

Royal Scottish Assurance plc

Registered in Scotland No 119820

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

Directors and Officers

Directors

B Higgins (Chairman)
D J Stewart (Chief Executive)
I A Henderson
M J P Hutchins
M N Urmston
P R Hales
D J Ballantyne

Appointed Actuary

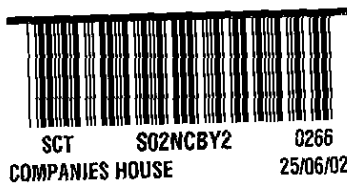
M Pike

Secretary

A E Mills

Auditors

Deloitte & Touche
Edinburgh



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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2001.

Principal activity

The principal activity of the Company 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 2001 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 Company is satisfactory and that the present levels of activity will be maintained.

Dividend

The directors do not recommend the payment of a dividend (2000: £nil).

European economic and monetary union

An estimate of the overall costs to The Royal Bank of Scotland Group plc associated with the introduction of the Euro, assuming that the United Kingdom joins, is disclosed in the accounts of The Royal Bank of Scotland Group plc.

Share capital and significant shareholders

On 19 December 2001 a further 25,000,000 ordinary shares were allotted to RBS Life Holdings Limited.

On 20 December 2001 RBS Life Holdings Limited transferred its entire shareholding of 25,000,000 ordinary shares to RBS Life Investments Limited.

Directors

The names of the present directors of the Company appear on page 1. Changes in the period are as follows:

<i>Director</i>	Date of Appointment	Date of Resignation
D J Ballantyne	19 December 2001	-
P R Hales	26 September 2001	-
C A Anderson	-	26 September 2001
P T Johnson	-	30 June 2001

Directors' report

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 2001*	At 31 December 2001
I A Henderson	21,924	23,865
B Higgins	5,241	5,350
M J P Hutchins	14,990	35,943

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the period to 31 December 2001 are included in the table below:-

	At 1 January 2001*	Granted during the year		Exercised during the year		At 31 December 2001
		Options	Price	Options	Price	
I A Henderson	27,980	150	15.630	888	3.880	
		8,400	17.180	-		
		247	13.640	-		35,889
B Higgins	83,197	150	15.630	-		
		20,400	17.180	-		103,747
M J P Hutchins	81,786	150	15.630	22,645	3.700	
		11,200	17.180	367	7.410	
		349	13.640	941	3.880	69,532
D J Stewart	12,650	150	15.630	-		
		9,300	17.180	-		22,100

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 2001.

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.

All options shown above are in respect of either Executive Share Option schemes or savings-related share option schemes.

In addition, the following directors held Additional Value Shares of £0.01 each ("AVS") in The Royal Bank of Scotland Group plc as at 31 December 2001:

	At 1 January 2001*	At 31 st December 2001
I A Henderson	20,216	20,216
B Higgins	5,115	5,115
M J P Hutchins	17,082	17,082

* Or date of appointment, if later

Directors' report

Corporate governance

In accordance with the Company's status as a subsidiary of The Royal Bank of Scotland Group plc, the directors have adopted all appropriate aspects of the Combined Code on Corporate Governance. Statements on the Company's system of internal control systems and a statement that it is a going concern appear in the directors' responsibilities statement on page 6.

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 (2000 £nil).

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 as auditors to the Company 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

7 March 2002

Statement of directors' responsibilities for financial reporting

The following statement, which should be read in conjunction with the report of the auditor on page 7, is made to enable shareholders to distinguish the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare, for each financial year, financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of the profit for that financial year.

The directors confirm that the financial statements set out on pages 8 to 26 have been prepared on the going concern basis and in preparing these financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Board of Directors is responsible for the Company's system of internal control. The responsibility for its day-to-day operation is delegated to executive management that has established and disseminated clearly defined policies and standards. The Company's system of internal control, which includes procedures such as physical controls, segregation of duties and authorisation limits throughout the Company, is designed to provide reasonable, but not absolute, assurance:

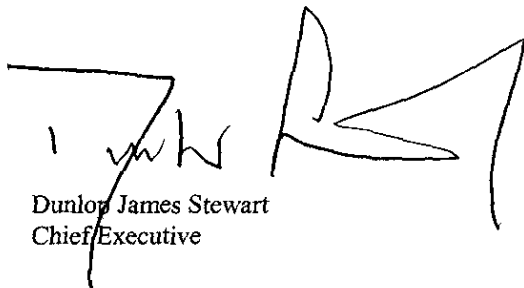
- as to the reliability and integrity of the financial statements;
- that assets are safeguarded and only authorised transactions are entered into;
- that fraud and other irregularities are detected.

The system of internal control is subject to close scrutiny by management and internal audit. The Company has authorised the RBS Audit and Compliance Committee to investigate any matter within its remit insofar as it relates to the Company. This committee meets periodically with internal audit to discuss the nature, scope and results of its work.

Deloitte & Touche, the independent auditor appointed by the shareholders of the Company to audit the financial statements, has full and unrestricted access to the Audit and Compliance Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting and the adequacy of the system of internal financial controls. Both internal audit and Deloitte & Touche have access to the Committee at any time to discuss matters they believe may be of significance.



Bernard Higgins
Chairman



Dunlop James Stewart
Chief Executive

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 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement, the reconciliation of movements in shareholders' funds, statement of total recognised gains and losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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, 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 2001 and of the loss of the group for the year 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

26 March 2002

Consolidated Profit and loss account

for the year ended 31 December 2001

Technical account - long term business

		Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Earned premiums, net of reinsurance			
Gross premiums written	2	194,702	144,626
Outward reinsurance premiums		(6,207)	(8,836)
		<u>188,495</u>	<u>135,790</u>
Investment income	3	121,363	230,973
Unrealised gains on investments		-	51,121
Other technical income, net of reinsurance		-	5,800
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(357,524)	(253,154)
Reinsurers' share		3,095	114,925
		<u>(354,429)</u>	<u>(138,229)</u>
Change in the provision for claims			
Gross amount		(17,089)	(13,523)
Reinsurers' share		(903)	(29,768)
		<u>(17,992)</u>	<u>(43,291)</u>
		<u>(372,421)</u>	<u>(181,520)</u>
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount		(33,470)	17,372
Reinsurers' share		3,593	(27,741)
		<u>(29,877)</u>	<u>(10,369)</u>
Other technical provisions, net of reinsurance		<u>352,834</u>	<u>(66,800)</u>
		<u>322,957</u>	<u>(77,169)</u>
Net operating expenses	4	(52,175)	(104,370)
Investment expenses and charges	5	(34,076)	(103,557)
Unrealised losses on investments		(200,775)	-
Tax attributable to long term business	8	(3,763)	(8,787)
Balance on the technical account - long term business		<u>(30,395)</u>	<u>(51,719)</u>

The reinsurance balance amounted to a debit to the long term business technical account at 31 December 2001 of £422,000 (2000 £21,998,000).

Consolidated Profit and loss account

for the year ended 31 December 2001

Non-technical account

		Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
	Note		
Balance on the long term business technical account		(30,395)	(51,719)
Tax credit attributable to balance on the long term business technical account		-	-
		(30,395)	(51,719)
Investment income	3	1,160	1,553
Operating loss on ordinary activities before tax	6	(29,235)	(50,166)
Tax on loss on ordinary activities	8	(329)	(466)
Loss for the financial year after tax		(29,564)	(50,632)
Dividends paid and proposed		-	-
Loss for the financial year		(29,564)	(50,632)

All results relate to continuing operations.

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

Statement of total recognised gains and lossesfor the year ended 31 December 2001

The Company 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 shareholders' fundsfor the year ended 31 December 2001

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Loss for the financial year	(29,564)	(50,632)
Share Capital	25,000	22,200
Net addition to shareholders' funds	(4,564)	(28,432)
Opening shareholders' funds	100,598	129,030
Closing shareholders' funds	96,034	100,598

Balance Sheet – Group and Company

as at 31 December 2001

Assets

	Note	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Investments			
Other financial investments	10	226,548	271,674
		<u>226,548</u>	<u>271,674</u>
Assets held to cover linked liabilities	11	1,445,976	1,777,405
Reinsurers' share of technical provisions			
Long term business provision	17	18,179	14,586
Claims outstanding	17	370	1,273
		<u>18,549</u>	<u>15,859</u>
Debtors			
Debtors arising out of direct insurance operations	12	167	14,046
Other debtors	13	5,651	3,300
		<u>5,818</u>	<u>17,346</u>
Other assets			
Tangible assets	14	1,755	3,443
Cash at bank and in hand		47,123	19,846
		<u>48,878</u>	<u>23,289</u>
Prepayments and accrued income			
Accrued interest and rent		4,357	645
Deferred acquisition costs		10,029	32,988
		<u>14,386</u>	<u>33,633</u>
Total assets		<u>1,760,155</u>	<u>2,139,206</u>


Balance Sheet – Group and Company

as at 31 December 2001

Liabilities

		Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
	Note		
Capital and reserves			
Called up share capital	15	148,200	123,200
Profit and loss account	16	(52,166)	(22,602)
Shareholders' funds attributable to equity interests		96,034	100,598
Technical provisions			
Long term business provision	17	130,151	95,145
Claims outstanding	17	31,672	14,585
		161,823	109,730
Technical provisions for linked liabilities	17	1,445,976	1,777,405
Provisions for other risks and charges	18	-	45,000
Creditors			
Creditors arising out of direct insurance operations		9,553	10,693
Creditors arising out of reinsurance operations		513	798
Other creditors including taxation and social security	19	36,458	94,325
		46,524	105,816
Accruals and deferred income		9,798	657
Total liabilities		1,760,155	2,139,206

The financial statements on pages 8 to 26 were approved by the Board on 7 March 2002 and were signed on its behalf by



Bernard Higgins
Chairman



Dunlop James Stewart
Chief Executive

Shareholders' funds cash flow statement

as at 31 December 2001

		Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
	Note		
Operating activities			
Net cash outflow from operating activities	23	(25,000)	(22,200)
Returns on investments and servicing of finance			
Interest received	23	1,160	1,553
Net cash inflow from returns on investments and servicing of finance		<u>1,160</u>	<u>1,553</u>
Net cash inflow before financing		<u>(23,840)</u>	<u>(20,647)</u>
Financing			
Issue of ordinary shares		25,000	22,200
Net cash inflow from financing		<u>25,000</u>	<u>22,200</u>
Increase in cash	23	<u>1,160</u>	<u>1,553</u>
The net cash inflow was applied / invested as follows:			
Net portfolio investments			
Deposits with credit institutions	23	1,082	1,448
Increase in cash holdings	23	78	105
Net investments of cash flows		<u>1,160</u>	<u>1,553</u>

Notes to the accounts

1 Accounting policies

Basis of preparation

The consolidated accounts have been prepared in accordance with the provisions of Section 255 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 December 1998.

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. 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 the 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 acquisitions 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

The taxation charge in the technical account is based on the method of assessing taxation for long term funds applicable in the relevant country of operation. Any part of the balance on the technical account that is computed on an after tax basis is grossed up at the effective rate of taxation in the non-technical account.

The taxation charge in the non-technical account is based on the taxable profits for the year. Taxation, including taxation relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves.

Provision is only made for deferred taxation where it is expected that a liability will crystallise in the foreseeable future.

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.

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 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.

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.

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 Appointed 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. 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 to demonstrate solvency in accordance with the Interim 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 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.

2 Premiums

Gross premiums written

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

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Gross premiums written		
Individual premiums	4,810	7,602
Premiums under group contracts	189,892	137,024
	194,702	144,626
Life Insurance business		
Non participating contracts - periodic premiums	13,942	18,431
- single premiums	4,878	7,922
Linked contracts - periodic premiums	29,944	45,955
- single premiums	103,054	28,714
	151,818	101,022
Pension business		
Non participating contracts - periodic premiums	1,790	-
- single premiums	3,470	-
Linked contracts - periodic premiums	24,852	37,183
- single premiums	12,772	6,421
	42,884	43,604
Gross premiums written	194,702	144,626
Outward reinsurance premiums	(6,207)	(8,836)
Net premiums written	188,495	135,790

Notes to the accounts

2 Premiums (continued)

New business

	2001 £000	2000 £000
New annual premiums	8,460	4,027
New single premiums	124,174	43,057
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.

3 Investment income

	Technical account		Non-Technical account	
	Year ended 31December	15 month period ended 31December	Year ended 31December	15 month period ended 31December
	2001 £000	2000 £000	2001 £000	2000 £000
Income from other investments	74,544	108,129	1,160	1,553
Net gains on the realisation of investments	46,819	122,844	-	-
	121,363	230,973	1,160	1,553

4 Net operating expenses

	Year ended 31December	15 month period ended 31December
	2001 £000	2000 £000
Acquisition costs	19,509	30,025
Change in deferred acquisition costs	22,959	10,808
Administrative expenses	21,886	50,598
(Decrease)/ increase in provisions for other risks and charges	(9,100)	24,000
Commission received	(3,079)	(11,061)
	52,175	104,370

Notes to the accounts

5 Investment expenses and charges

	Technical account	
	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Interest payable	33,421	103,140
Investment management expenses	655	417
	34,076	103,557

6 Operating loss on ordinary activities before tax

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Operating loss on ordinary activities before tax is stated after charging/(crediting):		
Remuneration of auditors		
Audit		
Deloitte & Touche	287	91
PricewaterhouseCoopers	70	75
KPMG	13	20
Other services		
Deloitte & Touche	321	108
PricewaterhouseCoopers	927	5,045
KPMG	14	-
Depreciation	1,136	1,600
Profit on disposal of tangible fixed assets	(10)	(103)
Net commissions payable / (receivable) in respect of direct business	2,070	(301)
Land and buildings operating lease rentals	1,134	1,225

Notes to the accounts

7 Directors and employees

Directors' emoluments

Aggregate emoluments of the directors were £63,000 (2000: £46,000). Retirement benefits are accruing to 1 (2000: 1) director under a defined benefit scheme.

2 of the Company's directors exercised share options during the year, details of which are shown in the directors' report.

Employees

	Year ended 31 December 2001 No	15 month period ended 31 December 2000 No
The average number of persons (including executive directors) employed by the Company during the period was:-	2	2
	£000	£000
Wages and salaries	48	56
Social security costs	6	7
Other pension costs	7	8
	61	71
Recharge from The Royal Bank of Scotland Group plc for services of the sales force and other staff	15,152	20,307
	15,213	20,378

8 Taxation

	Technical account		Non-technical account	
	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
UK corporation tax	3,763	8,290	329	466
Double Tax Relief	(303)	(295)	-	-
Overseas taxation	303	792	-	-
	3,763	8,787	329	466
Tax attributable to shareholders' profits on long term business	-	-	-	-
	3,763	8,787	329	466
Deferred taxation	-	-	-	-
	3,763	8,787	329	466

Corporation tax in the technical account has been calculated at the rates between 20% and 30% (2000 – between 20% and 30%) in accordance with the rates applicable to life insurance companies.

Notes to the accounts

9 Subsidiary Company

At 31 December 2001 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	
	Year ended	15 month period ended	Year ended	15 month period ended
	31 December	31 December	31 December	31 December
	2001	2000	2001	2000
	£000	£000	£000	£000
Debt securities and other fixed income securities	43,063	79,651	44,365	79,235
Deposits with credit institutions:-				
Attributable to the long-term business	148,929	170,575	148,929	170,575
Attributable to shareholders	34,556	21,448	34,556	21,448
	226,548	271,674	227,850	271,258

Carrying value is market value.

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

	Year ended	15 month period ended
	31 December	31 December
	2001	2000
	£000	£000
Debt securities and other fixed income securities	43,063	52,074
Deposits with credit institutions:-		
Attributable to the long-term business	133,047	-
	176,110	52,074

11 Assets held to cover linked liabilities

	Year ended	15 month period ended
	31 December	31 December
	2001	2000
	£000	£000
Carrying value	1,445,976	1,777,405
Purchase price	1,408,065	1,398,183

Notes to the accounts

12 Debtors arising out of direct insurance operations

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Amounts owed by policyholders	167	14,046

13 Other debtors

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Amounts due from property linked funds	791	-
Amounts due from parent undertakings	2,669	-
Other debtors	2,191	3,300
	5,651	3,300

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 2001	7,579
Additions	-
Disposals	(1,177)
Balance at 31 December 2001	6,402
Depreciation	
Balance at 1 January 2001	4,136
Charged in period	1,136
On disposals	(625)
Balance at 31 December 2001	4,647
Net book value	
At 31 December 2001	1,755
At 31 December 2000	3,443

Notes to the accounts

15 Share capital

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Authorised:		
172,000,000 (2000: 172,000,000) ordinary shares of £1 each	172,000	172,000
Allotted, called up and paid:		
148,200,000 (2000: 123,200,000) ordinary shares of £1 each	148,200	123,200

During the year 25,000,000 ordinary shares, with a nominal value of £25,000,000 were allotted. The consideration received in respect of these shares was £25,000,000.

16 Profit and loss account

	£000
At 1 January 2001	(22,602)
Retained loss for the financial year	(29,564)
At 31 December 2001	(52,166)

The distributable reserves of the Company at 31 December 2001 were £nil (2000: £nil).

17 Technical Provisions

	Long term business provision	Technical provision for linked liabilities	Claims outstanding	Total
	£000	£000	£000	£000
Gross amount				
Balance at 1 January 2001	95,145	1,777,405	14,585	1,887,135
Transfer to / (from) the long term business technical account	33,470	(352,834)	17,089	(302,275)
Other movement	1,536	21,405	(2)	22,939
Balance at 31 December 2001	130,151	1,445,976	31,672	1,607,799
Reinsurers' share				
Balance at 1 January 2001	14,586	-	1,273	15,859
Transfer (from) / to long term business technical account	3,593	-	(903)	2,690
Balance at 31 December 2001	18,179	-	370	18,549
Net technical provisions				
At 31 December 2001	111,972	1,445,976	31,302	1,589,250
At 31 December 2000	80,559	1,777,405	13,312	1,871,276

Notes to the accounts

17 Technical provisions (continued)

Included within the technical provision for linked liabilities is £11,237,434 (2000 - £43,499,184) in respect of deferred taxation on unrealised capital gains.

The Company is following guidance from the FSA to review certain past sales of personal pension policies which involved transfers, opt outs and non joiners from occupational schemes. This review has led to the company making payments and having further future liabilities in relation to business written. Provision has been made based on the basis of the best estimate of information available to the industry and the Company and as at 31 December 2001 amounted to £9,600,000 (2000:£19,100,000). The Company is confident of achieving the final regulatory deadline of 30 June 2002.

The Royal Bank of Scotland plc has provided funding to the Company of £21,200,000 in total (2000 - £21,200,000) to cover certain costs and/or liabilities which may be incurred by the Company in relation to pension mis-selling.

Following the Financial Services Authority and Personal Investment Authority pronouncements on Free Standing Additional Voluntary Contributions the Company established a provision based on the best estimate of information available. At 31 December 2001 this amounted to £2,400,000 (2000: £3,000,000). The review commenced in 2000 and it is estimated that most of this expenditure will be incurred in the next financial year.

A provision of £10,200,000 was recognised in 1999 in relation to the design and administration of certain policies sold by the Company before 1999. Following agreement of the basis of compensation with the Financial Services Authority in 2001 this provision was increased and amounted to £33,600,000 at 31 December 2001 (2000; £10,200,000). It is anticipated that most of this expenditure will be incurred in the next financial year.

During 2001 the remainder of the provision established in relation to the Company's mortgage endowment policies sold prior to 1995 was transferred to technical provisions to reflect the nature of the remaining liabilities.

18 Provisions for other risks and charges

	<u>£000</u>
Balance at 1 January 2001	45,000
Utilised in the year	(26,864)
Released	(9,100)
Transferred to technical provisions	(9,036)
Balance at 31 December 2001	<u>-</u>

Provisions for other risks and charges consisted of provision in relation to the Company's mortgage endowment policies sold prior to 1995. The Royal Bank of Scotland plc provided funding of £24,000,000 to cover certain costs and / or liabilities incurred by the company in relation to these policies. The balance of the provision was transferred to technical provisions in 2001 to reflect the nature of the remaining liabilities.

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

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Deferred acquisition costs	<u>(11,165)</u>	<u>(7,606)</u>

Notes to the accounts

19 Other creditors including taxation and social security

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Corporation taxation payable	4,204	8,129
Amounts due to property linked funds	-	69,301
Amounts owed to parent undertakings	453	9,151
Investments purchased for subsequent settlement	20,496	-
Other creditors	11,305	7,744
	36,458	94,325

All creditors are payable within a period of five years.

20 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. At this stage it is not clear whether any liability will arise nor can the directors estimate with any degree of certainty the amount of any liability that might arise.

21 Pension commitments

The Company transferred its pension scheme to the Royal Bank of Scotland Group plc pension schemes during the year. As such the Company participates in The Royal Bank of Scotland Staff Pension Scheme, which is a funded defined benefit scheme whose assets are independent of the Group's finances. 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 30 September 1999 and showed scheme assets representing 118% of scheme liabilities. 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 Company. Details of the updated actuarial valuation at 31 December 2001, including information on the existence of a surplus or deficit in the scheme at that date, are not yet available but will be given in the financial statements of The Royal Bank of Scotland plc.

Pension contributions totalling £7,000 (2000 – £8,000) 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 7.

22 Operating lease commitments

	Year ended 31 December 2001 £000	15 month period ended 31 December 2000 £000
Operating lease commitments in respect of land and buildings are as follows:		
Expiring within one year	28	39

Notes to the accounts

23 Notes to Cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

	2001 £000	2000 £000
Loss on ordinary activities before tax	(29,235)	(50,166)
Interest and dividends received	(1,160)	(1,553)
Pre tax loss relating to long term business	30,395	51,719
Transfer to long term business fund	(25,000)	(22,200)
Net cash (outflow) from operating activities	(25,000)	(22,200)

Movement in cash, portfolio investments and financing

	At 1 January 2001 £000	Cashflow £000	At 31 December 2001 £000
Net cash at bank and in hand	1,825	78	1,903
Deposits with credit institutions	21,448	1,082	22,530
	23,273	1,160	24,433

24 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 £46.7 million (2000 - £51.9 million). In addition Royal Scottish Assurance pays commission to The Royal Bank of Scotland plc. Commission payable during the period totalled £2.3 million (2000 - £11.9 million) of which £0.2 million (2000 - £1.8 million) was outstanding at the period 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 £4.2 million.

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 sales force*. Commission received during the period totalled £3.1 million, 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.

Disclosure of transactions with directors who are also directors of The Royal Bank of Scotland Group plc is given in the group consolidated accounts; for the other directors, there were no material related party transactions.

25 Long term fund

The assets representing the long term fund at 31 December 2001 were £1,517,573,000 (2000 - £2,017,160,000).

Notes to the accounts

26 Parent undertaking

The Company's immediate parent undertaking is RBS Life Investments Limited (a company registered in Scotland).

Accordingly, the Company's ultimate parent undertaking and controlling party 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, 42 St Andrew Square, Edinburgh, Scotland, EH2 2YE.

27 Technical provisions assumptions

The principal assumptions underlying the calculation of the long term business provision are unchanged from those used in the year ended 31 December 2000 accounts and are as follows:

Interest Rates

Term assurances	4.4% gross and 3.5% net
Sterling interest	4.4% gross and 3.5% net
Unit growth	6.0% gross and 4.5% net
Expense inflation	4.0%

Mortality

Term assurances, male, non-smoker	80% AM80 Ult -2 + 33% AIDS R6A
Unit-linked life assurances, male, non-smoker	100% / 85% AM80 ult.-2+ 33% AIDS R6A
Unit-linked pensions, male, non-smoker	100% AM80 ult.-2+ 33% AIDS R6A

Expenses

Written prior to October 1997

Term assurances	£16.50 p.a.
Mortgage Protection Plan	£16.50 p.a.
Capital Investment Bond	£20.79 p.a.
PPP / FSAVC (regular / single)	£46.73 p.a. / £36.75 p.a.
EPP RP (regular / single)	£72.24 p.a. / £57.33 p.a.

Written after September 1997

Lifestyle Protection Plan (without/with critical illness)	£16.49 p.a. / £17.96 p.a.
Mortgage Protection Plan (without/with critical illness)	£16.49 p.a. / £17.96 p.a.
Pensions Term Assurance (stand-alone/ in conjunction)	£15.86 p.a. / £7.93 p.a.
Lifetime Security Plan	£53.55 p.a.
Flexible Mortgage Plan	£42.21 p.a.
Endowment Savings Plan	£39.80 p.a.
Mortgage Security Plan	£36.65 p.a.
Capital Investment Bond	£19.64 p.a.
PPP / FSAVC (regular / single)	£42.74 p.a. / £33.60 p.a.
EPP (regular / single)	£67.10 p.a. / £53.34 p.a.