

Company Number: 2199286

DIRECT LINE LIFE INSURANCE COMPANY LIMITED
REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2001



DIRECTORS AND OFFICERS

Chairman	I. H. Chippendale
Directors	I. H. Chippendale S. A. Clarke A. E. Court D. A. MacKechnie G.A.F. Ross (appointed 19 June 2001)
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 year ended 31 December 2001.

On 3 July 2000, the Company changed its accounting reference date from 30 September to 31 December. Therefore, the comparative amounts cover the fifteen months from 1 October 1999 to 31 December 2000.

Principal activities and review of business

The Company transacts long term insurance falling within business classes I, II and IV of Annex 10.1 of the Interim Prudential Sourcebook: Insurers, 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 year of £1,319,000 (2000: £5,824,000) has been added to reserves.

Directors

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

Mr G A F Ross was appointed as a director of the Company on 19 June 2001.

Directors' interests

The interests of Miss A E Court, 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.

The interests of Mr D A MacKechie and Mr G A F Ross in the share capital of The Royal Bank of Scotland Group plc are disclosed in the financial statements of Direct Line Life Holdings 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 year to 31 December 2001. In addition, during the year 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 of 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 year was 70 (2000: 67).

Employment of disabled persons

During the year, 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.

REPORT OF THE DIRECTORS

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 2001 was 28 days (2000: 22 days).

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 year and its profit for that year. 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

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 26 February 2002 and signed on its behalf.



P.J. Atkinson
Secretary
London

26 February 2002

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
DIRECT LINE LIFE INSURANCE COMPANY LIMITED**

We have audited the financial statements of Direct Line Life Insurance Company Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 2001 and of its profit for the year 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

26 February 2002

TECHNICAL ACCOUNT - LONG TERM BUSINESS

For the year to 31 December 2001

	Note	2001 £'000 Twelve Months to 31 December 2001	2001 £'000 Twelve Months to 31 December 2001	2000 £'000 Fifteen months to 31 December 2000	2000 £'000 Fifteen months to 31 December 2000
Gross premiums written	2		60,761		15,431
Outward reinsurance premiums	3		(1,147)		(980)
Earned premiums, net of reinsurance			59,614		14,451
Investment income	5		2,635		2,948
Unrealised gains on investments	5		35		601
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(4,284)		(2,298)	
Reinsurer's share		752		283	
		(3,532)		(2,015)	
Change in provisions for claims					
Gross amount		(527)		7	
Reinsurer's share		738		156	
		211		163	
			(3,321)		(1,852)
Change in other technical provisions					
Long term business provisions, net of reinsurance					
Gross amount		(31,610)		(15,618)	
Reinsurer's share		21,426		15,621	
		(10,184)		3	
Other technical provisions, net of reinsurance					
Technical provision for linked liabilities		(405)		(1,319)	
Net change in technical provisions			(10,589)		(1,316)
Net operating expenses	4		(44,076)		(9,254)
Investment expenses and charges	5		(272)		(377)
Unrealised (losses) on investments	5		(428)		-
Tax attributable to the long term business	8		(2,279)		623
Balance on the technical account			1,319		5,824

NON-TECHNICAL ACCOUNT
for the year to 31 December 2001

	Note	2001 £'000 Twelve Months to 31 December 2001	2000 £'000 Fifteen months to 31 December 2000
Balance on long term business technical account		1,319	5,824
Tax attributable to balance on long term business technical account	8	573	143
Shareholders' pre tax profit from long term business		<u>1,892</u>	<u>5,967</u>
Profit on ordinary activities before taxation	7	<u>1,892</u>	<u>5,967</u>
Taxation on ordinary activities	8	(573)	(143)
Profit for the year	20	<u><u>1,319</u></u>	<u><u>5,824</u></u>

The Company has no recognised gains and losses other than those included in the profit 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 2001

	Note	As at 31/12/01	As at 31/12/00
Assets		£'000	£'000
Investments			
Other financial investments	9	52,592	41,562
Assets held to cover linked liabilities		3,131	2,726
Reinsurer's share of technical provisions			
Long term business provision		38,317	16,891
Claims outstanding		1,154	416
		39,471	17,307
Debtors			
Debtors arising out of direct insurance operations	10	169	436
Other debtors	11	6,456	3,153
Other assets			
Tangible fixed assets	14	194	237
Cash at Bank		(284)	211
Prepayments and accrued income			
Other prepayments and accrued interest		462	492
Total assets		102,191	66,124
Liabilities			
Capital and reserves			
Called-up share capital	15	44,000	44,000
Profit and loss account	20	(13,789)	(15,108)
Equity shareholders' funds		30,211	28,892
Technical provisions			
Long term business provision	12	58,195	26,585
Claims outstanding		784	257
		58,979	26,842
Technical provision for linked liabilities		3,131	2,726
Provisions for other risks and charges			
Deferred taxation	16	504	386
Creditors			
Creditors arising out of direct insurance operations	17	348	491
Other creditors	18	9,018	6,787
Total liabilities		102,191	66,124

The notes on pages 8 to 20 form an integral part of the financial statements.

The financial statements were approved by the board of directors on 26 February 2002 and signed on its behalf.

D. A. MacKechnie
Managing Director



S. A. Clarke
Director



NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

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 year.

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 ACCOUNTS
for the year ended 31 December 2001

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 Financial Services and Markets Act 2000.

The calculation uses the gross premium valuation. The valuation is then adjusted for certain items, including the removal of certain contingency and other reserves. This adjusted basis is referred to as the modified statutory solvency basis.

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

1.10 Long term business provision (continued)

Details of particular interest rate assumptions are contained in Note 13. 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 year 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, will prepare consolidated financial statements covering the year which will contain a consolidated cash flow.

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

2. Segmental information

(a) Gross premiums written

Gross premium income is made up of:

	12 months to 31/12/01 £'000	15 months to 31/12/00 £'000
Direct Insurance	<u>60,761</u>	<u>15,431</u>

	Gross direct premiums written			
	Regular Premiums		Single Premiums	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Non linked without profits				
Life	12,723	10,449	47,001	3,551
Income protection	183	213	-	-
	<u>12,906</u>	<u>10,662</u>	<u>47,001</u>	<u>3,551</u>
Unit Linked				
Pensions	600	736	254	482
Total premiums	<u>13,506</u>	<u>11,398</u>	<u>47,255</u>	<u>2,438</u>
Comprising :Individual business	13,506	11,398	254	482
Group contracts	-	-	47,001	3,551
Total premiums	<u>13,506</u>	<u>11,398</u>	<u>47,255</u>	<u>4,033</u>

(b) Gross new business premiums

Gross new premium income is made up of:

	12 months to 31/12/01 £'000	15 months to 31/12/00 £'000
Direct Insurance	<u>52,582</u>	<u>8,887</u>

	Gross direct premiums written			
	Regular Premiums		Single Premiums	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Non linked without profits				
Life	5,501	5,079	47,001	3,551
Unit Linked				
Pensions	53	195	27	62
Total premiums	<u>5,554</u>	<u>5,274</u>	<u>47,028</u>	<u>3,613</u>
Comprising :Individual business	5,554	5,274	27	62
Group contracts	-	-	47,001	3,551
Total premiums	<u>5,554</u>	<u>5,274</u>	<u>47,028</u>	<u>3,613</u>

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

2. Segmental information (continued)

(c) Reinsurance balance

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2001 of £21,784,000. (2000: a credit of £15,080,000)

(d) Net assets

	Policyholders' Funds As at 31 December 2001			Policyholders' Funds As at 31 December 2000		
	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	32,714	19,878	-	31,866	9,696	-
Investments held to cover linked liabilities	-	-	3,131	-	-	2,726
Other net liabilities	(2,503)	(370)	-	(2,974)	(161)	-
Reinsurers' share of technical provisions	-	39,471	-	-	17,307	-
Technical Provisions	-	(58,979)	(3,131)	-	(26,842)	(2,726)
	<u>30,211</u>	<u>-</u>	<u>-</u>	<u>28,892</u>	<u>-</u>	<u>-</u>

3. Outward reinsurance premiums

	12 months To 31/12/01 £'000	15 months To 31/12/00 £'000
Outward reinsurance premiums	<u>1,147</u>	<u>980</u>

The outward reinsurance premiums are expected to grow significantly in the coming years as the effect of the nil payment periods relating to new and existing reinsurance contracts come to an end.

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

4. Net operating expenses

	12 months To 31/12/01 £'000	15 months To 31/12/00 £'000
Acquisition expenses	6,343	6,102
Administrative expenses	2,528	2,552
Credit insurance profit share	7,744	-
	<u>16,615</u>	<u>8,654</u>
	(15)	(1)
Reinsurance commissions	27,476	601
Credit insurance commission	<u>44,076</u>	<u>9,254</u>
Net operating expenses		

5. Investment income

	Technical account Long term business 12 months to 31/12/01 £'000	15 months To 31/12/00 £'000
Income from investments		
Income from listed investments	700	400
Income from other investments	1,935	2,548
	<u>2,635</u>	<u>2,948</u>
Unrealised investment gains	35	601
Unrealised investment (losses)	(428)	-
Interest paid	(272)	(377)
Net investment return	<u>1,970</u>	<u>3,172</u>
Attributable to linked business	(428)	33
Other than linked business	2,398	3,139
Total investment return	<u>1,970</u>	<u>3,172</u>

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

6. 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 £27,000 is estimated to be in relation to the services for the current year (2000: £61,000). All directors are included in the pension scheme as described in Note 21.

Highest Paid Director

Fees or emoluments were paid or payable to the director of £193,000 (2000: £187,000), in addition £29,000 (2000: £25,000) was paid in relation to the director's pension scheme.

	2001 Number	2000 Number
Average number of full time equivalent employees	70	67

Average number of total employees (including directors)

	2001 Number	2000 Number
Clerical Staff	13	13
Other	57	54
	70	67

The aggregate staff costs (including directors) were:

	12 months to 31/12/01 £'000	15 months To 31/12/00 £'000
Salaries and wages	1,233	1,351
Social security	114	124
Pension costs (see note 21)	120	86
Total	1,467	1,561

7. Profit on ordinary activities before taxation

	12 months to 31/12/01 £'000	15 months To 31/12/00 £'000
Profit / (loss) on ordinary activities before taxation is arrived at after charging:		
Depreciation	59	261
Auditors' remuneration - for audit	21	94
- non audit	-	-

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

8. Taxation on ordinary activities

	12 months to 31/12/01 £'000	15 months to 31/12/00 £'000
Taxation on ordinary activities – technical account		
UK corporation tax at 30% (2000 – 30%)		
Current	(1,520)	23
Prior year adjustment	(641)	766
Deferred	(118)	(166)
Taxation (charge)/credit	<u>(2,279)</u>	<u>623</u>
Taxation on ordinary activities – non technical account		
UK corporation tax at 30% (2000 – 30%)	2001	2000
Tax attributable to balance on long term business technical account	£'000	£'000
	-	-
	(573)	(143)
	<u>(573)</u>	<u>(143)</u>

9. Investments: other financial investments

	2001 As at 31/12/01		2000 As at 31/12/00	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Debt securities and other fixed income securities	12,307	11,705	12,272	11,705
Deposits with credit institutions	40,285	40,285	29,290	29,290
	<u>52,592</u>	<u>51,990</u>	<u>41,562</u>	<u>40,995</u>

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

10. Debtors arising out of direct insurance operations

	As at 31/12/01 £'000	As at 31/12/00 £'000
Policyholders	168	173
Due from reinsurer	1	263
	<u>169</u>	<u>436</u>

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

11. Other debtors

	As at 31/12/01	As at 31/12/00
	£'000	£'000
Due from related parties	6,438	2,319
Other	18	834
	<u>6,456</u>	<u>3,153</u>

12. Reserves and policyholder liabilities

	Long term business provision £'000	Technical provision for linked liabilities £'000	Profit and loss account £'000
Balance at beginning of year	26,585	2,726	(15,108)
Change in long term business provision	31,610	405	-
Profit for the year	-	-	1,319
Balance at end of year	<u>58,195</u>	<u>3,131</u>	<u>(13,789)</u>

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

13. 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.	
	2001	2000
Assurances	3.25	3.25
PHI	4.00	4.00
Pensions Linked	4.00	4.00

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 £14 per annum for life products (2000: £20).

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

14. Tangible fixed assets

	Computer and other equipment £'000
Cost	
Balance at beginning of year	1,063
Additions	16
Disposals	0
Balance at end of year	<u>1,079</u>
Depreciation	
Balance at beginning of year	826
Charge	59
On disposals	0
Balance at end of year	<u>885</u>
Net book value at 31 December 2001	<u><u>194</u></u>
Net book value at 31 December 2000	<u>237</u>

15. Called up share capital

	As at 31/12/01 £'000	As at 31/12/00 £'000
Authorised, allotted, called up and fully paid		
44 million (2000 : 44 million) ordinary shares of £1 each	<u>44,000</u>	<u>44,000</u>

16. Provisions for other risks and charges

Deferred taxation	As at 31/12/01 £'000	As at 31/12/00 £'000
Balance at the beginning of the year	386	220
Transfer to the technical account	118	166
Balance at the end of the year	<u>504</u>	<u>386</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 31/12/01 £'000	As at 31/12/00 £'000
Amounts falling due within one year		
Policyholders	25	19
Due to reinsurer	323	472
	<u>348</u>	<u>491</u>

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

18. Other creditors including taxation and social security

	As at 31/12/01 £'000	As at 31/12/00 £'000
Amounts falling due within one year		
Due to related parties	5,011	5,016
Other	4,007	1,771
	<u>9,018</u>	<u>6,787</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 31/12/01 £'000	As at 31/12/00 £'000
Investments	19,508	9,535
Assets held to cover linked liabilities	3,131	2,726
Reinsurer's share of technical provisions	39,471	17,307
	<u>62,110</u>	<u>29,568</u>

20. Reconciliation of movements in Shareholders' funds and Profit and Loss Account

	Shareholder's Funds As at 31/12/01 £'000	Profit and Loss Account As at 31/12/01 £'000	Shareholder's Funds As at 31/12/00 £'000	Profit and Loss Account As at 31/12/00 £'000
Balance at beginning of year	28,892	(15,108)	23,068	(20,932)
Additions to shareholder's funds	-	1,319	5,824	-
Profit for the financial year	1,319	-	-	5,824
Balance at end of year	<u>30,211</u>	<u>(13,789)</u>	<u>28,892</u>	<u>(15,108)</u>

NOTES TO THE ACCOUNTS
for the year ended 31 December 2001

21. Pensions

The Company is a member of 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 2001 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 1.0% 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 £15,117,000 (1998 valuation : £20,454,684) and that the actuarial value of those assets represented 81% (1998 valuation : 85%) of the benefits that had accrued to members after allowing for expected future increases in salary. The valuation revealed a deficit of £3.2m. No regular contributions were paid by the Company to the Staff Scheme during the year but the overall group pension charge for the year includes £750,000, which was paid into the Staff Scheme 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 pension charge for the Company for the year was £119,000 (2000: £86,000) into the 1998 Scheme.

NOTES TO THE ACCOUNTS
for the year ended 31 December 2000

21. Pensions *(continued)*

In addition, in accordance with Financial Reporting Standard ("FRS") 17, the above full actuarial valuation has been reviewed and updated as at 31 December 2001. The major assumptions used by the actuary were:

	At 31 December 2001
Rate of increase in pensions in payment and deferment	2.5%
Discount rate	5.8%
Inflation assumption	2.5%

The expected rates of return on the assets were:

	Long-term rate of return expected at 31/12/2001	Value at 31/12/2001 £'000
Equities	7.75%	14,189
Bonds	5.5%	2,910
Insured Pensioners	5.8%	419
Other	4.0%	<u>1,806</u>
Total market value of assets		19,324
Present value of scheme liabilities		<u>(25,359)</u>
Surplus in the scheme		(6,035)
Related deferred tax liability		1,811
Net pension asset		<u>(4,224)</u>

The above annual financial assumptions are prescribed by FRS17 and do not reflect the assumptions used by the independent qualified actuary in the triennial valuation at 1 October 2001, which determines the overall group contribution rate for future years. FRS17 requires the directors to disclose the assets and liabilities of this defined benefits scheme at 31 December 2001 using these FRS17 assumptions.

22. Ultimate parent undertaking

The Company's immediate parent 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 parent company and controlling party is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland which owns 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 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.