Directors' report for the year ended 31 December 2003

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 23 to the financial statements.

The Chairman's statement, Group Chief Executive's and Group Finance Director's reviews on pages 2 to 18 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 20 and 21. With the exception of Robert Jeens who was appointed on 1 May 2003, they all held office throughout the period under review. The only other directors who held office during the period were Barry Fitzgerald and Christopher Phillips who resigned on 30 April 2003 and 19 September 2003 respectively.

In accordance with the Articles of Association, Hubert Reid and Robert Jeens 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 24 and 25.

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

People

The Royal London Group employs 3,800 people.

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.

The Group strives to support employees and be flexible in its approach towards work/life balance.

Employee involvement The Group continues 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 Royal London Group intranet has been used for answering questions from employees, detailing policies and procedures and giving business unit information and updates.

Following the annual employee survey, the detailed results were provided to all staff and the Group Chief Executive chaired the Survey Action Group which implemented improvements resulting from the survey. Software was purchased to enable internal surveys to be carried out on specific issues.

The Going for Gold recognition scheme was extended to include all employees.

Employee representative bodies include Amicus – MSF, representative forums and the Edinburgh Staff Central Committee.

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

Corporate Social Responsibility

The Board recognises that the Group has a responsibility to act ethically in relation to the physical and social environment in which it operates. Its operations potentially affect local communities and the Board takes account of social, environmental and ethical matters.

Environment

The Environment Committee met during the year to review issues affecting the Group and continued to develop the Group Policy.

The green commuter policy continued at Wilmslow to provide alternatives to commuting by car and has achieved a significant reduction in single occupancy car journeys. Environment 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 and to investigate energy needs with the aim of reducing consumption.

The Group's procurement strategy aims to ensure that suppliers of goods and services consider environmental issues as part of their service provision.

Charitable donations

Charitable donations amounted to £46,099 (2002 £59,912).

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 34 day average payment period (2002 38).

Institutional shareholders' voting rights

As an institutional investor, Royal London uses its voting rights actively, to promote the adoption of high standards of corporate governance in the companies in which we invest. Royal London supports the principles for good corporate governance embodied in the guidelines issued by the Association of British Insurers.

Corporate governance

The Code The Board is committed to a high standard of corporate governance and, with one exception, considers that it has complied with the relevant principles of The Combined Code, amplified by Internal Control: Guidance for Directors on the Combined Code, published in 1998 and 1999 respectively ('the old Code').

The old 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, but
- 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 old Code.

The Board intends to comply with the relevant principles of the new Combined Code published in July 2003 that will become effective for listed companies for reporting years beginning on or after 1 November 2003 ('the new Code'). Accordingly, this will apply to the Group's financial year ending on 31 December 2004. As with the case of a listed company, the Board will give a considered explanation wherever it departs from any of the relevant provisions of the new Code.

Steps were taken during the period under review with a view to achieving compliance with the relevant provisions of the new Code in 2004. This included a revision of the terms of reference of the Audit and Remuneration Committees that implemented the recommendation within the new Code that the Chairman should not be a member of these Committees. Hubert Reid resigned as a member of the Committees from the date upon which these changes took effect. The Board undertook an evaluation of its own performance based on the guidelines contained within the new Code.

The Board The Board comprises the Chairman, four non-executive and three executive directors. The Deputy Chairman is the senior independent director. Ten scheduled meetings were held during 2003. At all but one of these meetings, all the directors attended.

The Board:

- determines the Group's strategy and objectives and the broad policies to achieve them.
- approves an annual business plan and budget and monitors the Group's performance in achieving them.
- determines the Group's appetite to risk, and
- reserves to itself major decisions.

The Board has put in place and monitors on an ongoing basis, the effectiveness of:

- an organisational structure and reporting lines that are clear and appropriate, with the extent and limitations of delegation, and those decisions that must be made by the Board, being clearly defined.
- internal systems and controls, containing an element of independent oversight, that it believes to be appropriate given the activities of the Group, and
- comprehensive systems of strategic planning and financial reporting, and procedures by which it is supplied with timely and sufficient information, including key performance indicators designed to identify potential risks.

The Group Chief Executive reports to the Board on a monthly basis on the performance of the Group and any other internal and external material matters. The Group Finance Director provides the Board with monthly financial information, including performance against key indicators.

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 risks of failure to achieve business objectives, and inevitably can provide only reasonable and not absolute assurance against material misstatement or loss.

By the means of the procedures set out above, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and has regularly reviewed the effectiveness of the internal control system for the period. This process has been in place throughout the year under review and to the date hereof and will continue to be regularly reviewed by the Board going forward.

Risk Management Throughout the period under review, there has been a process in place for managing the significant risks faced by the Group. The management of each business unit and support function is responsible for identifying, evaluating, rating (in terms of probability of occurring and likely impact), assigning responsibility for, reporting on and managing and mitigating all risks relevant to its area of business, including the design and operation of suitable internal controls. The process is facilitated by the independent Risk Management team. This provides a degree of assurance as to the operation and validity of the system of internal control. Risk Management create an overall matrix of the significant risks affecting the Group. These are reported to the Group Chief Executive and the Board on a monthly basis.

The Group Finance Director deals in more detail in his review with the management of financial risks.

Internal Audit

- provides management, the Group Chief Executive and the Audit Committee with independent and objective assurance on, and evaluation of, the effectiveness of the Group's internal systems and controls, and
- develops an annual audit plan that is approved by the Audit Committee and conducts independent audits in line with that plan.

Group Compliance Is responsible for:

- monitoring and enforcing compliance with the requirements and rules of regulators
- ensuring that systems and controls are in place to counter the risk that the Group may be exposed to practices linked with financial crime
- developing a compliance plan and undertaking work in accordance with that plan, and
- maintaining the Group's relationships with its regulators.

Committees The Audit Committee meets at least four times a year. The members of the Committee during the period under review are set out on page 26. The responsibilities of the Committee include:

- monitoring and reviewing the Group's internal controls and risk management systems
- reviewing the external auditors' management letters and management's response to them, and
- reviewing material findings of internal monitoring, audits or investigations and management's response to them.

The Group Compliance Director and the Group Risk and Audit Director submit reports to the Audit Committee and attend meetings of the Committee.

The Group Risk Committee meets not less than four times a year. The Committee comprises the Group Legal Director (who is the Chairman of the Committee), the Group Chief Executive, the Group Finance Director, the Appointed Actuary, the Group Risk and Audit Director and the Group Compliance Director. The role of the Committee is to ensure that adequate risk management systems are in place, that key risks are being properly managed and that consideration of potential risks forms a part of all decision making throughout the Group.

The role of the Capital Management Committee is referred to in the Group Finance Director's review.

Evolving processes The Group's risk management, internal audit and compliance processes continue to evolve as good practice develops.

Auditors

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.

By order of the Board

Murray Ross
Secretary
24 March 2004

The Board's report on directors' remuneration for the year ended 31 December 2003

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 non-executive directors, and is chaired by Tim Melville-Ross. The other members during 2003 were Tom Ross, Fields Wicker-Miurin and (with effect from 1 May 2003) Robert Jeens. Hubert Reid resigned from the Committee on 24 October 2003.

The responsibilities of the Committee include determining for Board approval, the broad policy for remunerating the executive directors and other senior executives, determining the remuneration of this group and determining the targets for performance-related pay schemes.

Hay Group provides independent advice on pay and benefits of executive directors and senior executives. Watson Wyatt provides 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 is for total remuneration to be at the median with salaries at the mid-point between the median and upper quartile. 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 and 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 for all staff. The target and cap are 25% and 50% respectively of the salary at the end of the year, except for Mike Yardley, who has a target and cap of 30% and 60% of salary respectively. In line with practice in the investment field, Christopher Phillips participated in a scheme with a target and cap of 50% and 100% of salary respectively until his resignation on 19 September 2003.

- Long Term Incentive Plan (LTIP)
  The LTIP rewards increases in Royal London's value over the long-term. The plan was 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 2001 and 2002 plans, participants were 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% at the time of exercise.

  Under the 2003 plan, participants may exercise their options between the third and tenth anniversary of their grant, provided that the value of the Group has increased by at least 15% at the end of the third year.

  Under the 2002 and 2003 plans, Brian Duffin, Mike Yardley, Stephen Shone and Christopher Phillips were granted additional options which only reward growth in the value of the Group of over 16% (5% per annum compound over the three-year period).

  Christopher Phillips participated in a scheme introduced for Royal London Asset Management (RLAM) under which he was allocated a notional share in the business of RLAM and accrued benefits based on the growth in value of the business. His long-term incentive plans lapsed on his resignation on 19 September 2003.

Benefits

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

Pensions

The executive directors are members of the Company's pension scheme which is a funded non-contributory defined benefits arrangement. Stephen Shone and (until his resignation) Christopher Phillips 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 six months. All executive directors are on one year's notice from the Company.

Chairman and Non-Executive Directors

The remuneration of the Chairman is determined by the Remuneration Committee and the remuneration of the 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 – AUDITED

	2003 £000	2002 £000
Salaries and benefits	**1,198**	1,333
Performance related bonuses	**199**	201
Fees to the Chairman and non-executive directors	**300**	242
	1,697	1,776

	Salary or fees		Performance related bonus		Taxable benefits		Total	
	2003 £000	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000
Chairman								
Hubert Reid	**140**	138	**–**	–	**–**	–	**140**	138
Executive directors								
Brian Duffin	**240**	238	**46**	36	**15**	17	**301**	291
Stephen Shone	**260**	255	**55**	49	**23**	14	**338**	318
Mike Yardley	**400**	390	**98**	70	**25**	17	**523**	477
Barry Fitzgerald[1] – resigned 30.4.03	**53**	158	**–**	24	**6**	14	**59**	196
Christopher Phillips – resigned 19.9.03	**165**	218	**–**	22	**11**	12	**176**	252
Non-executive directors								
Andrew Longhurst – resigned 31.5.02	**–**	19	**–**	–	**–**	–	**–**	19
Robert Jeens – appointed 1.5.03	**28**	–	**–**	–	**–**	–	**28**	–
Tim Melville-Ross	**48**	44	**–**	–	**–**	–	**48**	44
Tom Ross	**42**	41	**–**	–	**–**	–	**42**	41
Fields Wicker-Miurin – appointed 1.1.03	**42**	–	**–**	–	**–**	–	**42**	–
	1,418	1,501	**199**	201	**80**	74	**1,697**	1,776

Notes:
1 Barry Fitzgerald ceased to be a director in April 2003. In accordance with his contract, he is serving a two year notice period from the Company which expires in November 2004. The salary and benefits paid to him in the period May to December 2003 amounted to £116,000 and he was paid a bonus amounting to £32,000 in September 2003 in lieu of any future awards under the STIP and LTIP.

Pensions 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 31.12.03[1] £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 31.12.03[2] £000	Transfer value of accrued pension at 31.12.02[2] £000	Change in transfer value over the year net of director's contributions[3] £000
Brian Duffin	48	111	6	4	985	874	111
Barry Fitzgerald[4]	59	83	1	–	1,541	1,232	309
Christopher Phillips[5]	47	17	4	3	188	100	88
Stephen Shone	46	31	8	8	336	170	166
Mike Yardley	47	188	14	9	1,738	1,108	630

The increases in the transfer values disclosed above are not simply the product of additional pension accrual during the year. In fact, the majority of the increases result from other general factors which affected all employees. These general factors being the improvement in market conditions, and specifically the improvement in the UK equity market during the year and the change that was made to assumptions underlying transfer value calculations on the advice of the Scheme Actuary. Combined, these other factors account for 50% (more in some cases) of the increases disclosed.

This situation is in contrast to the position disclosed at the end of 2002 when falls in equity markets during the previous year had a significant negative impact on transfer values for all employees and not just for directors.

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 during the year to 31 December 2003.
4 B Fitzgerald ceased to be a director with effect from 30 April 2003 although he is entitled to accrued pension benefits until the expiry of his notice period.
5 C Phillips ceased to be a director with effect from 19 September 2003 and his accrued pension benefits were frozen as at that date.

By order of the Board

Tim Melville-Ross
Chairman of the Remuneration Committee
24 March 2004

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

The directors are responsible for keeping 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
Robert Jeens (appointed June 2003)
Tim Melville-Ross
Hubert Reid
Tom Ross
Stephen Shone
John Tovey (Appointed Actuary)
Fields Wicker-Miurin (Chairman)
Mike Yardley

Audit Committee
Robert Jeens (Chairman, appointed May 2003)
Tim Melville-Ross
Tom Ross (Chairman to April 2003)
Fields Wicker-Miurin

Remuneration Committee
Robert Jeens (appointed June 2003)
Tim Melville-Ross (Chairman)
Tom Ross
Fields Wicker-Miurin

Nomination Committee
Robert Jeens (appointed December 2003)
Tim Melville-Ross
Hubert Reid (Chairman)
Tom Ross
Fields Wicker-Miurin (appointed December 2003)
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 Code issued in June 1998 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 2003 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
24 March 2004

Accounts contents

Consolidated profit and loss account for the year ended 31 December 2003

TECHNICAL ACCOUNT – LONG-TERM BUSINESS	Notes	2003 £m	2002 £m
Earned premiums, net of reinsurance			
Gross premiums written	2(i)	**2,329.4**	2,058.6
Outward reinsurance premiums		**(16.1)**	(6.2)
		2,313.3	2,052.4
Investment income	3(i)	**943.4**	930.2
Unrealised gains on investments	3(iii)	**704.9**	–
Other technical income, net of reinsurance	4	**25.2**	39.8
Total technical income		**3,986.8**	3,022.4
Claims incurred, net of reinsurance			
Claims paid			
– Gross amount		**2,112.7**	2,187.9
– Reinsurers' share		**(1.9)**	(2.3)
		2,110.8	2,185.6
Change in the provision for claims			
– Gross amount		**1.6**	0.9
– Reinsurers' share		**(0.5)**	(0.7)
		2,111.9	2,185.8
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
– Gross amount	15	**(736.1)**	(519.4)
– Reinsurers' share		**(4.7)**	0.3
		(740.8)	(519.1)
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities			
– Gross amount	15	**1,425.3**	(397.5)
– Reinsurers' share		**(13.9)**	(0.2)
		1,411.4	(397.7)
Change in other technical provisions, net of reinsurance		**670.6**	(916.8)
Net operating expenses	5	**286.1**	410.4
Investment expenses and charges	3(ii)	**141.6**	481.8
Unrealised losses on investments	3(iii)	**–**	2,427.5
Other technical charges, net of reinsurance	4	**257.8**	286.4
Tax charge/(credit) attributable to long-term business	7	**8.8**	(208.5)
Total technical charges		**3,476.8**	4,666.6
Excess/(deficit) of total technical income over total technical charges		**510.0**	(1,644.2)
Pension scheme losses after tax	26(d)	**(54.5)**	(202.7)
		455.5	(1,846.9)
Transfer (to)/from the fund for future appropriations	15	**(455.5)**	1,846.9
Balance on the technical account – long-term business		**–**	–

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.

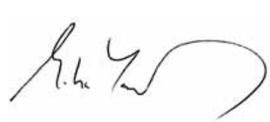
Balance sheets as at 31 December 2003

		Group		Parent company	
ASSETS	Notes	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Intangible assets	9				
Positive goodwill		**113.5**	301.1	**113.5**	297.1
Negative goodwill		**(38.4)**	(44.0)	**(38.4)**	(44.0)
		75.1	257.1	**75.1**	253.1
Investments	10				
Land and buildings		**1,513.0**	1,637.4	**1,365.2**	1,511.7
Investments in Group undertakings		**–**	–	**176.6**	263.5
Other financial investments		**13,098.5**	12,921.5	**13,006.9**	12,856.1
		14,611.5	14,558.9	**14,548.7**	14,631.3
Present value of acquired in-force business	11	**480.5**	549.7	**480.5**	549.7
Assets held to cover linked liabilities	12	**5,976.5**	4,568.5	**4,512.4**	3,769.2
Reinsurers' share of technical provisions					
Long-term business		**11.2**	6.5	**11.2**	6.5
Claims outstanding		**7.5**	4.9	**2.1**	1.6
Technical provision for linked liabilities		**19.6**	5.6	**19.6**	5.6
		38.3	17.0	**32.9**	13.7
Debtors					
Debtors arising out of direct insurance operations					
– due from policyholders		**15.2**	34.4	**15.2**	34.1
Debtors arising out of reinsurance operations		**3.8**	9.1	**3.5**	8.2
Other debtors	13	**112.3**	154.9	**173.5**	193.5
		131.3	198.4	**192.2**	235.8
Other assets					
Tangible assets	14	**17.3**	23.7	**–**	–
Cash at bank and in hand		**153.4**	210.5	**103.3**	111.7
		170.7	234.2	**103.3**	111.7
Prepayments and accrued income					
Accrued interest and rent		**114.3**	137.7	**112.3**	135.8
Deferred acquisition costs		**212.0**	239.1	**212.0**	239.0
Deferred taxation	16	**51.0**	52.3	**46.2**	52.5
Other prepayments and accrued income		**10.5**	9.1	**3.3**	2.8
		387.8	438.2	**373.8**	430.1
Total assets excluding pension asset		**21,871.7**	20,822.0	**20,318.9**	19,994.6
Pension asset	26(b)	**34.5**	111.2	**34.5**	111.2
Total assets including pension asset		**21,906.2**	20,933.2	**20,353.4**	20,105.8

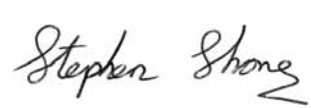
LIABILITIES	Notes	Group 2003 £m	Group 2002 £m	Parent company 2003 £m	Parent company 2002 £m
Subordinated liabilities	18	**125.0**	125.0	**125.0**	125.0
Fund for future appropriations	15	**2,339.7**	1,884.2	**2,339.7**	1,907.8
Technical provisions					
Long-term business provision	15,21	**13,079.1**	13,815.2	**13,075.5**	13,808.8
Claims outstanding	15	**59.2**	57.3	**49.2**	47.6
		13,138.3	13,872.5	**13,124.7**	13,856.4
Technical provisions for linked liabilities	15	**5,993.1**	4,567.8	**4,529.2**	3,768.5
Provisions for other risks and charges	16	**16.5**	29.6	**10.3**	10.1
Creditors					
Creditors arising out of direct insurance operations		**94.7**	115.5	**90.4**	93.3
Creditors arising out of reinsurance operations		**2.1**	1.5	**0.6**	0.2
Amounts owed to credit institutions	17(i)	**62.3**	77.6	**29.2**	60.7
Other creditors including taxation and social security	17(ii)	**81.1**	176.9	**80.2**	237.0
		240.2	371.5	**200.4**	391.2
Accruals and deferred income		**53.4**	44.4	**24.1**	8.6
Total liabilities excluding pension liability		**21,906.2**	20,895.0	**20,353.4**	20,067.6
Pension liability	26(b)	–	38.2	–	38.2
Total liabilities including pension liability		**21,906.2**	20,933.2	**20,353.4**	20,105.8

The financial statements on pages 29 to 51 were approved by the Board of Directors and signed on its behalf on 24 March 2004.

Hubert Reid
Chairman



Mike Yardley
Group Chief Executive



Stephen Shone
Group Finance Director

Notes to the financial statements for the year ended 31 December 2003

1 ACCOUNTING POLICIES

a. Basis of presentation and consolidation

The Group financial statements, which consolidate the financial statements of The Royal London Mutual Insurance Society Limited (the Parent company) and its 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.

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. Commission

Commission income and commission received on the underwriting results of the respective insurers is credited to the technical account on an accruals basis and is included in 'other technical income'.

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 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.

Written options are included at market value and are shown within other creditors. The value included is net of any collateral transferred, where the right of off-set is defined in the underlying contract.

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.

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 over the amortisation period 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 and rule waivers in force at the Balance Sheet date.

Certain lines of conventional with-profits business are now valued on a gross premium method as described in CP195 instead of a net premium method. In performing these gross premium calculations, an allowance is made for future bonuses where appropriate.

For remaining 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.

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

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 scheme, to which all current employees belong, is of the funded, defined benefit type. The scheme provides benefits based on final pensionable pay. The assets of the scheme are held in separate trustee administered funds. The position of the scheme is assessed annually by an independent qualified actuary.

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 the value of the assets in the scheme over the present value of the scheme's 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 26.

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 which 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.

p. Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

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.

	2003 £m	2002 £m
(i) Gross premiums written		
Regular premiums	**804.7**	810.9
Single premiums	**1,524.7**	1,247.7
	2,329.4	2,058.6
Individual premiums:		
With-profits life and annuity contracts	**420.3**	526.0
With-profits individual pension contracts	**180.5**	216.6
Linked life contracts	**153.4**	225.8
Linked individual pension contracts	**517.6**	461.6
DWP rebates	**230.1**	187.4
Non-profit life and annuity contracts	**16.4**	39.8
Non-profit individual pension contracts	**150.4**	133.1
	1,668.7	1,790.3
Group premiums:		
With-profits pension contracts	**20.6**	19.4
Linked pension contracts	**589.4**	200.6
Non-profit pension contracts	**50.7**	48.3
	660.7	268.3
	2,329.4	2,058.6
Premiums written in:		
United Kingdom	**2,231.9**	1,892.3
Isle of Man	**97.5**	166.3
	2,329.4	2,058.6

2 ANALYSIS OF PREMIUMS continued

	2003 £m	2002 £m
(ii) New business premiums		
Insurance regular premiums		
With-profits life contracts	3.4	14.4
With-profits individual pension contracts	5.6	8.4
With-profits group pension contracts	5.6	9.6
Linked life contracts	5.1	5.4
Linked individual pension contracts	46.4	42.6
Linked group pension contracts	17.4	19.6
Non-profit life contracts	5.6	1.0
Non-profit individual pension contracts	0.4	0.2
Non-profit group pension contracts	0.7	2.5
	90.2	103.7
Insurance single premiums		
With-profits life and annuity contracts	42.8	106.5
With-profits individual pension contracts	60.6	106.1
With-profits group pension contracts	5.8	5.8
Linked life contracts	98.8	165.5
Linked individual pensions contracts	372.5	338.4
Linked group pension contracts	530.8	142.6
Non-profit life contracts	–	23.4
Non-profit individual pension contracts	148.2	130.8
Non-profit group pension contracts	35.1	41.2
DWP rebates	230.1	187.4
	1,524.7	1,247.7
Investment regular business		
Unit trust and ISA regular business	2.9	8.5
Investment single business		
Unit trust and ISA single business	11.6	22.1
Other investment only mandates	411.8	186.0
	423.4	208.1
Total new business	2,041.2	1,568.0
New business written in:		
United Kingdom	1,943.7	1,401.7
Isle of Man	97.5	166.3
	2,041.2	1,568.0

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.
- DWP 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.

The linked group pension single premiums includes an amount of £415m (2002 £nil) which represents premiums received from the Royal London staff pension schemes.

3 INVESTMENT RETURN SUMMARY

	Notes	2003 £m	2002 £m
(i) Investment income			
Income from investments:			
Land and buildings		**141.7**	187.8
Other financial investments		**780.8**	705.7
		922.5	893.5
Net expected return on pension scheme assets	26(c)(ii)	**20.9**	36.7
		943.4	930.2
(ii) Investment expenses and charges			
Interest payable on bank loans and overdrafts		**(2.4)**	(3.2)
Interest payable on other borrowings		**(19.9)**	(17.6)
Investment management expenses		**(50.3)**	(30.1)
Losses on the realisation of investments		**(69.0)**	(430.9)
		(141.6)	(481.8)
(iii) Unrealised gains/(losses) on investments		**704.9**	(2,427.5)
Net investment return		**1,506.7**	(1,979.1)

Investment management expenses for 2003 includes expenses of £10m for a property development subsidiary company which were previously included in administrative expenses.

4 OTHER TECHNICAL INCOME AND CHARGES

	Notes	2003 £m	2002 £m
Other technical income			
Discontinued general business result		**0.1**	1.7
Amortisation of negative goodwill	9	**5.6**	5.7
General insurance commission		**14.0**	14.4
Other, continuing business		**5.5**	18.0
		25.2	39.8
Other technical charges			
Impairment of acquired PVIF	11	**35.8**	205.1
Amortisation of acquired PVIF	11	**33.4**	38.2
Amortisation of goodwill	9	**35.4**	35.7
Impairment of goodwill	9	**152.2**	–
Other, continuing business		**1.0**	7.4
		257.8	286.4

The amount described as 'Impairment of acquired PVIF', in 2003, where 'PVIF' means present value of in-force business, reflects the write down to the acquired PVIF necessary to allow for actual experience in 2003 differing from the original assumptions. The 2002 impairment relates primarily to actual investment performance from the acquisition dates for both Scottish Life and United Assurance Group to 31 December 2002, reflecting the substantial equity market falls over this period compared to the returns originally anticipated in the PVIF economic basis.

5 NET OPERATING EXPENSES

	Notes	2003 £m	2002 £m
Acquisition costs		**136.0**	208.8
Change in deferred acquisition costs		**27.1**	31.4
		163.1	240.2
Current service pension cost	26(c)(i)	**22.1**	27.0
Profit arising on recognition of previously unrecognised			
surpluses in the staff pension funds	26(c)(i)	**(21.2)**	–
Administrative expenses		**122.1**	143.2
Total net operating expenses		**286.1**	410.4

Total net operating expenses include commission payable during the year in respect of direct insurance business of £62.5m (2002 £65.9m).

Net operating expenses include:

	Group		Parent company	
	2003 £m	2002 £m	2003 £m	2002 £m
Depreciation of tangible assets	**7.2**	8.0	**–**	–
Operating lease rentals – land and buildings	**3.7**	7.7	**0.1**	1.8

	£000	£000	£000	£000
Auditors' remuneration (gross of VAT):				
Audit fees	**837**	831	**611**	695
Audit of regulatory returns	**58**	60	**45**	60
Fees for other non-audit services	**339**	250	**106**	125
Audit fees in respect of prior years	**–**	206	**–**	206
Fees for other non-audit services, prior years	**–**	190	**–**	190

6 PARTICULARS OF STAFF

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

	2003 Number	2002 Number
Sales and sales support	**1,481**	2,370
Administration	**2,314**	2,584
	3,795	4,954

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

	2003 £m	2002 £m
Wages and salaries	**112.8**	146.8
Social security costs	**9.9**	9.8
Other pension costs (see note 26(c)(i))	**22.1**	27.0
	144.8	183.6

Full details of the directors' emoluments are included in the Board's report on directors' remuneration on pages 24 to 25. The information included therein encompasses that required by the Companies Act 1985.

7 TAX ATTRIBUTABLE TO LONG-TERM BUSINESS

	Notes	2003 £m	2002 £m
Tax has been provided as follows:			
UK corporation tax charge/(credit)			
Current year		**2.2**	32.8
Adjustment in respect of prior periods		**3.7**	(69.9)
		5.9	(37.1)
Foreign tax relieved against UK corporation tax		**1.6**	2.4
Deferred tax	16	**1.3**	(173.8)
		8.8	(208.5)

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 2003	**354.4**	**(56.2)**	**349.7**	**(55.3)**
Impact of Group restructuring	**–**	**–**	**4.7**	**(0.9)**
At 31 December 2003	**354.4**	**(56.2)**	**354.4**	**(56.2)**
Amortisation:				
At 1 January 2003	**53.3**	**(12.2)**	**52.6**	**(11.3)**
Impact of Group restructuring	**–**	**–**	**0.7**	**(0.9)**
Amortisation for the year	**35.4**	**(5.6)**	**35.4**	**(5.6)**
Impairment	**152.2**	**–**	**152.2**	**–**
At 31 December 2003	**240.9**	**(17.8)**	**240.9**	**(17.8)**
Net book value, 31 December 2003	**113.5**	**(38.4)**	**113.5**	**(38.4)**
Net book value, 31 December 2002	301.1	(44.0)	297.1	(44.0)

The directors have reviewed the Group's goodwill assets at the year end in accordance with the methodology prescribed in FRS11 'Impairment of Fixed Assets and Goodwill', which requires consideration of the net present value of estimated future cash flows. As a result, an impairment charge of £152.2m has been recorded in the year. A discount rate of 7% was used to compute the impairment.

The adjustment of £4.7m arises as a result of Royal London Cash Management Limited becoming a directly held subsidiary of The Royal London Mutual Insurance Society Limited in 2002.

10 INVESTMENTS

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
(i) Land and buildings				
At valuation:				
Freehold	**1,220.8**	1,320.3	**1,104.2**	1,222.3
Long leasehold	**292.2**	317.1	**261.0**	289.4
	1,513.0	1,637.4	**1,365.2**	1,511.7
At cost:	**1,278.7**	1,338.1	**1,124.6**	1,187.8
Value of owner occupied properties	**46.4**	66.5	**46.4**	66.5

Land and buildings were valued at 31 December 2003 by a number of independent Chartered Surveyors.

	Shares £m	**Loans £m**	**Total £m**
(ii) Investments in Group undertakings			
Parent company			
At 1 January 2003	**80.7**	**182.8**	**263.5**
Additional share capital/loans	**2.0**	**3.6**	**5.6**
Repayment of share capital/loans	**(3.3)**	**(62.3)**	**(65.6)**
Revaluation	**34.0**	**(60.9)**	**(26.9)**
At 31 December 2003	**113.4**	**63.2**	**176.6**

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
(iii) Other financial investments				
At current value:				
Shares and other variable-yield securities and units in unit trusts	**4,417.1**	4,910.6	**4,381.2**	4,893.9
Debt securities and other fixed income securities	**8,421.0**	7,687.7	**8,418.7**	7,666.1
Loans secured by policies	**41.7**	48.8	**41.7**	48.8
Deposits with credit institutions	**218.4**	186.0	**165.1**	158.9
Other	**0.3**	88.4	**0.2**	88.4
	13,098.5	12,921.5	**13,006.9**	12,856.1
Listed investments at market value (included in the above):				
Shares and other variable-yield securities and units in unit trusts	**4,365.5**	4,773.1	**4,345.5**	4,756.5
Debts and other fixed income securities	**8,162.3**	7,622.3	**8,144.4**	7,601.9
	12,527.8	12,395.4	**12,489.9**	12,358.4

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
At cost:				
Shares and other variable-yield securities and units in unit trusts	**3,544.6**	4,835.2	**3,509.2**	4,815.8
Debt securities and other fixed income securities	**8,474.1**	7,208.6	**8,471.8**	7,187.9
Loans secured by policies	**41.7**	48.8	**41.7**	48.8
Deposits with credit institutions	**218.4**	186.0	**165.1**	158.9
Other	**0.3**	88.4	**0.1**	88.4
	12,279.1	12,367.0	**12,187.9**	12,299.8

11 PRESENT VALUE OF ACQUIRED IN-FORCE BUSINESS

	Group and Parent company £m
Cost:	
At 1 January 2003 and at 31 December 2003	**834.3**
Amortisation:	
At 1 January 2003	**284.6**
Amortisation for the year	**33.4**
Impairment during the year	**35.8**
At 31 December 2003	**353.8**
Net book value, 31 December 2003	**480.5**
Net book value, 31 December 2002	549.7

During 2003, equity market performance within the long-term and linked funds exceeded that required under the 2002 impairment calculations and the directors remain of the view that allowance for additional equity market recovery over and above the assumed investment return below, remains appropriate.

The following key assumptions were used when performing the impairment review:

	2003 %	2002 %
Investment returns (before tax):		
Fixed interest	**4.85**	4.45
Equities (UK and overseas)	**7.30**	6.95
Property	**6.85**	6.45
Cash	**4.85**	4.45
Risk Discount Rate	**7.55**	6.80
Inflation	**3.90**	3.65

12 ASSETS HELD TO COVER LINKED LIABILITIES

	Group		Parent company	
	2003 £m	2002 £m	2003 £m	2002 £m
At valuation	**5,976.5**	4,568.5	**4,512.4**	3,769.2
At cost	**6,017.2**	4,694.4	**4,465.8**	3,891.9

13 DEBTORS

	Group		Parent company	
	2003 £m	2002 £m	2003 £m	2002 £m
Other debtors				
Amounts due from Group undertakings	**–**	–	**85.9**	56.3
Outstanding sales of investments	**3.7**	80.0	**–**	78.9
Tax recoverable	**12.8**	–	**12.3**	–
Dividends receivable	**37.1**	5.1	**32.6**	2.3
Other	**58.7**	69.8	**42.7**	56.0
	112.3	154.9	**173.5**	193.5

14 TANGIBLE ASSETS

	Computer, office equipment and motor vehicles £m
Group	
Cost:	
At 1 January 2003	**58.2**
Additions	**2.0**
Disposals	**(3.2)**
At 31 December 2003	**57.0**
Depreciation:	
At 1 January 2003	**34.5**
Charge for the year	**7.2**
Disposals	**(2.0)**
At 31 December 2003	**39.7**
Net book value, 31 December 2003	**17.3**
Net book value, 31 December 2002	23.7

15 TECHNICAL PROVISIONS AND FUND FOR FUTURE APPROPRIATIONS

	Long-term business provisions £m	Claims outstanding £m	Linked liabilities £m	Fund for future appropriations £m
Group				
At 1 January 2003	**13,815.2**	**57.3**	**4,567.8**	**1,884.2**
Change in the year – gross of reinsurance	**(736.1)**	**1.9**	**1,425.3**	**455.5**
At 31 December 2003	**13,079.1**	**59.2**	**5,993.1**	**2,339.7**
Parent company				
At 1 January 2003	**13,808.8**	**47.6**	**3,768.5**	**1,907.8**
Change in the year – gross of reinsurance	**(733.3)**	**1.6**	**760.7**	**431.9**
At 31 December 2003	**13,075.5**	**49.2**	**4,529.2**	**2,339.7**

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 £34.5m (2002 £73.0m).

Claims outstanding includes provisions for long-term and general insurance business of £49.2m (2002 £47.6m) and £10.0m (2002 £9.7m) respectively.

The method of calculating the long-term business provision of the Parent company was changed in the year as described in note 21 for certain lines of conventional with-profits business. The effect of the change in the year was to reduce the long-term business provision by £140m and the deferred acquisition costs by £15m resulting in a net increase in the fund for future appropriations of £125m.

16 DEFERRED TAX ASSET AND PROVISIONS FOR OTHER RISKS AND CHARGES

	Group		Parent company	
	Deferred Tax £m	**Provisions £m**	**Deferred Tax £m**	**Provisions £m**
(Asset)/provision at 1 January 2003	**(52.3)**	**29.6**	**(52.5)**	**10.1**
Utilised (including unwind of discount)	**–**	**(14.1)**	**–**	**(1.6)**
Charge for the year	**1.3**	**1.0**	**6.3**	**1.8**
(Asset)/provision at 31 December 2003	**(51.0)**	**16.5**	**(46.2)**	**10.3**

Provisions comprise amounts in respect of redundancy costs and surplus sales and administration offices which have been closed and for which the Group retains lease commitments.

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Deferred tax provided in the financial statements comprises:				
Deferred acquisition costs	**(24.4)**	(19.4)	**(24.4)**	(19.4)
Capital allowances	**(3.3)**	0.7	**0.6**	0.7
Unrelieved trading losses	**(2.1)**	–	–	–
Arising on UAG Schedule 2C agreement	**(20.3)**	(23.3)	**(20.3)**	(23.3)
Revaluation of investments	**(3.8)**	(9.8)	**(3.9)**	(10.0)
Capital gains tax on unit trust deemed disposals	**(1.4)**	(5.0)	**(1.4)**	(5.0)
Undiscounted provision for deferred tax	**(55.3)**	(56.8)	**(49.4)**	(57.0)
Discount	**4.3**	4.5	**3.2**	4.5
Discounted provision for deferred tax	**(51.0)**	(52.3)	**(46.2)**	(52.5)

The Group has not recognised deferred tax assets amounting to £22.8m (2002 £11.6m) 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.

17 CREDITORS

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
(i) Amounts owed to credit institutions	**62.3**	77.6	**29.2**	60.7

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

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Less than 1 year	**18.8**	44.8	**17.8**	38.0
Between 1 and 2 years	**16.9**	15.1	**11.4**	14.1
More than 2 years but less than 5 years	**21.6**	13.1	**–**	8.6
After more than 5 years	**5.0**	4.6	**–**	–
	62.3	77.6	**29.2**	60.7

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
(ii) Other creditors including taxation and social security:				
Loan stock	**7.4**	10.3	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**28.8**	90.9
Tax payable	**–**	0.9	**–**	1.1
Other creditors including social security	**73.7**	165.7	**51.4**	145.0
	81.1	176.9	**80.2**	237.0

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. The proceeds of the issue were loaned to The Royal London Mutual Insurance Society Limited on the same interest, repayment and subordination terms as those applicable to the bonds.

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 £2,855.4m (2002 £1,945.1m) 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 £2.6m (2002 £1.3m).

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 £287.3m (2002 £408.0m).

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:

Class of business	2003 Mortality	2002 Mortality	2003 Interest % per annum	2002 Interest % per annum
Ordinary long-term non-linked				
Assurances				
Royal London Mutual	AM80 minus two years and AF80 minus two years	AM80 minus two years and AF80 minus two years	**3.750**	3.800
Ex-United Assurance Group	AM80 minus two years	AM80 minus two years	**3.750**	3.800
Ex-Scottish Life	AM80 minus two years	AM80 minus two years	**3.800**	3.500
Pensions – deferred annuities				
Ex-United Assurance Group	AM80 minus four years in deferment	AM80 minus four years in deferment	**4.000**	3.500
	IMA92C27 and IFA92C27 in payment	IM80C30 minus two years and IF80C30 minus three years in payment	**4.300 to 4.950**	3.900
Ex-Scottish Life – Individual	AM80 minus three years in deferment	AM80 minus three years in deferment	**4.700**	4.375
	95% IMA92C27 and 90% IFA92C27 in payment	PMA80C25 minus three years and PFA80C25 minus three years in payment	**4.200 to 4.950**	3.900
– Group	90% PMA92C27 and 85% PFA92C27 in payment	PMA80C25 minus three years and PFA80C25 minus three years in payment	**4.200 to 4.950**	3.900
Pensions – pure endowment				
Ex-United Assurance Group	Nil	Nil	**4.000**	3.500
Pensions – individual in payment				
Royal London Mutual	IMA92C15 and IFA92C15 in payment	IM80C20 minus two years and IF80C20 minus three years	**5.125**	4.750
Ex-United Assurance Group	IMA92C15 and IFA92C15 in payment	IM80C20 minus two years and IF80C20 minus three years	**5.125**	4.750
Ex-Scottish Life	95% IMA92C15 and 90% IFA92C15 in payment	IM80C20 minus three years and IF80C20 minus three years	**5.125**	4.750
Pensions – group in payment				
Ex-Scottish Life	90% PMA92C15 and 85% PFA92C15 in payment	PMA80C25 minus three years and PFA80C25 minus three years	**5.125**	4.750
Industrial assurance				
Royal London Mutual	ELT15 (males) minus four years	ELT15 (males) minus four years	**3.750**	3.800
Ex-United Assurance Group	ELT15 (males) minus two years	ELT15 (males) minus two years	**3.750**	3.800

21 LONG-TERM BUSINESS PROVISION continued

For those lines of business reported on a gross premium method for the first time in 2003, the following expense assumptions were used:

	Per policy £	Premium %	Reserve %
Class of business			
Ordinary long-term non linked assurances			
Royal London Mutual	**11.05**	**5.00**	**0.08**
Ex-United Assurance Group			
(RA OB business pre 1999)	**16.20**	**5.00**	**0.08**
(RA OB business post 1998)	**15.50**	**2.00**	**0.08**
Industrial Assurance			
Royal London Mutual	**5.53**	**10.00**	**0.08**

The move from a net premium approach to a gross premium approach represents a change in method rather than accounting policy and consequently prior year figures are not restated. In performing the gross premium calculations, no explicit allowance is made for future regular and terminal bonuses.

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 2003, yields on equities fell as market values rose and yields on debt securities and other fixed income securities rose. Interest rates have been increased by up to 0.5% p.a. on deferred pensions business, 0.4% on annuity business and are broadly unchanged on life business. These different movements reflect the assumed allocation of asset classes between the lines of business when preparing the statutory solvency basis of valuation.

Mortality bases are reviewed periodically to ensure that assumptions remain appropriate, taking into account recent company and industry experience for each class of business. In 2003 the annuitant mortality has been strengthened to reflect the outcome of a detailed review of the latest standard tables published by the CMI Bureau.

The provision for Guaranteed Annuity Options (GAOs) in respect of acquired Scottish Life Business has been calculated as £311m (2002 £471m). 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.

The long-term business provision includes £61m (2002 £62m) in respect of guarantees, redress payments and expenses outstanding under the Pensions Review. It also includes an amount of £14m (2002 £46m) in respect of ongoing reviews of the sales of regulated insurance products, including mortgage endowments.

22 COMMITMENTS

(i) Investment expenditure

Investment expenditure relating to investment expenditure contracted for but not provided for at the balance sheet date amounted to £22.9m (2002 £18.6m).

(ii) Investments in private equity funds

The Company has a portfolio of investments in private equity funds. The structure of these funds is such that the Company makes a commitment which is drawn down over the investment period. The total amount committed, net of drawdown, at the balance sheet date is £55.6m (2002 £32.3m).

	Group		Parent company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
(iii) Lease commitments in respect of land and buildings				
Annual commitments which expire:				
Up to one year	**0.5**	0.6	**0.5**	0.5
In the second to fifth years	**2.9**	3.0	**1.6**	2.0
In more than five years	**2.2**	3.8	**1.3**	2.5
	5.6	7.4	**3.4**	5.0

23 PRINCIPAL SUBSIDIARY UNDERTAKINGS

The following represents the principal subsidiary undertakings of the Group as at 31 December 2003. 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
Royal London Pooled Pensions Company Limited	Pension Fund Management
Scottish Life Finance plc	Finance company
RLM Finance Bonds plc	Holding company
RLM Finance plc	Holding company

Significant holdings in other companies

As at 31 December 2003:

- 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. The aggregate share capital and reserves as at 31 March 2003 were £31.8m and the profit for the year to 31 March 2003 was £1.7m. On 15 March 2004 Royal London disposed of its holding in this company.
- Royal London owns 100% of annuity shares in the Royal London UK Equity Investment Trust plc. The aggregate share capital and reserves as at 31 August 2003 were £29.5m and the loss for the year was £5.2m.

As at 31 December 2003, Royal London owned 12.35% of London Scottish Bank plc and 12.25% of Britannic plc. In addition, Royal London held investments in a number of companies which exceeded 10% but less than 20% of the equity share capital of these companies. Details of these investments have not been provided. All of these investments have been included in investments.

24 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 company were offered Exchangeable Deferred shares (EDS) by RLM Finance as consideration for CDS. The terms of the EDS are substantially 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 Royal London Fund and impact accordingly the value of the fund for future appropriations.

Following completion of an assessment of the viability of pursuing such an attribution exercise the Board decided in July 2003 that the pursuit of such an exercise was inappropriate at that time. The position will be kept under review until 16 October 2004, and in the event of a material change in financial markets before that date, the Board will consider whether to seek an attribution in the light of the change in circumstances.

Holders of EDS have been notified of the above decision and advised that, based on the work completed, Royal London considers it unlikely that an attribution will be appropriate between 31 December 2003 and 16 October 2004.

(ii) Regulatory reviews

During the year, the Group continued to address issues from past inappropriate selling practices and other regulatory matters including its management of a split capital trust. Provision for liabilities continues to be made and is regularly reviewed. However, it is not possible to predict with any certainty, the extent and the timing of the financial impact of these liabilities. Nevertheless, the directors consider that they have made prudent provision for such liabilities and, as and when circumstances calling for such provision arise, that the Group has adequate reserves to meet all reasonably foreseeable eventualities.

25 RELATED PARTY TRANSACTIONS

(i) Subsidiary undertakings' transactions with unit trust funds

The Royal London Unit Trust Managers Limited, operates as the unit trust manager for the unit trust business marketed by the Group. The transactions during the year were as follows:

	2003 £m	2002 £m
Management fees earned during the year	**34.2**	36.4
Amounts outstanding at the year end	**3.4**	2.8

The total value of the units held by the Parent company at 31 December 2003 was £3,821m (2002 £2,979m).

(ii) Transactions between the Group and the Company's staff pension schemes

On 28 February 2003, all the pooled pension fund policies in The Royal London Mutual Insurance Society Limited (RLMISL) were surrendered and new policies were taken out with its subsidiary undertaking The Royal London Pooled Pension Company Limited (RLPPC). This included a policy in respect of the Royal London Staff Pension Fund (RLSPF) which had a surrender value of £130m at that date.

During the year, the Trustees of RLSPF and the Royal London Group Pension Scheme (RLGPS) approved the transfer of investments amounting to £128m and £287m respectively, by way of single premium investment, to RLPPC.

The assets of the Scottish Life Officers' Retirement Benefit Scheme (SLORBS) were wholly invested in RLPPC prior to 2003.

As disclosed in note 26 the assets and liabilities of RLSPF and SLORBS were transferred into RLGPS on 31 December 2003. The total market value of the units held by RLGPS in RLPPC as at 31 December was £786m.

26 PENSION SCHEMES

a. Summary

The Group operated four principal funded, defined benefit schemes during 2003: Royal London Group Pension Scheme (RLGPS), The Royal London Staff Pension Fund (RLSPF), United Friendly Group Pension Scheme (UFGPS) and Scottish Life Officers' Retirement Benefits Scheme (SLORBS). On 31 December 2003 the assets and liabilities of RLSPF, UFGPS and SLORBS were transferred into RLGPS which became the sole pension scheme.

Throughout this note the figures for prior years have been restated to show the aggregate position for all four schemes in 2002 and 2001 instead of scheme by scheme, as previously disclosed.

Details of the latest valuation of the principal scheme are given below using the projected unit method.

Last full actuarial valuation date	31 December 2001
Scheme actuary	Keith Lewis
	(Watson Wyatt)
Market value of assets at 31 December 2003	£1,464m
Level of funding	103%

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

	2003	2002	2001
Inflation assumption	**2.6%**	2.3%	2.5%
Rate of increase in salaries	**4.1%**	4.1%	4.3%
Rate of increase in pensions in payment	**2.6%**	2.3%	2.5%
Discount rate	**5.5%**	5.8%	5.8%

No contributions were made by the Group into any of these schemes during 2003 (2002 £nil).

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:

As at 31 December 2003

	Expected longer-term rate of return %	**2003 £m**	Expected longer-term rate of return %	2002 £m	Expected longer-term rate of return %	2001 £m
Fixed interest bonds	**4.8**	**355.0**	4.5	243.9	5.0	150.8
Index-linked bonds	**4.6**	**299.2**	4.5	141.8	5.0	30.2
Equities	**7.3**	**725.3**	8.6	892.3	7.8	1,401.7
Property	**6.8**	**68.8**	6.5	67.7	6.5	71.8
Cash	**4.8**	**15.9**	4.0	28.6	4.0	37.0
Total market value of assets		**1,464.2**		1,374.3		1,691.5
Present value of scheme liabilities		**1,421.1**		1,189.1		1,205.0
Surplus in the scheme		**43.1**		185.2		486.5
Restriction on recoverability of surplus		**–**		(93.9)		(151.5)
Recognised surplus		**43.1**		91.3		335.0
Related deferred tax		**(8.6)**		(18.3)		(67.0)
Net pension scheme asset		**34.5**		73.0		268.0
Analysed as follows:						
Pension asset		**34.5**		111.2		289.1
Pension liability		**–**		(38.2)		(21.1)
		34.5		73.0		268.0

26 PENSION SCHEMES continued

c. Analysis of movements in consolidated profit and loss account

	2003 £m	2002 £m
(i) Analysis of the amount charged to net operating expenses		
Current service cost	**(22.1)**	(27.0)
Past service cost	**–**	–
Profit arising on recognition of previously unrecognised surpluses	**21.2**	–
	(0.9)	(27.0)

Past enhanced benefit service cost of £46m for 2003 has been reduced to nil (2002 £nil) as a result of the use of the unrecognised surplus brought forward.

	2003 £m	2002 £m
(ii) Analysis of the net expected return on pension scheme assets		
Expected return on pension scheme assets	**99.1**	122.4
Less: restriction due to unrecognised surpluses	**(10.8)**	(18.6)
	88.3	103.8
Less: interest on pension scheme liabilities	**(67.4)**	(67.1)
Net expected return on pension scheme assets	**20.9**	36.7

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

	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	**58.6**	(375.3)
Experience gains and losses arising on the scheme liabilities	**2.2**	47.6
Changes in assumptions underlying the present value of the scheme liabilities	**(155.7)**	16.7
Absorbed within unrecognised surpluses brought forward	**26.7**	57.6
Actuarial gains and losses before tax	**(68.2)**	(253.4)
Deferred tax on actuarial gains and losses	**13.7**	50.7
Pension scheme losses after tax	**(54.5)**	(202.7)

26 PENSION SCHEMES continued

e. Movement in surplus during the year before tax

	Notes	2003 £m	2002 £m
Considered as recoverable surplus in schemes at beginning of the year		**91.3**	335.0
Movement in year:			
Total operating charge	26(c)(i)	**(0.9)**	(27.0)
Net expected return on pension scheme asset	26(c)(ii)	**20.9**	36.7
Actuarial losses	26(d)	**(68.2)**	(253.4)
Considered as recoverable surplus in schemes at end of year		**43.1**	91.3
Analysed as follows:			
Royal London Group Pension Scheme		**43.1**	139.0
The Royal London Staff Pension Fund		**–**	(47.7)
		43.1	91.3

f. History of experience gains and losses (Group)

	Notes	2003 £m	%	2002 £m	%	2001 £m	%
Difference between the expected and actual return on scheme assets as a percentage of closing scheme assets	26(d)	**58.6**	**4.0**	(375.3)	(27.4)	(414.8)	(26.0)
Experience gains and losses on scheme liabilities	26(d)	**2.2**	**0.2**	47.6	4.0	50.9	4.2
Total amount recognised as part of actuarial gains and losses as a percentage of scheme liabilities	26(d)	**(68.2)**	**(4.8)**	(253.4)	(21.3)	(100.0)	(8.3)

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.

Supplementary information for the year ended 31 December 2003

UNAUDITED
REALISTIC WITH-PROFITS BALANCE SHEET (RBS)

		£m
Total statutory assets		12,749
Additional assets arising on realistic basis		974
Total assets		**13,723**
Realistic liabilities	– with-profits benefit reserve	10,218
	– costs of smoothing and guarantees	1,222
	– options (guaranteed annuities)	375
	– schedule 2C commitments	273
Other liabilities		667
Total liabilities		**12,755**
Excess of assets over liabilities		**968**
Risk Capital Margin (RCM)		**172**

1 Basis of preparation

The RBS for Royal London with-profits business has been summarised and is a simplified version of that proposed in FSA Consultative Paper CP195 for realistic reporting which is expected to become effective for the end of 2004. The presentation is based on the form of disclosure agreed between the ABI and the FSA.

In order to produce an RBS, several projection models have been built. In preparing the results, a number of assumptions were made as to how with-profits business might be managed in a variety of future investment scenarios. The Appointed Actuary has confirmed that the assumptions are consistent with the Principles and Practices of Financial Management.

2 Assets

a. Total statutory assets

The amount of assets backing with-profits business is derived from Form 13 of the FSA Return. The total statutory assets in the table above is calculated by excluding from the total value of the assets amounts equal to the statutory liabilities in respect of the non-participating business written in the fund, plus the resilience reserve and required minimum margin in respect of that business.

	£m
Total net assets	19,444
Less non-profit liabilities including resilience reserve and required minimum margin	(6,695)
Total statutory assets	12,749

b. Additional assets arising on realistic basis

This item represents the value of future profits from acquired businesses (Scottish Life and United Assurance Group) plus the value of future profits from Royal London's own non-participating long-term business and other wholly owned business activities. These profits include the release over time of associated resilience reserves and solvency margins. The economic assumptions used are set out in Note 11 to the accounts.

	£m
Value of non-participating long-term business	541
Value of acquired with-profits business	330
Value of non-life businesses	103
Additional assets arising on realistic basis	974

Note: CP195 as drafted does not contemplate the inclusion of value associated with with-profits business. Royal London believes that such value should be included when a mutual has made a payment to acquire the right to these income streams. The value of other business activities conducted for the benefit of members has similarly been included.

c. Realistic liabilities

The main element of the with-profits benefit reserve is the asset shares of with-profits business. Bonus reserve techniques are employed where the use of asset shares is inappropriate (e.g. whole of life policies at advanced ages).

The cost of financial guarantees (such as sums assured and declared bonuses exceeding asset shares) is assessed using a risk-neutral (market consistent) stochastic model (using proprietary software as the scenario generator) and is calculated from the results of 2000 simulations. The model has been calibrated using the zero coupon gilt yield curve and implied volatilities in the market (which are assumed to remain unchanged throughout the projection period), are as follows:

Asset class	Implied volatility
Equity	20%
Property	15%

The projection of the cost of guarantees depends on management decision rules as described under 'Management Actions' below.

The cost of guaranteed annuity options is also assessed using the stochastic model. The results depend on policyholder behaviour (such as take-up rates). An approximate allowance has been made for such behaviour.

Under the terms of the court-approved schedule 2C transfers of with-profits business from Scottish Life Assurance Co. and United Assurance Group plc, Royal London undertook to distribute surplus attributable to certain with-profits policyholders in those companies in the form of enhanced benefits on those policies. For the purpose of reporting the RBS, this commitment means that those surpluses are reported as 'planned enhancements to the with-profits benefit reserves.' Under the RCM calculation such surpluses are available to meet the increased costs of smoothing and guarantees associated with the transferred policies.

d. Other liabilities
Other liabilities are mainly current liabilities and subordinated debt.

e. Risk Capital Margin
The RCM is derived by assessing the effects of two stress tests on the balance sheet, one in respect of market risk and one in respect of credit risk.

The market risk scenario is that proposed in CP195:

Fall in the value of equities	18%
Fall in the value of properties	20%
Fall in fixed interest yields	100 basis points

The credit risk scenario assumes an immediate and permanent widening of 50 basis points in yield spreads on corporate bonds over risk free rates.

The capital to support the RCM is provided entirely from within the Royal London Long-Term Business Fund.

In CP195 the FSA has proposed a different credit risk scenario and an additional persistency risk scenario. As currently proposed, these tests would add around £40m to the RCM but these tests remain subject to consultation and calibration.

f. Management actions
The following actions have been assumed in the projections.

In all cases, final bonuses have been determined according to decision rules as applied to the specific simulation, consistent with those approved by the Board for the Principles and Practices of Financial Management.

Base calculation
The Equity Backing Ratio (EBR) is progressively reduced over time in the Scottish Life Fund to reflect the steadily increasing level of guarantees within that fund. A constant EBR is assumed for the Royal London Fund, which is open to new business.

RCM calculation
One year after the events assumed in the stress test, EBRs used in the base calculation are reduced by 10 percentage points by switching into gilts (at market prices which depend on the specific simulation).

FIVE YEAR REVIEW

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Group					
Investments at market value at 31 December	**20,588.0**	19,127.4	21,617.7	14,929.1	7,506.0
Long-term business provision (gross)					
including unit linked liabilities	**19,072.2**	18,383.0	19,299.9	10,743.2	4,894.8
Fund for future appropriations	**2,339.7**	1,884.2	3,758.9	4,623.0	2,439.0
New life, pensions and unit trusts – annual	**93.1**	112.2	74.4	32.2	14.6
– single*	**1,536.3**	1,269.8	739.8	479.6	118.1
New investment business	**411.8**	186.0	213.7	232.0	46.1
Annualised new business*	**287.9**	257.8	169.8	103.4	31.0
Earned premiums, net of reinsurance	**2,313.3**	2,052.4	1,391.5	875.9	386.2
Claims incurred	**2,111.9**	2,185.8	1,656.7	977.2	521.9

* Included are single premiums of £415m in 2003 and £208m in 2000 received from the Royal London staff pension schemes.

DECLARED BONUSES – ROYAL LONDON MUTUAL

The directors have declared annual bonuses for 2003 in respect of traditional with-profits contracts and for 2004 in respect of unitised with-profit 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% simple	up to 233.4%
Ordinary Branch		
Traditional life business		
– regular premium	0.5% – 2.5% simple	up to 354.0%
– single premium	0.5% – 2.5% simple	up to 286.2%
Personal pensions		
– regular premium	1.0% compound	up to 132.9%
– single premium	1.0% compound	up to 354.0%
– unitised ISA	2.0% unit value	nil
– unitised whole life assurance bond (DSF)	2.5% unit value	nil
– unitised whole life regular savings plan	1.75% unit value	nil
– unitised pensions business series 2	3.75% unit value	nil

Interim bonus for personal pension policies is 1.0% 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 2004.

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

DECLARED BONUSES – EX-REFUGE ASSURANCE BUSINESS

The directors have declared regular bonuses for 2003 in respect of traditional with-profits contracts and for 2004 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 438.6%
Ordinary Branch		
– Traditional life regular premium business	0.5% compound	up to 82.7%
– Traditional life single premium business	0.5% compound	up to 61.8%
– Traditional pensions business	0.5% compound	up to 252.5%
– Unitised life business	2.5% unit value	nil
– Unitised pensions business series 1	3.75% unit value	nil

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 2004.

DECLARED BONUSES – EX-UNITED FRIENDLY INSURANCE BUSINESS

The directors have declared regular bonuses for 2003 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)		3.5% simple	up to 27.0%
– Whole life policies post 1979 (weekly paid)		2.5% simple	up to 15.0%
– Endowments post 1979 (weekly paid)		1.0% simple	up to 41.0%
– Endowments post 1988 (lunar paid)		0.5% approx. simple (depends upon entry year)	up to 15.0%
Ordinary Branch			
Traditional life business			
– Endowments	(including low cost)		
	(simple bonus series)	0.5 – 1.0%*	up to 195.0%
– Endowments	(including low cost)		
	(compound series)	0.5%	up to 10.0%
– Whole life (simple bonus series)		1.5%*	up to 85.0%
Traditional pensions business (issued from 1988)			
– Single premium personal pension		0.5% compound	up to 2.0%
– Regular premium personal pension		0.5% compound	up to 4.3%

* 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 2004.

DECLARED BONUSES – SCOTTISH LIFE BUSINESS

The directors have declared regular bonuses for 2003 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	0.25%	0.25%	up to 205.0%
– Annual premium simple	1.25%		up to 205.0%
– Single premium compound	0.25%	0.25%	up to 205.0%
– Single premium simple	1.25%		up to 205.0%
Annuity and Pension Business Fund policies:			
– Annual premium compound	0.25%	0.25%	up to 245.0%
– Annual premium simple	1.25%		up to 245.0%
– Single premium compound	0.25%	0.25%	up to 305.0%
– Single premium simple	1.25%		up to 305.0%

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 1 January 2004.

Unitised with-profits

	Regular bonus rate on basic units	Regular bonus rate on declared bonus units	Terminal bonus rate
Business sold or benefits switched to with-profits before 12 September 2000			
Profitbuilder	0.5%	0.5%	up to 19.0%
Talisman and Retirement Solutions	0.5%	0.5%	up to 36.0%
Business sold or benefits switched to with-profits between 12 September 2000 and 30 June 2001			
Profitbuilder	0.5%	0.5%	nil
Talisman and Retirement Solutions	0.5%	0.5%	up to 1.0%
Business sold or benefits switched to with-profits after 30 June 2001			
Profitbuilder	2.0%	2.0%	nil
Talisman, Retirement Solutions and Individual	3.0%	3.0%	up to 1.0%

Until further notice interim bonuses will be payable at the regular bonus rates in 2004.

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 1 January 2004.

Stockholders endowment assurance

For claims arising in 2004 a bonus will be paid at the rate of 1.25% 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 1 January 2004.

Group With-Profits Plan

The compound regular bonus rate for the 2003/04 scheme year is 0.5%. Until further notice interim bonus at 0.5% p.a. will be paid on benefits vesting during the 2004/05 scheme year.

Crest Growth Plan – with-profits fund

From 1 January 2004 the bonus rate will be 0.5% p.a. for business sold or benefits switched to with-profits before 1 July 2001 and 3.0% for business sold or benefits switched to with-profits after 30 June 2001. 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 for business sold or benefits switched to with-profits before 12 September 2000 is 9% and, for business sold or switched to with-profits subsequently, nil. These rates apply to policies becoming claims by maturity and death with effect from 1 January 2004.

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 2003/04 scheme year is 1.125% and the guaranteed minimum growth rate for the 2004/05 scheme year is 0.5%. Until further notice the interim growth rate on policies becoming claims in the 2004/05 scheme year will be 0.75% p.a.

For Protected Growth Retirement Benefit Plan, the declared rate of growth for 2003 is 1.875% and the guaranteed minimum growth rate for 2004 is 1.25%. Until further notice the interim growth rate on policies becoming claims in 2004 will be 1.5% p.a.

For the other plans, the declared rate of growth for the 2003/04 scheme year is 1.875% and the guaranteed minimum growth rate for the 2004/05 scheme year is 1.25%. Until further notice the interim growth rate on policies becoming claims in the 2004/05 scheme year will be 1.5% p.a.

Notice of Annual General Meeting

The Annual General Meeting of The Royal London Mutual Insurance Society Limited will be opened at 5.00pm on Tuesday, 27 April 2004 at 55 Gracechurch Street, London EC3V 0RL and adjourned without transacting any business to 11.00am on Wednesday, 28 April 2004 at One Whitehall Place, Whitehall, London SW1A 2HD for the following purposes:

1 To receive the directors' report and audited accounts for the year ended 31 December 2003.

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

   (a) Robert Jeens and

   (b) Hubert Reid

   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 at 55 Gracechurch Street, London EC3V 0RL. There is no area there suitable for a general meeting.

In accordance with the Articles, the meeting will be formally opened in the Board Room at 55 Gracechurch Street at 5.00pm on 27 April 2004. The Chairman will immediately, and without transacting any business, adjourn the meeting to One Whitehall Place, Whitehall, London SW1A 2HD. It will be re-opened at 11.00am on Wednesday, 28 April 2004.

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