

DIRECT LINE LIFE INSURANCE COMPANY LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 SEPTEMBER 1998



DIRECTORS AND OFFICERS

Chairman	I. H. Chippendale
Directors	I. H. Chippendale S. A. Clarke S. J. Geraghty D. A. MacKechnie M. D. Ross C. G. Thomson
Secretary	L. H. Finlayson
Appointed Actuary	C. G. Thomson
Registered Office	3 Edridge Road Croydon CR9 1AG
Company Registration No.	2199286
Registered Auditors	PricewaterhouseCoopers Chartered Accountants

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 September 1998.

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.

On 21 January 1998 the Company commenced selling linked personal pension policies.

Results

The loss for the financial year of £2,835,000 (1997 : £153,000) has been charged to reserves.

Directors

The present directors of the Company are shown on page 1.
None of the directors had any interest in the share capital of the company during the year.

Staff

The average number of persons employed during the year was 44 (1997 : 48).

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.

Increased Share Capital

During the year, the authorised share capital of the Company was increased to £44 million by the creation of 24 million ordinary shares of £1 each ranking in all respects *pari passu* with the existing shares of the Company.

The issued share capital of the Company was increased on 30 December 1997 by the issue of 24 million fully paid ordinary shares to Direct Line Life Holdings Limited in return for a cash consideration of £1 per share.

REPORT OF THE DIRECTORS

Appointed actuary

Mr. N. J. Dumbreck resigned as appointed actuary on 13 February 1998.

Mr. C. G. Thomson became appointed actuary on 13 February 1998. Mr Thomson is also the reporting actuary.

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 30 September 1998 was 11 days (1997 28 days).

Year 2000

The directors are fully aware of the impact that the year 2000 may have on the Company's computer systems and business. Preparations to overcome any potential year 2000 problems were commenced in 1993 and all new systems introduced since then have been year 2000 compliant from the outset. As a result, the cost of millennium compliance has been absorbed into the Company's ordinary IT expenditure. The major changes necessary to ensure that the computer systems are year 2000 compliant have been completed and extensive testing is currently being carried out to confirm millennium compliance. The directors are confident that the Company will be in a position to operate correctly into the 21st century.

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.

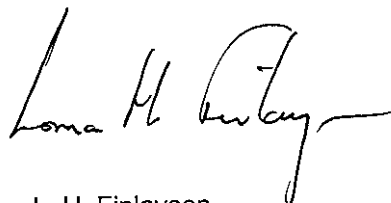
The directors are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Company and that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

REPORT OF THE DIRECTORS

Auditors

The Company's auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as the auditors to the company will be proposed at the annual general meeting.

The report was approved by the board on 15 December 1998 and signed on its behalf.



L. H. Finlayson
Secretary
London

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 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

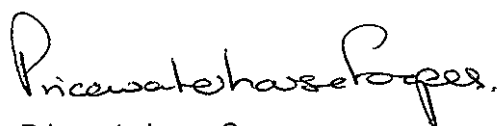
Basis of opinion

We conducted our audit in accordance with 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 judgments and estimates 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 at 30 September 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

25 January 1999

TECHNICAL ACCOUNT - LONG TERM BUSINESS
for the year ended 30 September 1998

	Note	1998 £'000	1998 £'000	1997 £'000	1997 £'000
Gross premiums written	2		6,137		3,634
Outward reinsurance premiums	2		(868)		(281)
Earned premiums, net of reinsurance			5,269		3,353
Investment income	4		287		242
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(842)		(314)	
Reinsurer's share		281		71	
		<u>(561)</u>		<u>(243)</u>	
Change in provisions for claims					
Gross amount		(26)		(41)	
Reinsurer's share		(38)		22	
		<u>(64)</u>		<u>(19)</u>	
			(625)		(262)
Change in other technical provisions					
Long term business provisions, net of reinsurance					
Gross amount		725		(126)	
Reinsurer's share		(638)		175	
		<u>87</u>		<u>49</u>	
Other technical provisions, net of reinsurance					
Technical provision for linked liabilities		(537)		-	
Net change in technical provisions			(450)		49
Net operating expenses	3		(9,933)		(4,955)
Unrealised losses on investments	4		(34)		-
Tax attributable to the long term business	8		1,454		1,204
Balance on the technical account			(4,032)		(369)

NON-TECHNICAL ACCOUNT
for the year ended 30 September 1998

	Note	1998 £'000	1997 £'000
Balance on long term business technical account		(4,032)	(369)
Tax attributable to balance on long term business technical account	8	(1,454)	(1,204)
Shareholders' pre tax loss from long term business		<u>(5,486)</u>	<u>(1,573)</u>
Investment income	4	1,919	557
Investment expenses and charges	4	(348)	(302)
Unrealised gains on investments	4	16	-
Loss on ordinary activities before taxation	7	<u>(3,899)</u>	<u>(1,318)</u>
Taxation credit on ordinary activities	8	1,064	1,165
Loss for the year	12	<u><u>(2,835)</u></u>	<u><u>(153)</u></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.

There is no material difference between the profit on ordinary activities before taxation and the transfer to reserves for the year stated above, and their historical cost equivalents.

All activities are continuing.

BALANCE SHEET
as at 30 September 1998

	Note	1998 £'000	1997 £'000
Assets			
Investments			
Other financial investments	9a	35,291	14,653
		<u>537</u>	<u>-</u>
Assets held to cover linked liabilities			
Reinsurer's share of technical provisions			
Long term business provision		1,046	1,684
Claims outstanding		16	54
	20	<u>1,062</u>	<u>1,738</u>
Debtors			
Debtors arising out of direct insurance operations	10	360	84
Other debtors	11	2,417	1,778
Other assets			
Tangible fixed assets	14	290	572
Prepayments and accrued income			
Other prepayments and accrued interest		509	121
Total assets		<u>40,466</u>	<u>18,946</u>
Liabilities			
Capital and reserves			
Called-up share capital	15	44,000	20,000
Profit and loss account	12	(16,105)	(13,270)
Equity shareholders' funds		<u>27,895</u>	<u>6,730</u>
Technical provisions			
Long term business provision		4,530	5,255
Claims outstanding	16	134	108
	12	<u>4,664</u>	<u>5,363</u>
Technical provision for linked liabilities		537	-
Provisions for other risks and charges			
Deferred taxation	17	49	53
Creditors			
Creditors arising out of direct insurance operations	18	503	424
Other creditors	19	6,818	6,376
Total liabilities		<u>40,466</u>	<u>18,946</u>

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 15 December 1998 and signed on its behalf.

D. A. MacKechnie
Director



S. A. Clarke
Director



NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 1998

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 are drawn up in accordance with section 255 and Schedule 9A of the Companies Act 1985.

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

Written and new business premiums are recognised when the policy liability is set up and the premium is due for payment.

1.4 Reinsurance

Outwards reinsurance premiums are accounted for in accordance with the contract terms reflecting the period in which risk is transferred.

1.5 Investment income

Income from investments is included, together with the related tax credit, in the technical account - long term business or non-technical account, as appropriate. Investment income comprises bank and gilt interest receivable, dividends received, realised and unrealised gains and losses.

1.6 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.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 1998

1.7 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 expenses are deferred and carried as an asset, gross of tax, which is amortised over the period in which the costs are expected to be recoverable out of margins from related policies and in accordance with the pattern of such margins.

At the end of each financial year, deferred acquisition expenses are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

1.8 Commissions

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

1.9 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.

1.10 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.

1.11 Long term business provision

The long term business provision is determined by the Company's Reporting Actuary. The calculation uses the net premium valuation method for the majority of business. 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 also been made for the future expected expenses to be incurred in administering the business in force.

1.12 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 1998

1.13 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.

1.14 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.

1.15 Pensions

A defined contribution scheme was introduced during this accounting year and the pension charge includes the amount payable by the Company to it.

This scheme replaced a defined benefit scheme (see note 22) 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

1.16 Cash flow statement

Under the provisions of FRS1 the Company has not provided a cash flow statement because its immediate holding company Direct Line Life Holdings Limited, which is incorporated in England and Wales, has prepared consolidated financial statements covering the year which will contain a consolidated cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

2. Segmental information

(a) Written premiums

	Gross £'000	1998 Re- insurance ceded £'000	Net £'000	Gross £'000	1997 Re- insurance ceded £'000	Net £'000
Life						
Individual						
Non linked without profits	3,859	(868)	2,991	2,086	(281)	1,805
Group Contracts						
Non linked without profits	1,673	-	1,673	1,548	-	1,548
Pensions						
Unit Linked	605	-	605	-	-	-
Total premiums	6,137	(868)	5,269	3,634	(281)	3,353
Periodic premiums	3,981	(868)	3,113	2,086	(281)	1,805
Single premiums	2,156	-	2,156	1,548	-	1,548
Total premiums	6,137	(868)	5,269	3,634	(281)	3,353

All premiums represent direct business written in the United Kingdom. Reinsurance ceded is net of premium rebates.

(b) Net assets

	Share- Holder's Funds £'000	1998 Policyholders' Funds Non linked Without Profits £'000	Unit Linked £'000	Share- Holder's Funds £'000	1997 Policyholders' Funds Non linked Without Profits £'000	Unit Linked £'000
Investments	31,689	3,602	-	11,028	3,625	-
Investments held to cover linked liabilities	-	-	537	-	-	-
Other net assets	(3,794)	1,062	-	(4,298)	1,738	-
Technical Provisions	-	(4,664)	(537)	-	(5,363)	-
	27,895	-	-	6,730	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

3. Net operating expenses

	1998 £'000	1997 £'000
Acquisition expenses and other set up costs	8,871	3,663
Administrative expenses	1,070	1,331
	<u>9,941</u>	<u>4,994</u>
Reinsurance commissions	(8)	(39)
Net operating expenses	<u>9,933</u>	<u>4,955</u>

The total commission accounted for during the year in respect of direct insurance was £566,000 (1997 : £553,000).

4. Investment income

	Technical account Long term business		Non-technical Account	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Income from investments				
Income from listed investments	167	87	15	93
Income from other investments	120	155	1,905	464
	<u>287</u>	<u>242</u>	<u>1,920</u>	<u>557</u>
	<u>287</u>	<u>242</u>		
Investment activity account	1998 £'000	1997 £'000		
(a) Technical account				
Investment income	287	242		
Movement in unrealised investment losses	(34)	-		
Net investment return	<u>253</u>	<u>242</u>		
	<u>253</u>	<u>242</u>		
Attributable to linked business	(54)	-		
Other than linked business	307	242		
	<u>253</u>	<u>242</u>		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

4. Investment Income (continued)

	1998 £'000	1997 £'000
(b) Non-technical account		
Investment income	1,919	557
Interest paid	(348)	(302)
	<u>1,571</u>	<u>255</u>
Movement in unrealised investment gains	16	-
Net investment return	<u>1,587</u>	<u>255</u>
Total investment return	<u>1,840</u>	<u>497</u>

5. Investment expenses and charges

	Technical account Long term business		Non-technical Account	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Interest payable	-	-	348	302

6. Directors and employees

During the financial year the directors of the Company were employed by a subsidiary of Direct Line Group Limited or by Scottish Widows' Fund and Life Assurance Society.

Their services were charged to the Company by way of management charges of which £153,000 is estimated to be in relation to the services for the current year (1997 : £82,000).

The emoluments, of the directors whose services related primarily to the Company fell into the following categories:-

	1998 £'000	1997 £'000
Aggregate Emoluments (including fees)	-	21
	<u>-</u>	<u>21</u>
Highest Paid Director	1998 £'000	1997 £'000
Aggregate Emoluments	-	21
	<u>-</u>	<u>21</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 1998

6. Directors and employees (continued)

	1998 Number	1997 Number
Average number of full time equivalent employees	44	48
	<u>44</u>	<u>48</u>

Average number of total employees

	1998 Number	1997 Number
Clerical Staff	5	18
Other	39	30
	<u>44</u>	<u>48</u>
	<u>44</u>	<u>48</u>

The aggregate staff costs were:

	1998 £'000	1997 £'000
Salaries and wages	800	1,137
Social security	77	101
Pension costs (see note 21)	55	117
Total	<u>932</u>	<u>1,355</u>
	<u>932</u>	<u>1,355</u>

7. Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
Profit on ordinary activities before taxation is arrived at after charging:		
Depreciation	155	162
Auditors' remuneration - for audit	63	59

8. Taxation on ordinary activities

	1998 £'000	1997 £'000
Taxation on ordinary activities – technical account		
UK corporation tax at 31% (1997 : 32%)		
Current	1,450	1,224
Deferred	4	(20)
Taxation credit	<u>1,454</u>	<u>1,204</u>
	<u>1,454</u>	<u>1,204</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

8. Taxation on ordinary activities (continued)

Taxation on ordinary activities – non technical account	1998 £'000	1997 £'000
UK corporation tax at 31% (1997 : 32%)		
Current Taxation charge	(390)	(39)
	<u> </u>	<u> </u>
Taxation (charge) / credit	1,064	1,165
	<u> </u>	<u> </u>

9. (a) Investments : other financial investments

	1998		1997	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Debt securities and other fixed income securities (see note 9b)	2,991	2,893	2,953	2,893
Deposits with credit institutions	32,300	32,300	11,700	11,700
	<u>35,291</u>	<u>35,193</u>	<u>14,653</u>	<u>14,593</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

	1998 £'000	1997 £'000
Cost		
Balance at beginning of year	2,893	2,893
Additions / (disposals)	-	-
	<u>2,893</u>	<u>2,893</u>
Balance at end of year	2,893	2,893
	<u>2,991</u>	<u>2,953</u>
Market value at end of year		
	<u>2,991</u>	<u>2,953</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

10. Debtors arising out of direct insurance operations

	1998 £'000	1997 £'000
Policyholders	29	11
Due from reinsurer	331	73
	<u>360</u>	<u>84</u>

11. Other debtors

	1998 £'000	1997 £'000
Due from related parties (see note 23)	2,312	1,691
Other	105	87
	<u>2,417</u>	<u>1,778</u>

12. Reserves and policyholder liabilities

	Technical Provision for long term Business provision £'000	Technical provision for linked liabilities £'000	Profit and loss account £'000
Balance at beginning of year	5,363	-	(13,270)
Change in long term business provision	(725)	537	-
Change in claims provision	26	-	-
Loss for the year	-	-	(2,835)
Balance at end of year	<u>4,664</u>	<u>537</u>	<u>(16,105)</u>

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	
	1998	1997
Assurances	3.5	4.0
PHI	4.5	5.5
Pensions Linked	4.5	N/A

The mortality assumptions used are based on relevant industry statistics. Full details are available in the returns from the company to H.M Treasury.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

14. Tangible fixed assets

	Computer and other Equipment £'000
Cost	
Balance at beginning of year	922
Additions	28
Disposals	(231)
	<u>719</u>
Balance at end of year	
Depreciation	
Balance at beginning of year	350
Charge	155
On disposals	(76)
	<u>429</u>
Balance at end of year	
Net book value at 30 September 1998	<u>290</u>
	<u>572</u>
<i>Net book value at 30 September 1997</i>	

15. Called up share capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid		
44 million (1997 : 20 million) ordinary shares of £1 each	44,000	20,000
	<u>44,000</u>	<u>20,000</u>

The issued share capital of the Company was increased on 30 December 1997 by the issue of 24 million fully paid ordinary shares to Direct Line Life Holdings Limited in return for a cash consideration of £1 per share.

16. Claims outstanding

	1998 £'000	1997 £'000
Brought forward	108	67
Movement during the year	26	41
	<u>134</u>	<u>108</u>
Carried forward		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

17. Provisions for other risks and charges

	1998 £'000	1997 £'000
Deferred taxation		
Excess of capital allowances over depreciation	49	53
	<u> </u>	<u> </u>

The provision is in respect of the full amount of the liability.

18. Creditors arising out of direct insurance operations

	1998 £'000	1997 £'000
Amounts falling due within one year		
Policyholders	15	12
Due to reinsurer	470	412
Other	18	-
	<u>503</u>	<u>424</u>

19. Other creditors including taxation and social security

	1998 £'000	1997 £'000
Amounts falling due within one year		
Due to related parties (see note 23)	5,674	5,696
Other	1,144	680
	<u>6,818</u>	<u>6,376</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.

20. Assets of the long term business fund

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

	1998 £'000	1997 £'000
Investments	3,602	3,625
Assets held to cover linked liabilities	537	-
Reinsurer's share of technical provisions	1,062	1,738
	<u>5,201</u>	<u>5,363</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

21. Reconciliation of movements in Shareholders' funds

	1998 £'000	1997 £'000
Opening shareholder's funds	6,730	6,883
Additions to shareholder's funds	24,000	-
Profit / (loss) for the financial year	(2,835)	(153)
Closing Shareholders' funds	<u>27,895</u>	<u>6,730</u>

22. Pensions

As from 1 April 1998, a new pension scheme, the Direct Line Group Pension Scheme (1998) (the "1998 Scheme") became available to employees of the Company. The 1998 Scheme is a money purchase arrangement with defined contribution levels. Over 95% of employees who were invited to join the 1998 Scheme at 1 April elected to become members. 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") which was closed to new members after 1 October 1997 and the Company's contributions to it ceased after 31 March 1998. The Staff Scheme continues to provide benefits based on final 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. Contributions paid by the Company to the Staff Scheme up to 31 March 1998 were charged to the profit and loss account so as to spread the cost of pensions over employees working lives within the group. The level of contributions was determined by a qualified actuary on the basis of triennial valuations the most recent of which, as at 1 October 1995, 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 increases 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 £7,412,000 (1993 valuation : £2,703,000) and that the actuarial value of those assets represented 91% (1993 valuation : 74%) of the benefits that had accrued to members, after allowing for expected future increases in salary. 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.

Senior executives, who previously belonged to a separate funded money purchase arrangement, are now included in the 1998 Scheme.

The pension charge for the year was £55,000 (1997 : £117,000)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 1998

23. Related party transactions

Related Party	Sales to Related Party £'000	Purchases from Related Party £'000	Amounts owed by Related Party £'000	Amounts owed to Related Party £'000	Loan from Related Party £'000
Scottish Widows' Fund & Life Assurance Society		1,676		382	
The Royal Bank of Scotland plc	810		2,012	590	4,667
Direct Line Group Services Ltd		907	83		
Direct Line Financial Services Ltd	297	279		35	
Direct Line Unit Trusts Ltd	1,907		217		
	<u>3,014</u>	<u>2,862</u>	<u>2,312</u>	<u>1,007</u>	<u>4,667</u>

Scottish Widows' Fund and Life Assurance Society is one of the ultimate parent companies of Direct Line Life Insurance Company Limited.

The Royal Bank of Scotland plc, Direct Line Group Services Limited, and Direct Line Financial Services Limited are subsidiary companies of The Royal Bank of Scotland Group plc which is the other ultimate parent company of Direct Line Life Insurance Company Limited.

Both ultimate parent companies own 50 per cent of the share capital of Direct Line Life Holdings Limited which is the immediate parent of Direct Line Life Insurance Company Limited.

Direct Line Unit Trusts Limited is a fellow subsidiary of Direct Line Life Holdings Limited.

24. 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 consolidated financial statements, a copy of which can be obtained from the Secretary's Department, 250 St. Vincent Street, Glasgow.

The ultimate holding companies are The Royal Bank of Scotland Group plc and Scottish Widows' Fund and Life Assurance Society who own Direct Line Life Holdings Limited as a joint venture.