Directors and Officers

Directors

R J M Bulloch
P R Geddes
D J Grant
E A Munro
N Nicandrou
G Storrie (Chief Executive)
T Strauss

Secretary

A E Mills

Auditor

Deloitte LLP
London

Royal Scottish Assurance plc
Contents

The directors present their annual report and audited financial statements for Royal Scottish Assurance plc ('the Company') for the year ended 31 December 2008.

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

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

As a result of the strategic alliance between Aviva and RBSG, Aviva has a significant interest in RBS Life Investments Limited, the immediate parent of the Company.

Review of the year
The directors are satisfied with the development of the Company's activities during the year. The Company will be guided by the boards of RBSG and Aviva in seeking further opportunities for growth. An interim dividend amounting to £18.8m was paid (2007: £nil). The directors do not recommend the payment of a final dividend for the year (2007: £nil).

The Company's financial performance is presented in the Income Statement on Page 8.

2007 saw changes to actuarial reserving for the new rules included within FSA Policy Statement 06/14, which is the main reason for the variances in individual lines such as fees and commission and movements to provisions. Additionally, 2008 was a period of significant turbulence in investment markets which, together with a fall in new business, impacted on profit before tax.

Measured as annualised new regular premiums sold in the period plus a tenth of all single premiums sold in the period, new business fell from £25.7m in 2007 to £21.2m, reflecting challenging trading conditions.

At the end of the year, the financial position showed total assets of £1,391m (2007: £1,647m) and equity of £224m (2007: £220m).

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2008, approved on 25 February 2009, which were prepared on a going concern basis.

Principal risks and uncertainties

International Financial Reporting Standards ("IFRS") disclosure requirements for the Company require a considerable degree of disclosure on the management of risk, and on the following risk categories:

- Risk management approach (page 37)
- Insurance risk (page 38)
- Liquidity risk (page 39)
- Market risk (page 39)
- Credit risk (page 40)

Directors

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

<u>**Directors**</u>	<u>**Appointed**</u>	<u>**Resigned**</u>
Simon Andrew Badley	-	1 December 2008
Martin Paul Bischoff	-	11 December 2008
Robert James Mackenzie Bulloch	11 December 2008	-
Daniel Sweeney Frumkin	-	11 December 2008
Paul Robert Geddes	11 December 2008	-
David John Grant	11 December 2008	-
Cathryn Elizabeth Riley	-	1 January 2009
Toby Strauss	1 January 2009	-
<u>**Secretary**</u>		
Mark Craig	-	25 June 2008
Alan Ewing Mills	25 June 2008	-

Directors' Responsibilities

The directors are responsible for preparing financial statements and have also elected to do so in accordance with IFRS. Where IFRS has been elected, company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards and the Companies Acts 1985 and 2006.

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Acts 1985 and 2006.

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

Financial instruments

The Company's financial risk management objectives and policies are discussed in Note 27 to the accounts.

Directors' statement as to disclosure of information to auditors

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

(1) so far as each of the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) so far as each of the directors are aware they have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Directors' Indemnities

In terms of Section 236 of The Companies Act 2006, Martin Paul Bischoff, Robert James Mackenzie Bulloch, Paul Robert Geddes, Ewan Angus Munro and Graham Storrie have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

In terms of Section 236 of The Companies Act 2006, Simon Andrew Badley, David John Grant, Nicolaos Nicandrou, Cathryn Elizabeth Riley and Toby Strauss have been granted Qualifying Third Party Indemnity Provisions by Aviva plc.

Political and charitable contributions

The Company made no charitable or political contributions during the year (2007: £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 appoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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

By order of the Board

A E Mills
Secretary

27 March 2009

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 2008 which comprise the Income statement, the Balance sheet, the Statement of recognised income and expense, the Reconciliation of movements in shareholders' equity, the Cash flow statement and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and IFRS as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

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

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

27 March 2009

Royal Scottish Assurance plc
Income statement
For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Income			
Gross written premiums	2	**155,438**	192,645
Premiums ceded to reinsurers	2	**(25,673)**	(26,857)
Net premiums earned		**129,765**	165,788
Fee and commission income	2	**10,712**	6,777
Net investment income	2	**(174,837)**	72,646
		(34,360)	245,211
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	3	**(121,120)**	(113,796)
Change in insurance liabilities, net of reinsurance	3	**93,560**	(11,517)
Change in non-participating investment contract provision	3	**143,149**	(27,287)
Fee and commission expense	3	**(28,644)**	(42,544)
Other expenses	3	**(14,280)**	(14,902)
Profit before tax		**38,305**	35,165
Tax expense	6	**(14,781)**	(16,756)
Profit for the year		**23,524**	18,409

All results relate to continuing operations.

The accounting policies and notes on pages 13 to 48 are an integral part of these financial statements.

Royal Scottish Assurance plc
Balance sheet
At 31 December 2008

	Note	2008 £'000	2007 £'000
Assets			
Financial investments	8	**1,152,469**	1,454,098
Reinsurance assets	16	**106,738**	79,476
Current tax assets	20	**3,109**	4,716
Receivables and other financial assets	9	**9,826**	7,365
Deferred acquisition costs	10	**20,150**	18,025
Prepayments and accrued income	11	**10,200**	11,431
Cash and cash equivalents	24	**88,785**	71,392
Total assets		**1,391,277**	1,646,503
Equity			
Ordinary share capital	13	**148,200**	148,200
Retained earnings	14	**76,051**	71,327
Total equity		**224,251**	219,527
Liabilities			
Gross insurance liabilities	15	**620,079**	685,615
Gross liability for non-participating investment contracts	17	**481,948**	682,252
Deferred tax liabilities	20	**27,222**	20,420
Payables and other financial liabilities	21	**23,046**	24,931
Other liabilities	22	**14,731**	13,758
Total liabilities		**1,167,026**	1,426,976
Total equity and liabilities		**1,391,277**	1,646,503

Approved by the Board on 27 March 2009.

G Storrie *Chief Executive*

The accounting policies and notes on pages 13 to 48 are an integral part of these financial statements.

Royal Scottish Assurance plc
Statement of recognised income and expense
For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Profit for the year	14	**23,524**	18,409
Total recognised income and expense for the year		**23,524**	18,409

The accounting policies and notes on pages 13 to 48 are an integral part of these financial statements.

Royal Scottish Assurance plc
Reconciliation of movements in shareholders' equity
For the year ended 31 December 2008

	Note	Capital Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2007		148,200	52,918	201,118
Total recognised income and expense for the year	14	-	18,409	18,409
Total movements in the year		-	18,409	18,409
Balance at 31 December 2007		148,200	71,327	219,527
Total recognised income and expense for the year	14	-	23,524	23,524
Dividends	23	-	(18,800)	(18,800)
Total movements in the year		-	4,724	4,724
Balance at 31 December 2008		148,200	76,051	224,251

The accounting policies and notes on pages 13 to 48 are an integral part of these financial statements.

Royal Scottish Assurance plc
Cash flow statement
For the year ended 31 December 2008

The cash flows presented in this statement cover all the Company's activities and include flows from both policyholder and shareholder activities.

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash consumed by operations	24	**(6,462)**	(56,158)
Interest received on investments		**31,064**	26,517
Dividends received on investments		**17,507**	17,096
Tax paid		**(5,916)**	(6,689)
Net cash generated/(consumed) by operating activities		**36,193**	(19,234)
Cash flows from financing activities			
Ordinary dividends paid		**(18,800)**	-
Net cash from financing activities		**(18,800)**	-
Net increase/(decrease) in cash and cash equivalents		**17,393**	(19,234)
Cash and cash equivalents at 1 January		**71,392**	90,626
Cash and cash equivalents at 31 December	24	**88,785**	71,392

The accounting policies and notes on pages 13 to 48 are an integral part of these financial statements.

1. Accounting policies

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

Basis of presentation

The financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) applicable at 31 December 2008.

In accordance with the standard for Phase I of insurance contracts (IFRS 4), the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in the '**Product classification**' policy below.

Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000).

As permitted under IAS 27, *Consolidated and Separate Financial Statements,* the Company has elected in accordance with paragraph 10 not to present consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. Information on the ultimate controlling parent and immediate parent can be found on page 44.

Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value, are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities, are reported as part of the fair value gain or loss.

Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as non-participating investment contracts.

As noted in the '**Basis of presentation**' policy above, insurance contracts continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006) and Companies Act 1985 Schedule 9A.

Premiums earned

Premiums on long-term insurance contracts are recognised as income when receivable, except for investment-linked premiums that are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

Non-participating investment contracts have no associated premium income.

Fee and commission income

Investment contract policyholders are charged fees for mortality, policy administration, investment management, surrenders or other contract services. These fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods. Amounts are considered to be assessed when the policyholder's balance has been adjusted for those fees. If the fees are for services to be provided in future periods, then they are deferred and recognised as the service is provided.

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment contracts. The front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

Net investment income

Investment income consists of dividends, interest and rents receivable for the year, movements in fair value on debt securities, realised gains and losses, and unrealised gains and losses on financial assets at fair value through profit and loss (as defined in the **'Financial investments'** policy). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts and is net of interest paid on margin loans.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

Insurance contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Long-term business provisions

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices.

The long-term business provisions are calculated based on regulatory requirements and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes. The principal assumptions are disclosed in note 15b.

Liability adequacy

At each reporting date an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in the light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision.

Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Provisions

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability.

The majority of the Company's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value.

The fair value liability is in principle established through the use of prospective discounted cash flow techniques. For unit-linked contracts, the fair value liability is equal to the current unfunded unit fund value, plus additional non-unit reserves if required on a fair value basis.

Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and balance sheet as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Investment in subsidiaries

Shares in subsidiaries are included at cost less any impairment in value. Impairments in value are charged to the income statement.

Impairment of non-financial assets

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

Offset of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial investments

The Company classifies its investments as financial assets at fair value through profit and loss (FV). The FV category is used as, in most cases, the Company's strategy is to manage its financial investments on a fair value basis. In certain circumstances, the fair value category is used where this eliminates an accounting mismatch.

The FV category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FV (referred to in this accounting policy as 'other than trading'). Only derivatives are classified as trading. All other securities in the FV category are classified as other than trading.

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

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Impairment

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

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

Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the potential gain or loss associated with such transactions. These amounts are disclosed in note 28.

For a variety of reasons, certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in trading income.

Interest rate and currency swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest date basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain or loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts

Interest futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC where two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

Deferred acquisition costs

The costs directly attributable to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. For non-participating investment contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Deferred acquisition costs for insurance contracts are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these margins. Deferrable acquisition costs for non-participating investments are amortised over the period in which the service is provided.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Cash and cash equivalents

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

Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated.

Income taxes

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

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

The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

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

Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

Dividends are recognised when the right of the shareholders to receive payment is established.

Pensions

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

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

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

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

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

Accounting developments

The IASB revised IAS 1 'Presentation of Financial Statements' in September 2007. The amendments to the presentation requirements for financial statements are not expected to have a material effect on the Company. The standard is effective for accounting periods beginning on or after 1 January 2009.

In addition to the above, the Company has considered the reissued IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' by the IASB following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries. The Company has concluded that these will not apply.

The IASB issued amendments to a number of standards in May 2008 as part of its annual improvements project. The amendments are effective for accounting periods beginning on or after 1 January 2009. Based on the current activities of the Company it is not expected that adoption of these amendments will have a significant impact on the Company's financial statements.

The IASB also issued an amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure" - Reclassification of Financial Assets. The amendment, issued in October 2008, permits an entity to reclassify non – derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category (if the financial asset had been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Company has elected not to reclassify such financial assets; as such this amendment has no impact on the Company's financial statements.

In addition to the above, the following standards and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2009 or later periods and they have been considered not relevant to the Company's operations or not applicable:

- IFRS 8 "Operating Segments";
- IFRS 2 "Share – based Payments"; Vesting conditions and cancellation;
- IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidations";
- IFRS 1 "First time adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements"- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate; and
- IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible Hedged Items

2. Details of income

	2008 £'000	2007 £'000
Gross written premiums		
Insurance contracts	**155,438**	192,645
Less: Premiums ceded to reinsurers	**(25,673)**	(26,857)
Net premiums earned	**129,765**	165,788
Fee and commission income		
Policy administration and asset management services	**9,983**	5,464
Change in deferred income reserve	**1,159**	946
Surrender charges	**(27)**	103
Death benefit charges	**(403)**	264
Fee and commission income	**10,712**	6,777
Net investment income		
Interest and similar income	**28,828**	28,081
Dividend income	**18,512**	18,804
Other income from investments designated as trading		
Realised gains	**12,257**	4,935
Unrealised (losses)/gains	**(62,671)**	702
Other income from investments designated as other than trading		
Realised (losses)/gains	**(35,143)**	67,167
Unrealised losses	**(138,505)**	(48,981)
Foreign exchange gains	**1,343**	727
Other investment income	**542**	1,211
Net investment income	**(174,837)**	72,646
Total Income	**(34,360)**	245,211

3. Details of expenses

	2008 £'000	2007 £'000
Claims and benefits paid to policyholders on long term business		
Insurance contracts	**131,013**	120,746
Less: Claim recoveries from reinsurers		
Insurance contracts	**(9,893)**	(6,950)
Claims and benefits paid, net of recoveries from reinsurers	**121,120**	113,796
Change in insurance liabilities	**(65,536)**	(11,070)
(Less)/add: Change in reinsurance asset for insurance provisions	**(28,024)**	22,587
Change in insurance liabilities, net of reinsurance	**(93,560)**	11,517
Change in non-participating investment contract provision		
Investment income allocated to non-participating investment contracts	**(143,071)**	27,300
Change in reinsurance asset for non-participating investment contract provisions	**(78)**	(13)
Change in non-participating investment contract provision	**(143,149)**	27,287
Fee and commission expense		
Acquisition costs		
Commission expenses and other acquisition costs for insurance contracts	**30,769**	28,524
Change in deferred acquisition costs for insurance contracts	**(2,734)**	13,586
Change in deferred acquisition costs for non-participating investment contracts	**609**	434
Fee and commission expense	**28,644**	42,544
Other expenses		
Administrative expenses	**14,280**	14,902
Other expenses	**14,280**	14,902
Total expenses	**(72,665)**	210,046

Total commission paid to external agents in respect of direct business included above is £2,049k (2007: £2,276k).

4. Directors and employees

Directors' emoluments

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

Employees

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

5. Auditors' remuneration

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

	2008	2007 (*)
	£'000	£'000
Audit services		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**75**	71
Other services		
Other services pursuant to legislation	**102**	105
All other services	**15**	14
	192	190

* The comparative disclosure has been restated to exclude VAT.

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

6. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2008 £'000	2007 £'000
Current tax		
For the year	**6,925**	1,599
Prior year adjustments	**1,054**	463
Total current tax	**7,979**	2,062
Deferred tax		
Origination and reversal of temporary differences	**6,802**	14,694
Total deferred tax	**6,802**	14,694
Total tax charged to income statement (note 6(b))	**14,781**	16,756

(ii) Tax charge can be analysed as follows:

	2008 £'000	2007 £'000
United Kingdom tax	**7,025**	1,399
Overseas tax	**954**	663
	7,979	2,062

(b) Tax reconciliation

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

	2008 £'000	2007 £'000
Profit before tax	**38,305**	35,165
Tax calculated at standard UK corporation tax rate of 28.5% (2007: 30%)	**10,917**	10,550
Adjustments arising from tax attributable for UK life insurance		
Different basis of tax for UK life insurance	**(34,279)**	11,629
Adjustment to tax charge in respect of prior years	**1,054**	463
Deferred tax assets not recognised	**37,089**	(5,886)
Total tax charged to income statement (note 6(a))	**14,781**	16,756

7. Investment in subsidiaries

(a) Carrying amount

The carrying value of investments in subsidiaries at the beginning and end of the year is £100.

(b) The investment of shares in subsidiaries is shown below.

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
RSA (Services) Limited	Not trading	Ordinary	100%	Scotland

8. Financial investments

(a) Financial investments at 31 December comprise:

	At fair value through profit and loss		2008
	Trading £'000	Other than trading £'000	Total £'000
Debt securities	-	736,775	736,775
Equity securities	-	319,700	319,700
Other investments			
Unit trusts	-	95,994	95,994
Total financial investments	-	**1,152,469**	**1,152,469**

	At fair value through profit and loss		2007
	Trading £'000	Other than trading £'000	Total £'000
Debt securities	-	840,459	840,459
Equity securities	-	571,793	571,793
Other investments			
Unit trusts	-	39,105	39,105
Derivative financial instruments	2,741	-	2,741
Total financial investments	**2,741**	**1,451,357**	**1,454,098**

(b) Stocklending

The Company has entered into stocklending arrangements in the UK during the year in accordance with established market conventions. The loan amounts arising from these arrangements were fully collateralised at all times during the year. Collateral provided was either in the form of non-cash securities or legally segregated cash amounts. As such, collateral provided under these stock lending arrangements is not recognised in the financial assets of the Company.

9. Receivables and other financial assets

	2008 £'000	2007 £'000
Amounts owed by contract holders	**4,289**	3,538
Amounts due from fellow group undertakings	**2,178**	238
Entities with significant influence	**1,651**	-
Other financial assets	**1,708**	3,589
	9,826	7,365

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables.

10. Deferred acquisition costs

(a) The carrying amount comprises:

	2008 £'000	2007 £'000
Deferred acquisition costs in respect of:		
Insurance contracts	**17,487**	14,753
Non-participating investment contracts	**2,663**	3,272
	20,150	18,025

(b) The movements in deferred acquisition costs in respect of insurance contracts during the year were:

	2008 £'000	2007 £'000
Carrying amount		
At 1 January	**14,753**	28,339
Acquisition costs deferred during the year	**6,041**	13,900
Amortisation	**(3,307)**	(8,385)
Impairment losses	**-**	(19,101)
At 31 December	**17,487**	14,753

Impairment losses in 2007 arose from adjusting to the PS06/14 realistic basis for insurance contract liabilities.

(c) The movements in deferred acquisition costs in respect of non-participating investment contracts during the year were:

	2008 £'000	2007 £'000
Carrying amount		
At 1 January	**3,272**	3,706
Acquisition costs deferred during the year	**-**	66
Amortisation	**(609)**	(500)
At 31 December	**2,663**	3,272

11. Prepayments and accrued income

	2008	2007
	£'000	£'000
Accrued interest	**4,153**	6,389
Other accrued income	**6,047**	5,042
	10,200	11,431

12. Assets held to cover linked liabilities

Certain unit-linked and investment-linked products have been classified as non-participating investment contracts, while some are included within the definition of an insurance contract. The assets backing these linked liabilities are included within the relevant balances in the balance sheet.

The carrying values of assets backing these linked liabilities are as follows:

	2008	2007
	£'000	£'000
Debt securities	**154,357**	155,635
Equity securities	**375,784**	603,606
Other investments	**389,860**	415,083
Reinsurance assets	**33**	1,304
Cash and cash equivalents	**15,090**	27,963
Other liabilities	**(2,891)**	(5,789)
	932,233	1,197,802
The associated liabilities are:		
Linked contracts classified as insurance contracts	**490,072**	558,376
Linked contracts classified as non-participating investment contracts	**442,161**	639,426
	932,233	1,197,802

13. Ordinary share capital

Details of the Company's ordinary share capital are as follows:

	2008	2007
	£'000	£'000
The authorised share capital of the Company at 31 December was: 172,000,000 (2007:172,000,000) ordinary shares of £1 each	**172,000**	172,000
The allotted, called up and fully paid share capital of the Company at 31 December was: 148,200,000 (2007: 148,200,000) ordinary shares of £1 each	**148,200**	148,200

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

14. Retained earnings

	2008 £'000	2007 £'000
Balance at 1 January	**71,327**	52,918
Profit for the year	**23,524**	18,409
Dividends	**(18,800)**	-
Balance at 31 December	**76,051**	71,327

The amounts available for distribution are restricted by the Financial Services and Markets Act 2000 in respect of long-term business.

15. Gross insurance liabilities

(a) The carrying amount comprises:

	2008 £'000	2007 £'000
Long-term business provisions		
Unit-linked non-participating	**99,873**	156,099
Other non-participating	**500,280**	511,962
Outstanding claims provisions	**19,926**	17,554
	620,079	685,615

(b) Long-term business liabilities

(i) Business description

The Company underwrites long-term business on 'non-profit' funds where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised business are derived from management fees and policy charges, and emerge in the non-profit funds.

The directors have been advised by the Company's reporting actuary that the assets of the long-term operation were at least sufficient to meet their respective liabilities at 31 December 2008.

(ii) Methodology

A prospective gross premium valuation method has been used for all non-linked business with the exception of some minor classes of business. For unit-linked contracts, the provisions are based on the market value of the related assets. The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality, morbidity, persistency and future expenses. Provisions are sensitive to these assumptions. The assumptions can vary by contract type and reflect current and expected future experience. The assumptions contain an allowance for prudence and are reviewed annually against actual experience and industry and economic trends.

(iii) Company practice

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. Provisions are most sensitive to assumptions regarding discount rates, mortality/morbidity rates and persistency.

(iv) Assumptions

The principal assumptions are:

The gross premium method is used for the majority of non-linked contracts. All contracts are assumed to continue for the contractual term.

For unit-linked business, the provisions are valued initially by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cashflows on the assumption that future premiums continue.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by making an explicit deduction from the yields on floating rate notes and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

The changes in the valuation discount rates since 2007 reflect the changes in the yields on the supporting assets.

Valuation discount rates

	2008	**2007**
Term assurances	3.2% gross	3.9% gross
Sterling interest	3.2% gross	3.9% gross
Unit growth	3.7% gross	4.5% gross
Expense inflation	3.0% gross	4.0% gross

Mortality assumptions are set with regard to recent company experience.

Mortality tables used

	2008	**2007**
Term assurance mortality	TMC00/TFC00 adjusted for smoker status and sex	TMC00/TFC00 adjusted for smoker status and sex
Term assurance critical illness	Reinsurer rates adjusted for smoker status and sex	Reinsurer rates adjusted for smoker status and sex
Over 50's whole of life	AMC00/AFC00 adjusted for smoker status and sex	AM80/AF80 or A60-70/A67-70 adjusted for sex
Unit linked/GCB mortality	AMC00/AFC00 adjusted for smoker status and sex	AMC00/AFC00 adjusted for smoker status and sex

Lapse assumptions are set with regard to recent company experience. The table below shows the average over each 5-year duration period. The most prudent of the high and low lapse rates is chosen at each point in the projection.

Lapse rates used

	2008	2007
	High / Low	High / Low
Level term assurance (duration 1-5 yrs)	22% / 7%	26% / 9%
Level term assurance (duration 6+ yrs)	13% / 4%	18% / 6%
Decreasing term assurance (duration 1-5 years)	21% / 7%	24% / 8%
Decreasing term assurance (duration 6+ yrs)	18% / 6%	24% / 8%
Over 50's whole of life (duration 1-5 yrs)	7% / 2%	6% / 2%
Over 50's whole of life (duration 6+ yrs)	5% / 2%	4% / 1%

Expenses assumptions are set with regard to company experience.

Expense assumption used

	2008	2007
Written prior to October 1997		
Term assurances	£29.30 p.a.	£25.18 p.a.
Mortgage Protection Plan	£29.30 p.a.	£25.18 p.a.
Lifetime Security Plan	£88.55 p.a.	£1.00 p.a.
Flexible Mortgage Plan	£76.05 p.a.	£65.37 p.a.
Endowment Savings Plan	£71.66 p.a.	£61.60 p.a.
Income Security Plan	£88.55 p.a.	£1.00 p.a.
Written after September 1997		
Lifestyle Protection Plan (without/with CI)	£29.30 / £32.11 p.a.	£25.18 / £27.61 p.a.
Mortgage Protection Plan (without/with CI)	£29.30 / £32.11 p.a.	£25.18 / £27.61 p.a.
Pensions Term Assurance (standalone/in conjunction)	£28.19 / £14.09 p.a.	£24.22 / £12.11 p.a.
Mortgage Savings Plan	£65.92 p.a.	£56.67 p.a.
Joint Venture		
Term assurance	£23.17 p.a.	£23.16 p.a.
Mortgage protection	£23.17 p.a.	£23.16 p.a.
Standalone critical illness	£23.17 p.a.	£23.16 p.a.
Family Income Benefit Plan	£23.17 p.a.	£23.16 p.a.
Flexible Investment Bond	£23.17 p.a.	£23.16 p.a.
Guaranteed Capital Bond	£26.01 p.a.	£26.01 p.a.

(v) Movements

The following movements have occurred in the long-term business provisions during the year:

	2008 £'000	2007 £'000
Carrying amount		
At 1 January	**685,615**	696,685
Provisions in respect of new business	**87,695**	134,188
Expected change in existing business provisions	**(92,965)**	(56,416)
Variance between actual and expected experience	**(74,431)**	(14,052)
Impact of operating assumption changes	**14,411**	(6,123)
Impact of economic assumption changes	**1,658**	(128)
Change in outstanding claims	**2,372**	(1,141)
Effect of adjusting to PS06/14 realistic basis	**-**	(73,251)
Other movements	**(4,276)**	5,853
Change in liability	**(65,536)**	(11,070)
At 31 December	**620,079**	685,615

The effect of changes in the main assumptions is given in note 19.

16. Reinsurance assets

(a) The carrying amount comprises:

	2008 £'000	2007 £'000
Long-term insurance contracts	**100,718**	73,030
Non-participating investment contracts	**2,876**	2,798
Other reinsurance debtors	**1,059**	1,899
Outstanding claims	**2,085**	1,749
	106,738	79,476

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts.

(c) Movements

The following movements have occurred in the reinsurance asset during the year:

	2008 £'000	2007 £'000
Carrying amount		
At 1 January	**79,476**	103,216
Asset in respect of new business	**2,770**	10,291
Expected change in existing business asset	**14,159**	1,227
Variance between actual and expected experience	**432**	(1,641)
Impact of operating assumption changes	**9,422**	(13,479)
Impact of economic assumption changes	**1,497**	1,097
Increase/(decrease) in reinsurer's share of claims outstanding	**336**	(1,982)
Decrease in other reinsurance debtors	**(840)**	(1,166)
Reduction in asset recoverable on non-participating investment contracts	**80**	13
Effect of adjusting to PS06/14 realistic basis	**-**	(30,350)
Other movements	**(594)**	12,250
Change in asset	**27,262**	(23,740)
At 31 December	**106,738**	79,476

17. Liability for non-participating investment contracts

(a) The carrying amount comprises:

	2008 £'000	2007 £'000
Non-participating investment contracts	**481,948**	682,252

(b) Long-term business investment liabilities

Non-participating investment contracts included under long-term business are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at fair value.

Most non-participating investment contracts measured at fair value are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves if required on a fair value basis. For this business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees respectively, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 10 and the deferred income reserve is shown in note 22.

(c) Movements in the year

The following movements have occurred in the year:

	2008 £'000	2007 £'000
Carrying amount		
At 1 January	**682,252**	720,623
Premiums received	**11,268**	22,581
Fees deducted from account balances	**(5,490)**	(6,690)
Account balances paid on surrender and other terminations in the year	**(63,011)**	(81,562)
Investment income allocated to non-participating investment contracts	**(143,071)**	27,300
At 31 December	**481,948**	682,252

The effect of changes in main assumptions is given in note 19.

18. Financial guarantees and options

The products with significant financial guarantees to policyholders are the Guaranteed Capital Bonds and the Guaranteed Income Bonds. The Guaranteed Capital Bonds provide a return linked to FTSE growth with a guaranteed minimum return on maturity of a percentage of the premium paid by the policyholder. This contract is matched by derivative assets and so there is no significant financial risk remaining with the Company. Collateral is paid to the Company by the holders of the derivative assets so as to minimise any credit risk. The Guaranteed Income Bond provides a guaranteed fixed income and maturity value and these guarantees are matched by backing assets.

19. Effect of changes in assumptions and estimates during the year

The following estimates and assumptions used in determining assets and liabilities for insurance and investment contract business were changed, and had the following effect on the profit recognised for the year:

Assumptions	Effect on profit 2008 £'000	Effect on profit 2007 £'000
Long-term insurance business		
Interest rates	**(161)**	86
Expenses	**(15,761)**	(3,669)
Mortality	**9,565**	1,993
Taxation	**-**	1,138
Persistency rates	**1,207**	(5,578)
Other	**-**	(102)
	(5,150)	(6,132)
Investment contracts – Non-participating		
Other	**(2)**	6
	(2)	6
Total	**(5,152)**	(6,126)

20. Tax assets and liabilities

(a) Tax assets and liabilities

	2008 £'000	2007 £'000
Current tax assets	**4,616**	4,910
Deferred tax assets	**1,929**	6,672
Total tax assets	**6,545**	11,582
Current tax liabilities	**(1,507)**	(194)
Deferred tax liabilities	**(29,151)**	(27,092)
Total tax liabilities	**(30,658)**	(27,286)
Net current tax assets	**3,109**	4,716
Net deferred tax liabilities	**(27,222)**	(20,420)
Net total tax liabilities	**(24,113)**	(15,704)

(b) Deferred taxes

	2008 £'000	2007 £'000
Long-term business technical provisions and other insurance items	**(23,509)**	(22,045)
Deferred acquisition costs	**(5,642)**	(5,047)
Unrealised losses on investments	**-**	(3,277)
Unused losses and tax gains	**-**	7,696
Other temporary differences	**1,929**	2,253
Net deferred tax liability	**(27,222)**	(20,420)

The movement in the net deferred tax liability was as follows:	2008 £'000	2007 £'000
Net liability at 1 January	**(20,420)**	(5,726)
Amounts charged to profit (note 6(a))	**(6,802)**	(14,694)
Net liability at 31 December	**(27,222)**	(20,420)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Company has unrecognised deferred tax assets of £52,134,000 (2007: £15,046,000) to carry forward against future taxable income.

21. Payables and other financial liabilities

	2008 £'000	2007 £'000
Payables arising out of direct insurance	**6,343**	5,128
Payables arising out of reinsurance operations	**2,671**	2,277
Amounts due to fellow group undertakings	**4,156**	7,085
Other financial liabilities	**9,152**	10,441
Derivative financial instruments	**46**	-
Bank overdraft	**678**	-
	23,046	24,931

22. Other liabilities

	2008 £'000	2007 £'000
Deferred income	**6,890**	8,049
Accruals	**7,841**	5,709
	14,731	13,758

23. Dividends

	2008 £'000	2007 £'000
Dividends paid	**(18,800)**	-

24. Cash flow statement

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2008 £'000	2007 £'000
Profit before tax	**38,305**	35,165
Adjustments for:		
Loss/(profit) on sale of other financial investments	**22,886**	(72,102)
Fair value losses on investments	**199,833**	47,552
Interest received on investments	**(28,828)**	(28,081)
Dividends received on investments	**(18,512)**	(18,804)
Changes in working capital:		
(Increase)/decrease in reinsurance assets	**(27,262)**	23,740
(Increase)/decrease in deferred acquisition costs	**(2,125)**	14,020
(Increase)/decrease in receivables and other financial assets	**(2,461)**	1,302
Decrease in prepayments	**-**	2,481
Decrease in insurance liabilities	**(65,536)**	(11,070)
Decrease in liability for non-participating investment contracts	**(200,304)**	(38,371)
Decrease in payables and other financial liabilities	**(1,885)**	(23,667)
Consortium relief reallocated from tax liability to other financial liability	**(456)**	(3,515)
Increase/(decrease) in other liabilities	**973**	(2,609)
Net sale of operating assets		
Financial investments	**78,910**	17,801
Cash consumed by operations	**(6,462)**	(56,158)

Purchases and sales of financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and non-participating investment contracts, net of payments of related benefits and claims.

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

	2008 £'000	2007 £'000
Cash at bank and in hand	**33,632**	40,725
Cash equivalents	**55,153**	30,667
	88,785	71,392

25. Contingent liabilities and other risk factors

VAT on Outsourced Services

There is the possibility that Her Majesty's Revenue and Customs ("HMRC") may seek to raise VAT on outsourced services following a decision by the European Court of Justice in early 2005. Such a change would affect the Company given that it substantially outsources its services to third parties. On the 28th November 2007 the European Commission published a proposal for a Directive aimed at modernising and simplifying the complex and inconsistently applied VAT rules for financial and insurance services. No provision has been made in the financial statements due to the ongoing uncertainty.

26. Capital statement

The analysis below sets out the Company's available capital resources.

(a) Available capital resources

	2008 £'000	2007 £'000
Shareholders' funds outside long term funds	**118,199**	76,828
Shareholders' funds held in long term funds	**106,052**	142,699
Total shareholders' funds	**224,251**	219,527
Adjustments onto a regulatory basis:		
Regulatory valuation and admissibility restrictions	**(61,476)**	(52,717)
Total available capital resources	**162,775**	166,810

(b) Analysis of insurance policyholder liabilities

	2008 £'000	2007 £'000
Gross liabilities		
Insurance contracts		
Unit linked	**99,873**	156,099
Other non-participating life insurance	**500,280**	511,962
Claims outstanding provision	**19,926**	17,554
Non-participating investment contracts	**481,948**	682,252
	1,102,027	1,367,867
Reinsurance		
Insurance contracts		
Non-participating life insurance	**100,718**	73,030
Non-participating investment contracts	**2,876**	2,798
Outstanding claims	**2,085**	1,749
Other reinsurance debtors	**1,059**	1,899
Total reinsurance	**106,738**	79,476

(c) Analysis of movements in capital

For the year ended 31 December

	2008 £'000	2007 £'000
Opening available capital resources	**166,810**	134,188
Impact of operating assumption changes	**(15,761)**	(3,669)
Impact of economic assumption changes	**(161)**	86
Available capital after changes in assumptions	**150,888**	130,605
New business and other factors (*)	**11,887**	36,205
Closing available capital resources	**162,775**	166,810

* New business and other factors for 2007 includes an amount relating to PS06/14 of £42.9m.

(d) Capital management policy

The Company is required to meet minimum capital requirements at all times under the Financial Services Authority's General Prudential Sourcebook and Prudential Sourcebook for Insurers. The capital resources covering these regulatory requirements are not transferable to other areas of the Group. To ensure that the capital requirement is satisfied at all times, the Company holds an additional voluntary buffer above the absolute minimum. Sufficient capital resources are held to ensure that the capital requirements are expected to be covered over a two year projection period. Life insurance results are inherently uncertain, due to actual experience being different to modelled assumptions. Such differences affect regulatory capital resources, as do varying levels of new business. Therefore, projections are formally reviewed twice a year. Where there is a projected shortfall of capital, various options are available to provide new capital.

27. Risk management policies

(a) The Company's approach to risk management

(i) Objectives

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

The risk management policies include the setting of risk appetite and establishment of processes to ensure that the Company operates within the acceptable range of risk.

(ii) Governance framework

The Company's governance structure has been designed to ensure that it complies with the Financial Services Authority's requirements in the Prudential Sourcebook for Insurers. It operates at a number of levels. For each of the FSA's six generic risk categories (Operational Risk, Market Risk, Credit Risk, Liquidity Risk, Insurance Risk and Group Risk) there is an Executive Owner with responsibility for monitoring compliance with the relevant risk policies. Identification of risk, setting risk appetite and monitoring of compliance with risk policies are all embedded within the Board Committee structure of the Company.

(iii) Integration of risk and capital management

The Company has developed a framework using Individual Capital Assessment ("ICA") principles for identifying the risks to which the Company is exposed, quantifying their impact on economic capital. The ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business. The ICA works to a 99.5% confidence level over one year, in line with UK FSA regulatory requirements. Although the ICA is an internal process, the FSA can use ICA information in discussing target capital levels it believes the Company should have available.

(iv) Impact of regulatory context on nature of the risks

A significant proportion of the Company's long-term savings business involves insurance products where the majority of investment risks are borne by the Company's policyholders. Risks attributable to policyholders are actively and prudently managed. In addition, the insurance operations are subject to numerous regulatory requirements, which prescribe the prudent values which can be placed on assets and liabilities depending on their type, quality and the level of concentration of investments, and the level of assets to be maintained in order to meet liabilities. These requirements help to maintain the risk levels at an acceptable level.

(b) Management of financial and non-financial risks

As explained above, the Company has established a number of policies focusing on the management of financial and non-financial risks. In addition, the Company operates a risk committee at which the aggregation of these risks is monitored and risk management decisions are taken, for example to require further risk mitigating actions. Further details as to the operation of policies and the risk committee are provided by risk area below.

(i) Life insurance risk

(1) Types of life insurance risk

Life insurance risk within the Company arises through its exposure to claims on mortality and morbidity insurance and exposure to worse than anticipated operating experience on factors such as persistency levels and administration expenses.

The impact of life insurance risks is monitored by the Company as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities, the asset liability management (ALM) framework, profit reporting, Financial Condition Report (FCR), and the ICA process.

(2) Risk mitigation techniques employed

The Company has developed a policy for the management of life insurance risk and guidelines for the practical application of key areas of life insurance practice.

Through its various committees, the Company considers all areas of life insurance risk, but in particular has a remit to monitor mortality, morbidity, longevity, persistency, pricing and expenses. The Company also considers the reinsurance coverage across the life businesses. The key points of this framework are as follows:

Mortality and morbidity risks are mitigated by the implementation of formal underwriting procedures, regular monitoring of experience and the use of reinsurance. The Company assesses the risk exposures and monitors the aggregation of risk ceded to individual reinsurers.

Longevity risk is controlled by transfer of the risk through reinsurance.

Persistency risk is managed through active monitoring and management of experience and customer research.

Expense risk is primarily managed through the assessment of profitability, and frequent monitoring of expense levels.

Apart from the ICA and FCR, sensitivity testing is widely used to measure the capital required from various life insurance risks. This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

(3) Concentrations of life insurance risk

The Company underwrites a diverse mix of business, which are all subject to a variety of risks. The Company assesses the relative costs and concentrations of each type of risk through the ICA requirements. This analysis enables the Company to assess whether accumulations of risk exceed risk appetite.

(ii) Asset/liability management (ALM)

The Company has a policy on ALM of matching closely assets to technical provisions to manage the key ALM risks to which the Company is exposed. The Company monitors adherence to this policy through the Investment Control Committee.

The Company has established criteria for matching assets and liabilities for all classes of business, in order to minimise the financial risk from the mismatching of assets and liabilities as investment markets change.

(iii) Liquidity risk

The Company has a Liquidity Policy, which has been formulated to ensure that it meets all its obligations as they fall due and to ensure compliance with evolving liquidity requirements; in particular, Chapter 4 "Liquidity Risk Systems and Controls" of the Prudential Sourcebook for Insurers.

Analysis of expected maturity of liabilities

For insurance and investment business, the following shows the gross liability analysed by duration. The total liability is split by duration in proportion to the policy cash flows estimated to arise during that period.

					2008
	Total	**Within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Non-linked insurance	500,280	97,736	337,146	11,655	53,743
Non-linked investment	35,484	27,258	8,226	-	-
Linked	546,337	64,676	196,486	238,676	46,499
Outstanding claims	19,926	19,926	-	-	-
Total	1,102,027	209,596	541,858	250,331	100,242

					2007
	Total	**Within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Non-linked insurance	499,778	106,884	288,786	63,523	40,585
Non-linked investment	32,042	2,000	30,042	-	-
Linked	818,493	87,919	289,997	364,132	76,445
Outstanding claims	17,554	17,554	-	-	-
Total	1,367,867	214,357	608,825	427,655	117,030

(iv) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values of financial instruments from fluctuations in interest rates, property prices and equity prices. Market risk arises within the Company due to fluctuations in the relationship between the values of the liabilities and the value of investments held as a result of movements in market prices.

The Company manages market risks through the Investment Control Committee and within regulatory constraints. The Company is also constrained by the requirements of Treating Customers Fairly and to minimise or avoid market risk in a number of areas.

For each of the major components of market risk, described in more detail below, the Company has put in place policies and procedures to set out how each risk is to be managed and monitored, and the approach to setting an appropriate risk appetite.

(1) Interest rate risk

Interest rate risk arises primarily from the Company's nominal and real yield curve exposure within both assets and liabilities.

The Company manages this risk by adopting close asset liability matching criteria in order to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements. Interest rate risk is also controlled through the use of a variety of derivative instruments, including futures, options and swaps, in order to hedge against unfavourable market movements in interest rates inherent in the underlying assets and liabilities.

(2) Mark to market risk

The Company is indirectly subject to mark to market risk due to daily changes in the market values of the securities within the unit linked portfolio. The Company's shareholders are exposed to the indirect impact from changes in the value of the securities held in policyholder funds from which management charges or a share of performance are taken.

The company is directly subject to mark to market risk due to changes in the value of shareholder assets and collateral relating to derivative investments.

Investment performance is monitored by the Investment Management Committee and the Board Investment Committee.

(3) Derivative risk

Derivatives are used to a limited extent, within policy guidelines set out in the Investment Management Agreement and the Derivatives Policy. Derivatives are used for efficient investment management, risk hedging purposes, or to structure specific retail-savings products. Speculative activity is prohibited. OTC derivative contracts are entered into only with approved counterparties, in accordance with the Company's policies, thereby reducing the risk of credit loss. The Company applies strict requirements to the administration and valuation processes used in order to set a control framework that is consistent with market and industry practice. The Investment Controls Committee monitors the use of derivatives and approves large or complex transactions on behalf of the Company.

(4) Correlations between market risk and other risks

Lapse behaviour and potential increases in consumer expectations are sensitive to, and interdependent with, market movements. These interdependencies are taken into consideration in the ICA during the compilation of the financial stress tests.

(v) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties.

The Company's management of credit risk, through the Investment Control Committee, includes measurement of large individual counterparty exposures using credit ratings produced by companies such as Standard & Poor's.

Financial assets are graded according to credit ratings. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings for the Unit Linked funds, but are usually restricted to a range of AAA to A+ ratings for the Non Linked funds.

The following table provides information regarding the credit risk exposure of the Company at 31 December.

	Credit rating					2008
	AAA	AA	A	BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	221,363	378,548	119,220	17,463	181	736,775
Reinsurance assets	20,670	80,589	3,397	-	2,082	106,738
	242,033	459,137	122,617	17,463	2,263	843,513

	Credit rating					2007
	AAA	AA	A	BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	307,925	493,263	39,147	-	123	840,458
Reinsurance assets	914	75,151	1,240	-	2,171	79,476
	308,839	568,414	40,387	-	2,294	919,934

The carrying amount of assets included above represents the maximum credit exposure.

(1) Concentrations of credit risk

The long-term business is generally not individually exposed to significant concentrations of credit risk due to regulations limiting investments in individual assets and asset classes.

(2) Reinsurance credit exposures

The Company is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that the Company deals with who have acceptable credit ratings. The Company operates a policy to manage its reinsurance counterparty exposures. The impact from reinsurer's default is measured, among other things, through ICA tests and is managed accordingly.

(vi) Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people or systems; or from external events.

As with other risk categories, line management of business areas have primary responsibility for the effective identification, management, monitoring and reporting of risks to the Board, in accordance with Company policies. A Risk Committee is responsible for implementing the Company's risk management methodologies and frameworks to assist line management in this work. They also provide support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans. In this way, the Board satisfies itself that material risks are being mitigated and reported to an acceptable level.

(c) Sensitivity analysis and capital management

(i) Life insurance and non-participating investment contracts

The nature of long-term business is such that a number of assumptions have been made in compiling these financial statements. Assumptions are made about future investment returns, expenses, mortality rates, morbidity rates and persistency in connection with the in force policies. A number of the key assumptions are disclosed in note 15.

Some results of sensitivity testing for long-term business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by ± 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Expenses	The impact of an increase in maintenance expenses by 10%.
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Equity prices	The impact of a change in equity prices by ± 10 %

The above sensitivity factors are applied via actuarial and statistical models, with the following pre-tax impacts on profit and shareholders' equity:

Long-term business – impact on profit before tax and shareholders' equity before tax (£'000)

						2008
	Interest rates	Interest rates	Expenses	Assurance Mortality/ morbidity	Equity prices	Equity prices
	+1%	-1%	+10%	+5%	+10%	-10%
Insurance	(2,934)	204	(3,582)	(5,155)	1,978	(1,929)
Investment non-participating	(604)	608	(4)	(1)	2,566	(2,566)
Total	(3,538)	812	(3,586)	(5,156)	4,544	(4,495)

Long-term business – impact on profit before tax and shareholders' equity before tax (£'000)

	Interest rates	Interest rates	Expenses	Assurance Mortality/ morbidity	Equity prices	2007 Equity prices
	+1%	-1%	+10%	+5%	+10%	-10%
Insurance	(3,084)	(141)	(1,332)	(4,902)	25	(32)
Investment non-participating	(1,214)	1,353	-	-	4,393	(4,393)
Total	(4,298)	1,212	(1,332)	(4,902)	4,418	(4,425)

The tables above indicate the impact of the stated changes after the effect of reinsurance. The impact of changes in assurance mortality and interest rates would be significantly higher if existing reinsurance arrangements were not in place.

(ii) Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption whilst other assumptions remain unaffected. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty as well as the assumption that all interest rates move in an identical fashion.

28. Derivative financial instruments

The Company uses non-hedge derivatives to mitigate risk, as detailed below:

	2008 Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000	2007 Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000
Equity/index contracts						
OTC						
Options	**382,363**	-	**46**	372,676	2,741	-
Total	**382,363**	-	**46**	372,676	2,741	-

29. Related party transactions

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

On 1 December 2008, the UK government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland plc. The UK Government has announced that it's shareholdings in banks will be managed by UK Financial Investments Limited, a company wholly-owned by the UK Government.

The following transactions were carried out with related parties.

(a) The members of the Board of Directors are listed on page 1 of these financial statements. There are no accounts receivable from or payments due to members of the Board of Directors.

Management services have been provided throughout the financial year to the Company by Norwich Union Life Services Limited. Fees in relation to these services are paid by The Royal Bank of Scotland Group plc and the relevant proportion recharged to the Company.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc. Aviva Investors UK Fund Services Limited's (AIUKFSL) ultimate holding company is Aviva plc. As a result of The Royal Bank of Scotland Group plc and Aviva plc's strategic alliance, AIUKFSL provides investment management services to the Company.

During the year, the Company received dividends of £nil (2007: £nil) from its subsidiaries, and paid dividends of £18.8m (2007: £nil) to its parent.

(b) Other income receivable from related parties

	2008 Income earned in year £'000	2007 Income earned in year £'000
Fellow group undertakings		
Profit share and commissions due from UK Insurance	**615**	4,462
	615	4,462

(c) Other expenses payable to related parties

	2008 Expense incurred in year £'000	2007 Expense incurred in year £'000
Fellow group undertakings		
Interest payable on margin loan	**24,135**	23,887
Expense recharge	**37,421**	46,556
Expenses payable to Aviva Investors UK Fund Services Limited	**1,535**	1,563
	63,091	72,006

(d) Receivable at year end

	2008 Receivable at year end £'000	2007 Receivable at year end £'000
Fellow group undertakings	**2,178**	238
Entities with significant influence	**1,651**	-
	3,829	238

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

(e) Payable at year end

	2008 Payable at year end £'000	2007 Payable at year end £'000
Fellow group undertakings	**11,918**	12,469
Entities with significant influence	**3,971**	3,515
Norwich Union Life Services prepayment	**-**	834
	15,889	16,818

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

(f) Balances with UK Government

The Company has transactions with UK Government bodies on an arms' length basis. The volume and diversity of such transactions are such that disclosure of their amounts in the period 1 to 31 December 2008 is impractical.

As at 31 December 2008 balances with the UK Government and affiliated bodies were:

	Central Government (including the Bank of England) £'000	Local Government £'000	Banks, Financial Corporations and Public Corporations £'000	Total £'000
Debt securities	28,739	-	5,507	34,246

(g) Key management compensation

There are no accounts receivable from or payments due to members of the Board of Directors.

(h) Pensions

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

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

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

Principal actuarial assumptions at 31 December	**2008**	2007
Discount rate	**6.5%**	6.0%
Expected return on plan assets (weighted average)	**7.1%**	6.9%
Rate of increase in salaries	**4.0%**	4.5%
Rate of increase in pensions in payment	**2.7%**	3.2%
Inflation assumption	**2.7%**	3.2%

Major classes of plan assets as a percentage of total plan assets	**2008**	2007
Equities	**59.4%**	61.0%
Index-linked bonds	**18.0%**	18.2%
Government fixed interest bonds	**1.2%**	1.2%
Corporate and other bonds	**18.5%**	15.1%
Property	**3.7%**	3.8%
Cash and other assets	**(0.8%)**	0.7%

Pension plan assets of the Main Scheme include a holding of the Company's ordinary shares with a fair value of £15 million *(2007: £65 million)*, and financial instruments issued by the Group with a value of £421 million *(2007: £606 million).*

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

Major classes of plan assets as a percentage of total plan assets	**2008**	2007
Equities	**8.4%**	8.1%
Index-linked bonds	**3.9%**	4.5%
Government fixed interest bonds	**3.9%**	4.5%
Corporate and other bonds	**6.1%**	5.5%
Property	**6.1%**	6.3%
Cash and other assets	**2.5%**	4.6%

	2008	2007
Post-retirement mortality assumptions		
Longevity at age 60 for current pensioners (years)		
Males	**26.1**	26.0
Females	**26.9**	26.8
Longevity at age 60 for future pensioners (years)		
Males	**28.1**	28.1
Females	**28.2**	28.2

Movement in the Main Scheme deficit during the year

	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
At 1 January 2007	17,374	19,004	1,630
Income statement:			
Expected return	1,182	-	(1,182)
Interest cost	-	1,007	1,007
Current service cost	-	566	566
Past service cost	-	19	19
	1,182	1,592	410
Statement of recognised income and expense:			
Actuarial gains and losses	163	(1,937)	(2,100)
Intra-group transfers	30	30	-
Contributions by employers	416	-	(416)
Benefits paid	(551)	(551)	-
Expenses included in service cost	(39)	(39)	-
At 1 January 2008	18,575	18,099	(476)
Income statement:			
Expected return	**1,271**	**-**	**(1,271)**
Interest cost	**-**	**1,080**	**1,080**
Current service cost	**-**	**437**	**437**
Past service cost	**-**	**21**	**21**
	1,271	**1,538**	**267**
Statement of recognised income and expense:			
Actuarial gains and losses	**(4,784)**	**(3,389)**	**1,395**
Contributions by employers	**396**	**-**	**(396)**
Benefits paid	**(630)**	**(630)**	**-**
Expenses included in service cost	**(24)**	**(24)**	**-**
At 31 December 2008	**14,804**	**15,594**	**790**

The Group expects to contribute £385 million to the Main defined benefit scheme in 2009. Of the net pension liability, £201 million *(2007: £212 million)* relates to unfunded schemes.

Cumulative net actuarial losses of £717 million (2007: £1,570 million gains) have been recognised in the statement of recognised income and expense, of which £184 million gains (2007: £1,579 million gains) relate to the Main scheme.

History of defined benefit schemes	2008 £m	2007 £m
Present value of defined benefit obligations	**15,594**	18,099
Fair value of plan assets	**14,804**	18,575
Net surplus / (deficit)	**(790)**	476
Experience losses on plan liabilities	**(55)**	(256)
Experience gains on plan assets	**(4,784)**	163
Actual return on pension schemes assets	**(3,513)**	1,345

The table below sets out the sensitivities of the pension cost for the year and the present value of detailed benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	Increase/(decrease) in pension cost for the year		Increase/(decrease) in obligation at 31 December	
	2008 £m	2007 £m	2008 £m	2007 £m
25 bps increase in the discount rate	**(37)**	(41)	**(696)**	(874)
25 bps increase in inflation	**77**	83	**624**	800
25 bps additional rate of increase in pensions in payment	**41**	43	**383**	461
25 bps additional rate of increase in deferred pensions	**8**	5	**94**	113
25 bps additional rate of increase in salaries	**28**	35	**168**	216
Longevity increase of 1 year	**31**	31	**302**	390

30. Post balance sheet events

There have been no material post balance sheet events requiring disclosure between 31 December 2008 and the signing of the accounts.