Tax credit attributable to long term business</b>			
	7	(208.5)	(306.8)
<b>Total technical charges</b>		<b>4,666.6</b>	4,179.7
<b>Deficit of total technical income over total technical charges</b>			
		<b>(1,644.2)</b>	(1,959.5)
Pension scheme losses after tax			
	27(d)	(202.7)	(80.0)
		<b>(1,846.9)</b>	(2,039.5)
<b>Transfer from the fund for future appropriations</b>			
	15	1,846.9	2,039.5
<b>Balance on the technical account – long term business</b>		–	–

All of the above results relate to continuing operations.

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. There are no gains and losses other than those included in the profit and loss account.

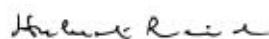
## Balance sheets as at 31 December 2002

	Notes	Group		Parent company	
		2002 £m	2001 £m	2002 £m	2001 £m
<b>ASSETS</b>					
<b>Intangible assets</b>					
Positive goodwill	9	301.1	336.8	297.1	332.1
Negative goodwill	9	(44.0)	(49.7)	(44.0)	(49.7)
		257.1	287.1	253.1	282.4
<b>Investments</b>					
Land and buildings	10	1,637.4	2,133.0	1,511.7	1,965.6
Investments in group undertakings		–	–	263.5	282.0
Other financial investments		12,921.5	14,480.3	12,856.1	14,411.3
		14,558.9	16,613.3	14,631.3	16,658.9
<b>Present value of acquired in-force business</b>	11	549.7	820.8	549.7	820.8
<b>Assets held to cover linked liabilities</b>	12	4,568.5	5,004.4	3,769.2	4,020.7
<b>Reinsurers' share of technical provisions</b>					
Long term business		6.5	6.8	6.5	6.8
Claims outstanding		4.9	7.4	1.6	0.9
Technical provision for linked liabilities		5.6	5.4	5.6	5.4
		17.0	19.6	13.7	13.1
<b>Debtors</b>					
Debtors arising out of direct insurance operations					
– due from policyholders		34.4	41.4	34.1	41.1
Debtors arising out of reinsurance operations		9.1	19.5	8.2	18.4
Other debtors	13	154.9	87.9	193.5	81.5
		198.4	148.8	235.8	141.0
<b>Other assets</b>					
Tangible assets	14	23.7	19.1	–	–
Cash at bank and in hand		210.5	193.0	111.7	111.1
		234.2	212.1	111.7	111.1
<b>Prepayments and accrued income</b>					
Accrued interest and rent		137.7	89.6	135.8	89.4
Deferred acquisition costs		239.1	270.5	239.0	270.5
Deferred taxation	16	52.3	–	52.5	–
Other prepayments and accrued income		9.1	11.4	2.8	2.9
		438.2	371.5	430.1	362.8
<b>Total assets excluding pension asset</b>		20,822.0	23,477.6	19,994.6	22,410.8
Pension asset	27(b)	111.2	289.1	111.2	289.1
<b>Total assets including pension asset</b>		20,933.2	23,766.7	20,105.8	22,699.9

## Balance sheets as at 31 December 2002

	Notes	Group		Parent company	
		2002 £m	2001 £m	2002 £m	2001 £m
<b>LIABILITIES</b>					
<b>Subordinated liabilities</b>	18	<b>125.0</b>	125.0	<b>125.0</b>	125.0
<b>Fund for future appropriations</b>	15	<b>1,884.2</b>	3,758.9	<b>1,907.8</b>	3,769.8
<b>Technical provisions</b>					
Long term business provision	15,21	<b>13,815.2</b>	14,334.6	<b>13,808.8</b>	14,331.2
Claims outstanding	15	<b>57.3</b>	65.4	<b>47.6</b>	46.7
		<b>13,872.5</b>	14,400.0	<b>13,856.4</b>	14,377.9
<b>Technical provisions for linked liabilities</b>	15	<b>4,567.8</b>	4,965.3	<b>3,768.5</b>	3,969.5
<b>Provisions for other risks and charges</b>	16	<b>29.6</b>	136.8	<b>10.1</b>	132.0
<b>Creditors</b>					
Creditors arising out of direct insurance operations		<b>115.5</b>	67.9	<b>93.3</b>	67.9
Creditors arising out of reinsurance operations		<b>1.5</b>	6.9	<b>0.2</b>	0.4
Amounts owed to credit institutions	17(i)	<b>77.6</b>	90.3	<b>60.7</b>	50.7
Other creditors including taxation and social security	17(ii)	<b>176.9</b>	147.8	<b>237.0</b>	171.3
		<b>371.5</b>	312.9	<b>391.2</b>	290.3
<b>Accruals and deferred income</b>		<b>44.4</b>	46.7	<b>8.6</b>	14.3
<b>Total liabilities excluding pension liability</b>		<b>20,895.0</b>	23,745.6	<b>20,067.6</b>	22,678.8
Pension liability	27(b)	<b>38.2</b>	21.1	<b>38.2</b>	21.1
<b>Total liabilities including pension liability</b>		<b>20,933.2</b>	23,766.7	<b>20,105.8</b>	22,699.9

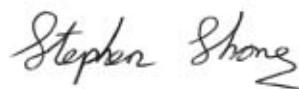
The financial statements on pages 27 to 50 were approved by the Board of Directors and signed on its behalf on 26 March 2003.



**Hubert Reid**  
Chairman



**Mike Yardley**  
Group Chief Executive



**Stephen Shone**  
Group Finance Director

# Notes to the financial statements for the year ended 31 December 2002

## I 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 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 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 subsidiary undertakings acquired during the period are included in the consolidated results from the date of acquisition. On acquisition of a subsidiary undertaking, all of its assets and liabilities are recorded at their fair values on the date of purchase. Costs incurred directly as a result of acquisitions are included in the cost of acquisition. Interest costs on borrowings used to fund acquisitions are written off as incurred.

The results of the Group's general insurance business, are consolidated in the technical account – long term business, under 'other technical income' and shown separately in note 4.

All accounting policies have been reviewed for appropriateness in accordance with Financial Reporting Standard 18, 'Accounting Policies'.

### b. Long term business

#### (i) Premiums

Premiums, including reinsurance premiums, are accounted for when due for payment except for recurring single premiums and premiums in respect of unit linked business which are accounted for on a received basis. New business premiums are accounted for when the policy liability is recognised and in respect of regular premiums, reflect the premiums payable in a full year.

#### (ii) Claims

Death claims are accounted for when notified, surrenders when paid out and maturity and annuity claims when due for payment. For linked policies, claims are accounted for on cancellation of the associated units. Claims payable include related claims handling costs.

### c. General business

#### (i) Commission

General business comprises commission income which is credited to the technical account – long term business on an accruals basis. Additional commission is received based upon the

underwriting results of the respective insurers and this is credited to the technical account – long term business under 'other technical income'.

#### (ii) Claims

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 in claims outstanding. Anticipated reinsurance recoveries are stated separately.

### d. Goodwill

Goodwill, both positive and negative, arising on acquisition of subsidiary undertakings is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis, over its useful economic life which has been determined as 10 years.

The carrying value of goodwill arising on recent acquisitions is reviewed in accordance with FRS 11 on Impairment of Fixed Assets and Goodwill.

The gain or loss on subsequent disposal of a subsidiary undertaking includes any attributable unamortised goodwill.

### e. Investments

#### (i) Investment income and expenses

Investment income comprises interest, rents, dividends receivable and gains on the realisation of investments. Dividends are recorded net of the associated UK tax credits on the date on which the shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

Losses on the realisation of investments are accounted for in 'investment expenses and charges'.

#### (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. 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. The movement on unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

#### (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 mid price, with the exception of securities held by unit linked funds and holdings in unit trusts which are valued at bid prices. 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. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated. As depreciation is only one of the factors reflected in the annual valuation, the relevant charge which would otherwise have been shown cannot be separately identified or quantified. The accounting policy adopted is considered 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.

#### **f. Hedging instruments**

The Group uses hedging instruments, including options and futures contracts.

Purchased options are included at market value under the category of investment to which the underlying value of the contract relates. No adjustment is made to the classification of existing investments to reflect the future settlement of these transactions.

Investment futures contracts are valued at market prices at the year end. All gains and losses on open contracts are treated as unrealised.

#### **g. Present value of acquired in-force business (PVIF)**

On acquisition of a portfolio of long term insurance contracts, either directly or through the acquisition of a subsidiary undertaking, the net present value of the Group's interest in the expected after-tax cash flows of the in-force business is capitalised in the balance sheet as an asset. That part of the Group's interest which will be recognised as profit over the lifetime of the in-force policies is amortised, and the discount unwound on a systematic basis over the anticipated lives of the related contracts.

The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of the acquisition.

Any amortisation or impairment charge is recorded in the technical account – long term business, in 'Other technical charges'.

#### **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 eight years.

Payments in respect of operating leases are charged to the profit and loss account in the period to which they relate.

#### **i. Deferred acquisition costs**

The costs of acquiring new insurance contracts, which are incurred during a financial year but which relate to a subsequent financial year, are deferred to the extent that they are recoverable out of future revenue margins. These costs are disclosed as an asset on the balance sheet.

The rates of amortisation of the deferred acquisition costs asset for each product are consistent with a prudent assessment of the expected pattern of emergence of future revenue margins for the relevant contracts.

#### **j. 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.

#### **k. Long term business provision**

The long term business provision is calculated using standard actuarial methods and having regard to the reporting requirements under the Financial Services and Market Act 2002 and Interim Prudential Sourcebook for Insurers.

For conventional non linked business, a net premium method is used, including explicit provision for vested bonuses, including those vesting immediately following the current valuation. No explicit provision is made for future regular and terminal bonuses.

For linked business the calculation of the provision is based upon the fund value at the valuation date plus a non unit reserve where on a prudent basis future cash outflows cannot be covered by future cash inflows.

For accumulating with-profits business the calculation of the provision is performed by taking the greater of a prospective valuation, allowing for a prudent assessment of future regular bonus additions consistent with valuation interest rates, and the lower of bid value of units and surrender value.

The statutory solvency basis of valuation is then adjusted by excluding certain reserves required specifically under insurance company regulations, those margins of prudence considered excessive including any contingency reserves, and adding back deferred acquisition costs to produce provisions presented on a Modified Statutory Solvency basis. The principal assumptions used in calculating these provisions are disclosed in Note 21.

## Notes to the financial statements for the year ended 31 December 2002

### **l. Bonuses**

New regular bonuses declared for the year are provided within the calculation of the long term business provision. Terminal bonuses paid during the year to policyholders on maturity, death or surrender are included as part of the claims incurred in the technical account.

### **m. 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 all unrealised gains and other timing differences, between their recognition in the financial statements and their recognition in the tax computations, except that overall assets are only recognised if there is persuasive and reliable evidence that the timing differences will reverse in the foreseeable future. The value of the resultant deferred tax assets and liabilities has been calculated on a discounted basis reflecting the fact that the timing differences are projected to reverse over several years. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

### **n. Pension costs**

The current principal schemes, to which all current employees belong, are of the funded, defined benefit type. The schemes provide benefits based on final pensionable pay. The assets of the schemes are held in separate trustee administered funds. The positions of the principal schemes are assessed annually by independent qualified actuaries.

The Group has adopted the requirements of Financial Reporting Standard 17 'Retirement Benefits'.

The aggregate pension scheme asset or liability recognised in the balance sheet is the excess, that is recoverable by the Group, of value of the assets in the schemes over the present value of the schemes' liabilities. The resulting asset is net of a provision for deferred taxation. Movements in the amount of the pension scheme assets that are recognised, and which are attributable to changes in the membership of the schemes are treated as operating gains and included within net operating expenses. Deficiencies in the value of scheme assets over scheme liabilities are recognised in the balance sheet as a pension liability, net of deferred taxation. The standard requires certain items to be accounted for through the Statement of Recognised Gains and Losses, which the Group does not prepare as a mutual company. Instead, these items are shown in the technical account. Further details are contained in note 27.

The pension costs for the schemes are analysed as follows:-

- *Current service costs*  
Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period.
- *Past service costs*  
Past service costs comprise costs relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight line basis over the period in which the increase in benefits vest.
- *Settlements or curtailments*  
Settlements or curtailments are recognised in the profit and loss account to the extent that they are not allowed for in the actuarial assumptions. Losses on settlements or curtailments are measured at the date on which the employer becomes demonstrably committed to the transaction. Gains on settlements or curtailments are measured at the date on which all parties whose consent is required are irrevocably committed.
- *Net expected return on pension asset*  
Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actual return less expected return on pension scheme assets and actuarial movements in pension schemes net of tax which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are shown net of tax in the technical account immediately above the transfer to or from the fund for future appropriations.

### **o. Foreign currency translation**

Assets and liabilities denominated 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. Any exchange differences are dealt with in the technical account under the same heading as the underlying transactions are reported.

## 2 ANALYSIS OF PREMIUMS

It is the opinion of the Board that the Group operates in a single business segment, which is the provision of life assurance, pensions and savings products.

Gross premiums written relate to direct business from continuing operations and include premiums for Scottish Life business for the period since its acquisition on 1 July 2001.

	2002 £m	2001 £m
<b>(i) Gross premiums written</b>		
Regular premiums	<b>810.9</b>	701.1
Single premiums	<b>1,247.7</b>	696.1
	<b>2,058.6</b>	1,397.2
Individual premiums:		
With-profits life & annuity contracts	<b>526.0</b>	510.0
With-profits individual pension contracts	<b>216.6</b>	178.3
Linked life contracts	<b>225.8</b>	161.2
Linked individual pension contracts	<b>461.6</b>	215.2
DSS rebates	<b>187.4</b>	118.3
Non-profit life & annuity contracts	<b>39.8</b>	17.6
Non-profit individual pension contracts	<b>133.1</b>	71.3
	<b>1,790.3</b>	1,271.9
Group premiums:		
With-profits pension contracts	<b>19.4</b>	17.1
Linked pension contracts	<b>200.6</b>	97.4
Non-profit pension contracts	<b>48.3</b>	10.8
	<b>268.3</b>	125.3
	<b>2,058.6</b>	1,397.2
Premiums written in:		
United Kingdom	<b>1,892.3</b>	1,276.5
Isle of Man	<b>166.3</b>	120.7
	<b>2,058.6</b>	1,397.2

## Notes to the financial statements for the year ended 31 December 2002

<b>2 ANALYSIS OF PREMIUMS</b> continued	<b>2002</b> £m	2001 £m
<b>(ii) New business premiums</b>		
Insurance regular premiums		
With-profits life contracts	<b>14.4</b>	17.6
With-profits individual pension contracts	<b>8.4</b>	7.0
With-profits group pension contracts	<b>9.6</b>	4.5
Linked life contracts	<b>5.4</b>	2.2
Linked individual pension contracts	<b>42.6</b>	21.7
Linked group pension contracts	<b>19.6</b>	5.0
Non-profit life contracts	<b>1.0</b>	1.6
Non-profit individual pension contracts	<b>0.2</b>	0.1
Non-profit group pension contracts	<b>2.5</b>	0.6
	<b>103.7</b>	60.3
Insurance single premiums		
With-profits life and annuity contracts	<b>106.5</b>	108.5
With-profits individual pension contracts	<b>106.1</b>	36.9
With-profits group pension contracts	<b>5.8</b>	0.0
Linked life contracts	<b>165.5</b>	121.6
Linked individual pensions contracts	<b>338.4</b>	142.9
Linked group pension contracts	<b>142.6</b>	46.4
Non-profit life contracts	<b>23.4</b>	7.5
Non-profit individual pension contracts	<b>130.8</b>	67.9
Non-profit group pension contracts	<b>41.2</b>	46.1
DSS rebates	<b>187.4</b>	118.3
	<b>1,247.7</b>	696.1
Investment regular business:		
Unit trust and ISA regular business	<b>8.5</b>	14.1
Investment single business		
Unit trust and ISA single business	<b>22.1</b>	43.7
Other investment only mandates	<b>186.0</b>	213.7
	<b>208.1</b>	257.4
<b>Total new business</b>	<b>1,568.0</b>	1,027.9
New business written in:		
United Kingdom	<b>1,401.7</b>	907.2
Isle of Man	<b>166.3</b>	120.7
	<b>1,568.0</b>	1,027.9

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

- Funds at retirement under pensions contracts which are converted into annuities with the Company are included in both claims incurred and as single premiums within gross premiums.
- Increments under existing group pension schemes are classified as new business premiums.
- DSS premiums are accounted for on a received basis.

All new business regular premiums are included on an annualised basis.

Funds under management in respect of the unit trust business are held in authorised unit trusts and the activities and sales of these unit trusts are not consolidated.

**3 INVESTMENT RETURN SUMMARY**

	Notes	2002 £m	2001 £m
<b>(i) Investment income</b>			
Income from investments:			
Land and buildings		<b>187.8</b>	126.8
Other financial investments		<b>705.7</b>	488.8
		<b>893.5</b>	615.6
Gains on the realisation of investments		–	146.4
		<b>893.5</b>	762.0
Net expected return on pension scheme assets	27c(iii)	<b>36.7</b>	24.5
		<b>930.2</b>	786.5
<b>(ii) Investment expenses and charges</b>			
Interest payable on bank loans and overdrafts		<b>(3.2)</b>	(2.6)
Interest payable on other borrowings		<b>(17.6)</b>	(8.1)
Investment management expenses		<b>(30.1)</b>	(30.9)
Losses on the realisation of investments		<b>(430.9)</b>	–
		<b>(481.8)</b>	(41.6)
<b>(iii) Unrealised losses on investments</b>			
		<b>(2,427.5)</b>	(2,887.7)
<b>Net investment return</b>		<b>(1,979.1)</b>	(2,142.8)

**4 OTHER TECHNICAL INCOME AND CHARGES**

		2002 £m	2001 £m
<b>Other technical income</b>			
Discontinued general business result		<b>1.7</b>	5.4
Amortisation of negative goodwill	9	<b>5.7</b>	5.6
General insurance commission		<b>14.4</b>	14.0
Other, continuing business		<b>18.0</b>	17.2
		<b>39.8</b>	42.2
<b>Other technical charges</b>			
Provision for impairment of acquired PVIF	11	<b>205.1</b>	–
PVIF realised under UAG Schedule 2C agreement		–	164.3
Amortisation of acquired PVIF	11	<b>38.2</b>	20.8
Amortisation of goodwill	9	<b>35.7</b>	17.6
Goodwill realised under UAG Schedule 2C agreement		–	43.0
Other, continuing business		<b>7.4</b>	7.8
		<b>286.4</b>	253.5

The amount described as 'Provision for impairment of acquired PVIF', where 'PVIF' means present value of acquired in-force business, reflects the write down to the acquired PVIF necessary to allow for actual investment performance from the acquisition dates for both Scottish Life and United Assurance Group to 31 December 2002. This write down substantially reflects the significant equity market falls over this period compared to the returns originally anticipated in the PVIF economic basis.

The prior year amount described as 'PVIF realised under Schedule 2C agreement' of £164.3m reflects an amount transferred to the Royal London fund from the acquired United Assurance Group fund for future appropriations which had already been recognised by Royal London in the PVIF acquired. This reduced the consolidated fund for future appropriations and PVIF in the prior year.

The prior year amount described as 'Goodwill realised under Schedule 2C agreement' of £43.0m represents an amount transferred from the long term funds of the acquired United Assurance Group reflecting the present value of future tax savings to those funds in a mutual business. This resulted in a realisation of goodwill in 2001.

## Notes to the financial statements for the year ended 31 December 2002

<b>5 NET OPERATING EXPENSES</b>	Notes	<b>2002 £m</b>	2001 £m
Acquisition costs		<b>208.8</b>	126.2
Change in deferred acquisition costs		<b>31.4</b>	19.9
		<b>240.2</b>	146.1
Current service pension cost	27c(i)	<b>27.0</b>	27.9
Administrative expenses		<b>121.6</b>	99.9
		<b>388.8</b>	273.9
Exceptional expenditure/(income)			
– impact of pension scheme reorganisation	27c(ii)	–	(112.3)
– restructuring costs		<b>22.6</b>	20.8
– utilisation of restructuring provision	16(ii)	<b>(1.0)</b>	(20.8)
		<b>21.6</b>	(112.3)
<b>Total net operating expenses</b>		<b>410.4</b>	161.6

All of the above expenses are in respect of continuing operations.

Included within acquisition costs is commission payable during the year in respect of direct insurance business of £65.9m (2001 £31.6m) to individuals other than employees of the Group.

During 2002 £11.7 million was incurred on restructuring the Royal London Direct Sales force, the majority of which related to redundancy costs. As at 31 December 2002 a provision of £9.9 million has been made for redundancy costs identified as part of a business review of the Royal London and Scottish Life operations in Wilmslow and Edinburgh (see note 16(ii)), which will be incurred during 2003. The remaining £1.0 million of cost, incurred in 2002, related to the UAG integration provision brought forward as at 31 December 2001.

Net operating expenses include:

	Group		Parent company	
	<b>2002 £m</b>	2001 £m	<b>2002 £m</b>	2001 £m
Depreciation of tangible assets	<b>8.0</b>	7.7	–	–
Operating lease rentals – land and buildings	<b>7.7</b>	6.7	<b>1.8</b>	4.5
– motor vehicles	<b>0.6</b>	–	–	–
– other assets	<b>0.1</b>	–	–	–
	<b>£000</b>	£000	<b>£000</b>	£000
Auditors' remuneration (gross of VAT):				
Audit fees	<b>831</b>	661	<b>695</b>	487
Audit of regulatory returns	<b>60</b>	60	<b>60</b>	47
Fees for other non-audit services	<b>250</b>	371	<b>125</b>	209
Audit fees in respect of prior years	<b>206</b>	–	<b>206</b>	–
Fees for other non-audit services, relating to the 2001 year end	<b>190</b>	–	<b>190</b>	–

## 6 PARTICULARS OF STAFF

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

	Notes	2002 Number	2001 Number
Sales and sales support		2,370	2,925
Administration		2,584	1,724
		<b>4,954</b>	4,649

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

		2002 £m	2001 £m
Wages and salaries		146.8	125.0
Social security costs		9.8	10.5
Other pension costs	27c(i)	27.0	27.9
		<b>183.6</b>	163.4

Full details of the directors' emoluments are included in the Board's report on Directors' remuneration on pages 22 and 23. The information included therein encompasses that required by the Companies Act 1985.

## 7 TAX ATTRIBUTABLE TO LONG TERM BUSINESS

	Notes	2002 £m	2001 £m
Tax has been provided as follows:			
UK corporation tax charge/(credit) at 30% (2001 30%)			
Current year		32.8	26.9
Adjustment in respect of prior periods		(56.2)	(12.7)
		<b>(23.4)</b>	14.2
Foreign tax relieved against UK corporation tax		2.4	1.5
Group relief settlements		(13.7)	–
Deferred tax	16	(173.8)	(322.5)
		<b>(208.5)</b>	(306.8)

## 8 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.

## 9 GOODWILL

	Group		Parent company	
	Positive goodwill £m	Negative goodwill £m	Positive goodwill £m	Negative goodwill £m
Cost:				
At 1 January 2002 and at 31 December 2002	354.4	(56.2)	349.7	(55.3)
Amortisation:				
At 1 January 2002	17.6	(6.5)	17.6	(5.6)
Amortisation for the year	35.7	(5.7)	35.0	(5.7)
At 31 December 2002	53.3	(12.2)	52.6	(11.3)
<b>Net book value, 31 December 2002</b>	<b>301.1</b>	<b>(44.0)</b>	<b>297.1</b>	<b>(44.0)</b>
Net book value, 31 December 2001	336.8	(49.7)	332.1	(49.7)

## Notes to the financial statements for the year ended 31 December 2002

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>10 INVESTMENTS</b>				
<b>(i) Land and buildings</b>				
At valuation:				
Freehold	1,320.3	1,833.2	1,222.3	1,692.6
Long leasehold	317.1	299.8	289.4	273.0
	<b>1,637.4</b>	2,133.0	<b>1,511.7</b>	1,965.6
At cost:				
Value of owner occupied properties	1,338.1	1,834.4	1,187.8	1,655.3
	<b>66.5</b>	61.0	<b>66.5</b>	61.0

Land and buildings were valued at 31 December 2002 by a number of firms of independent Chartered Surveyors.

	Shares £m	Loans £m	Total £m
<b>(ii) Investments in Group undertakings</b>			
<b>Parent company</b>			
At 1 January 2002	92.3	189.7	282.0
Additional share capital/loans subscribed	11.0	6.4	17.4
Repayment of loans	-	(10.2)	(10.2)
Revaluation	0.2	-	0.2
Provision for impairment	(22.8)	(3.1)	(25.9)
<b>At 31 December 2002</b>	<b>80.7</b>	<b>182.8</b>	<b>263.5</b>

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>(iii) Other financial investments</b>				
At current value:				
Shares and other variable-yield securities and units in unit trusts	4,910.6	9,061.7	4,893.9	9,039.4
Debt securities and other fixed income securities	7,687.7	5,089.5	7,666.1	5,058.1
Loans secured by policies	48.8	47.0	48.8	47.0
Deposits with credit institutions	186.0	246.4	158.9	231.1
Other	88.4	35.7	88.4	35.7
	<b>12,921.5</b>	14,480.3	<b>12,856.1</b>	14,411.3

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
At cost:				
Shares and other variable-yield securities and units in unit trusts	4,835.2	7,014.1	4,815.8	6,991.8
Debt securities and other fixed income securities	7,208.6	5,072.9	7,187.9	5,041.4
Loans secured by policies	48.8	47.0	48.8	47.0
Deposits with credit institutions	186.0	246.4	158.9	231.1
Other	88.4	35.7	88.4	35.7
	<b>12,367.0</b>	12,416.1	<b>12,299.8</b>	12,347.0

Investments acquired in the prior year as part of acquisitions of companies (or transferred in accordance with Schedule 2C of the Insurance Companies Act 1982) are shown at their original cost to the transferring company.

Listed investments at market value (included in the above):

Shares and other variable-yield securities and units in unit trusts	4,773.1	8,941.2	4,756.5	8,918.9
Debt securities and other fixed income securities	7,622.3	5,046.2	7,601.9	5,015.1
	<b>12,395.4</b>	13,987.4	<b>12,358.4</b>	13,934.0

## 11 PRESENT VALUE OF ACQUIRED IN-FORCE BUSINESS

	Notes	Group £m	Parent company £m
Cost:			
At 1 January 2002		<b>862.1</b>	<b>841.6</b>
Reassessment of provisional values	22	<b>(27.8)</b>	<b>(27.8)</b>
At 31 December 2002		<b>834.3</b>	<b>813.8</b>
Amortisation:			
At 1 January 2002		<b>41.3</b>	<b>20.8</b>
Amortisation for the year		<b>38.2</b>	<b>38.2</b>
Provision for impairment of acquired PVIF	4	<b>205.1</b>	<b>205.1</b>
At 31 December 2002		<b>284.6</b>	<b>264.1</b>
<b>Net book value, 31 December 2002</b>		<b>549.7</b>	<b>549.7</b>
Net book value, 31 December 2001		820.8	820.8

The amount classified as 'Reassessment of provisional values' reflects the adjustment to the PVIF arising from the revision of the asset allocations on the Scottish Life business acquired as at 30 June 2001, (see note 22).

The amount described as 'Provision for impairment of acquired PVIF' reflects the write down to the acquired PVIF necessary to allow for actual investment performance from the acquisition dates for both Scottish Life and United Assurance Group to 31 December 2002. At 31 December 2002, a review was undertaken of historic market yields over the past ten years to determine a fair market value consistent with performing long term PVIF calculations. This review indicated a fair value greater than current market levels. The directors believe that it is appropriate to allow prudently for an element of equity market recovery over long term assumptions within the PVIF economic basis. Accordingly, the impairment for investment performance, has allowed for an additional 20% equity market recovery, earned over the next five years, over the expected growth anticipated within the PVIF economic basis of approximately 4%pa.

## 12 ASSETS HELD TO COVER LINKED LIABILITIES

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
At valuation	<b>4,568.5</b>	5,004.4	<b>3,769.2</b>	4,020.7
At cost	<b>4,694.4</b>	4,545.0	<b>3,891.9</b>	3,530.0

## 13 DEBTORS

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>Other debtors</b>				
Amounts due from group undertakings	–	–	<b>56.3</b>	22.3
Outstanding sales of investments	<b>80.0</b>	9.1	<b>78.9</b>	0.6
Dividends receivable	<b>5.1</b>	13.2	<b>2.3</b>	16.3
Other	<b>69.8</b>	65.6	<b>56.0</b>	42.3
	<b>154.9</b>	87.9	<b>193.5</b>	81.5

## Notes to the financial statements for the year ended 31 December 2002

	Computer and office equipment £m	Motor vehicles £m	Total £m
<b>14 TANGIBLE ASSETS</b>			
<b>Group</b>			
Cost:			
At 1 January 2002	39.7	9.9	49.6
Additions	16.9	1.2	18.1
Disposals	-	(9.5)	(9.5)
<b>At 31 December 2002</b>	<b>56.6</b>	<b>1.6</b>	<b>58.2</b>
Depreciation:			
At 1 January 2002	26.5	4.0	30.5
Charge for the year	6.7	1.3	8.0
Disposals	-	(4.0)	(4.0)
<b>At 31 December 2002</b>	<b>33.2</b>	<b>1.3</b>	<b>34.5</b>
<b>Net book value, 31 December 2002</b>	<b>23.4</b>	<b>0.3</b>	<b>23.7</b>
Net book value, 31 December 2001	13.2	5.9	19.1

	Notes	Long term business provisions £m	Claims outstanding £m	Linked liabilities £m	Fund for future appropriations £m
<b>15 TECHNICAL PROVISIONS AND FUND FOR FUTURE APPROPRIATIONS</b>					
<b>Group</b>					
At 1 January 2002		14,334.6	65.4	4,965.3	3,758.9
Reassessment of provisional PVIF values	22	-	-	-	(27.8)
Change in the year – gross of reinsurance		(519.4)	(8.1)	(397.5)	(1,846.9)
<b>At 31 December 2002</b>		<b>13,815.2</b>	<b>57.3</b>	<b>4,567.8</b>	<b>1,884.2</b>
<b>Parent company</b>					
At 1 January 2002		14,331.2	46.7	3,969.5	3,769.8
Reassessment of provisional PVIF values	22	-	-	-	(27.8)
Change in the year		(522.4)	0.9	(201.0)	(1,834.2)
<b>At 31 December 2002</b>		<b>13,808.8</b>	<b>47.6</b>	<b>3,768.5</b>	<b>1,907.8</b>

The closing balance on the fund for future appropriations of the Group and Parent company includes amounts attributable to the Scottish Life and Refuge Assurance ordinary branch with-profits sub-funds, and are stated after including a net pension scheme asset of £73.0m (2001 £268.0m).

Claims outstanding includes provisions for long term and general insurance business £47.6m (2001 £46.7m) and £9.7m (2001 £18.7m) respectively.

16 PROVISIONS FOR OTHER RISKS AND CHARGES	Group			Parent company		
	Deferred Tax £m	Other £m	Total £m	Deferred Tax £m	Other £m	Total £m
Provision at 1 January 2002	121.5	15.3	136.8	125.5	6.5	132.0
Utilised (including unwind of discount)	–	(6.1)	(6.1)	–	–	–
(Credit)/charge for the year	(173.8)	20.4	(153.4)	(178.0)	3.6	(174.4)
<b>(Asset)/provision at 31 December 2002</b>	<b>(52.3)</b>	<b>29.6</b>	<b>(22.7)</b>	<b>(52.5)</b>	<b>10.1</b>	<b>(42.4)</b>

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>(i) Deferred tax provided in the financial statements comprises:</b>				
Deferred acquisition costs	(19.4)	(5.3)	(19.4)	(5.3)
Capital allowances	0.7	(4.8)	0.7	0.8
Arising on UAG Schedule 2C agreement	(23.3)	(45.9)	(23.3)	(45.9)
Revaluation of investments	(9.8)	191.9	(10.0)	191.0
Capital gains tax on unit trust deemed disposals	(5.0)	13.4	(5.0)	13.4
Gross (asset)/provision for deferred tax	(56.8)	149.3	(57.0)	154.0
Discount	4.5	(27.8)	4.5	(28.5)
Discounted (asset)/provision for deferred tax	(52.3)	121.5	(52.5)	125.5

The impact of discounting has been calculated with reference to the expected post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities.

Provision has not been made in the Group in respect of deferred tax assets amounting to £11.6m (2001 £2.9m) arising from surplus trading losses, unrealised capital losses, capital allowances or future relief in respect of redundancy costs as there is insufficient evidence that an adequate amount of taxable profits will arise in the future against which to offset these items.

The amount described as "Arising on UAG Schedule 2C agreement" reflects the present value at the end of the year of future tax savings in the long term funds of the United Assurance Group following the transfer of the funds to the Company in 2001 under Schedule 2C of the Insurance Companies Act 1982.

	Restructuring provision £m	Surplus offices £m	Other £m	Total £m
<b>(ii) Other provisions</b>				
<b>Group</b>				
At 1 January 2002	1.0	10.0	4.3	15.3
Utilised	(1.0)	(3.5)	(0.1)	(4.6)
Unwinding of discount	–	0.4	–	0.4
Charged in the year	9.9	8.5	0.1	18.5
<b>At 31 December 2002</b>	<b>9.9</b>	<b>15.4</b>	<b>4.3</b>	<b>29.6</b>

	Surplus offices £m
<b>Parent company</b>	
At 1 January 2002	6.5
Utilised	(1.6)
Unwinding of discount	0.3
Charged in the year	4.9
<b>At 31 December 2002</b>	<b>10.1</b>

The provision for surplus offices is in respect of sales and 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. The restructuring provision is described in note 5.

## Notes to the financial statements for the year ended 31 December 2002

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>17 CREDITORS</b>				
<b>(i) Amounts owed to credit institutions</b>	<b>77.6</b>	90.3	<b>60.7</b>	50.7

Amounts owed to credit institutions fall due for payment as follows:

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
Less than 1 year	44.8	34.0	38.0	28.4
Between 1 and 2 years	15.1	8.1	14.1	5.5
More than 2 years but less than 5 years	13.1	48.2	8.6	16.8
After more than 5 years	4.6	–	–	–
	<b>77.6</b>	90.3	<b>60.7</b>	50.7

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>(ii) Other creditors including taxation and social security</b>				
Loan stock	10.3	11.7	–	–
Amounts owed to subsidiary undertakings	–	–	90.9	76.5
Tax payable	0.9	35.2	1.1	23.0
Other creditors including social security	165.7	100.9	145.0	71.8
	<b>176.9</b>	147.8	<b>237.0</b>	171.3

The loan stock was issued at par and is redeemable at par by the company at any time. It is unsecured and interest is payable six monthly in arrears at a rate per annum of 0.75% below LIBOR at the start of each interest period. Loan note holders can only redeem the loan stock at the start of each six monthly interest period. The balances above are all due within one year.

## 18 SUBORDINATED LIABILITIES

On 28 November 1996 Scottish Life Finance plc, now a wholly owned subsidiary of The Royal London Mutual Insurance Society Limited, issued £125m 9% Undated Subordinated Guaranteed Bonds with no specified date of repayment. The Bonds are guaranteed by The Royal London Mutual Insurance Society Limited.

## 19 STOCK LENDING

At the year end, the Parent company had entered into various contractual arrangements whereby certain of its investments with a value of £1,945.1m (2001 £1,313.8m) 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 £2.0m (2001 £1.4m).

## 20 COST OF BONUSES

Total surplus arising in the year which has been allocated as regular bonuses, valued on the assumptions set out in note 21 or paid out as interim and terminal bonuses on claims amounted to £408m (2001 £589.5m).

## 21 LONG TERM BUSINESS PROVISION

The principal assumptions used in determining the long term business provision for the main classes of business were as follows:

2002 Class of business	2002 Mortality	2001 Mortality (as for 2002 unless otherwise stated)	2002 Interest % per annum	2001 Interest % per annum
<b>Ordinary long term non-linked</b>				
Assurances				
Royal London Mutual	AM80 minus two years and AF80 minus two years	AM80 minus two years and AF80 minus one year	<b>3.800</b>	2.750
Ex-United Assurance Group	AM80 minus two years	AM80	<b>3.800</b>	2.750
Ex-Scottish Life	AM80 minus two years	AM80 minus one year	<b>3.500</b>	2.750
Pensions – deferred annuities				
Ex-United Assurance Group	AM80 minus four years in deferment IM80C30 minus two years and IF80C30 minus three years in payment	AM80 minus two years in deferment	<b>3.500</b>	3.000
Ex-Scottish Life – Individual	AM80 minus three years in deferment PMA80C25 minus three years and PFA80C25 minus three years in payment	IM80C20 minus three years and IF80C20 minus three years in payment	<b>4.375</b>	4.000
– Group	PMA80C25 minus three years and PFA80C25 minus three years in payment		<b>3.900</b>	4.125
Pensions – pure endowment				
Ex-United Assurance Group	Nil		<b>3.500</b>	3.000
Pensions – individual in payment				
Royal London Mutual	IM80C20 minus two years and IF80C20 minus three years		<b>4.750</b>	4.875
Ex-United Assurance Group	IM80C20 minus two years and IF80C20 minus three years		<b>4.750</b>	4.875
Ex-Scottish Life	IM80C20 minus three years and IF80C20 minus three years		<b>4.750</b>	4.875
Pensions – group in payment				
Ex-Scottish Life	PMA80C25 minus three years and PFA80C25 minus three years		<b>4.750</b>	4.875
<b>Industrial assurance</b>				
Royal London Mutual	ELT15 (males) minus four years	ELT15 (males) minus three years	<b>3.800</b>	2.750
Ex-United Assurance Group	ELT15 (males) minus two years	ELT15 (males)	<b>3.800</b>	2.750

Assumed interest rates on Assurances and Deferred Pensions are set by reference to market yields at the balance sheet date on investments held within the Long Term Fund. During 2002, yields on equities rose as market values fell and yields on debt securities and other fixed income securities fell. Interest rates have been increased by up to 0.5% p.a. on deferred pensions business and 1.0% on life business. These different increases reflect the assumed allocation of asset classes between the lines of business and appropriate prudential margins.

## Notes to the financial statements for the year ended 31 December 2002

### 21 LONG TERM BUSINESS PROVISION continued

Mortality bases are reviewed periodically to ensure that assumptions remain appropriate, taking into account recent company and industry experience for each class of business. Although the published annuitant bases have remained unchanged, an additional provision of £35m has been included to allow for expectations of further improvements in life expectancy based on work in progress conclusions described in 'Working Papers' presented by the CMI Bureau at the end of 2002. The mortality bases for assurance business have been lightened by increasing the age adjustments as described above to reflect continued improved company experience for these classes of business.

The provision for Guaranteed Annuity Options (GAOs) in respect of acquired Scottish Life Business has been calculated as £471m (2001 £474m). This has been calculated as the additional cost of converting projected fund values to annuities on guaranteed rates, for those policyholders electing to do so, over annuities purchased on the anticipated interest and mortality assumptions described in the table above. In performing this calculation, it has been assumed that 80% of projected values will be converted on GAO terms, reflecting policyholders' ability to take tax free lump sums which can often lead to higher after tax income.

The long term business provision includes £62.0m (2001 £143m) in respect of guarantees, redress payments and expenses outstanding under the Pensions Review. It also includes an amount of £46.3m (2001 £45.6m) in respect of ongoing reviews of the sales of regulated insurance products, including mortgage endowments and historic business review for the likely redress payments and associated expenses.

### 22 PRIOR YEAR ACQUISITION

#### Scottish Life

With effect from 1 July 2001, the Court of Session in Scotland, sanctioned a scheme, under Section 49 of and Part 1 of Schedule 2C to, the Insurance Companies Act 1982, under which the long term business of Scottish Life was transferred to Royal London.

As part of the transfer, a new sub fund of the Royal London fund was formed, for the benefit of Scottish Life with-profits policyholders. The Group used acquisition accounting to account for the transaction. The table below summarises the fair value of the assets and liabilities transferred to Royal London and the creation of the Scottish Life sub-fund within the long-term business fund of Royal London as at 30 June 2001.

	Fair value to the Group £m	Scottish Life sub- fund £m	Fair value of remaining assets acquired £m
Investments	5,885.5	4,952.0	933.5
Present value of acquired in-force business	479.5	–	479.5
Assets held to cover linked liabilities	3,647.2	108.6	3,538.6
Deferred acquisition costs	110.4	110.4	–
Tangible assets	13.3	–	13.3
Other assets	324.8	149.7	175.1
Pension scheme surpluses after tax	48.1	–	48.1
Long term business provision and claims outstanding	(5,571.8)	(4,705.6)	(866.2)
Technical provisions for linked liabilities	(3,590.1)	(126.6)	(3,463.5)
Other liabilities	(435.3)	(83.6)	(351.7)
Fund for future appropriations	(1,138.8)	(1,138.8)	–
Net assets acquired	(227.2)	(733.9)	506.7
Consideration:			
Cash (including acquisition costs)		–	(122.5)
Transfer of assets from the Royal London fund to the Scottish Life sub-fund		733.9	(733.9)
Goodwill		–	349.7

As permitted under FRS 7, 'Fair Values in Acquisition Accounting' the fair value of the net assets has been reassessed at 31 December 2002. A provisional adjustment to the value of the present value of acquired in-force business (PVIF) arising from a revision of the asset allocations on the Scottish Life business acquired has reduced the value of the PVIF as at 30 June 2001 from £479.5m by £27.8m to £451.7m with a corresponding reduction in the fund for future appropriations of the Scottish Life sub-fund. Any adjustment finally agreed, will be matched by a reduction in consideration of an equal and opposite amount and there is therefore no adjustment to goodwill.

## 23 COMMITMENTS

### (i) Capital expenditure

Capital expenditure relating to investment expenditure contracted for but not provided for at the balance sheet date amounted to £18.6m (2001 £31.9m).

### (ii) Lease commitments in respect of motor vehicles

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
Annual commitments which expire:				
Up to one year	0.3	–	–	–
In the second to fifth years	0.8	–	–	–
	1.1	–	–	–

### (iii) Lease commitments in respect of land and buildings

	Group		Parent company	
	2002 £m	2001 £m	2002 £m	2001 £m
Annual commitments which expire:				
Up to one year	0.6	1.1	0.5	1.0
In the second to fifth years	3.0	2.5	2.0	2.2
In more than five years	3.8	5.8	2.5	2.0
	7.4	9.4	5.0	5.2

## 24 PRINCIPAL SUBSIDIARY UNDERTAKINGS

The following represents the principal subsidiary undertakings of the Group as at 31 December 2002. All undertakings shown are wholly owned, are incorporated in Great Britain and have been included in the Group financial statements.

	Nature of business
Royal London Asset Management Limited	Investment management
The Royal London Unit Trust Managers Limited	Unit Trust Management
Royal London Savings Limited	ISA management
Royal London Management Services Limited	Administration services
Scottish Life International Insurance Company	Life Assurance
Scottish Life Finance plc	Finance company
RLM Finance Bonds plc	Intermediate Holding company
RLM Finance plc	Intermediate Holding company

## Notes to the financial statements for the year ended 31 December 2002

### 24 PRINCIPAL SUBSIDIARY UNDERTAKINGS continued

#### Significant holdings in other companies

As at 31 December 2002

- Royal London owns 100% of annuity shares in the Royal London UK Equity Investment Trust plc.
- Royal London held an investment of 29.67% of the equity share capital of Leopold Joseph Holdings Public Limited Company. This company has not been treated as an associated undertaking because the Group has not exerted significant influence over the affairs of the company.
- Royal London held an investment of 50% in the equity share capital of Royal London Private Equity (Holdings) Limited. Whilst Royal London does exert significant influence over Royal London Private Equity (Holdings) Limited, it has not been consolidated as an associate, on the basis of materiality.

The above holdings are the only investments that exceed 20% of the equity share capital of a company and have been included in the investments shown in the consolidated balance sheets on pages 28 and 29.

As at 31 December 2002, Royal London held investments exceeding 10% but less than 20% of a class of equity share capital in the following companies and these too have been included in the investments shown in the consolidated balance sheets on pages 28 and 29.

Company	% holding
Royal London UK Equity Investment Trust plc	14.28
London Scottish Bank plc	13.18
Invesco English and International Trust plc	13.04
Britannic plc	12.27
Govett High Income Investment Trust plc	11.96
The Throgmorton Trust plc	11.33
Finsbury Small Quoted Companies Trust plc	11.23
Britannic UK Income Trust plc	11.11
Personal Group Holdings plc	10.95
The Smaller Companies Investment Trust plc	10.70

### 25 CONTINGENT LIABILITIES

#### (i) Exchangeable deferred shares

Under the terms of the offer to acquire the United Assurance Group, holders of Convertible Deferred Shares (CDS) in that group were offered Exchangeable Deferred Shares (EDS) by RLM Finance as consideration for CDS. The terms of the EDS are the same as the CDS. In the absence of an attribution of surplus from the Refuge Assurance ordinary branch with-profits sub-fund, the EDS issued will expire on 16 October 2004 with no value. In the instance of an attribution, any amount payable would be funded from the Refuge Assurance ordinary branch with-profits sub-fund and impact accordingly the value of the fund for future appropriations. Following a Schedule 2C agreement in 2001, the Refuge Assurance ordinary branch with-profits sub-fund became a sub-fund of the Parent company fund. The nominal value of the EDS in issue at the year end 2002 was £4.8m (2001 £4.8m) and this has been included in the fund for future appropriations.

The company has begun an investigation into the feasibility of effecting a change in the basis of its participation in the surplus retained within the Refuge Assurance ordinary branch with-profits sub-fund. Such a change, if effected, would constitute a 'Release Event' as defined under the terms of the Exchangeable Redeemable Deferred Shares (EDS) issued by RLM Finance plc at the time of the acquisition of the United Assurance Group. A 'Release Event' would lead to the conversion of EDS into interest bearing loan notes, guaranteed by RLM Finance Bonds plc. The potential value of such loan notes cannot be estimated with any reliability at this stage.

#### (ii) Regulatory reviews

During the year, the Group continued to address issues from past inappropriate selling practices. These reviews have progressed satisfactorily and appropriate provisions have been made based on the currently envisaged scope. Whilst the directors have made their prudent best estimates of the cost of these regulatory issues, the ultimate cost may be different.

## 26 RELATED PARTY TRANSACTIONS

### Subsidiary undertakings' transactions with unit trust funds

The Royal London Unit Trust Managers Limited (RLUTM), United Friendly Unit Trust Managers Limited (UFUTM), and The Scottish Life Investment Management Company Limited (SLIM) operated as the unit trust managers for the unit trust business marketed by the Group. During the year UFUTM changed its name to RLUTM and RLUTM changed its name to UFUTM. In addition, all activities carried out by UFUTM, previously called RLUTM, were transferred to RLUTM, previously called UFUTM and SLIM. The transactions during the year were as follows:

	RLUTM (formerly known as UFUTM)		UFUTM (formerly known as RLUTM)		SLIM	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Management fees earned during the year	5.6	0.0	13.1	17.6	17.7	10.6*
Amounts outstanding at the year end	2.8	0.0	0.0	1.5	0.0	1.8

\* six months to 31 December 2001.

The total value of the units held by the Parent company at 31 December 2002 was £2,979m (2001 £3,699m)

## 27 PENSION SCHEMES

### a. Summary

The Group operates a number of funded, defined benefit pension schemes covering the majority of its employees. There are currently four principal schemes: Royal London Group Pension Scheme, The Royal London Staff Pension Fund, United Friendly Group Pension Scheme and Scottish Life Officers' Retirement Benefits Scheme. On 1 December 2001 the future service benefit accrual of all existing members of The Royal London Staff Pension Fund, United Friendly Group Pension Scheme and Scottish Life Officers' Retirement Benefit Scheme was transferred to Royal London Group Pension Scheme. In 2002 it was agreed that consistent with the terms of the revised Trust Deeds discretionary increases in relation to past service previously provided in the RLSPF will be borne by the RLGPS. There is no effect on operating expenses from this transfer.

Details of the latest valuation of the principal schemes are given below. All schemes were valued on 31 December 2002 using the projected unit method.

	Royal London Group Pension Scheme	The Royal London Staff Pension Fund	United Friendly Group Pension Scheme	Scottish Life Officers' Retirement Benefit Scheme
Last full actuarial valuation date	31 December 2001	31 December 2001	31 December 2001	31 December 2001
Scheme actuary	Keith Lewis (Watson Wyatt)	David Read (Royal London)	Neil Wearing (Watson Wyatt)	Peter Kilgour (Royal London)
Market value of assets at 31 December 2002	£525.2 million	£292.2 million	£384.0 million	£172.9 million
Level of funding	136%	86%	116%	130%

The major assumptions used by the scheme actuaries, which were consistently applied across the schemes, were:

	2002	2001	2000
Inflation assumption	2.3%	2.5%	2.7%
Rate of increase in salaries	4.1%	4.3%	4.5%
Rate of increase in pensions in payment	2.3%	2.5%	2.7%
Discount rate	5.8%	5.8%	6.0%

No contributions were made by the Group into any of these Schemes during 2002 (2001 £nil).

## Notes to the financial statements for the year ended 31 December 2002

**27 PENSION SCHEMES** continued**b. Analysis of net pension scheme assets and liabilities**

The fair value of assets in the scheme and the expected rate of return and net pension scheme assets/(liabilities) were:

**At 31 December 2002**

	Expected longer term rate of return %	Royal London Group Pension Scheme £m	United Friendly Group Pension Scheme £m	Scottish Life Officers' Retirement Benefit Scheme £m	Total £m	The Royal London Staff Pension Fund £m
Fixed interest bonds	4.5	66.2	97.2	10.2	173.6	70.3
Index-linked bonds	4.5	1.4	29.0	67.5	97.9	43.9
Equities	8.6	447.2	203.7	84.0	734.9	157.4
Property	6.5	0.5	37.8	7.0	45.3	22.4
Cash	4.0	9.9	16.3	4.2	30.4	(1.8)
Total market value of assets		525.2	384.0	172.9	1,082.1	292.2
Present value of scheme liabilities		386.2	330.0	133.0	849.2	339.9
Surplus/(deficit) in the scheme		139.0	54.0	39.9	232.9	(47.7)
Restriction on recoverability of surplus		–	(54.0)	(39.9)	(93.9)	–
Recognised surplus/(deficit)		139.0	–	–	139.0	(47.7)
Related deferred tax		(27.8)	–	–	(27.8)	9.5
Net pension scheme asset/(liability)		111.2	–	–	111.2	(38.2)

**At 31 December 2001**

	Expected longer term rate of return %	Royal London Group Pension Scheme £m	United Friendly Group Pension Scheme £m	Scottish Life Officers' Retirement Benefit Scheme £m	Total £m	The Royal London Staff Pension Fund £m
Fixed interest bonds	5.0	62.1	72.3	12.7	147.1	3.7
Index-linked bonds	2.4	0.4	27.8	2.0	30.2	–
Equities	7.8	592.7	318.2	166.6	1,077.5	324.2
Property	6.5	–	28.9	18.5	47.4	24.4
Cash	4.0	19.8	10.3	6.2	36.3	0.7
Total market value of assets		675.0	457.5	206.0	1,338.5	353.0
Present value of scheme liabilities		313.6	347.0	165.0	825.6	379.4
Surplus/(deficit) in the scheme		361.4	110.5	41.0	512.9	(26.4)
Restriction on recoverability of surplus		–	(110.5)	(41.0)	(151.5)	–
Recognised surplus/(deficit)		361.4	–	–	361.4	(26.4)
Related deferred tax		(72.3)	–	–	(72.3)	5.3
Net pension scheme asset/(liability)		289.1	–	–	289.1	(21.1)

**27 PENSION SCHEMES** continued**c. Analysis in movements in consolidated profit and loss account****(i) Analysis of the amount charged to net operating expenses**

	2002 £m	2001 £m
Current service cost	<b>(27.0)</b>	(27.9)

Past service cost for 2002 has been reduced by £nil (2001 £5.0m) as a result of the use of the unrecognised surplus brought forward in Royal London Group Pension Scheme.

**(ii) Analysis of the amount credited to net operating expenses – exceptional item**

	2002 £m	2001 £m
Loss arising on non-recognition of surpluses in the United Friendly Group Pension Scheme and Scottish Life Officers' Retirement Benefits Scheme	–	(151.5)
Less: previously unrecognised surpluses	–	55.5
Actual loss arising	–	(96.0)
Profit arising on transfer of active service to the Royal London Group Pension Scheme	–	208.3
Total exceptional items	–	112.3

**(iii) Analysis of the net expected return on pension scheme assets**

	2002 £m	2001 £m
Expected return on pension scheme assets	<b>122.4</b>	136.4
Less: restriction due to unrecognised surpluses	<b>(18.6)</b>	(45.0)
	<b>103.8</b>	91.4
Less: interest on pension scheme liabilities	<b>(67.1)</b>	(66.9)
Net expected return on pension scheme assets	<b>36.7</b>	24.5

The expected return on pension scheme assets is calculated using the investment return assumptions applied to the market value of pension scheme assets as stated in the tables above for the preceding year end. The expected return has been restricted as a result of the existence of unrecognised surpluses in Scottish Life Officers' Retirement Benefits Scheme and United Friendly Group Pension Scheme.

**d. Analysis of pension scheme gains and losses after tax****Summary of experience gains and losses**

	2002 £m	2001 £m
Actual return less expected return on pension scheme assets	<b>(375.3)</b>	(414.8)
Less: absorbed within unrecognised surpluses brought forward	<b>57.6</b>	263.9
	<b>(317.7)</b>	(150.9)
Experience gains and losses arising on the scheme liabilities	<b>47.6</b>	50.9
Changes in assumptions underlying the present value of the scheme liabilities	<b>16.7</b>	–
Actuarial gains and losses before tax	<b>(253.4)</b>	(100.0)
Deferred tax on actuarial gains and losses	<b>50.7</b>	20.0
Actuarial losses after tax	<b>(202.7)</b>	(80.0)
Pension scheme losses after tax	<b>(202.7)</b>	(80.0)

## Notes to the financial statements for the year ended 31 December 2002

**27 PENSION SCHEMES** continued**e. Movement in surplus during the year before tax**

	Note	Group		Parent company	
		2002 £m	2001 £m	2002 £m	2001 £m
<b>Considered as recoverable surplus in schemes at beginning of the year</b>		<b>335.0</b>	266.0	<b>335.0</b>	57.9
Acquisition of Scottish Life	22	–	60.1	–	60.1
Effect of Schedule 2C transfer on 1 January 2001		–	–	–	208.1
Movement in year:					
Total operating charge	27c(i)	<b>(27.0)</b>	(27.9)	<b>(27.0)</b>	(27.9)
Exceptional credit	27c(ii)	–	112.3	–	112.3
Net expected return on pension scheme asset	27c(iii)	<b>36.7</b>	24.5	<b>36.7</b>	24.5
Actuarial losses	27d	<b>(253.4)</b>	(100.0)	<b>(253.4)</b>	(100.0)
<b>Considered as recoverable surplus in schemes at end of year</b>		<b>91.3</b>	335.0	<b>91.3</b>	335.0
Analysed as follows:					
Royal London Group Pension Scheme		<b>139.0</b>	361.4	<b>139.0</b>	361.4
The Royal London Staff Pension Fund		<b>(47.7)</b>	(26.4)	<b>(47.7)</b>	(26.4)
		<b>91.3</b>	335.0	<b>91.3</b>	335.0

**f. History of experience gains and losses (Group)**

	Note	2002 £m	%	2001 £m	%	2000 £m	%
Difference between the expected and actual return on scheme assets as a percentage of closing scheme assets	27d	<b>(375.3)</b>	<b>(27.4)</b>	(414.8)	(26.0)	(226.5)	(15.8)
Experience gains and losses on scheme liabilities	27d	<b>47.6</b>	<b>4.0</b>	50.9	4.2	15.1	1.5
Total amount recognised as part of actuarial gains and losses as a percentage of scheme liabilities	27d	<b>(253.4)</b>	<b>(21.3)</b>	(100.0)	(8.3)	(38.1)	(3.7)

The calculation of the differences between the expected and actual return on scheme assets as a percentage of closing scheme assets has been adjusted to take account of the fact that the acquisition of Scottish Life took place during 2001.

## Additional information for the year ended 31 December 2002

<b>FIVE YEAR REVIEW</b>	<b>2002</b> £m	2001 £m	2000 £m	1999 £m	1998 £m
<b>Group</b>					
Investments at market value at 31 December	<b>19,127.4</b>	21,617.7	14,929.1	7,506.0	6,868.4
Long term business provision (gross) including unit linked liabilities	<b>18,383.0</b>	19,299.9	10,743.2	4,894.8	4,859.7
Fund for future appropriations	<b>1,884.2</b>	3,758.9	4,623.0	2,439.0	1,656.0
New life, pensions and unit trusts – annual	<b>112.2</b>	74.4	32.2	14.6	43.1
– single	<b>1,269.8</b>	739.8	479.6	118.1	201.2
New investment business	<b>186.0</b>	213.7	232.0	46.1	42.3
Annualised new business	<b>257.8</b>	169.8	103.4	31.0	67.5
Earned premiums, net of reinsurance	<b>2,052.4</b>	1,391.5	875.9	386.2	481.3
Claims incurred	<b>2,185.8</b>	1,656.7	977.2	521.9	529.6

### DECLARED BONUSES – ROYAL LONDON MUTUAL

The directors have declared annual bonuses for 2002 in respect of traditional with-profits contracts and for 2003 in respect of unitised with-profits contracts. Examples of the bonuses are set out below together with terminal bonus rates effective from the dates shown.

	Regular bonus rate	Terminal bonus rate
Industrial Branch	0.5% – 0.75% simple	up to 287.4%
Ordinary Branch		
Traditional life business		
– regular premium	1.0% – 3.0% simple	up to 405.8%
– single premium	0.5% – 3.0% simple	up to 429.0%
Personal pensions		
– regular premium	1.5% compound	up to 140.1%
– single premium	1.5% compound	up to 329.6%
– unitised ISA	2.5%* unit value	nil
– unitised whole life assurance bond (DSF)	3.0%* unit value	nil
– unitised pensions business series 2	4.25%* unit value	nil

\* for unitised with-profits business, the bonus rate shown will reduce by 0.5% on 1 April 2003.

Interim bonus for personal pension policies is 1.5% p.a. The directors reserve the right to review interim and final bonus rates at any time.

Terminal bonuses are based on sum assured for Industrial Branch and Ordinary Branch traditional life business, notional fund inclusive of annual bonuses for Ordinary Branch personal pensions and unit value for unitised business. These rates apply to policies becoming claims by maturity and death with effect from 1 January 2003.

Bonus rates for Crest Growth, Talisman, Retirement Solutions and Profitbuilder products sold since 1 July 2001 are quoted under 'Declared Bonuses – Former Scottish Life business'.

## Additional information for the year ended 31 December 2002

### DECLARED BONUSES – FORMER REFUGE ASSURANCE BUSINESS

The directors have declared regular bonuses for 2002 in respect of traditional with-profits contracts and for 2003 in respect of unitised with-profits contracts. These are set out below together with terminal bonus rates effective from the dates shown:

	Regular bonus rate	Terminal bonus rate
Industrial Branch	0.5% compound	up to 545.2%
Ordinary Branch		
– Traditional life regular premium business	0.5% compound	up to 103.0%
– Traditional life single premium business	0.5% compound	up to 75.9%
– Traditional pensions business	0.5% compound	up to 324.7%
– Unitised life business	3.0%* unit value	nil
– Unitised pensions business series 1	4.25%* unit value	nil

\* for unitised with-profits business, the bonus rates shown will reduce by 0.5% on 1 April 2003.

Interim regular bonuses for OB traditional business are equal to the last declared rate. The directors reserve the right to review them and terminal bonus rates at any time.

Terminal bonuses are based on sum assured and attaching regular bonuses for Ordinary Branch traditional life business, unit value for unitised business, sum assured (with-profits annuity for pre October 1992 pensions contracts) otherwise. These rates apply to policies becoming claims by maturity and death (excluding OB traditional pension business) with effect from 1 January 2003.

### DECLARED BONUSES – FORMER UNITED FRIENDLY INSURANCE BUSINESS

The directors have declared regular bonuses for 2002 in respect of traditional with-profits contracts. These are set out below for the major classes of business together with terminal bonus rates effective from the dates shown:

	Regular bonus rate	Terminal bonus rate
Industrial Branch		
– Whole life policies pre 1979 (weekly paid)	4.0% simple	up to 38%
– Whole life policies post 1979 (weekly paid)	3.0% simple	up to 23%
– Endowments post 1979 (weekly paid)	1.5% simple	up to 52%
– Endowments post 1988 (lunar paid)	0.5% approx. simple (depends upon entry year)	up to 10%
Ordinary Branch		
Traditional life business		
– Endowments (simple bonus series)	1.0%*	up to 230.0%
– Endowments (compound series)	0.5%	up to 10.0%
– Whole life (simple bonus series)	1.5%*	up to 120.0%
Traditional pensions business (issued from 1988)		
– Single premium personal pension	0.5% compound	up to 10.0%
– Regular premium personal pension	0.5% compound	up to 12.0%

\* including guaranteed bonus rate where applicable

There are no interim bonuses. The directors reserve the right to review the terminal bonus rates at any time.

Terminal bonuses are based on sum assured for Ordinary Branch traditional life business, sum assured and attaching regular bonuses otherwise. These rates apply to policies becoming claims by maturity and death (excluding OB traditional pension business) with effect from 1 January 2003.

## DECLARED BONUSES – FORMER SCOTTISH LIFE BUSINESS

The directors have declared regular bonuses for 2002 in respect of with-profits contracts. Examples of the bonuses are set out below together with terminal bonus rates effective from the dates shown.

### Individual life policies

	Regular bonus rate on basic benefit	Regular bonus rate on declared bonus additions	Terminal bonus rate
Life Fund policies:			
– Annual premium compound	0.50%	0.50%	up to 267.5%
– Annual premium simple	2.50%		up to 267.5%
– Single premium compound	0.50%	0.50%	up to 267.5%
– Single premium simple	2.50%		up to 267.5%
Annuity and Pension			
Business Fund policies:			
– Annual premium compound	0.50%	0.50%	up to 285%
– Annual premium simple	2.50%		up to 285%
– Single premium compound	0.50%	0.50%	up to 367.5%
– Single premium simple	2.50%		up to 367.5%

Terminal bonus is calculated as a percentage of the basic benefit plus attaching regular bonuses, rates depending on the number of years of participation completed. The maximum rates shown apply after the completion of 40 years of participation, although special rates apply at longer terms. These rates apply to policies becoming claims by maturity and death with effect from 7 October 2002.

### Unitised with-profits

	Regular bonus rate on basic units	Regular bonus rate on declared bonus units	Terminal bonus rate
Profitbuilder	1.00%	1.00%	up to 18.0%
Talisman & Retirement Solutions	1.00%	1.00%	up to 31.0%

Until further notice interim bonuses will be payable at the regular bonus rates in 2003.

Terminal bonus is calculated as a percentage of the with-profits unit account in respect of each policy year's premium payments and depending on the number of years of participation completed. These rates apply to policies becoming claims by maturity and death with effect from 7 October 2002.

### Stockholders endowment assurance

For claims arising in 2003 a bonus will be paid at the rate of 1.375% of the basic sum assured for each year of participation from commencement.

An additional bonus is calculated on the net value of the units plus the bonus referred to above, rates depending on the number of years of participation completed. The rates range from 7% at term 10 to 42% at term 40, with special rates applying at terms more than 40 years. These rates apply to policies becoming claims by maturity and death with effect from 7 October 2002.

### Group with-profits plan

The compound regular bonus rate for the 2002/03 scheme year is 1.00%. Until further notice interim bonus at 1.00% p.a. will be paid on benefits vesting during the 2003/04 scheme year.

### Crest Growth plan – with-profits fund

From 1 January 2003, the bonus rate will be 2.25% p.a. This rate will reduce by 1.25% (to 1.0%) on 1 March 2003. In addition, in money purchase schemes, a terminal bonus will be paid, calculated as a percentage of the amount of the with-profits unit account in respect of each year's premium payments, the percentage depending upon the number of years of participation completed. The maximum terminal bonus rate is 23%. These rates apply to policies becoming claims by maturity and death with effect from 7 October 2002.

## Additional information for the year ended 31 December 2002

### **DECLARED BONUSES – FORMER SCOTTISH LIFE BUSINESS** continued

#### **Deposit Administration contracts**

Crest Secure Plan, Protected Growth Retirement Benefit Plan, Sovereign Plan and the capital account under Talisman Personal Pension Plan and Talisman Executive Pension Plan (including Talisman Buyout and Talisman FSAVC) are all contracts of this type.

For Crest Secure Plan, the declared rate of growth for the 2002/03 scheme year is 2.25% and the guaranteed minimum growth rate for the 2003/04 scheme year is 0.50%. Until further notice the interim growth rate on policies becoming claims in the 2003/04 scheme year will be 1.00% p.a.

For Protected Growth Retirement Benefit Plan, the declared rate of growth for 2002 is 3.00% and the guaranteed minimum growth rate for 2003 is 1.25%. Until further notice the interim growth rate on policies becoming claims in 2003 will be 1.75% p.a.

For the other plans, the declared rate of growth for the 2002/03 scheme year is 3.00% and the guaranteed minimum growth rate for the 2003/04 scheme year is 1.25%. Until further notice the interim growth rate on policies becoming claims in the 2003/04 scheme year will be 1.75% p.a.

## Notice of Annual General Meeting

The Annual General Meeting of The Royal London Mutual Insurance Society Limited will be held at Royal London House, Middleborough, Colchester, Essex, CO1 1PP (see below) on Tuesday 29 April 2003, at 5.00 p.m. for the following purposes:

1 To receive the directors' report and audited accounts for the year ended 31 December 2002.

2 By separate resolutions, to re-elect as directors:

- a) Fields Wicker-Miurin
- b) Stephen Shone
- c) Tim Melville-Ross

who are retiring as directors in accordance with the Articles of Association and who, being eligible, offer themselves for re-election.

3 To re-appoint PricewaterhouseCoopers LLP as auditors to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid at a remuneration to be fixed by the directors.

The Articles of Association provide for the Annual General Meeting to take place at the registered office but indicate that the meeting "may at the discretion of the Chairman thereof if he so deems necessary or convenient be forthwith adjourned by him to larger premises". The registered office is now the new Royal London House (formerly Royal London Court), Middleborough, Colchester, Essex CO1 1PP. There is no area in this building that is large enough to accommodate a general meeting.

In accordance with the Articles, the meeting on 29 April 2003 will be formally opened in the Board Room at the new Royal London House. The Chairman will immediately, and without transacting any business, adjourn the meeting to the staff restaurant at the old Royal London House (also at Middleborough, Colchester) that has been the venue for general meetings for many years. The meeting will be re-opened there at 5.10 p.m. It is suggested that members attending the meeting go directly to the old Royal London House.

The Royal London Mutual  
Insurance Society Limited

**Registered Office**

Royal London House  
Middleborough  
Colchester  
Essex CO1 1PP

Telephone 01625 60 50 40

Registered in England and Wales No. 99064



