

# **RBS Collective Investment Funds Limited**

**Registered in Scotland No. SC46694    Registered Office: 24/25 St Andrew Square, Edinburgh, EH2 1AF**

## **Directors and Officers**

### **Directors**

S A Badley  
M P Bischoff  
D S Frumkin  
E A Munro  
N Nicandrou  
C E Riley  
G Storrie                      (Chief Executive)

### **Secretary**

M Craig

### **Auditor**

Deloitte & Touche LLP  
London, United Kingdom



# RBS Collective Investment Funds Limited

## Directors' report

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# **RBS Collective Investment Funds Limited**

## **Directors' report**

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The directors present their annual report and audited financial statements for RBS Collective Investment Funds Limited ('the Company') for the year ended 31 December 2007

### **Activity**

The principal activity of the Company is acting as the Authorised Corporate Director of RBS Collective Investment Funds ICVC, RBS Stakeholder Investment Fund ICVC and RBS Tracker Funds ICVC

The company is a member of The Royal Bank of Scotland Group (RBSG) which provides the company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that some of the performance indicators specific to the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from the Company Secretary, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's web site at [www.rbs.com](http://www.rbs.com)

### **Review of the year**

The directors are satisfied with the development of the company's activities during the year. The company will be guided by the boards of RBSG and Aviva in seeking further opportunities for growth. The directors do not recommend the payment of a final dividend for the year (2006 £nil)

The company's financial performance is presented in the Income Statement on page 8. The company monitors new business using Annualised Premium Equivalent (APE). APE equals the annualised regular premiums sold in the period plus a tenth of all single premiums sold in the period. APE in 2007 was £120,945,000 (2006 £84,499,000), an increase of 43%, reflecting sales growth strategies, including increased sales force headcount and greater marketing presence in branches.

Revenue has grown by £10,670,000 (2006 £7,949,000 restated) and cost of sales and operating expenses by £19,258,000 (2006 £19,021,000 restated), resulting in an increase in the operating loss before tax of £8,578,000 (2006 £11,072,000 restated).

At the end of the year, the financial position showed total assets of £28,608,000 (2006 £13,665,000 restated) and equity of £14,224,000 (2006 £5,668,000 restated). £26,000,000 of new capital has been injected into the business during the year to finance growth that is expected to generate profits in the future.

### **Principal risks and uncertainties**

The principal risk for the company in the long term is that initial and annual management charges applied to funds under management are insufficient to cover initial and ongoing expenses. Because the business is growing and immature, costs are higher than income in the short term.

Risk management policies and objectives are disclosed in Note 17.

### **Share capital**

On 30th January 2007 the issued share capital was increased from £55,605,219 to £67,605,219 by the issue of 24,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited.

On 29<sup>th</sup> June 2007 the issued share capital was increased from £67,605,219 to £69,605,219 by the issue of 4,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited.

# **RBS Collective Investment Funds Limited**

## **Directors' report**

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On 27th September 2007 the issued share capital was increased from £69,605,219 to £81,605,219 by the issue of 24,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited

### **Post balance sheet events**

On 26th March 2008 the issued share capital was increased from £81,605,219 to £89,605,219 by the issue of 16,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited

### **Directors and secretary**

The names of the present directors and secretary of the Company appear on page 1. Changes in the year are as follows

<b><u>Directors</u></b>	<b><u>Appointed</u></b>	<b><u>Resigned</u></b>
Simon Andrew Badley	28 August 2007	
Daniel Sweeney Frumkin	28 February 2007	
Mark Steven Hodges		28 August 2007

### **Elective resolutions**

The company has passed Elective Resolutions electing to dispense with the requirement to hold annual general meetings, lay directors' report and financial statements before a general meeting and re appoint auditors annually

### **Directors' Responsibilities**

The directors are responsible for preparing the financial statements and have also elected to do so in accordance with International Financial Reporting Standards ("IFRS"). Where IFRS has been elected, company law requires the directors to prepare such financial statements in accordance with IFRS and the Companies Act 1985

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to

Properly select and apply accounting policies,

Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information

Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and

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

# **RBS Collective Investment Funds Limited**

## **Directors' report**

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The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

### **Directors' Indemnities**

In terms of Section 236 of The Companies Act 2006, M P Bischoff, D S Frumkin, E A Munro and G Storrie have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

### **Directors' statement as to disclosure of information to auditors**

Each of the directors of the company holding office at the date of approval of this report confirm that

- (1) so far as each of the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) so far as each of the directors are aware they have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of s 234ZA of the Companies Act 1985

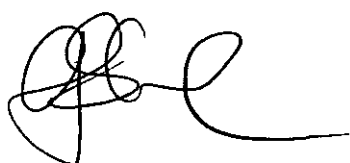
### **Auditors**

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors

### **Financial instruments**

The Company's financial risk management objectives and policies are discussed in Note 17 to the accounts

By order of the Board



**G Storrie** *Chief Executive*

*18 April 2008*

## **Independent auditors' report**

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### **Independent auditors' report to the members of RBS Collective Investment Funds Limited**

We have audited the financial statements of RBS Collective Investment Funds Limited for the year ended 31 December 2007 which comprise the Income statement, Balance sheet, Statement of recognised income and expense, Statement of changes in equity, Cash flow statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

## Independent auditors' report

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### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London, United Kingdom

18 April 2008

# RBS Collective Investment Funds Limited

## Income statement

For the year ended 31 December 2007

	Note	2007 £'000	Restated (see note 2) 2006 £'000
<b>Revenue</b>		<b>37,079</b>	<b>26,409</b>
Cost of sales		(46,415)	(34,546)
<b>Gross loss</b>		<b>(9,336)</b>	<b>(8,137)</b>
Other income		10	
Operating expenses	3,4	(15,864)	(8,475)
<b>Operating loss</b>		<b>(25,190)</b>	<b>(16,612)</b>
Interest receivable	5	420	467
Interest payable and similar charges	6	(133)	(281)
<b>Loss before tax</b>		<b>(24,903)</b>	<b>(16,426)</b>
Tax	7	7,459	4,425
<b>Loss for the year</b>	12	<b>(17,444)</b>	<b>(12,001)</b>

The accounting policies and notes on pages 13 to 27 are an integral part of these accounts




# RBS Collective Investment Funds Limited

## Balance sheet

As at 31 December 2007

	Note	2007 £'000	Restated (see note 2) 2006 £'000
<b>ASSETS</b>			
<b>Current assets</b>			
Financial investments	8	151	109
Trade and other receivables	10	10,795	6,296
Cash and cash equivalents	16	17,662	7,260
		<b>28,608</b>	<b>13,665</b>
<b>Total assets</b>		<b>28,608</b>	<b>13,665</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Attributable to equity shareholders</b>			
<b>Capital</b>			
Ordinary share capital	11	81,605	55,605
Retained earnings	12	(67,381)	(49,937)
<b>Total equity</b>		<b>14,224</b>	<b>5,668</b>
<b>Non current liabilities</b>			
Other liabilities	15	539	
		<b>539</b>	
<b>Current liabilities</b>			
Financial liabilities	13	203	102
Trade and other payables	14	10,727	6,469
Other liabilities	15	2,915	1,426
		<b>13,845</b>	<b>7,997</b>
<b>Total liabilities</b>		<b>14,384</b>	<b>7,997</b>
<b>Total equity and liabilities</b>		<b>28,608</b>	<b>13,665</b>

Approved by the Board on 18 April 2008 and signed on its behalf by

  
G Storr Chief Executive

The accounting policies and notes on pages 13 to 27 are an integral part of these accounts

# **RBS Collective Investment Funds Limited**

## **Statement of recognised income and expense**

For the year ended 31 December 2007

	2007 £'000	Restated (see note 2) 2006 £'000
Loss for the year	(17,444)	(12,001)
Total recognised income and expense for the year	(17,444)	(12,001)

The accounting policies and notes on pages 13 to 27 are an integral part of these accounts

# RBS Collective Investment Funds Limited

## Statement of changes in equity

For the year ended 31 December 2007

		Restated		
	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2006 as previously reported</b>		42,105	(23,523)	18,582
Change in accounting policy	2		(14,413)	(14,413)
<b>Balance at 1 January 2006 as restated</b>		42,105	(37,936)	4,169
Total recognised income and expense for the year (restated)	12		(12,001)	(12,001)
Issue of share capital		13,500		13,500
Total movements in the year		13,500	(12,001)	1,499
<b>Balance at 31 December 2006</b>		55,605	(49,937)	5,668
Total recognised income and expense for the year	12		(17,444)	(17,444)
Issue of share capital	11	26,000		26,000
Total movements in the year		26,000	(17,444)	8,556
<b>Balance at 31 December 2007</b>	11	81,605	(67,381)	14,224

The accounting policies and notes on pages 13 to 27 are an integral part of these accounts

# RBS Collective Investment Funds Limited

## Cash flow statement

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	16	(20,721)	(27,035)
Interest received and similar income		379	456
Tax received		4,776	2,815
<i>Net cash used by operating activities</i>		<b>(15,566)</b>	<b>(23,764)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares, net of transaction costs		26,000	13,500
Interest paid on borrowings		(133)	(281)
Repayment of subordinated debt			(4,500)
<i>Net cash from financing activities</i>		<b>25,867</b>	<b>8,719</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>10,301</b>	<b>(15,045)</b>
Cash and cash equivalents at 1 January		7,158	22,203
<b>Cash and cash equivalents at 31 December</b>	16	<b>17,459</b>	<b>7,158</b>

The accounting policies and notes on pages 13 to 27 are an integral part of these accounts

# **RBS Collective Investment Funds Limited**

## **Notes to the financial statements for the year ended 31 December 2007**

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### **1. Accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below

#### **Basis of presentation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable at 31 December 2007

In August 2005, the IASB issued IFRS 7, *Financial Instruments Disclosures*, and amendments to IAS 1, *Capital Disclosures*. Their requirements are applicable for accounting periods beginning on or after 1 January 2007 and have been adopted accordingly

#### **Revenue recognition**

Revenue comprises the fair value for services, net of value added tax, rebates and discounts

Revenue is recognised as follows

##### *a) Rendering of services*

Revenue arising from asset management and other related services offered by the Company, is recognised in the accounting period in which the services are rendered

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts

Investment management fees are recognised as revenue as the services are provided

##### *b) Interest income*

Interest income is recognised as it accrues

##### *c) Dividend income*

Dividend income is recognised when the right to receive payment is established

#### **Impairment of non financial assets**

Non financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows

# **RBS Collective Investment Funds Limited**

## **Notes to the financial statements for the year ended 31 December 2007**

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### **Financial investments**

The Company holds financial investments on a very short term basis to facilitate the purchase and sale of its customers' investments

The Company classifies its investments as financial assets at fair value through profit and loss (FV). The FV category is used as the Company's strategy is to manage its financial investments on a fair value basis. The Company chooses to designate its financial investments as FV as they do not meet the definition of being held for trading.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs. Investments are subsequently carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise.

The fair values of investments are based on quoted bid prices.

### ***Impairment***

The Company reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with less than 90 days maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within financial liabilities on the balance sheet.

### **Income taxes**

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

# **RBS Collective Investment Funds Limited**

## **Notes to the financial statements for the year ended 31 December 2007**

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### **Share capital**

#### *Equity instruments*

*A financial instrument is treated as equity if*

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- (ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets

### **Borrowings**

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

### **Pensions**

The company is not an employer. Charges for services are levied on the basis of services provided by a number of parties, including RBS Group. A proportion of the RBS Group charges for services will, ultimately, cover staff time and staff pension costs including charges in respect of past service costs.

The Group provides post retirement benefits in the form of pensions and healthcare plans to eligible employees.

The cost of defined benefit pension schemes and healthcare plans to the Royal Bank of Scotland Group is assessed by independent professionally qualified actuaries and recognised on a systematic basis over employees' service lives. For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities is charged to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside profit or loss and presented in the statement of recognised income and expense.

There is no contractual agreement or policy on the way that the cost of Royal Bank of Scotland Group defined benefit pension schemes and healthcare plans are allocated. It therefore accounts for the charges it incurs as payments to a defined contribution scheme.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

## **2. Change in accounting policies**

During 2007, the Company changed its accounting policy on the recognition of asset management and related service fees and costs in order to better reflect economic reality. Previously initial fees and costs were recognised on a straight line basis over the estimated life of the contract. The new accounting policy recognises fees and costs as the service is provided.

# **RBS Collective Investment Funds Limited**

## **Notes to the financial statements for the year ended 31 December 2007**

This change in accounting policy has been accounted for retrospectively, and the comparative statements for 2006 have been restated. The effect of the change on 2007 and 2006 is tabulated below. Opening retained earnings for 2006 have been reduced by £14,413,000, which is the amount of the adjustment relating to periods prior to 2006.

### **Effect on 2007 and 2006**

	<b>£'000</b>	<b>£'000</b>
Increase in revenue	<b>7,942</b>	7,491
(Increase) in cost of sales	<b>(6,957)</b>	(7,013)
(Increase) / decrease in taxation	<b>(295)</b>	1,159
<b>Decrease in loss</b>	<b>690</b>	<b>1,637</b>

### **Effect on periods prior to 1 January 2006**

	<b>£'000</b>
(Decrease) in deferred acquisition costs	(31,310)
Decrease in other liabilities	12,581
Decrease in deferred tax liabilities	3,909
Increase in trade and other receivables	407
<b>(Decrease) in retained earnings</b>	<b>(14,413)</b>
<b>(Decrease) in retained earnings at 31<sup>st</sup> December 2006</b>	<b>(12,776)</b>

## **3. Directors and employees**

### **Directors' emoluments**

The members of the Board of Directors are listed on page 1 of these financial statements. The directors are remunerated by The Royal Bank of Scotland Group plc (RBSG), the ultimate holding company, or Aviva Employment Services Ltd (AESL), a subsidiary of Aviva plc, which exerts significant influence over the Company. Details of their emoluments are given in the financial statements of the relevant group.

### **Employees**

The sales force is employed by RBSG. Other staff, including administrative staff, are employed by RBSG and AESL. The cost of the RBSG employees, an element in respect of directors' emoluments and other costs incurred by RBSG in relation to the provision of other services, are recharged to the Company. The cost of AESL employees is charged to the Company via a management services agreement with Norwich Union Life Services Limited, another company within the Aviva plc group. The proportion of the charge relating to staff costs and directors' emoluments is not separately identifiable.



**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

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**4. Auditors' remuneration**

The total remuneration payable by the Company, including VAT and any overseas equivalent thereof, to its principal auditors, Deloitte & Touche LLP, in respect of the audit of these accounts is shown below, together with fees payable in respect of other work

	2007 £'000	2006 £'000
Audit services		
Fees payable to the company's auditor for the audit of the company's annual accounts	28	28
Other services		
Other services pursuant to legislation	14	13
	<b>42</b>	<b>41</b>

Information on fees receivable by the company's auditor in respect of services provided to the RBS Group pension scheme is disclosed in the financial statements of RBS Group. The financial statements of RBS Group are available on application to the Group Company Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Business House F, PO Box 1000, Edinburgh, EH12 1HQ

**5. Interest receivable**

	2007 £'000	2006 £'000
Bank interest receivable	420	467

**6. Interest payable and similar charges**

	2007 £'000	2006 £'000
Bank charges	131	110
Interest payable on bank loans and overdrafts	2	171
	<b>133</b>	<b>281</b>

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

## 7. Tax

### (a) Tax credited to the income statement

The total tax credit comprises

	2007	Restated 2006
	£'000	£'000
<b>Current tax (Consortium relief receivable):</b>		
For this year	7,471	4,447
Prior year adjustments	(12)	(22)
Total current tax	7,459	4,425
<b>Deferred tax:</b>		
For this year		
Prior year adjustments		
Total deferred tax		
Total tax credited to the income statement	7,459	4,425

### (b) Tax reconciliation

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows

	2007	Restated 2006
	£'000	£'000
Loss before tax	(24,903)	(16,426)
Tax calculated at standard UK corporation tax rate of 30% (2006 30%)	7,471	4,928
Adjustment to tax charge in respect of prior years	(12)	(22)
Unutilised losses carried forward	-	(481)
Group relief surrendered without payment		
Total tax credited to the income statement (note 7a)	7,459	4,425

## 8. Financial investments

	2007	2006
	Other than trading*	Other than trading*
	£'000	£'000
Shares in Open Ended Investment Companies	151	109

\* At fair value through profit and loss

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

**9. Deferred tax**

The movement in the net deferred tax liability was as follows

	Total £'000
At 1 January 2006 as previously reported	(3,909)
Effect of prior year adjustment taken to equity (see note 2)	3,909
At 1 January 2006 as restated	-
Charge / (credit) to equity directly	(458)
Effect of prior year adjustment (see note 2)	458
At 1 January 2007	
Charge to income statement (see note 7a)	
At 31 December 2007	

Deferred tax assets of £3,761,280 (2006 £4,029,943) resulting from tax losses carried forward of £13,433,144 (2006 £13,433,144) have not been recognised as there is insufficient evidence that the asset will be recoverable. These assets may be recoverable if the losses can be offset against suitable future taxable profits arising in the same tax jurisdiction.

**10. Trade and other receivables**

	2007 £'000	Restated 2006 £'000
Trade debtors	6,155	4,341
Prepayments and accrued income	52	11
Consortium relief receivable	4,587	1,904
Other receivables	1	40
	<b>10,795</b>	<b>6,296</b>

**11. Ordinary share capital**

(a) Details of the Company's ordinary share capital is as follows:

	2007 £'000	2006 £'000
The authorised share capital of the Company at 31 December 2007 was 178,000,000 (2006 150,000,000) ordinary shares of £0.50 each	<b>89,000</b>	<b>75,000</b>
The allotted, called up and fully paid share capital of the Company at 31 December 2007 was 163,210,438 (2006 111,210,438) ordinary shares of £0.50 each	<b>81,605</b>	<b>55,605</b>

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

(b) During 2007, a total of 52,000,000 ordinary shares of £0.50 each were allotted and issued by the Company as follows

	Number of shares	Share capital £'000
At 1 January	111,210,438	55,605
Shares issued	52,000,000	26,000
At 31 December	<b>163,210,438</b>	<b>81,605</b>

On 30 January 2007 the issued share capital was increased from £55,605,219 to £67,605,219 by the issue of 24,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited at par value for cash

On 29 June 2007 the issued share capital was increased from £67,605,219 to £69,605,219 by the issue of 4,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited at par value for cash

On 27 September 2007 the issued share capital was increased from £69,605,219 to £81,605,219 by the issue of 24,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited at par value for cash

## 12. Retained earnings

	2007 £'000	Restated 2006 £'000
Balance at 1 January (see note 2)	(49,937)	(37,936)
Loss for the year	(17,444)	(12,001)
<b>Balance at 31 December</b>	<b>(67,381)</b>	<b>(49,937)</b>

## 13. Financial liabilities

	2007 £'000	2006 £'000
Bank overdraft	203	102
	<b>203</b>	<b>102</b>
Expected to be settled within one year	203	102
Expected to be settled in more than one year		
	<b>203</b>	<b>102</b>

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

**14. Trade and other payables**

	2007	2006
	£'000	£'000
Trade payables	4,056	3,210
Amounts owed to group undertakings	6,610	2,901
Other payables	61	358
	<b>10,727</b>	<b>6,469</b>

**15. Other liabilities**

	2007	Restated 2006
	£'000	£'000
Deferred income	651	
Accruals	2,803	1,426
	<b>3,454</b>	<b>1,426</b>
Due within one year	2,915	1,426
Due after more than one year	539	
	<b>3,454</b>	<b>1,426</b>

**16. Cash flow statement**

(a) The reconciliation of loss before tax to cash flows from operating activities is.

	2007	Restated 2006
	£'000	£'000
Loss before tax	(24,903)	(16,426)
Adjustments for		
Interest received and similar income	(420)	(456)
Interest expense on borrowings	133	281
Changes in working capital		
(Increase) in trade and other receivables	(1,775)	(456)
Increase / (decrease) in trade and other payables	4,258	(7,943)
Increase / (decrease) in other liabilities	2,028	(2,039)
Net sale / (purchase) of operating assets		
Financial investments	(42)	4
Net cash flow from continuing operations	<b>(20,721)</b>	<b>(27,035)</b>

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

(b) Cash and cash equivalents in the Cash flow statement at 31 December comprised:

	2007	2006
	£'000	£'000
Cash at bank and in hand	17,662	7,260
Cash equivalents		
	17,662	7,260
Bank overdrafts (note 13)	(203)	(102)
	17,459	7,158

## 17. Risk management objectives and policies

The primary objective of our risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities

The Company is exposed to financial risk through its financial assets and financial liabilities

The Company holds financial investments on a very short term basis to facilitate the purchase and sale of its customers' investments. Its primary exposure to financial risk from these investments is the risk of volatility in market price movements. The risks are mitigated by the holding of investments in most cases for one to two days, and in the worst case for less than one month, and by a management policy restricting the value of investments that can be held at any one time to a pre determined maximum.

The cash and cash equivalents held expose the Company to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Company also takes on exposure to credit risk on the majority of its cash and cash equivalents and trade and other receivables, being the risk that the counterparty will be unable to pay amounts in full when due. This risk is mitigated by limiting credit risk exposure to counterparties with strong credit ratings, this is in line with RBSG group credit risk policy.

The Company is exposed to liquidity risk through its need to be able to pay its trade creditors when due. This risk is mitigated by investing in short term deposits.

The Company is not exposed to currency risk.

No sensitivity analysis has been performed as the financial investment holdings as at the balance sheet date were immaterial and any changes in the interest rates or equity prices would not have a material impact on the loss/equity.

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

**18. Related party transactions**

The immediate holding company is RBSG Collective Investments Limited, a company registered in Scotland

The ultimate controlling entity is The Royal Bank of Scotland Group plc, a company registered in Scotland. Its group accounts are available on application to the Group Company Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Business House F, PO Box 1000, Edinburgh, EH12 1HQ

The following transactions were carried out with related parties

- (a) The members of the Board of Directors are listed on page 1 of these financial statements. There are no accounts receivable from or payments due to members of the Board of Directors
- (b) **Amounts receivable in respect of tax group relief**

	2007	Restated 2006
	£'000	£'000
Current tax group relief		
Ultimate parent	3,730	2,213
Entities with significant influence over the Company (Aviva plc)	3,729	2,212
	<b>7,459</b>	<b>4,425</b>

The company receives advance payment for losses surrendered for group relief based on a forecasted loss for the year

(c) **Amounts payable**

As a result of The Royal Bank of Scotland Group plc (the Company's ultimate holding company) and Aviva plc's strategic alliance, the Company has purchased services from companies related to both strategic alliance partners. RBS counterparties include Royal Scottish Assurance plc and RBS Group. Aviva counterparties include Norwich Union Life Services Ltd and Morley Fund Management Ltd (classified as 'Other related parties').

	2007	2006
	£'000	£'000
Purchases of services		
RBS related parties (acquisition costs)	46,411	34,574
RBS related parties (investment handling services)	296	
Aviva related parties (investment handling services)	2,409	2,152
Aviva related parties (administration services)	5,113	3,947
	<b>54,229</b>	<b>40,673</b>
Interest payable and similar charges on RBS bank account	91	90
Interest payable and similar charges on NatWest bank account	42	191
	<b>133</b>	<b>281</b>

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

**(d) Year end balances arising from income and expenses**

	2007 £'000	2006 £'000
Payables to related parties		
RBS related parties	7,336	3,054
Aviva related parties	1,609	1,386
	<b>8,945</b>	<b>4,440</b>
RBS bank account overdraft	203	102
NatWest bank account overdraft		
	<b>203</b>	<b>102</b>

The related parties' balances are not secured and no guarantees were received in respect thereof. The balances will be settled in accordance with normal credit terms.

**(e) Pensions**

The company is not an employer. Charges for services are levied on the basis of services provided by a number of parties, including RBS Group. A proportion of the RBS Group charges for services will, ultimately, cover staff time and staff pension costs including charges in respect of past service costs.

Members of the Group sponsor a number of pension schemes in the UK and overseas, predominantly defined benefit schemes, whose assets are independent of the Group's finances. The Group's defined benefit schemes generally provide a pension of one sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years. Employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits on a money purchase basis. Since October 2006 The Royal Bank of Scotland Group Pension Fund ('Main scheme') has been closed to new entrants. The Group also provides post retirement benefits other than pensions, principally through subscriptions to private healthcare schemes in the UK and the US and unfunded postretirement benefit plans. Provision for the costs of these benefits is charged to the income statement over the average remaining future service lives of eligible employees.

Interim valuations of the Group's schemes were prepared to 31 December by independent actuaries, using the following assumptions:

	2007	2006
<b>Principal actuarial assumptions at 31 December</b>		
Discount rate	6.0%	5.3%
Expected return on plan assets (weighted average)	6.9%	6.9%
Rate of increase in salaries	4.5%	4.2%
Rate of increase in pensions in payment	3.2%	2.9%
Inflation assumption	3.2%	2.9%



**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

	2007	2006
<b>Major classes of plan assets as a percentage of total plan assets</b>		
Equities	<b>61.0%</b>	60.5%
Index linked bonds	<b>18.2%</b>	17.3%
Government fixed interest bonds	<b>1.2%</b>	2.5%
Corporate and other bonds	<b>15.1%</b>	14.0%
Property	<b>3.8%</b>	4.3%
Cash and other assets	<b>0.7%</b>	1.4%

Pension plan assets of the Main scheme include a holding of the company's ordinary shares with a fair value of £65 million (2006 £87 million), and financial instruments issued by the Group with a value of £606 million (2006 £258 million)

The expected return on plan assets at 31 December is based upon the weighted average of the following assumed returns on the major classes of plan assets

	2007	2006
<b>Major classes of plan assets as a percentage of total plan assets</b>		
Equities	<b>8.1%</b>	8.1%
Index linked bonds	<b>4.5%</b>	4.5%
Government fixed interest bonds	<b>4.5%</b>	4.5%
Corporate and other bonds	<b>5.5%</b>	5.3%
Property	<b>6.3%</b>	6.3%
Cash and other assets	<b>4.6%</b>	4.6%

	2007	2006
<b>Post retirement mortality assumptions</b>		
Longevity at age 60 for current pensioners (years)		
Males	<b>26.0</b>	26.0
Females	<b>26.8</b>	28.9
Longevity at age 60 for future pensioners (years)		
Males	<b>28.1</b>	26.8
Females	<b>28.2</b>	29.7

**RBS Collective Investment Funds Limited**  
**Notes to the financial statements for the year ended 31 December 2007**

**Movement in the Main scheme deficit during the year**

	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2006	15,914	19,118	3,204
Income statement			
Expected return	1,022		(1,022)
Interest cost		918	918
Current service cost		571	571
Past service cost		15	15
	<u>1,022</u>	<u>1,504</u>	<u>482</u>
Statement of recognised income and expense			
Actuarial gains and losses	552	(1,077)	(1,629)
Contributions by employers	427		(427)
Benefits paid	(515)	(515)	
Expenses included in service cost	(26)	(26)	
At 1 January 2007	<u>17,374</u>	<u>19,004</u>	<u>1,630</u>
Income statement			
Expected return	1,182		(1,182)
Interest cost		1,007	1,007
Current service cost		566	566
Past service cost		19	19
	<u>1,182</u>	<u>1,592</u>	<u>410</u>
Statement of recognised income and expense			
Actuarial gains and losses	163	(1,937)	(2,100)
Intra group transfers	30	30	
Contributions by employers	416		(416)
Benefits paid	(551)	(551)	
Expenses included in service cost	(39)	(39)	
At 31 December 2007	<u>18,575</u>	<u>18,099</u>	<u>(476)</u>

The Group expects to contribute £413 million to the Main defined benefit scheme in 2007. Of the net pension liability, £212 million (2006: £106 million) relates to unfunded schemes.

Cumulative net actuarial gains of £1,570 million (2006: £619 million losses) have been recognised in the statement of recognised income and expense, of which £1,579 million (2006: £521 million losses) relate to the Main scheme.

	2007 £m	2006 £m
<b>History of defined benefit schemes</b>		
Present value of defined benefit obligations	18,099	19,004
Fair value of plan assets	18,575	17,374
Net surplus / (deficit)	<u>476</u>	<u>1,630</u>
Experience losses on plan liabilities	(256)	(4)
Experience gains on plan liabilities	163	552
Actual return on pension schemes assets	1,345	1,574

## **19. Post balance sheet events**

On 26th March 2008 the issued share capital was increased from £81,605,219 to £89,605,219 by the issue of 16,000,000 ordinary shares of 50p each to RBSG Collective Investments Limited