

SC119820

ROYAL SCOTTISH ASSURANCE PLC

REPORT AND ACCOUNTS 2000



Royal Scottish Assurance plc

Registered in Scotland No. 119820

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

Chairman

Bernard Higgins

Deputy Chairman

Charles Andrew Anderson

Directors

Ian Arthur Henderson

Michael John Patrick Hutchins

Peter Thomas Johnson

Dunlop James Stewart (Chief Executive)

Michael Norris Urmston

Secretary

Alan Ewing Mills

Auditors

Deloitte & Touche
Chartered Accountants and
Registered Auditors
39 George Street
Edinburgh EH2 2HZ

Contents

| | Page |
|---|------|
| Directors' report | 3 |
| Auditor's report | 7 |
| Profit and loss account: technical account-long term business | 8 |
| Profit and loss account: non-technical account | 9 |
| Balance sheet | 10 |
| Cash flow statement | 12 |
| Notes to the accounts | 13 |

Directors' report

The Directors have pleasure in submitting their report and audited accounts for the fifteen month period ended 31 December 2000.

Change of accounting reference date

During the period the Company changed its accounting reference date to 31 December.

Principal activity

The principal activity of Royal Scottish Assurance plc ("the Company") is the transaction of life assurance and pension business in the United Kingdom. It is intended that the company continues to participate in these markets and it is expected that a good level of new business will be achieved in future.

New business

| | Annualised | | Single premiums | |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Periodic premiums | | | |
| | 15 months 2000 £000 | 12 months 1999 £000 | 15 months 2000 £000 | 12 months 1999 £000 |
| Life - Non-Linked | 2,528 | 3,822 | 7,922 | - |
| Life - Linked | 507 | 5,775 | 28,714 | 178,777 |
| Pension - Non-Linked | - | - | - | - |
| Pension - Linked | 992 | 7,633 | 6,421 | 7,228 |
| Total new business premiums | 4,027 | 17,230 | 43,057 | 186,005 |

The above figures are gross of reinsurance.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The present members of the Board of Directors are named on page 1 and except as noted below, all the named directors were directors for the whole period ended 31 December 2000.

The following directorate changes occurred during the period:-

| <u>Appointments</u> | <u>Date</u> |
|---------------------|-----------------|
| C A Anderson | 5 December 2000 |
| I A Henderson | 13 July 2000 |
| P T Johnson | 5 December 2000 |
| D J Stewart | 19 January 2000 |
| M N Urmston | 5 December 2000 |

| <u>Resignations</u> | <u>Date</u> |
|---------------------|-----------------|
| A R Bothwick | 28 October 1999 |
| D G Johnson | 8 May 2000 |
| D J LeGrys | 5 December 2000 |
| W H Main | 28 October 1999 |

Directors' report (continued)

Share capital and significant shareholders

On 8 May 2000 14,700,000 B ordinary shares were re-classified as A ordinary shares on their transfer to The Royal Bank of Scotland plc following the purchase of Scottish Widows' Fund and Life Assurance Society's shareholding in the Company by The Royal Bank of Scotland plc.

On 15 May 2000 a further 20,000,000 ordinary C shares were allotted to The Royal Bank of Scotland plc.

On 4 December 2000 the 72,000,000 ordinary C shares on issue were re-classified as A ordinary shares and the balance of the A ordinary shares were re-classified as ordinary shares and transferred to RBS Life Investments Limited. CGNU purchased 50% of the shares of RBS Life Investments Limited on 5 December 2000.

On 21 December 2000 a further 2,200,000 ordinary shares were allotted to RBS Life Holdings Limited.

On 28 December 2000 RBS Life Holdings Limited transferred their entire shareholding of 2,200,000 to RBS Life Investments Limited.

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 31 December 2000 | At 1 October 1999 |
|----------------|------------------------|----------------------|
| I A Henderson | 21,924 | 20,232 |
| B Higgins | 5,241 | 2,175 |
| M J P Hutchins | 14,990 | 13,988 |

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc at 31 December 2000 and those granted and exercised during the fifteen month period to 31 December 2000 are included in the table below:-

| | As at 1 October 1999* | Post AVS adjustment | Granted during the period Options | Price | Exercised during the period Options | Price | As at 31 December 2000 |
|----------------|--------------------------|------------------------|---|------------------------|---|------------------------------|---------------------------|
| B Higgins | 58,009 | 83,047 | ^18,991 150 | 8.42 12.40 | | | 83,197 |
| I A Henderson | 21,444 | 21,444 | 150 7,500 465 | 12.40 12.87 9.85 | 1,579 | 2.97 | 27,980 |
| M J P Hutchins | 100,660 | 108,560 | 150 12,500 228 | 12.40 12.87 9.85 | 533 295 34,516 4,308 | 2.97 4.61 4.96 5.58 | 81,786 |
| D J Stewart | - | - | 150 12,500 | 12.40 12.87 | | | 12,650 |

* (or date of appointment, if later)

^ (exercised or granted prior to AVS adjustment)

Directors' report (continued)

Directors' interests (continued)

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the period to 31 December 2000.

In addition, during that period, 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.

The following directors had an interest in Additional Value Shares of £0.01 each ("AVS") in The Royal Bank of Scotland Group plc as at 31 December 2000:

No of AVS
At 31 December 2000

| | |
|----------------|--------|
| I A Henderson | 20,216 |
| B Higgins | 5,115 |
| M J P Hutchins | 17,082 |

Staff

The weekly average number of persons employed by the Company was 2 (1999 - 15) and the aggregate remuneration for the fifteen month period for all staff amounted to £71,000 (1999 - £784,000).

Political and charitable contributions

The Company made charitable contributions of £nil (1999 - £1,900) during the fifteen month period. The Company made no political contributions.

Creditor payment policy and practice

In the fifteen month period to 31 December 2000, the Company adhered to the following payment policy in respect of all suppliers. 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 includes the giving of an undertaking by the Company to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract.

The proportion which the amount owed to trade creditors at 31 December 2000 bears to the amounts invoiced by suppliers during the year then ended equated to 63 days proportion of 365 days.

Directors' report (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the result for that period. In preparing those 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 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors

PricewaterhouseCoopers resigned as auditors to the Company on 31 March 2000. Deloitte & Touche were appointed by the directors to fill the vacancy and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board



A E Mills Secretary

28 February 2001

Auditor's report

Report of the auditors to the members of Royal Scottish Assurance plc

We have audited the financial statements on pages 8 to 26 which have been prepared under the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

As described on page 6, the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

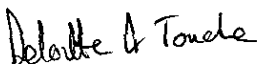
Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and Company as at 31 December 2000 and of the group's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
39 George Street
Edinburgh
EH2 2HZ

28 February 2001

Consolidated Profit and Loss Account

for the fifteen month period ended 31 December 2000

Technical account - long term business

| | | 15 month period ended 31 December 2000 £000 | Year ended 30 September 1999 £000 |
|--|------|---|--|
| | Note | | |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 1 | 144,626 | 268,589 |
| Outward reinsurance premiums | | (8,836) | (6,567) |
| | | <u>135,790</u> | <u>262,022</u> |
| Investment income | 2 | 230,973 | 192,517 |
| Unrealised gains on investments | 2 | 51,121 | 133,362 |
| Other technical income, net of reinsurance | | 5,800 | 4,000 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | | (253,154) | (175,790) |
| Reinsurers' share | | <u>114,925</u> | <u>39,217</u> |
| | | <u>(138,229)</u> | <u>(136,573)</u> |
| Change in the provision for claims | 16 | | |
| Gross amount | | (13,523) | 2,225 |
| Reinsurers' share | | <u>(29,768)</u> | <u>25,906</u> |
| | | <u>(43,291)</u> | <u>28,131</u> |
| Change in other technical provisions, net of reinsurance | | | |
| Long term business provision, net of reinsurance | 16 | | |
| Gross amount | | 17,372 | (15,547) |
| Reinsurers' share | | <u>(27,741)</u> | <u>(12,540)</u> |
| | | <u>(10,369)</u> | <u>(28,087)</u> |
| Technical provisions for linked liabilities, net of reinsurance | 16 | | |
| Gross amount | | 3,778 | (319,390) |
| Reinsurers' share | | <u>(70,578)</u> | <u>(20,513)</u> |
| | | <u>(66,800)</u> | <u>(339,903)</u> |
| Net operating expenses | 3 | (104,370) | (44,363) |
| Investment expenses and charges | 2 | (103,557) | (72,044) |
| Tax attributable to the long term business | 6 | (8,787) | (12,304) |
| Balance on the technical account for long term business | | <u>(51,719)</u> | <u>(13,242)</u> |

The reinsurance balance amounted to a debit to the long term business technical account at 31 December 2000 of £21,998,000 (1999 – credit of £25,503,000).

Consolidated Profit and Loss Account

for the fifteen month period ended 31 December 2000

Non-technical account

| | | 15 month period Ended 31 December 2000 £000 | Year ended 30 September 1999 £000 |
|--|-------------|--|--|
| | Note | | |
| Balance on the long term business technical account | | (51,719) | (13,242) |
| Tax credit attributable to balance on the long term business technical account | 6 | - | - |
| Shareholder' pre tax loss arising from long term business | | (51,719) | (13,242) |
| Investment income | 2 | 1,553 | 83 |
| Loss on ordinary activities before tax | 5 | (50,166) | (13,159) |
| Tax on loss on ordinary activities | 6 | (466) | (27) |
| Loss for the financial period/year after tax | | (50,632) | (13,186) |
| Dividends proposed and paid | | - | - |
| Retained loss for the financial period/year | 15 | (50,632) | (13,186) |

These results related to continuing operations.

There are no recognised gains or losses for the period/year other than the balance on the technical account shown above.

A statement of movement in reserves can be found in note 15.

Balance Sheet – Group and Company

as at 31 December 2000

Assets

| | Note | 31 December 2000 £000 | 30 September 1999 £000 |
|--|------|--------------------------|---------------------------|
| Investments | | | |
| Other financial investments | 7 | 271,674 | 239,534 |
| Assets held to cover linked liabilities | 8 | 1,777,405 | 1,710,605 |
| Reinsurers' share of technical provisions | | | |
| Long term business provision | 16 | 14,586 | 42,327 |
| Claims outstanding | 16 | 1,273 | 31,041 |
| Technical provisions for linked liabilities | 16 | - | 70,578 |
| | | <u>15,859</u> | <u>143,946</u> |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 9 | 14,046 | 1,179 |
| Other debtors | 10 | 3,300 | 7,683 |
| | | <u>17,346</u> | <u>8,862</u> |
| Other assets | | | |
| Tangible assets | 11 | 3,443 | 4,300 |
| Cash at bank and in hand | | 19,846 | 1,720 |
| | | <u>23,289</u> | <u>6,020</u> |
| Prepayments and accrued income | | | |
| Deferred acquisition costs | | 32,988 | 43,796 |
| Other prepayments and accrued income | | 645 | 194 |
| | | <u>33,633</u> | <u>43,990</u> |
| Total assets | | <u>2,139,206</u> | <u>2,152,957</u> |

Balance Sheet – Group and Company

as at 31 December 2000

Liabilities

| | Note | 31 December 2000 £000 | 30 September 1999 £000 |
|--|------|--------------------------|---------------------------|
| Capital and reserves | | | |
| Called up share capital | 13 | 123,200 | 101,000 |
| Profit and loss account | 15 | (22,602) | 28,030 |
| Shareholders' funds attributable to equity interests | 15 | 100,598 | 129,030 |
| Technical provisions | | | |
| Long term business provision | 16 | 95,145 | 112,517 |
| Claims outstanding | 16 | 14,585 | 1,062 |
| | | 109,730 | 113,579 |
| Technical provisions for linked liabilities | 16 | 1,777,405 | 1,781,183 |
| Provisions for other risks and charges | 17 | 45,000 | 21,000 |
| Deposits received from reinsurers | 18 | - | 70,578 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | 19 | 10,693 | 1,004 |
| Creditors arising out of reinsurance operations | | 798 | 143 |
| Other creditors including taxation and social security | 20 | 94,325 | 32,006 |
| | | 105,816 | 33,153 |
| Accruals and deferred income | | 657 | 4,434 |
| Total liabilities | | 2,139,206 | 2,152,957 |


 B Higgins Director


 D J Stewart Director
28th February 2001

Shareholders' funds cash flow statement

as at 31 December 2000

| | Note | 15 month period ended 31 December 2000 £000 | Year ended 30 September 1999 £000 |
|---|------|--|---|
| Operating activities | | | |
| Net cash outflow from operating activities | 24 | (22,200) | (32,000) |
| Returns on investments and servicing of finance | | | |
| Interest received | 24 | 1,553 | 83 |
| Net cash inflow from returns on investments and servicing of finance | | <u>1,553</u> | <u>83</u> |
| Net cash inflow before financing | | <u>(20,647)</u> | <u>(31,917)</u> |
| Financing | | | |
| Issue of ordinary shares | | 22,200 | 52,000 |
| Net cash inflow from financing | | <u>22,200</u> | <u>52,000</u> |
| Increase in cash and cash equivalents | 24 | <u>1,553</u> | <u>20,083</u> |
| The net cash inflow was applied / invested as follows: | | | |
| Net portfolio investments | | | |
| Deposits with credit institutions | 24 | 1,448 | 20,000 |
| Increase in cash holdings | 24 | 105 | 83 |
| Net investments of cash flows | | <u>1,553</u> | <u>20,083</u> |

Notes to the accounts

Accounting policies

Basis of presentation

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

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. All intercompany balances and transactions are eliminated from the Group accounts.

Premiums

Premiums are included net of reinsurance. 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.

Investment income, expenses and charges

Investment income includes dividends, interest and realised gains and losses calculated by reference to cost on the realisation of investments and related expenses. Dividends are recorded on the date on which shares are quoted ex dividend.

Policyholder fund investment income and expenses are dealt with through the technical account. Shareholder fund investment income and expenses are dealt with through the non-technical account.

Unrealised gains and losses on investments

Unrealised gains and losses on shareholder fund investments are dealt with in the non-technical account. All other unrealised gains and losses are dealt with through the technical account.

Unrealised gains and losses recorded in the profit and loss account represent the changes in value during the period of investments held at the balance sheet date adjusted for realised gains or losses recognised during the period.

Claims

Claims and surrenders paid to policyholders are included net of reinsurance but include costs of settlement. 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.

Notes to the accounts (continued)

Accounting policies (continued)

Premises and equipment

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

Short term leasehold premises are amortised by equal annual instalments over the unexpired term of the lease or estimated useful life if shorter.

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.

Investments

Listed investments are included at middle market value.

Holdings in authorised unit trusts are valued at the market value ruling at the period end.

Financial futures, including structured instruments, are included at market value.

Debt securities are included at market value.

Leases

Where the Company 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.

Pensions costs

In arriving at the operating result, the costs of providing pensions are assessed and charged on a regular basis in accordance with the advice of professionally qualified actuaries.

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.

Taxation

Provision is made for taxation at current rates on taxable profits. The profit on the long term business technical account transferred to the non technical account is grossed up at the relevant effective UK corporation tax rate. Deferred taxation is provided on the liability method in respect of timing differences to the extent that they are likely to crystallise in the foreseeable future.

Following the issue of Financial Reporting Standard 16 – Current Tax, the treatment of tax relating to UK dividend income has been amended. Tax credits on dividend income from UK companies are no longer included in the tax charge, and are now deducted from investment income. This change has no impact on the results for the current period or prior year. Prior year comparatives have been restated.

Notes to the accounts (continued)

Accounting policies (continued)

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 valued 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*.

Long term business provision and technical provision for linked liabilities

The long term business provision is determined by the Company's Appointed Actuary on the basis of recognised actuarial methods. A prospective net premium valuation method is used for all non-linked business. For unit-linked business 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 provision which is initially valued on a statutory solvency basis is adjusted in respect of undistributed surplus determined by the actuarial valuation, general contingency reserves, and other reserves required for statutory solvency purposes and deferred acquisition costs.

Acquisition costs and deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs are costs of acquiring insurance policies which are incurred during a financial period but relate to subsequent financial periods. They are deferred in the expectation that they will be recoverable out of future margins and the rate of amortisation for the deferred acquisition costs is consistent with a prudent assessment of the expected pattern of earned profits of the relevant contracts over the period that they are expected to remain in force. For both linked and non-linked business an explicit deferred acquisition cost asset has been established in the balance sheet.

At the end of each accounting period, deferred acquisition costs are reviewed for recoverability against future margins from the related policies in force at the balance sheet date.

Notes to the accounts (continued)

1 Premiums

Gross premiums written

Gross premiums written, which relate to direct insurance, can be analysed as follows:

| | 15 months 2000 £000 | 12 months 1999 £000 |
|--|---------------------------|---------------------------|
| Life assurance business | | |
| Non-participating contracts – periodic premium | 18,431 | 12,779 |
| Non-participating contracts – single premium | 7,922 | - |
| Linked contracts – periodic premium | 45,955 | 36,294 |
| Linked contracts – single premium | 28,714 | 178,777 |
| | <u>101,022</u> | <u>227,850</u> |
| Pension business | | |
| Linked contracts – periodic premium | 37,183 | 33,511 |
| Linked contracts – single premium | 6,421 | 7,228 |
| | <u>43,604</u> | <u>40,739</u> |
| Gross premiums written | 144,626 | 268,589 |
| Outward reinsurance premiums | (8,836) | (6,567) |
| Net premiums written | <u>135,790</u> | <u>262,022</u> |

All business is written in the United Kingdom.

New business is disclosed in the Director's report on page 3.

2 Investment activity account

| | Technical account | | Non-technical account | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 15 months 2000 £000 | 12 months 1999 £000 | 15 months 2000 £000 | 12 months 1999 £000 |
| Income from listed investments | 40,049 | 32,523 | - | - |
| Income from other investments | 68,080 | 57,773 | 1,553 | 83 |
| Net gains on the realisation of investments | 122,844 | 102,221 | - | - |
| Investment income | <u>230,973</u> | <u>192,517</u> | <u>1,553</u> | <u>83</u> |
| Investment management expenses | (417) | (1,298) | - | - |
| Interest payable | (103,140) | (70,746) | - | - |
| Investment expenses and charges | <u>(103,557)</u> | <u>(72,044)</u> | <u>-</u> | <u>-</u> |
| Unrealised gains on investments | 51,121 | 133,362 | - | - |
| Net investment return | <u>178,537</u> | <u>253,835</u> | <u>1,553</u> | <u>83</u> |

Notes to the accounts (continued)

3. Net operating expenses

| | 15 months 2000 £000 | 12 months 1999 £000 |
|--------------------------------------|---------------------------|---------------------------|
| Acquisition costs | 30,025 | 35,164 |
| Change in deferred acquisition costs | 10,808 | 3,061 |
| Administrative expenses | 50,598 | 18,604 |
| Increase in provisions (note 17) | 24,000 | 1,000 |
| Other commission received | (11,061) | (13,466) |
| | <u>104,370</u> | <u>44,363</u> |

Administrative expenses includes an amount of £2,204,737 in respect of a fine levied on the Company by the Personal Investment Authority.

4. Directors and employees

Directors' emoluments

| | 15 months 2000 £000 | 12 months 1999 £000 |
|---------------------------------|---------------------------|---------------------------|
| Aggregate emoluments | - | 136 |
| Compensation for loss of office | - | 131 |

All directors were remunerated by The Royal Bank of Scotland Group plc for the period ended 31 December 2000.

Employees

| | 2000 No | 1999 No |
|---|---------------|---------------|
| The average number of persons (including executive directors) employed by the Company during the period was:- | 2 | 15 |
| | <u>£000</u> | <u>£000</u> |
| Employee costs (excluding directors) | | |
| Wages and salaries | 56 | 727 |
| Social security costs | 7 | 46 |
| Other pension costs | 8 | 11 |
| | <u>71</u> | <u>784</u> |
| Recharge from The Royal Bank of Scotland plc for services of sales force and related staff | <u>20,307</u> | <u>15,157</u> |
| | <u>20,378</u> | <u>15,941</u> |

Notes to the accounts (continued)

5. Loss on ordinary activities before tax

| | 15 months 2000 £000 | 12 months 1999 £000 |
|---|------------------------------|------------------------------|
| <i>Loss on ordinary activities before tax is stated after charging /(crediting)</i> | | |
| Depreciation | 1,600 | 1,481 |
| Profit on disposal of tangible fixed assets | (103) | (7) |
| Auditors' remuneration: | | |
| Audit – Deloitte & Touche | 91 | - |
| Audit – PricewaterhouseCoopers | 75 | 179 |
| Audit – KPMG | 20 | 24 |
| Other services - Deloitte & Touche | 108 | - |
| Other services - PricewaterhouseCoopers | 5,045 | 4,598 |
| Net commissions (receivable)/payable in respect of direct business | (301) | (3,962) |
| Land and buildings operating lease rentals | 1,225 | 333 |

6. Taxation

| | Technical account | | Non-technical account | |
|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 15 months 2000 £000 | 12 months 1999 £000 | 15 months 2000 £000 | 12 months 1999 £000 |
| UK corporation tax | 8,290 | 12,195 | 466 | 27 |
| Irrecoverable overseas tax | 497 | 109 | - | - |
| | 8,787 | 12,304 | 466 | 27 |

Corporation tax in the technical account has been calculated at the effective rate between 20% and 30% (1999–20% and 30.5%) in accordance with the rates applicable to insurance companies.

7. Other financial investments

| | 2000 £000 | 1999 £000 |
|--|--------------|--------------|
| Debt securities and other fixed income securities | 79,651 | 92,673 |
| Deposits with credit institutions | 192,023 | 151,310 |
| Structured instruments issued by a group undertaking | - | 70,578 |
| Less amounts payable to a group undertaking under margining agreements | - | (75,027) |
| | 271,674 | 239,534 |

The historical cost of investments (excluding reductions in respect of amounts payable under margining agreements) held by the Company at the period end was £245,106,000 (1999 - £277,860,000).

Notes to the accounts (continued)**8. Assets held to cover linked liabilities**

| | 2000 £000 | 1999 £000 |
|--|------------------|------------------|
| Assets held to cover property linked liabilities:- | | |
| Structured instruments issued by a group undertaking | 658,784 | 604,399 |
| Less amounts payable to a group undertaking under margining agreements | (635,918) | (567,349) |
| Other assets held to cover property linked liabilities | <u>1,691,677</u> | <u>1,615,075</u> |
| | <u>1,714,543</u> | <u>1,652,125</u> |
| Assets held to cover index linked liabilities:- | | |
| Structured instruments issued by a group undertaking | 62,862 | 58,480 |
| Less amounts payable to a group undertaking under margining agreements | (64,919) | (63,732) |
| Other assets held to cover index linked liabilities | <u>64,919</u> | <u>63,732</u> |
| | <u>62,862</u> | <u>58,480</u> |
| Total | <u>1,777,405</u> | <u>1,710,605</u> |

The value of listed investments held by the Company at the period end was £1,610,176,000 (1999 - £1,847,644,000) and the historical cost of investments held by the Company at the period end was £2,089,643,000 (1999 - £2,062,968,000). These figures exclude reductions in respect of amounts payable under margining agreements.

9. Debtors arising out of direct insurance operations

| | 2000 £000 | 1999 £000 |
|-------------------------------|---------------|--------------|
| Amounts owed by policyholders | <u>14,046</u> | <u>1,179</u> |

10. Other Debtors

| | 2000 £000 | 1999 £000 |
|--|--------------|--------------|
| Investments sold for subsequent settlement | - | 4,022 |
| Other debtors | <u>3,300</u> | <u>3,661</u> |
| | <u>3,300</u> | <u>7,683</u> |

Notes to the accounts (continued)

11. Tangible assets

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

| | Short term leasehold buildings £000 | Other £000 | Total £000 |
|-----------------------------|--|---------------|---------------|
| Cost | | | |
| Balance at 1 October 1999 | 29 | 8,273 | 8,302 |
| Additions | - | 2,888 | 2,888 |
| Disposals | (29) | (3,582) | (3,611) |
| Balance at 31 December 2000 | - | 7,579 | 7,579 |
| Depreciation | | | |
| Balance at 1 October 1999 | 29 | 3,973 | 4,002 |
| Charged in period | - | 1,600 | 1,600 |
| On disposals | (29) | (1,437) | (1,466) |
| Balance at 31 December 2000 | - | 4,136 | 4,136 |
| Net book amount | | | |
| At 31 December 2000 | - | 3,443 | 3,443 |
| At 30 September 1999 | - | 4,300 | 4,300 |

12. Subsidiary company

At 31 December 2000 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:-

| Name | Principal activity | % held |
|------------------------|----------------------------------|--------|
| RSA (Services) Limited | Financial Investment Consultancy | 100% |

13. Share capital

| | 2000 £000 | 1999 £000 |
|--|----------------|----------------|
| Authorised: | | |
| Ordinary shares of £1 each | 172,000 | 85,300 |
| Ordinary 'B' shares of £1 each | - | 14,700 |
| Ordinary 'C' shares of £1 each | - | 52,000 |
| | <u>172,000</u> | <u>152,000</u> |
| Allotted, called up and fully paid: | | |
| Ordinary shares of £1 each | 123,200 | 34,300 |
| Ordinary 'B' shares of £1 each | - | 14,700 |
| Ordinary 'C' shares of £1 each | - | 52,000 |
| | <u>123,200</u> | <u>101,000</u> |

The increase in share capital is detailed on page 4. Following the transfers detailed on page 4, both the ordinary 'B' and 'C' shares were reclassified as ordinary.

Notes to the accounts (continued)

14. Long term fund assets

The assets representing the long term fund at 31 December 2000 were £2,017,160,000 (1999 - £2,003,927,000).

15. Reconciliation of movements in shareholder's funds

| | Share capital | Profit & loss account | 2000 Total | 1999 Total |
|--|------------------|-----------------------------|---------------|---------------|
| | £000 | £000 | £000 | £000 |
| Opening shareholder's funds at beginning of period | 101,000 | 28,030 | 129,030 | 90,216 |
| Share capital | 22,200 | - | 22,200 | 52,000 |
| Retained loss for the financial year | - | (50,632) | (50,632) | (13,186) |
| Closing shareholders' funds at end of period | 123,200 | (22,602) | 100,598 | 129,030 |

Share capital subscribed for during period was in the form of cash.

The distributable reserves of the Company at 31 December 2000 were £nil (1999 - £1,641,000).

Notes to the accounts (continued)

16. Technical provisions

| | Long term business provision | Technical provision for linked liabilities | Claims outstanding | Total |
|---|---------------------------------------|---|-----------------------|-----------|
| | £000 | £000 | £000 | £000 |
| Gross amount | | | | |
| Balance at beginning of period | 112,517 | 1,781,183 | 1,062 | 1,894,762 |
| Transfer to / (from) the long term business technical account | (17,372) | (3,778) | 13,523 | (7,627) |
| Balance at end of period | 95,145 | 1,777,405 | 14,585 | 1,887,135 |
| Reinsurers' share | | | | |
| Balance at beginning of period | 42,327 | 70,578 | 31,041 | 143,946 |
| Transfer (from) / to long term business technical account | (27,741) | (70,578) | (29,768) | (128,087) |
| Balance at end of period | 14,586 | - | 1,273 | 15,859 |
| Net technical provisions | | | | |
| At 31 December 2000 | 80,559 | 1,777,405 | 13,312 | 1,871,276 |
| At 30 September 1999 | 70,190 | 1,710,605 | (29,979) | 1,750,816 |

Included within the technical provision for linked liabilities is £43,499,184 (1999 - £35,306,000) in respect of deferred taxation on unrealised capital gains.

The Company is following guidance from the Personal Investment Authority to review its business of pension transfers and opt-outs. This review has led to the company making payments and having further future liabilities in relation to business written. Provision has been made on the basis of the best estimate of information available to the industry and the Company and as at 31 December 2000 amounted to £19,100,000 (1999 - £20,200,000). It is expected that most of this expenditure will be incurred within the next financial year.

The Royal Bank of Scotland plc has provided funding to the Company of £21,200,000 in total (1999 - £15,400,000) to cover certain costs and/or liabilities which may be incurred by the Company in relation to pension mis-selling.

Following the recent Financial Services Authority and Personal Investment Authority pronouncements on Free-Standing Additional Voluntary Contributions the company has established a provision of £3,000,000 (1999 - £2,000,000) calculated by reference to the current best estimate of total potential industry costs. The review commenced during 2000 and it is estimated that most of this expenditure will be incurred in the next financial year.

A provision of £10,200,000 (1999 - £10,200,000) was recognised in 1999 in relation to the design and administration of certain policies sold by the Company before 1999. The review of these policies is still in the early stages and the provision has been calculated by reference to limited information. The timing of the outflows in relation to this review cannot be estimated at the current time.

Notes to the accounts (continued)

16. Technical provisions (continued)

The principal assumptions underlying the calculation of the long term business provision are set out below:-

| | <i>2000 Rate of Interest %</i> | <i>1999 Rate of Interest %</i> |
|------------------|------------------------------------|------------------------------------|
| Life policies | 3.5 | 4.1 |
| Pension policies | 4.4 | 5.1 |

17. Provisions for other risks and charges

| | Total £000 |
|-----------------------------|-----------------------|
| Balance at 1 October 1999 | 21,000 |
| Movement in period | 24,000 |
| Balance at 31 December 2000 | 45,000 |

Provisions for other risks and charges consist of provision in relation to the Company's mortgage endowment policies sold prior to 1995. The costs in respect of this provision have been funded by the Company's ultimate holding company. The Company has agreed the basis of calculation of compensation required with the Financial Services Authority. It is anticipated that these costs will be paid out during the next financial year.

The amounts of deferred taxation not provided, on the basis that it will not crystallise, are as follows, in respect of:

| | 2000 £000 | 1999 £000 |
|----------------------------|----------------------|----------------------|
| Deferred acquisition costs | (7,606) | (3,623) |

18. Deposits received from reinsurers

| | 2000 £000 | 1999 £000 |
|---|----------------------|----------------------|
| Other deposits received from reinsurers | - | 70,578 |

Notes to the accounts (continued)**19. Creditors arising out of direct insurance operations**

| | 2000 £000 | 1999 £000 |
|--|---------------|--------------|
| Amounts due to policyholders | 8,856 | - |
| Premiums received in advance | 19 | 22 |
| Commission payable to parent undertaking | 1,818 | 982 |
| | <u>10,693</u> | <u>1,004</u> |

20. Other creditors including taxation and social security

| | 2000 £000 | 1999 £000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Bank overdraft due to parent undertaking | - | 384 |
| Amounts due to parent undertaking | 9,151 | 10,225 |
| Corporation taxation payable | 8,129 | 13,579 |
| Amounts due to property linked funds | 69,301 | 3,586 |
| Other creditors | 7,744 | 4,232 |
| | <u>94,325</u> | <u>32,006</u> |

21. Contingent liabilities***Reinsurance Transactions***

The Company has received correspondence from the Inland Revenue questioning its treatment of certain reinsurance transactions prior to the legislation changes announced at the November 1994 budget. Correspondence is at an early stage. It is not yet clear whether any liability will arise nor can the directors estimate with any degree of certainty the amount of any liability that might arise.

Notes to the accounts (continued)

22. Pension commitments

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, being invested with insurance companies. Contributions to the scheme are charged to the technical account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method with a 20 year control period. The assumptions which will have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It is assumed that the investment returns will be 8.5% per annum, that salary increases will average 7.5% per annum and that present and future pensions will increase at the rate of 3% per annum on GMP and 5% on non GMP. An actuarial valuation of the Scheme was carried out as at 31 December 1997 which demonstrated that on these assumptions the value of the assets of the scheme which had a market value of £7,386,000 at the date of the valuation, exceeds 120% of the amount of the liabilities of the scheme. As a result of this valuation, the contributions of both the Company and the employee are 0% of pensionable earnings with effect from 15 September 1998 (1999 - 0% and 0%).

The pension charge relating to the scheme for the period was £Nil (1999 - £Nil).

Pension contributions totalling £8,000 (1999 - £11,072) were paid in respect of employees who are members of other schemes. The Company has reimbursed The Royal Bank of Scotland plc for amounts of pension contributions paid on behalf of former employees and these are included as part of the recharge shown in Note 4.

23. Operating lease commitments

| | 2000 £000 | 1999 £000 |
|--|--------------|--------------|
| Operating lease commitments in respect of land and buildings are as follows: | | |
| Expiring within one year | 39 | - |
| Expiring outwith one year but within five years | - | 82 |
| | <u>39</u> | <u>82</u> |

24. Notes to cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

| | 2000 £000 | 1999 £000 |
|--|-----------------|-----------------|
| Loss on ordinary activities before tax | (50,166) | (13,159) |
| Interest and dividends received | (1,553) | (83) |
| Pre tax loss relating to long term business | 51,719 | 13,242 |
| Transfer to long term business fund | (22,200) | (32,000) |
| Net cash (outflow) from operating activities | <u>(22,200)</u> | <u>(32,000)</u> |

Movement in cash, portfolio investments and financing

| | At 1 October 1999 £000 | Cashflow £000 | At 31 December 2000 £000 |
|-----------------------------------|---------------------------------|------------------|-----------------------------------|
| Net cash at bank and in hand | 1,720 | 105 | 1,825 |
| Deposits with credit institutions | 20,000 | 1,448 | 21,448 |
| | <u>21,720</u> | <u>1,553</u> | <u>23,273</u> |

Notes to the accounts (continued)

25. Immediate and Ultimate Holding Company

The Company's immediate parent company is RBS Life Investments Limited, which will not produce its first set of consolidated accounts until 31 December 2001.

The Company's ultimate holding company and controlling entity is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

26. Related party transactions

Royal Scottish Assurance plc 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 Royal Scottish Assurance plc. The Royal Bank of Scotland plc also provides services in relation to the company's business, primarily the company's salesforce and some of its head office personnel. The total costs in relation to these services reimbursed by Royal Scottish Assurance during the period was £51.9 million (1999 - £30.7 million). In addition Royal Scottish Assurance pays commission to The Royal Bank of Scotland plc. Commission payable during the period totalled £11,923,806 of which £1,818,320 was outstanding at the period end. The Company has also received funding from The Royal Bank of Scotland as described in notes 16 and 17.

Scottish Widows' Fund and Life Assurance Society was a related party of the Company, until RBSG bought their shareholding on 8 May 2000, providing insurance services to the Company. Fees payable during the period totalled £4,750,000, none of which was outstanding at the period end.

CGNU became a related party of the Company, providing insurance and administrative support services to the company, from 5 December 2000. Fees payable during the period totalled £100,000, of which a balance of £100,000 was outstanding at the period end.

The Company has an agreement with Newton Fund Management Limited whereby the Company will receive commission in respect of Newton funds sold by the Company's salesforce. Commission received during the period totalled £11,061,000, none of which was outstanding at the period end.

In addition one director has an insurance policy with the Company. The policy has been issued on the same basis as for all staff. Details of the policy have not been disclosed as it is considered to be immaterial.

27. Approval of accounts

The accounts were approved by the Board of Directors on 28 February 2001.