

DIRECT LINE LIFE INSURANCE COMPANY LIMITED
REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE FIFTEEN MONTHS ENDED
31 DECEMBER 2000



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DIRECTORS AND OFFICERS

Chairman	I. H. Chippendale
Directors	I. H. Chippendale S. A. Clarke A. E. Court D. A. MacKechnie
Secretary	P.J. Atkinson
Appointed Actuary	D. T. Addison
Registered Office	3 Edridge Road Croydon CR9 1AG
Company Registration No.	2199286
Registered Auditors	Deloitte & Touche Chartered Accountants

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the fifteen months ended 31 December 2000.

On 3 July 2000, the Company changed its accounting reference date from 30 September to 31 December. Therefore, the financial statements cover the fifteen months from 1 October 1999 to 31 December 2000. The comparative amounts have not been restated and cover a twelve-month period.

Principal activities and business review

The Company transacts long term insurance falling within business classes I, III and IV of Schedule 1 of the Insurance Companies Act 1982, life and annuities, linked long term and permanent health insurance and pensions and will continue to do so.

The Company also sells linked personal pension policies.

Results

The profit for the financial period of £5,824,000 (1999: loss of £4,827,000) has been added to reserves.

Directors

The present directors of the Company are shown on page 1.

Mr M D Ross and Mr C G Thomson resigned as directors of the Company with effect from 31 December 1999. Mr S J Geraghty resigned and Miss A E Court was appointed a director of the company with effect from 20 June 2000.

Directors' interests

During the period, the following directors were beneficially interested in the ordinary shares of 25p each and the additional value shares ("AVS") of 01p each in The Royal Bank of Scotland Group plc, the Company's ultimate parent undertaking, as shown below:

	<u>Ordinary shares of 25p each</u>		<u>AVS shares of 1p each</u>	
	<u>31 December</u> <u>2000</u>	<u>1 October</u> <u>1999</u> (or date of appointment if later)	<u>31 December</u> <u>2000</u>	<u>1 October</u> <u>1999</u> (or date of appointment if later)
A E Court	3,474	3,449	3,449	-

Options to subscribe for ordinary shares of 25p in The Royal Bank of Scotland Group plc granted to, and exercised by, directors during the period to 31 December 2000 are included in the table below:

	<u>31</u> <u>December</u> <u>2000</u>	Options granted		Options exercised		Post AVS adjustment	<u>1 October</u> <u>1999</u> (or date of appointment if later) Number
	Number	Number	Price (p)	Number	Price (p)	Number	Number
A E Court	38,531	12,500	1,287	21,571	496	47,452	43,994
		150	1240				
D A	7,650	7,500	1,287	-	-	-	-
MacKechnie		150	1,240	-	-	-	-

REPORT OF THE DIRECTORS

Directors' interests (continued)

The interests of Mr I H Chippendale and Mr S A Clarke in the share capital of The Royal Bank of Scotland Group plc are disclosed in the financial statements of Direct Line Group Limited.

No other director had any interest in the ordinary shares of The Royal Bank of Scotland Group plc and no director had an interest in the preference shares of The Royal Bank of Scotland Group plc during the 15 months to 31 December 2000. In addition, during the 15 months none of the directors held any interest in the loan capital of The Royal Bank of Scotland Group plc or in shares or loan capital or any of the other subsidiaries of The Royal Bank of Scotland Group plc, including the Company.

Staff

The average number of persons employed during the period was 67 (1999: 39).

Employment of disabled persons

During the period, the Company gave full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes and abilities and to appropriate vacancies.

The Company will continue to ensure that disabled employees are considered on the same basis as any other member of staff with regard to training, career development and promotion.

Employee involvement

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Company and are of interest and concern to them as employees. All permanent members of staff are eligible to participate in The Royal Bank of Scotland Group plc profit share scheme.

Supplier payment policy

The Company is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Company's policy to negotiate and agree terms and conditions with its suppliers, which include the giving of an undertaking by the Company to pay its suppliers within 30 days of the date of the invoice or such other agreed payment period. The number of creditor days in relation to trade creditors at 31 December 2000 was 22 days (1999 14 days).

REPORT OF THE DIRECTORS

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 and other regulations to prepare financial statements each financial period which give a true and fair view of the state of affairs of the Company at the end of the financial period and its profit for that period. In preparing the financial statements, the directors must ensure that appropriate accounting policies have been adopted and applied consistently, that applicable accounting standards have been followed and that reasonable and prudent judgements and estimates have been made. The directors are required to 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 ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Company and 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.

Appointed actuary

Mr. D. T. Addison is the appointed actuary and also acts as the reporting actuary.

Auditors

PricewaterhouseCoopers resigned as auditors on 31 March 2000 and the directors appointed Deloitte & Touche in their place. Deloitte & Touche have indicated their willingness to continue in office and resolutions to reappoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

The report was approved by the board on 23 February 2001 and signed on its behalf.



P.J. Atkinson
Secretary
London

23 February 2001

AUDITORS' REPORT TO THE SHAREHOLDERS OF DIRECT LINE LIFE INSURANCE COMPANY LIMITED

We have audited the financial statements on pages 6 to 21 which have been prepared in accordance with the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 the company's affairs as at 31 December 2000 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Lomond House
9 George Square
Glasgow
G2 1QQ

23 February 2001
5 March

TECHNICAL ACCOUNT - LONG TERM BUSINESS

For the fifteen months to 31 December 2000

	Note	2000 £'000 Fifteen Months to 31 December 2000	2000 £'000 Twelve months to 30 September 1999
Gross premiums written	2	15,431	8,601
Outward reinsurance premiums		(980)	(846)
Earned premiums, net of reinsurance		14,451	7,755
Investment income	4	2,948	2,257
Unrealised gains on investments	4	601	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(2,298)	(1,279)
Reinsurer's share		283	68
		<u>(2,015)</u>	<u>(1,211)</u>
Change in provisions for claims			
Gross amount		7	(130)
Reinsurer's share		156	244
		<u>163</u>	<u>114</u>
		(1,852)	(1,097)
Change in other technical provisions			
Long term business provisions, net of reinsurance			
Gross amount		(15,618)	(6,437)
Reinsurer's share		15,621	224
		<u>3</u>	<u>(6,213)</u>
Other technical provisions, net of reinsurance			
Technical provision for linked liabilities		(1,319)	(870)
Net change in technical provisions		(1,316)	(7,083)
Net operating expenses	3	(9,254)	(6,538)
Investment expenses and charges	4	(377)	(293)
Unrealised (losses) on investments	4	-	(39)
Tax attributable to the long term business	7	623	585
Balance on the technical account		5,824	(4,453)

NON-TECHNICAL ACCOUNT
for the fifteen months to 31 December 2000

	Note	2000 £'000 Fifteen Months to 31 December 2000	1999 £'000 Twelve months to 30 September 1999
Balance on long term business technical account		5,824	(4,453)
Tax attributable to balance on long term business technical account	7	143	(585)
Shareholders' pre tax profit / (loss) from long term business		<u>5,967</u>	<u>(5,038)</u>
Profit / (loss) on ordinary activities before taxation	6	<u>5,967</u>	<u>(5,038)</u>
Taxation on ordinary activities	7	(143)	211
Profit / (loss) for the year	11	<u>5,824</u>	<u>(4,827)</u>

The Company has no recognised gains and losses other than those included in the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

All activities are continuing.

BALANCE SHEET
as at 31 December 2000

	Note	As at 31/12/00	As at 30/09/99
Assets		£'000	£'000
Investments			
Other financial investments	8	41,562	37,660
		<hr/>	<hr/>
Assets held to cover linked liabilities		2,726	1,407
Reinsurer's share of technical provisions			
Long term business provision		16,891	1,270
Claims outstanding		416	260
		<hr/>	<hr/>
		17,307	1,530
Debtors			
Debtors arising out of direct insurance operations	9	436	256
Other debtors	10	3,153	1,457
Other assets			
Tangible fixed assets	13	237	387
Cash at Bank		211	109
Prepayments and accrued income			
Other prepayments and accrued interest		492	234
Total assets		66,124	43,040
		<hr/>	<hr/>
Liabilities			
Capital and reserves			
Called-up share capital	14	44,000	44,000
Profit and loss account	11	(15,108)	(20,932)
Equity shareholders' funds		28,892	23,068
Technical provisions			
Long term business provision		26,585	10,967
Claims outstanding	15	257	264
		<hr/>	<hr/>
	11	26,842	11,231
Technical provision for linked liabilities		2,726	1,407
Provisions for other risks and charges			
Deferred taxation	16	386	220
Creditors			
Creditors arising out of direct insurance operations	17	491	585
Other creditors	18	6,787	6,529
Total liabilities		66,124	43,040
		<hr/>	<hr/>

The notes on pages 9 to 21 form an integral part of the financial statements.

The financial statements were approved by the board of directors on 23 February 2001 and signed on its behalf.

D. A. MacKechnie
Managing Director



S. A. Clarke
Director



NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

1. Accounting policies

The following accounting policies have been applied in dealing with items which are considered material in relation to the Company's financial statements.

1.1 Disclosure

The financial statements have been prepared in accordance with the provisions of Section 255 of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985 and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998.

1.2 Basis of accounting

The financial statements are prepared under the historical cost convention modified by the periodic valuation of investments as described below and in accordance with applicable accounting standards in the United Kingdom.

1.3 Premiums

Premiums, including reinsurance premiums, are accounted for when the policy is set up and the premium is due for payment, except for unit-linked premiums, which are accounted for when units are created.

1.4 Investment income

Investment return comprises investment income, including realised investment gains and losses, and movements in unrealised gains and losses, net of investment expenses and charges. Interest and expenses are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date. The movement in 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.

Investment return relating to investments which are directly connected with the carrying on of long term business is initially recorded in the long term business technical account. The investment return arising in relation to all other investments is recorded in the non-technical account

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

1.5 Claims

Claims payable on death are accounted for on notification. Surrendered policies are accounted for at the earlier of the payment date or when the policy ceases to be included within the long term business provision.

Where claims are payable and the contract remains in force, the claim or instalment is accounted for when due for payment.

Claims payable include related internal and external claims handling costs.

Reinsurance recoveries are accounted for in the same period as the related claim.

1.6 Acquisition expenses

Acquisition expenses comprise direct costs and costs associated with obtaining and processing new business. They are allocated to particular categories of policy based on available management information. Acquisition costs are deferred only to the extent that there are available future margins. No costs are deferred after appropriate margins have been received.

1.7 Commissions

Acquisition commissions are included in acquisition costs in the long term business technical account as incurred.

1.8 Tax on balance on long term business technical account

The balance on the long term business technical account transferred to the non-technical account is grossed up at the effective rate of tax attributable to shareholders' profits in the technical account.

1.9 Investments

Investments are stated in the balance sheet at market value, any surplus or deficit on revaluation being dealt with through the technical account - long term business for assets contained in the long term business fund, or the non-technical account.

1.10 Long term business provision

The long term business provision is determined by the Appointed Actuary following their annual investigations of the long term fund, and is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Insurance Companies Act 1982.

The calculation uses the gross premium valuation method (1999 the net premium method was used). The valuation is then adjusted for certain items, including the adding back of deferred acquisition costs implicit within the valuation method for certain contracts and the removal of certain contingency and other reserves. This adjusted basis is referred to as the modified statutory solvency basis

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

1.10 Long term business provision (continued)

Details of particular interest rate assumptions are contained in Note 12. Other assumptions reflect a prudent assessment of future experience of mortality, morbidity and other relevant factors. Explicit provision has been made for future expected expenses to be incurred in administering the business in force.

The long term business provision includes the non-unit liabilities in respect of linked business.

1.11 Reinsurer's share of technical provisions

The reinsurer's share of technical provisions is calculated on a basis consistent with the calculation of the corresponding liabilities.

1.12 Depreciation

Depreciation is provided on a straight line basis on all tangible fixed assets at rates calculated to write off the cost, less their estimated residual values, over their estimated useful lives which are between five and ten years.

1.13 Deferred taxation

Deferred taxation is provided on the liability method in respect of timing differences which are expected to result in a taxation liability or asset in the foreseeable future.

Provision is made for tax which would arise if shareholders' profits included in the non-technical account but retained in the long term business fund were actually transferred to shareholders and on unrealised gains recognised in the technical account.

1.14 Pensions

The defined contribution scheme was in effect for the financial period and the pension charge includes the amount payable by the Company to it.

This scheme replaced a defined benefit scheme (see note 21) and the cost of providing pensions under the latter have been assessed and charged on a regular basis in accordance with the advice of an independent professionally qualified actuary.

The Company provides no other post-retirement benefits to its employees

1.15 Cash flow statement

Under the provisions of FRS 1 the Company has not provided a cash flow statement because its ultimate parent company, The Royal Bank of Scotland Group plc, has prepared consolidated financial statements covering the period which will contain a consolidated cash flow.

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

2. Segmental information

(a) Gross premiums written

Gross premium income is made up of:

	15 months to 31/12/00 £'000	12 months to 30/09/99 £'000
Direct Insurance	<u>15,431</u>	<u>8,601</u>

	Gross direct premiums written			
	Regular Premiums		Single Premiums	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Non linked without profits				
Life	10,449	5,514	3,551	2,061
Income protection	213	200	-	-
	<u>10,662</u>	<u>5,714</u>	<u>3,551</u>	<u>2,061</u>
Unit Linked				
Pensions	736	449	482	377
Total premiums	<u>11,398</u>	<u>6,163</u>	<u>2,438</u>	<u>2,438</u>
Comprising :Individual business	11,398	6,163	482	377
Group contracts	-	-	3,551	2,061
Total premiums	<u>11,398</u>	<u>6,163</u>	<u>4,033</u>	<u>2,438</u>

(b) Gross new business premiums

Gross new premium income is made up of:

	15 months to 31/12/00 £'000	12 months to 30/09/99 £'000
Direct Insurance	<u>8,887</u>	<u>4,911</u>

	Gross direct premiums written			
	Regular Premiums		Single Premiums	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Non linked without profits				
Life	5,079	2,321	3,551	2,061
Unit Linked				
Pensions	195	238	62	291
Total premiums	<u>5,274</u>	<u>2,559</u>	<u>3,613</u>	<u>2,352</u>
Comprising :Individual business	5,274	2,559	62	291
Group contracts	-	-	3,551	2,061
Total premiums	<u>5,274</u>	<u>2,559</u>	<u>3,613</u>	<u>2,352</u>

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

2. Segmental information (continued)

(c) Reinsurance balance

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2000 of £15,080,000. (1999 : a charge of £310,000)

(d) Net assets

	2000			1999		
	Policyholders' Funds			Policyholders' Funds		
	As at 31 December 2000			As at 30 September 1999		
	Share- Holder's Funds £'000	Non linked Without Profits £'000	Unit Linked £'000	Share- Holder's Funds £'000	Non linked Without Profits £'000	Unit Linked £'000
Investments	32,027	9,535	-	27,959	9,701	-
Investments held to cover linked liabilities	-	-	2,726	-	-	1,407
Other net assets	(3,135)	17,307	-	(4,891)	1,530	-
Technical Provisions	-	(26,842)	(2,726)	-	(11,231)	(1,407)
	<u>28,892</u>	<u>-</u>	<u>-</u>	<u>23,068</u>	<u>-</u>	<u>-</u>

3. Net operating expenses

	15 months to 31/12/00 £'000	15 months to 31/12/00 £'000
Acquisition expenses and other set up costs	6,703	4,234
Administrative expenses	2,552	2,306
	<u>9,255</u>	<u>6,540</u>
Reinsurance commissions	(1)	(2)
Net operating expenses	<u>9,254</u>	<u>6,538</u>

The total commission accounted for during the year in respect of direct insurance was £601,000 (1999 : £542,000).

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

4. Investment income

	Technical account	
	Long term business	
	15 months to 31/12/00	12 months to 30/09/99
Income from investments		
Income from listed investments	400	154
Income from other investments	2,548	1,996
Realised gain on investments	-	107
	<u>2,948</u>	<u>2,257</u>
Unrealised investment gains / (losses)	601	(39)
Interest paid	(377)	(293)
Net investment return	<u>3,172</u>	<u>1,925</u>
Attributable to linked business	33	59
Other than linked business	3,139	1,866
Total investment return	<u>3,172</u>	<u>1,925</u>

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

5. Directors and employees

During the financial year the directors of the Company were employed by a subsidiary of Direct Line Group Limited.

Their services were charged to the Company by way of management charges including pension contributions of which £61,000 is estimated to be in relation to the services for the current year (1999 : £334,000).

Other fees or emoluments, other than the management charge disclosed above, were paid or payable to these directors of £187,000 (1999 : Nil).

	2000 Number	1999 Number
Average number of full time equivalent employees	67	39

Average number of total employees (including directors)

	2000 Number	1999 Number
Clerical Staff	13	5
Other	54	34
	67	39

The aggregate staff costs (including directors) were:

	15 months to 31/12/00 £'000	12 months to 30/09/99 £'000
Salaries and wages	1,351	581
Social security	124	52
Pension costs (see note 21)	86	32
Total	1,561	665

6. Profit on ordinary activities before taxation

	15 months to 31/12/00 £'000	12 months to 30/09/99 £'000
Profit / (loss) on ordinary activities before taxation is arrived at after charging:		
Depreciation	261	215
Auditors' remuneration - for audit	94	65
- non audit	-	204

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

7. Taxation on ordinary activities

	15 months to 31/12/00 £'000	12 months to 30/09/99 £'000
Taxation on ordinary activities – technical account		
UK corporation tax at 30% (1999 - 30.5%)		
Current	23	1,126
Prior year adjustment	766	(370)
Deferred	(166)	(171)
Taxation credit	<u>623</u>	<u>585</u>
Taxation on ordinary activities – non technical account		
UK corporation tax at 30% (1999 – 30.5%)	2000	1999
Tax attributable to balance on long term business technical account	£'000	£'000
	-	(374)
	(143)	585
	<u>(143)</u>	<u>211</u>

8. (a) Investments : other financial investments

	2000 As at 31/12/00		1999 As at 30/09/99	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Debt securities and other fixed income securities (see note 8b)	12,272	11,705	-	-
Deposits with credit institutions	29,290	29,290	37,660	37,660
	<u>41,562</u>	<u>40,995</u>	<u>37,660</u>	<u>37,660</u>

All debt securities and other fixed income securities are listed on a recognised investment exchange.

(b) Investments : debt securities and other fixed income securities

	As at 31/12/00	As at 30/09/99
	£'000	£'000
Cost		
Balance at beginning of year	-	2,893
Additions / (disposals)	11,705	(2,893)
Balance at end of year	<u>11,705</u>	<u>-</u>
Market value at end of year	<u>12,272</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

9. Debtors arising out of direct insurance operations

	As at 31/12/00 £'000	As at 30/09/99 £'000
Policyholders	173	-
Due from reinsurer	263	256
	<u>436</u>	<u>256</u>

10. Other debtors

	As at 31/12/00 £'000	As at 30/09/99 £'000
Due from related parties	2,319	1,349
Other	834	108
	<u>3,153</u>	<u>1,457</u>

11. Reserves and policyholder liabilities

	Long term business provision £'000	Technical provision for linked liabilities £'000	Profit and loss account £'000
Balance at beginning of period	10,967	1,407	(20,932)
Change in long term business provision	15,618	1,319	-
Profit for the period	-	-	5,824
Balance at end of period	<u>26,585</u>	<u>2,726</u>	<u>(15,108)</u>

None of the reserves of the company are available for distribution.

12. Long term business provision

The principal assumptions underlying the calculation of the Long Term Business Provision were as follows:-

Class of Business	Interest rate % p.a	
	2000	1999
Assurances	3.25	3.5
PHI	4.00	4.5
Pensions Linked	4.00	4.5

The mortality assumptions used are based on relevant industry statistics. Full details are available in the returns from the company to the Financial Services Authority.

The allowance for future expenses was £20 per annum for life products (1999 - £27.50).

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

13. Tangible fixed assets

	Computer and other Equipment £'000
Cost	
Balance at beginning of period	991
Additions	179
Disposals	(107)
Balance at end of period	<u>1,063</u>
Depreciation	
Balance at beginning of period	604
Charge	261
On disposals	(39)
Balance at end of period	<u>826</u>
Net book value at 31 December 2000	<u>237</u>
Net book value at 30 September 1999	<u>387</u>

14. Called up share capital

	As at 31/12/00 £'000	As at 30/09/99 £'000
Authorised, allotted, called up and fully paid		
44 million (1999 : 44 million) ordinary shares of £1 each	<u>44,000</u>	<u>44,000</u>

15. Claims outstanding

	As at 31/12/00 £'000	As at 30/09/99 £'000
Brought forward	264	134
Movement during the period	(7)	130
Carried forward	<u>257</u>	<u>264</u>

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

16. Provisions for other risks and charges

Deferred taxation	As at 31/12/00 £'000	As at 30/09/99 £'000
Balance at the beginning of the period	220	49
Transfer to the technical account	166	171
Balance at the end of the period	<u>386</u>	<u>220</u>

The provision is in respect of the full amount of the liability of excess of capital allowances over depreciation

17. Creditors arising out of direct insurance operations

	As at 31/12/00 £'000	As at 30/09/99 £'000
Amounts falling due within one year		
Policyholders	19	15
Due to reinsurer	472	465
Other	-	105
	<u>491</u>	<u>585</u>

18. Other creditors including taxation and social security

	As at 31/12/00 £'000	As at 30/09/99 £'000
Amounts falling due within one year		
Due to related parties	5,016	5,355
Other	1,771	1,174
	<u>6,787</u>	<u>6,529</u>

Amounts due to related parties includes a contingent loan of £4,500,000 repayable to The Royal Bank of Scotland plc, from future profits arising from long term insurance business with interest payable at a commercially determined rate.

19. Assets of the long term business fund

The total amount of assets relating to the long term business fund are as follows:

	As at 31/12/00 £'000	As at 30/09/99 £'000
Investments	9,535	9,701
Assets held to cover linked liabilities	2,726	1,407
Reinsurer's share of technical provisions	17,307	1,530
	<u>29,568</u>	<u>12,638</u>

NOTES TO THE FINANCIAL STATEMENTS
for the fifteen months ended 31 December 2000

20. Reconciliation of movements in Shareholders' funds

	As at 31/12/00 £'000	As at 30/09/99 £'000
Opening shareholder's funds	23,068	27,895
Additions to shareholder's funds	-	-
Profit / (loss) for the financial year	5,824	(4,827)
Closing Shareholders' funds	<u>28,892</u>	<u>23,068</u>

21. Pensions

The Company operates the Direct Line Group Pension Scheme (1998) (the 1998 Scheme) on behalf of its employees. The 1998 Scheme is a money purchase arrangement with defined contribution levels. The assets of the 1998 Scheme are held separately from those of the company and are invested in managed funds. The contributions paid by the Company are charged to the profit and loss account.

The 1998 Scheme replaced the Direct Line Group Staff Pension and Life Assurance Scheme ("the Staff Scheme"), a non-contributory defined benefit scheme. The Staff Scheme was a closed scheme throughout the year but continues to provide benefits based on final pensionable salary to pensioners and deferred members.

The assets of the Staff Scheme are held separately from those of the company and are invested in managed funds. The most recent valuation, as at 1 October 1998, used the defined accrued benefit method.

The assumptions which have the most significant effects on the results of the valuation are those relating to the rate of return on investments and to the rates of increase in salary and pensions. It was assumed in the valuation that the investment returns would be 2.5% higher than the growth in pensionable salary. No allowance has been made for escalation of pensions once in the course of payment.

The most recent actuarial valuation showed that the market value of the assets of the managed funds was £20,454,684 (1995 valuation: £7,412,000) and that the actuarial value of those assets represented 85% (1995 valuation: 91%) of the benefits that had accrued to members after allowing for expected future increases in salary. The valuation revealed a deficit of £2.1 million. The overall group pension charge for the fifteen month period includes £1,500,000, which was accrued to enable this deficit to be eliminated.

As a result of the closure of the Staff Scheme there are now no active members. The liabilities of the Staff Scheme relate to payment of pensions and deferred pensions

The company's share of the overall group pension charge for the fifteen month period was £86,000 (1999 : £32,000).

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22. Ultimate parent undertaking

The Company's immediate holding company is Direct Line Life Holdings Limited, which is incorporated and registered in England. This Company prepares financial statements a copy of which are available from the Secretary's Department, 3 Edridge Road, Croydon.

The ultimate holding company and controlling party is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland who own Direct Line Life Holdings Limited. The consolidated financial statements for The Royal Bank of Scotland Group plc can be obtained from 42 St. Andrew Square, Edinburgh.

The ultimate holding companies and controlling parties were The Royal Bank of Scotland Group plc and Scottish Widow's Fund and Life Assurance Society who owned Direct Line Life Holdings Ltd as a joint venture until 8 May 2000.

The Company has taken advantage of the exemption under Financial Reporting Standard No.8 not to disclose any transactions with entities which are part of the group.