

Company N° SC 169821

SCOTTISH LIFE FINANCE PLC

**Report and Accounts for the year
ended 31 December 2002**



SCOTTISH LIFE FINANCE PLC

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SCOTTISH LIFE FINANCE PLC

NOTICE IS HEREBY GIVEN

that the Sixth Annual General Meeting of the Company will be held within 19 St Andrew Square, Edinburgh, on 17 March 2003 at 10.25 am. Under the provisions of Section 369 of the Companies Act 1985 the shareholders have consented to the calling of the meeting at less than twenty-one days' notice.

AGENDA

To receive and consider the Report by the directors and Statement of Accounts

for the year to 31 December 2002

To re-appoint PricewaterhouseCoopers LLP as auditors

To transact any other ordinary business

A member entitled to attend and vote at a meeting may appoint a proxy to attend and vote in his stead. The proxy need not be a member of the Company.


Murray J. Ross
Secretary
17 March 2003

19 St Andrew Square
Edinburgh
EH2 1YE

SCOTTISH LIFE FINANCE PLC

Directors & Officers

Directors

Chairman

Brian J Duffin FFA

James Gilchrist

Secretary

Murray J Ross

Company Number

Registered in Scotland No. SC169821

Registered Office

19 St Andrew Square
Edinburgh
EH2 1YE

Bankers

Bank of Scotland plc
38 St. Andrew Square
Edinburgh
EH2 2YR

Auditors

PricewaterhouseCoopers LLP
P O Box 90
Erskine House
68-73 Queen Street
EDINBURGH
EH2 4NH

**Directors' Report
For the Year Ended 31 December 2002**

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2002.

Business Activities

The company provides finance to The Royal London Mutual Insurance Society Limited in the form of proceeds from the issue of £125,000,000 9% Undated Subordinated Guaranteed Bonds.

Results and Dividends

The trading results for the year are shown in the attached financial statements.

The directors consider that the year end financial position was satisfactory. Due to the nature of the business, the company will make neither a profit or a loss and its activities are likely to continue as such in the foreseeable future.

The directors recommend that no dividend be paid.

Directors

The present directors are shown on page 3 and all held office throughout the year. In addition, Ruaridh M Budge FFA was a director until his resignation on the 31 December 2002.

The directors and their families had no beneficial interest in the share capital of the company during the current and previous period.

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 company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

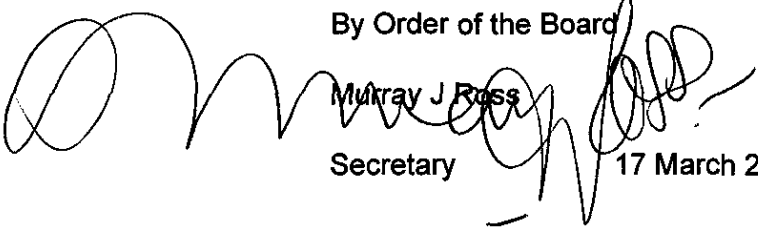
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

SCOTTISH LIFE FINANCE PLC

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 26 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the next Annual General Meeting.


By Order of the Board
Murray J Ross
Secretary 17 March 2003

SCOTTISH LIFE FINANCE PLC

Independent Auditors' Report to the Member(s) of Scottish Life Finance PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention 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.

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 directors' report.

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 company's affairs at 31 December 2002 and the result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Edinburgh, 17 March 2003

SCOTTISH LIFE FINANCE PLC

**Profit and Loss Account
For the year ended 31 December 2002**

	Note	2002 £000	2001 £000
Interest receivable	5	11,252	11,250
Interest payable	6	(11,252)	(11,250)
Profit on ordinary activities before taxation		<u>-</u>	<u>-</u>
Taxation		<u>-</u>	<u>-</u>
Retained profit for the year		<u>-</u>	<u>-</u>

The Company has no recognised gains or losses other than the result for the year as reported above.

The above result is derived solely from continuing operations.

SCOTTISH LIFE FINANCE PLC

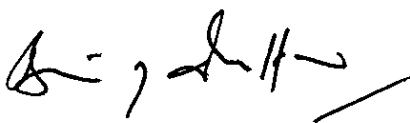
Balance Sheet
As at 31 December 2002

	Note	2002 £000	2001 £000
Fixed Assets			
Investment			
Loan to Parent Undertaking		<u>125,000</u>	<u>125,000</u>
Current Assets			
Amount due by Parent Undertaking		1,031	1,031
Cash at bank and in hand		<u>50</u>	<u>50</u>
		1,081	1,081
Creditors : Amounts falling due within one year			
Other creditors		(1,031)	(1,031)
Net current assets		<u>50</u>	<u>50</u>
Total assets less current liabilities		125,050	125,050
Creditors : Amounts falling due after more than one year			
Subordinated Guaranteed Bonds	7	<u>(125,000)</u>	<u>(125,000)</u>
		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	8	<u>50</u>	<u>50</u>
Shareholder's Funds	9	<u>50</u>	<u>50</u>

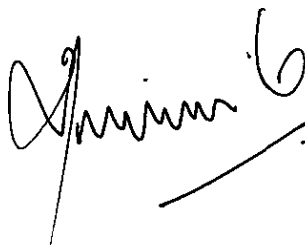
These financial statements were approved by the Board of Directors on 17 March 2003.

Signed on behalf of the Board of Directors

Brian J Duffin, Chairman



James Gilchrist, Director



Notes to the Financial Statements

1. Accounting Policies

The principal accounting policies adopted by the company in preparing the financial statements are set out below.

Basis of Accounting

The financial statements have been prepared under the historic cost convention, and in accordance with applicable Accounting Standards.

Interest receivable

The interest receivable on the loan to the parent undertaking is accounted for on an accruals basis.

Interest payable

The interest payable on the subordinated guaranteed bonds is accounted for on an accruals basis.

2. Auditors' Remuneration

The remuneration of the auditors for the period in respect of the statutory audit was £646 (2001:£646). These costs are inclusive of VAT and are met by the parent undertaking.

3. Directors' Emoluments

The chairman and directors receive neither fees nor other emoluments from the Company.

4. Segmental Reporting

As all business relates to the provision of finance to The Royal London Mutual Insurance Society Limited in the United Kingdom, exemption from Statement of Standard Accounting Practice 25, Segmental Reporting, has been taken.

5. Interest receivable	2002	2001
	£000	£000
Interest receivable on loan to parent undertaking	<u>11,252</u>	<u>11,250</u>
6. Interest payable	2002	2001
	£000	£000
Undated Subordinated Guaranteed Bonds	<u>11,252</u>	<u>11,250</u>

7. Subordinated Guaranteed Bond

The £125,000,000 9% Undated Subordinated Guaranteed Bonds are guaranteed on a subordinated basis by The Royal London Mutual Insurance Society Limited, and bear interest which is payable annually on 28 November.

Notes to the Financial Statements

7. Subordinated Guaranteed Bond (contd)

The non payment of interest is permitted where the Guarantor of the bond was not solvent or where the Guarantor would not be solvent immediately after such payment as determined by the Appointed Actuary of the Guarantor. The non payment of interest or principal does not itself bear interest and does not constitute a default if payment is deferred under the terms of the bond. Payment of any arrears of interest will be made on the earliest of any redemption or purchase of the bonds, the passing of a resolution for the winding up of SL Finance Plc or the Guarantor or where the Appointed Actuary of the Guarantor determines that the Guarantor would be solvent after payment of all or any part of the arrears of interest.

The Guarantor is defined as solvent if it satisfies the required minimum margin of solvency calculated in the manner required for Form 9 of the annual FSA Insurance Returns.

8. Share Capital	2002 £000	2001 £000
Authorised:		
100,000 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted and fully paid:		
50,000 Ordinary shares of £1 each	<u>50</u>	<u>50</u>

9. Reconciliation of movement in shareholder's funds	2002 £000	2001 £000
Opening shareholder's funds	50	50
Result for year	<u>-</u>	<u>-</u>
Closing shareholder's funds	<u>50</u>	<u>50</u>

10. Derivatives and other financial instruments

The Company has not entered into any derivative contracts. The Company's other financial instruments comprise the issue of subordinated debt and the loan of the proceeds of that debt to the Royal London Mutual Insurance Society Limited. The main purpose of the issue was to fund the operations of Royal London and the proceeds were lent on equal terms to those applicable to the bonds. The main risk arising from the issue of the bonds is interest rate risk. Due to the terms of the loan and the guarantee these risks are passed on to Royal London, the ultimate parent of the Company and the Company retains no exposure to the risks.

	Book Value 2002 £000	Fair Value 2002 £000
<u>Fair values of financial assets and financial liabilities</u>		
Investments	125,000	130,030
Creditors due after more than one year	(125,000)	(130,030)

Notes to the Financial Statements

11. Cash flow statement

No cash flow statement has been prepared under Financial Reporting Standard 1 (amended) as the results of the Company are consolidated in the accounts of The Royal London Mutual Insurance Society Limited, the ultimate parent undertaking, which is exempt from the requirement to prepare a cash flow statement.

12. Related parties

As a wholly owned subsidiary of The Royal London Mutual Insurance Society Limited, advantage has been taken of the exemption granted by Financial Reporting Standard 8, Related Party Disclosures, not to report all details of transactions with entities which are more than 90% controlled by a common parent undertaking.

13. Parent undertaking

The Company's ultimate parent undertaking is The Royal London Mutual Insurance Society Limited which is registered in England. Copies of the group accounts can be obtained from Royal London House, Middleborough, Colchester, Essex, CO1 1PP.