

Royal Scottish Assurance plc

Registered in Scotland No 119820

Registered Office: 42 St Andrew Square, Edinburgh, Scotland, EH2 2YE

Directors, Officers and Advisors

Directors

B Higgins (Chairman)
D F S Rogers (Chief Executive)
P R Hales
I A Henderson
F Mackle
J A Newman
D R H Heslop

Secretary

A E Mills

Auditors

Deloitte & Touche LLP
Edinburgh



Contents

	Page
Directors' report	3
Statement of directors' responsibilities for financial reporting	6
Independent Auditors' report	7
Consolidated profit and loss account: Technical account - long term business	8
Consolidated profit and loss account: Non-technical account	9
Statement of consolidated total recognised gains and losses	10
Reconciliation of movements in consolidated shareholders' funds	10
Balance sheet: Group and Company	11
Consolidated cash flow statement	13
Notes to the accounts	14

Directors' report

The directors present their annual report and audited financial statements for Royal Scottish Assurance plc ('the Company') and its subsidiary (together 'the Group') for the year ended 31 December 2004.

Principal activity

The principal activity of the Company and the Group is the provision of life assurance and pension business in the United Kingdom. The directors consider that this will continue unchanged into the foreseeable future.

The annual valuation of the assets and liabilities of the Company is made as at 31 December 2004 and further details of the valuation and distribution of profits will be provided in due course in the returns to the Financial Services Authority.

Review of business and future operations

The directors consider that the financial position of the Group is satisfactory and that the present levels of activity will be maintained.

Dividend

The directors do not recommend the payment of a dividend (2003: £nil).

Directors

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

Director	Date of Appointment	Date of Resignation
D J Ballantyne	-	8 December 2004
J A Newman	1 January 2004	-
D J Stewart	-	1 April 2004
D R H Heslop	4 January 2005	-

Directors' interests

No director had an interest in the shares of the Company.

The following directors were beneficially interested in the 25p ordinary shares of The Royal Bank of Scotland Group plc, the ultimate holding company.

	At 1 January 2004*	At 31 December 2004
I A Henderson	28,010	28,669
B Higgins	367	463
F Mackle	-	261

* Or date of appointment, if later

Directors' report

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the year to 31 December 2004 are included in the table below:-

	At 1 January 2004*	Granted during the year		Exercised during the year		At 31 December 2004
		Options	Price	Options	Price	
I A Henderson	62,057	113 9,516	12.09 17.34	- -	- -	71,686
B Higgins	87,325	38,206	17.34	-	-	125,531
F Mackle	-	1,455 15,427	12.09 17.34	- -	- -	16,882

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 31 December 2004.

In addition, during that year none of the directors held a beneficial interest in the loan capital of The Royal Bank of Scotland Group plc or in the share or loan capital of any of the other subsidiaries of The Royal Bank of Scotland Group plc, including the Company.

Employees

The Company is committed to a policy of equal opportunity in the recruitment, training, career development and promotion of staff irrespective of sex, marital status, age, religion, race or nationality. Full and fair consideration is also given to disabled persons, including the rehabilitation and retention of staff who become disabled, having regard to their particular aptitude and abilities. It is recognised that good communication with all employees is vital to the Company's performance, and this process involves regular briefings to all staff and a range of written communications.

Political and charitable contributions

The Company made no charitable or political contributions during the year (2003: £nil).

Directors' report

Creditor payment policy and practice

Under a management agreement, The Royal Bank of Scotland plc, a fellow group undertaking, provides services in relation to creditor payments and a charge is made to the Company for this service. Accordingly, the relevant disclosures in relation to creditor payment policy and practice are included in the directors' report of The Royal Bank of Scotland plc.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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

By order of the Board



A E Mills Secretary

29 March 2005

Statement of directors' responsibilities for financial reporting

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

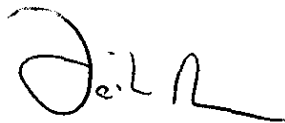
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company or Group will continue in business.

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

The directors confirm that these financial statements comply with the aforementioned requirements.



D F S Rogers
Chief Executive



F Mackle
Director

Independent Auditors' report

Independent auditors' report to the members of Royal Scottish Assurance plc

We have audited the financial statements of Royal Scottish Assurance plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the consolidated cash flow statement, the statement of consolidated total recognised gains and losses, the reconciliation of movements in consolidated shareholders funds, the balance sheets and the related notes 1 to 24. 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

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 and other members of the group 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 or material inconsistencies with the financial statements.

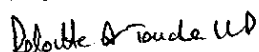
Basis of audit opinion

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 circumstances of the company and the group, 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 affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Edinburgh

29 March 2005

Consolidated Profit and loss account

for the year ended 31 December 2004

Technical account - long term business

	Note	2004 £000	2003 £000
Earned premiums, net of reinsurance			
Gross premiums written	2	187,837	153,233
Outward reinsurance premiums		(11,490)	(9,074)
		<u>176,347</u>	<u>144,159</u>
Investment income	3	41,353	23,421
Unrealised gains on investments		61,563	114,016
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(132,736)	(253,631)
Reinsurers' share		4,059	4,373
		<u>(128,677)</u>	<u>(249,258)</u>
Change in the provision for claims			
Gross amount	17	6,145	(682)
Reinsurers' share	17	199	(829)
		<u>6,344</u>	<u>(1,511)</u>
		<u>(122,333)</u>	<u>(250,769)</u>
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	17	(79,391)	(11,422)
Reinsurers' share	17	53,513	5,741
		<u>(25,878)</u>	<u>(5,681)</u>
Other technical provisions, net of reinsurance	17	<u>(56,818)</u>	<u>26,434</u>
		<u>(82,696)</u>	<u>20,753</u>
Net operating expenses	4	(31,952)	(27,291)
Investment expenses and charges	5	(13,314)	(10,856)
Tax attributable to long term business	8b	(7,840)	(10,554)
Balance on the technical account - long term business		<u>21,128</u>	<u>2,879</u>

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2004 of £46,281,000 (2003: Credit £211,000).

Consolidated Profit and loss account
for the year ended 31 December 2004

Non-technical account

	Note	2004 £000	2003 £000
Balance on the long term business technical account		21,128	2,879
Tax credit attributable to balance on the long term business technical account	8a	<u>9,055</u>	<u>1,234</u>
		30,183	4,113
Investment income	3	<u>1,134</u>	<u>984</u>
Operating profit on ordinary activities before taxation	6	31,317	5,097
Taxation on profit on ordinary activities	8a	<u>(9,395)</u>	<u>(1,529)</u>
Profit for the financial year after taxation		21,922	3,568
Dividends paid and proposed		-	-
Retained profit for the year		21,922	3,568

All results relate to continuing operations.

A reconciliation of the movement in shareholders' funds can be found on page 10.

Statement of consolidated total recognised gains and losses

for the year ended 31 December 2004

The Group has no recognised gains or losses other than those included in the results above. Accordingly, a statement of recognised gains and losses is not given.

Reconciliation of movements in consolidated shareholders' funds

for the year ended 31 December 2004

	2004 £000	2003 £000
Profit for the financial year	21,922	3,568
Share capital	-	-
Net addition to shareholders' funds	21,922	3,568
Opening shareholders' funds	131,240	127,672
Closing shareholders' funds	153,162	131,240

Balance Sheet – Group and Company

as at 31 December 2004

Assets

	Note	2004 £000	2003 £000
Investments			
Other financial investments	10	273,430	233,860
		<u>273,430</u>	<u>233,860</u>
Assets held to cover linked liabilities	11	1,101,470	1,044,652
Reinsurers' share of technical provisions			
Long term business provision	17	82,373	28,860
Claims outstanding	17	870	671
		<u>83,243</u>	<u>29,531</u>
Debtors			
Debtors arising out of direct insurance operations	12	1,686	1,862
Debtors arising out of reinsurance operations		4,003	2,415
Other debtors	13	15,360	33,963
		<u>21,049</u>	<u>38,240</u>
Other assets			
Tangible assets	14	-	37
Cash at bank and in hand		10,155	2,090
		<u>10,155</u>	<u>2,127</u>
Prepayments and accrued income			
Accrued interest and rent		4,118	1,375
Deferred acquisition costs		21,378	21,200
Other prepayments and accrued income		477	258
		<u>25,973</u>	<u>22,833</u>
Total assets		<u>1,515,320</u>	<u>1,371,243</u>

Balance Sheet – Group and Company
as at 31 December 2004

Liabilities

	Note	2004 £000	2003 £000
Capital and reserves			
Called up share capital	15	148,200	148,200
Profit and loss account	16	4,962	(16,960)
Shareholders' funds attributable to equity interests		153,162	131,240
Technical provisions			
Long term business provision	17	202,343	122,952
Claims outstanding	17	11,000	17,145
		213,343	140,097
Technical provisions for linked liabilities	17	1,101,470	1,044,652
Creditors			
Creditors arising out of direct insurance operations		839	3,801
Creditors arising out of reinsurance operations		1,545	2,421
Deferred tax	8e	11,395	421
Other creditors including taxation and social security	18	22,801	39,929
		36,580	46,572
Accruals and deferred income		10,765	8,682
Total liabilities		1,515,320	1,371,243

The financial statements on pages 8 to 28 were approved by the Board on 29 March 2005 and were signed on its behalf by



D F S Rogers *Chief Executive*

Consolidated cash flow statement

For the year ended 31 December 2004

	Note	2004 £000	2003 £000
Operating activities			
Net cash (outflow) / inflow from operating activities	20	(6,618)	4,927
Returns on investments and servicing of finance	20	1,134	984
Net cash (outflow) / inflow	20	(5,484)	5,911
The net cash (outflow) / inflow was applied / invested as follows:			
Net portfolio (disinvestment) / investment			
Deposits with credit institutions	20	(4,049)	5,802
(Decrease) / increase in cash holdings	20	(1,435)	109
Net (disinvestment) / investments of cash flows		(5,484)	5,911

Notes to the accounts

1 Accounting policies

Basis of preparation

The consolidated accounts have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and comply with the Statement of Recommended Practice ('SORP') on Accounting for Insurance Business issued by the Association of British Insurers in November 2003.

The Company has adopted the modified statutory solvency basis of accounting for long term insurance business.

The Company has one subsidiary, RSA (Services) Limited, which has been consolidated into the Group accounts. As permitted by section 230 of the Companies Act 1985, the Parent Company's profit and loss account has not been included in these accounts. The profit of the Company was the same as that for the Group for the year ended 31 December 2004 and the previous year. All intercompany balances are eliminated from the Group accounts.

Premiums

Non-linked business premiums are accounted for in the period in which they fall due. Linked business premiums are accounted for when the actuarial liability is established. Reinsurance premiums are charged when they become payable.

Claims

Claims and surrenders paid to policyholders are included net of reinsurance but include costs of settlement and handling costs. Claims and surrenders intimated by the end of the financial period are provided for in the accounts. Maturity claims are recognised in the technical account when due for payment. Reinsurance claims are credited when they become receivable.

Bonuses

Reversionary bonuses are recognised in the technical account for long term business when they are declared and terminal bonuses are recognised when the bonus is paid.

Investment income

Investment income comprises dividends, interest, rent and realised investment gains and losses net of related charges. Investment income on investments attributable to the long term business is reported in the technical account for long term business. Investment income on assets not directly attributable to the long term business is included in the non-technical account.

Investment income is recognised on an accruals basis. Dividend income is recognised when the related investment is declared ex-dividend.

Net realised gains and losses represent the difference between the net sale proceeds of an investment and the purchase price. Net realised gains and losses are included within the technical account for long term business if these are attributable to assets in the long term business fund. All other net realised gains and losses are included in the non-technical account.

Unrealised gains and losses on investments

The movement in net unrealised gains and losses represents the difference between the valuation of investments at the balance sheet date and the valuation at the last balance sheet date, or purchase price if purchased during the year, after adjustment for any previously recognised unrealised gains and losses on investments disposed of in the year.

Notes to the accounts

1 Accounting policies (continued)

Acquisition costs and deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to subsequent financial years. For both linked and non-linked business, an explicit deferred acquisition cost asset has been established in the balance sheet.

Deferral of costs has been limited to the extent that they are expected to be recovered out of future margins. The rate of amortisation of the deferred acquisition costs is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period that the relevant contracts are expected to remain in force.

Taxation and deferred taxation

Provision is made for taxation at current enacted rates on taxable profits taking into account relief for overseas taxation where appropriate. Timing differences arise where gains and losses are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is accounted for in full for all such timing differences, except in relation to revaluations of fixed assets where there is no commitment to dispose of the asset, gains on sales of fixed assets that are rolled over into replacement assets, and the remittance of overseas earnings.

Deferred tax assets are only recognised to the extent that it is regarded that it is more likely than not that they will be recovered. Deferred tax amounts are not discounted.

Pensions costs

Pensions costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are matched evenly, so far as possible, to the estimated service life of the employees concerned. The defined benefit and costs are calculated in accordance with triennial independent actuarial valuations.

Investments

Investments are stated at their current values at the end of the year. Current values, for this purpose, are: stock exchange mid-market values for listed securities; market value for debt securities; bid price for unit trusts and OEICS; average trading prices for unlisted securities where a market exists; and directors' valuations for other unlisted securities, mortgages and loans.

Fixed assets

Depreciation is provided to write off the cost of tangible fixed assets over their estimated useful economic lives as follows:-

Computers and motor vehicles are depreciated on a straight-line basis over three to five years and fixtures, fittings, and office equipment over periods between five and ten years.

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. All other leases are operating leases and the rental charges are taken to the profit and loss account: technical account as incurred over the lease term.

Notes to the accounts

1 Accounting policies (continued)

Long term business provision and provision for linked liabilities

The long term business provision is determined by the Reporting Actuary following his annual investigation of the long term business and is calculated initially in accordance with the requirements of the FSA Interim Prudential Sourcebook and FSA Prudential Sourcebook. A prospective gross premium valuation method is used for all business with the exception of unit-linked contracts where the provisions are based on the market value of the related assets. The long term business provision includes a non-unit liability in respect of unit linked business. The results are modified by removing certain resilience and other reserves that are required under the Interim Prudential Sourcebook and the Prudential Sourcebook.

Foreign currencies

Assets and liabilities denominated in foreign currencies are valued at rates ruling at the balance sheet date. Any changes in value arising are dealt with in the profit and loss account: technical account as investment gains or losses or other income as appropriate.

Forward foreign exchange contracts are translated at the market rates ruling at the balance sheet date and the difference between those values and the contract prices are dealt with in the profit and loss account: technical account as unrealised gains or losses on investments.

Notes to the accounts

2 Premiums

Gross premiums written

Gross premiums are derived from contracts written in the United Kingdom and can be analysed as follows:

	2004 £000	2003 £000
Gross premiums written		
Individual premiums	34,336	13,104
Premiums under group contracts	153,501	140,129
	187,837	153,233
Life Insurance business		
Non participating contracts - periodic premiums	20,386	12,861
- single premiums	34,336	13,104
Linked contracts - periodic premiums	22,640	28,682
- single premiums	83,367	67,092
	160,729	121,739
Pension business		
Non participating contracts - periodic premiums	1,539	1,620
- single premiums	5,377	4,871
Linked contracts - periodic premiums	18,511	22,384
- single premiums	1,681	2,619
	27,108	31,494
Gross premiums written	187,837	153,233
Outward reinsurance premiums	(11,490)	(9,074)
Net premiums written	176,347	144,159

New business

	2004 £000	2003 £000
New annual premiums	10,432	12,071
New single premiums	124,761	87,686

The above figures are gross of reinsurance.

In classifying new business premiums the following bases of recognition have been adopted:

- Recurrent single premium contracts are included as new business, single premiums.
- Increments under existing group pension schemes are classified as new business premiums

Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis.

Notes to the accounts

3 Investment income

	Technical account		Non-Technical account	
	2004	2003	2004	2003
	£000	£000	£000	£000
Income from other investments	48,435	43,229	1,134	984
Net losses on the realisation of investments	(7,082)	(19,808)	-	-
	<u>41,353</u>	<u>23,421</u>	<u>1,134</u>	<u>984</u>

4 Net operating expenses

	2004	2003
	£000	£000
Acquisition costs	15,492	20,568
Change in deferred acquisition costs	(178)	(10,600)
Administrative expenses	16,638	17,435
Commission received	-	(112)
	<u>31,952</u>	<u>27,291</u>

5 Investment expenses and charges

	Technical account		Non-Technical account	
	2004	2003	2004	2003
	£000	£000	£000	£000
Interest payable	11,647	8,914	-	-
Investment management expenses	1,667	1,942	-	-
	<u>13,314</u>	<u>10,856</u>	<u>-</u>	<u>-</u>

Notes to the accounts

6 Operating profit on ordinary activities before tax

	2004 £000	2003 £000
Operating profit on ordinary activities before tax is stated after charging/(crediting):		
Remuneration of auditors:		
Audit		
Deloitte & Touche LLP	191	236
PricewaterhouseCoopers LLP	68	65
Other services		
Deloitte & Touche LLP	140	556
PricewaterhouseCoopers LLP	103	81
Depreciation	37	72
(Profit) / Loss on disposal of tangible fixed assets	(18)	14
Net commissions payable in respect of direct business	2,371	2,409

Included in the total amount recharged to the Company are costs relating to land and buildings operating lease rentals. The proportion of the charge relating to these costs is not separately identifiable.

7 Directors and employees

Directors' emoluments

Aggregate emoluments of the directors in respect of their services to the Group were £25,572 (2003: £43,882). There were no retirement benefits accruing to any directors under a defined benefit scheme (2003: 1).

None of the Company's directors exercised share options during the year.

Employees

	2004 No	2003 No
The average number of persons (including executive directors) employed by the Group during the period was:-	2	2
	£000	£000
Wages and salaries	35	35
Social security costs	4	4
Other pension costs	4	3
	43	42

The sales force and other staff are employed by The Royal Bank of Scotland Group plc. The costs of these individuals are included within the total amounts recharged to the Group. The proportion of the charge relating to staff costs is not separately identifiable.

Notes to the accounts

8 Taxation

a) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2004 £000	2003 £000
Current Tax:		
UK corporation tax	340	295
Tax credit attributable to balance on the long term business technical account	9,055	1,234
Total current tax	9,395	1,529
 Total tax charged in the non-technical account	 9,395	 1,529
 The total tax charged in the non-technical account relates to the following: <i>Group</i>	 9,395	 1,529
 Total tax charged to non-technical account	 9,395	 1,529

(b) Long term business

Tax charged in the long term business technical account comprises:

	2004 £000	2003 £000
Current tax:		
UK corporation tax	14	705
Overseas tax	458	476
Prior year adjustments UK	(3,606)	-
Total current tax	(3,134)	1,181
 Deferred tax:		
<i>Origination and reversal of timing differences</i>	10,974	9,373
Total deferred tax	10,974	9,373
 Total tax charged in the long term business technical account	 7,840	 10,554

Notes to the accounts

8 Taxation (continued)

(c) Factors affecting current tax charge for the year

	Non-technical account	
	2004	2003
	£000	£000
Profit on ordinary activities before tax:	31,317	5,097
Current tax charge at standard UK corporation tax rate of 30% (2003: 30%)	9,395	1,529
Current tax charge for the year	9,395	1,529

(d) Factors that may affect future tax charges

The deferred tax assets, which have not been recognised due to the uncertainty of their recoverability in the foreseeable future, comprise:

	Technical account	
	2004	2003
	£000	£000
Unrealised and realised losses on investments	3,712	8,008
Losses	1,601	1,773
Unrelieved expenses carried forward	15,953	5,022
Other timing differences	149	-
	21,415	14,803

(e) Balance sheet

(i) The deferred tax balance, included within creditors, comprises:

	2004	2003
	£000	£000
Unrelieved expenses carried forward	860	10,584
Deferred acquisition costs	(6,420)	(6,383)
Other timing differences	(5,835)	(4,622)
Undiscounted deferred tax balance	(11,395)	(421)

Notes to the accounts

8 Taxation (continued)

(ii) Movements in the deferred tax balances are analysed as follows:

	Technical account		Non-technical account	
	2004 £000	2003 £000	2004 £000	2003 £000
Balance at 1 January	(421)	8,952	-	-
Amounts charged to the profit and loss account	(10,974)	(9,373)	-	-
Balance at 31 December	(11,395)	(421)	-	-

9 Subsidiary Company

At 31 December 2004 the Company held shares in the following subsidiary company, which is incorporated in Great Britain, registered in Scotland. The subsidiary has only one class of ordinary share, and has issued share capital of £100:-

	Principal activity	Percentage of ordinary share capital held	Incorporated In
RSA (Services) Limited	Financial investment consultancy	100%	November 1990

10 Other financial investments

	Carrying value		Cost	
	2004 £000	2003 £000	2004 £000	2003 £000
Debt securities and other fixed income securities	34,017	33,681	35,227	35,227
<i>Deposits with credit institutions:-</i>				
Attributable to the long-term business	175,972	164,923	175,955	164,927
Attributable to shareholders	25,052	29,102	25,050	29,100
Other	38,389	6,154	38,062	6,154
	273,430	233,860	274,294	235,408

Carrying value is market value.

Included in the carrying values above are amounts in respect of listed investments as follows:

	2004 £000	2003 £000
Debt securities and other fixed income securities	34,017	33,681

Notes to the accounts

11 Assets held to cover linked liabilities

	2004 £000	2003 £000
Carrying value	1,101,470	1,044,652
Purchase price	1,042,386	1,046,300

12 Debtors arising out of direct insurance operations

	2004 £000	2003 £000
Amounts owed by policyholders	1,686	1,862

13 Other debtors

	2004 £000	2003 £000
Amounts due from parent undertakings	-	6,013
Amounts due from fellow subsidiaries	4,005	17,885
Tax debtors	1,245	1,162
Other debtors	10,110	8,903
	15,360	33,963

14 Tangible assets

The net book value of fixtures, fittings, office equipment, computer hardware and motor vehicles is made up as follows:

	£000
Cost	
Balance at 1 January 2004	1,055
Additions	-
Disposals	(84)
Balance at 31 December 2004	971
Depreciation	
Balance at 1 January 2004	1,018
Charged in period	(37)
On disposals	(10)
Balance at 31 December 2004	971
Net book value	
At 31 December 2004	-
At 31 December 2003	37

Notes to the accounts

15 Share capital

	2004 £000	2003 £000
<i>Authorised:</i>		
172,000,000 ordinary shares of £1 each	<u>172,000</u>	<u>172,000</u>
<i>Allotted, called up and fully paid:</i>		
148,200,000 ordinary shares of £1 each	<u>148,200</u>	<u>148,200</u>

16 Profit and loss account

	£000
At 1 January 2004	(16,960)
Retained profit for the financial year	<u>21,922</u>
At 31 December 2004	<u>4,962</u>

The distributable reserves of the Company at 31 December 2004 were £nil (2003: £nil).

17 Technical Provisions

	Long term business provision £000	Technical provision for linked liabilities £000	Claims outstanding £000	Total £000
Gross amount				
Balance at 1 January 2004	122,952	1,044,652	17,145	1,184,749
Transfer (to) / from the long term business technical account	79,391	56,818	(6,145)	130,064
Balance at 31 December 2004	<u>202,343</u>	<u>1,101,470</u>	<u>11,000</u>	<u>1,314,813</u>
Reinsurers' share				
Balance at 1 January 2004	28,860	-	671	29,531
Transfer (to) / from long term business technical account	53,513	-	199	53,712
Balance at 31 December 2004	<u>82,373</u>	<u>-</u>	<u>870</u>	<u>83,243</u>
Net technical provisions				
At 31 December 2004	<u>119,970</u>	<u>1,101,470</u>	<u>10,130</u>	<u>1,231,570</u>
At 31 December 2003	<u>94,092</u>	<u>1,044,652</u>	<u>16,474</u>	<u>1,155,218</u>

Notes to the accounts

18 Other creditors including taxation and social security

	2004 £000	2003 £000
Corporation taxation payable	0	1,043
Amounts owed to parent undertakings	7,529	2,186
Investments purchased for subsequent settlement	-	10,000
Other creditors	15,272	26,700
	22,801	39,929

All creditors are payable within a period of one year.

19 Pension commitments

The Group participates in The Royal Bank of Scotland Group Pension Fund, which is a funded defined benefit scheme whose assets are independent of the Group's finances. This scheme was formed from the merger of the National Westminster Bank Pension Fund and The Royal Bank of Scotland Staff Pension Scheme on 1 April 2002. Scheme valuations are carried out by independent professionally qualified actuaries to determine pension costs, using the projected unit method; any imbalance between assets and liabilities is adjusted over the average future service life of members of the scheme. The latest full valuation was carried out as at 31 March 2004.

The pension costs of this scheme are assessed across its membership as a whole, and it is not possible to determine the share of the scheme's assets and liabilities that relates to the Group. Accordingly, the requirements of FRS 17 'Pension Costs' relating to multi-employer schemes apply. In accordance with the requirements of FRS 17 interim valuations of the Group scheme were prepared as at 31 December 2004 and 31 December 2003 by independent actuaries, using actuarial bases and assumptions consistent with the requirements of that standard. Further information on the scheme and the actuarial valuations is given in the financial statements of The Royal Bank of Scotland Group plc.

The Group has reimbursed The Royal Bank of Scotland plc for amounts of pension contributions paid on behalf of former and existing employees and these are included as part of the recharge referred to in Note 7.

20 Notes to the Consolidated cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2004 £000	2003 £000
Profit on ordinary activities before tax	31,317	5,097
Interest and dividends received	(1,134)	(984)
Pre tax profit relating to long term business	(30,183)	(4,113)
(Increase) / decrease in debtors	(152)	2
(Decrease) / increase in creditors	(6,466)	4,925
Net cash (outflow) / inflow from operating activities	(6,618)	4,927

Notes to the accounts

Notes to the Consolidated cash flow statement, (continued)

Movement in cash, portfolio investments and financing	At 1 January 2004 £000	Cashflow £000	At 31 December 2004 £000
Net cash at bank and in hand	2,090	(1,435)	655
Deposits with credit institutions	29,101	(4,049)	25,052
	31,191	(5,484)	25,707

Returns on investment and servicing of finance	2004 £000	2003 £000
Interest and dividends received	1,134	984

21 Related party transactions

The Group is a related party of The Royal Bank of Scotland Group plc ("RBSG"), its ultimate holding company. In the course of its business as a provider of finance RBSG and its subsidiaries have undertaken transactions with the Group. The Royal Bank of Scotland plc also provides services in relation to the company's business, primarily the group's salesforce and some of its head office personnel. The total costs incurred by The Royal Bank of Scotland plc in relation to these services are recharged to the Group. In addition the Group pays commission to The Royal Bank of Scotland plc. Commission payable during the period totalled £2.4 million (2003: £3.0 million). £3.2 million (2003: £1.9 million) was outstanding at the year end.

During the year a management services agreement existed with Norwich Union Life Services Limited. Under this agreement, Norwich Union Life Services Limited make a charge to the company for the provision of administrative services. The total amount charged by that company during the year was £10.5 million (2003: £9.5 million).

The Company had an agreement with Newton Fund Management Limited ('Newton') whereby the Group received commission in respect of Newton funds sold by the Company's sales force. Commission received during the period totalled £0.0 million (2003: £0.1 million). The agreement was terminated in 2003.

In addition two directors have insurance policies with the Company. The policies have been issued on the same basis as for all staff. Details of the policies have not been disclosed as they are considered to be immaterial.

Disclosure of transactions with directors who are also directors of RBSG is given in the group consolidated accounts; for the other directors, there were no material related party transactions.

Stakeholder pension business of £7.2 million has been transferred to companies within the Aviva plc group.

Notes to the accounts

22 Long term fund

The assets representing the long term fund at 31 December 2004 were £1,489,381,000 (2003: £1,339,972,000).

23 Parent undertaking

The Company's immediate parent undertaking is RBS Life Investments Limited, registered in Scotland.

The Company's ultimate parent undertaking and controlling party is The Royal Bank of Scotland Group plc, a company registered in Scotland which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Its group accounts are available on application to The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

24 Technical provisions assumptions

A prospective gross premium valuation method has been used for all business with the exception of unit-linked contracts where the provisions are based on the market value of the related assets. The gross premium method uses the amount of contractual premium payable and includes explicit assumptions for investment returns and discount rates, mortality, morbidity and future expenses.

Provisions are sensitive to these assumptions. The assumptions vary by contract type and reflect current and expected future experience. The assumptions contain an allowance for prudence.

The principal change to these assumptions since the prior year was that some renewal expenses were increased reflecting increases in the cost of administering some products, while the expenses of administering others was reduced. All else being equal, this has had the overall effect of increasing provisions.

The principal assumptions underlying the calculation of the long term business provision are as follows (the previous year's figures shown in brackets):

Interest Rates

Term assurances	4.0% (3.9%) gross and 3.0%(3.1%) net
Sterling interest	4.0% (3.9%) gross and 3.0%(3.1%) net
Unit growth	4.0% (3.9%) gross and 3.0%(3.1%) net
Expense inflation	4.0% (4.0%)

Mortality for Pre-JV Products (no change in assumption from last year)

Term assurances, male, non-smoker	72% AM80 ult -2 + 33% AIDS R6A
Unit-linked life assurances, male, non-smoker	76.5% / 72% AM80 ult.-2+ 33% AIDS R6A
Unit-linked pensions, male, non-smoker	90% AM80 ult.-2

Mortality for JV Products (no change in assumption from last year)

Term assurances, male, non-smoker	60% TM80 ult + 33% AIDS R6A
-----------------------------------	-----------------------------

Expenses (Last year's figures shown in brackets)

Written prior to October 1997

Term assurances	£27.17 p.a. (£24.73 p.a.)
Mortgage Protection Plan	£27.17 p.a. (£24.73 p.a.)
Capital Investment Bond	£34.14 p.a. (£30.48 p.a.)
PPP / FSAVC (regular / single)	£76.56 p.a./ £52.39 p.a. (£69.88 p.a./ £54.89 p.a.)
EPP RP (regular / single)	£118.23 p.a. / £81.53 p.a. (107.91 p.a. / £85.60 p.a.)

Notes to the accounts

Technical provisions assumptions, (continued)

Written after September 1997

Lifestyle Protection Plan (without/with critical illness)	£27.17 p.a. / £29.78 p.a. (£24.73 p.a. / £27.11 p.a.)
Mortgage Protection Plan (without/with critical illness)	£27.17 p.a. / £29.78 p.a. (£24.73 p.a. / £27.11 p.a.)
Pensions Term Assurance (stand-alone/ in conjunction)	£26.12 p.a. / £13.06 p.a. (£23.78 p.a. / £11.90 p.a.)
Lifetime Security Plan	£97.39 p.a.(£88.89 p.a)
Flexible Mortgage Plan	£69.30 p.a.(£61.88 p.a)
Endowment Savings Plan	£65.31 p.a.(£58.31 p.a)
Mortgage Savings Plan	£60.08 p.a. (£53.64 p.a)
Capital Investment Bond	£32.59 p.a. (£29.10 p.a.)
PPP / FSAVC (regular / single)	£ 69.97 p.a. / £48.01p.a. (£63.86 p.a. / £50.42p.a.)
EPP (regular / single)	£109.88 p.a. / £75.93p.a. (£100.30 p.a. / £79.72p.a.)

Joint Venture

Term Assurance	£22.38 p.a (£21.79 p.a)
Mortgage Protection	£22.38 p.a (£21.79 p.a)
Stand Alone Critical Illness	£22.38 p.a (£21.79 p.a)
Family Income Benefit Plan	£22.38 p.a (£21.79 p.a)
Flexible Investment Bond	£22.38 p.a (£21.79 p.a)
Guaranteed Capital Bond	£25.13 p.a (£23.71 p.a)
Guaranteed Income Bond	£25.13 p.a