

Royal Scottish Assurance plc

Registered in Scotland No 119820

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

Directors, Officers and Advisors

Directors

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

Appointed Actuary

J Giddings

Secretary

A E Mills

Auditors

Deloitte & Touche LLP
Edinburgh



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Directors' report

The directors present their annual report and audited financial statements for Royal Scottish Assurance plc ('the Company') for the year ended 31 December 2003.

Principal activity

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

The annual valuation of the assets and liabilities of the Company is made as at 31 December 2003 and further details of the valuation and distribution of profits will be provided in due course in the returns to the Financial Services Authority.

Review of business and future operations

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

Dividend

The directors do not recommend the payment of a dividend (2002: £nil).

Directors

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

Director	Date of Appointment	Date of Resignation
D F S Rogers	01 September 2003	-
M J P Hutchins	-	31 July 2003
F Mackle	26 November 2003	-
J A Newman	01 January 2004	-
M N Urmston	-	31 December 2003

Directors' interests

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

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

	At 1 January 2003*	At 31 December 2003
I A Henderson	26,363	28,010
B Higgins	352	367

* Or date of appointment, if later

Directors' report

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the year to 31 December 2003 are included in the table below:-

	At 1 January 2003*	Granted during the year		Exercised during the year		At 31 December 2003
		Options	Price	Options	Price	
I A Henderson	44,772	17,400 126	12.37 13.07	241	7.41	62,057
B Higgins	70,525	40,500	12.37	20,486 3,214	7.81 9.33	87,325
D J Stewart	31,800	-	-	2,186 150	12.87 12.40	29,464

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 31 December 2003.

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

In addition, the following directors held Additional Value Shares of £0.01 each ("AVS") in The Royal Bank of Scotland Group plc as at 31 December 2003:

	At 1 January 2003*	At 31 December 2003
I A Henderson	20,216	-
B Higgins	52	-

On 31 December 2003, the Additional Value Shares were de-listed from The London Stock Exchange, converted to Non-Voting Deferred Shares and transferred to RBS NVDS Nominees Limited. None of the directors has an interest in the Non-Voting Deferred Shares.

Employees

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

Political and charitable contributions

The Company made no charitable or political contributions during the year (2002: £nil).

* or date of appointment if later

Directors' report

Creditor payment policy and practice

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

Auditors

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 27 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board



A E Mills Secretary

19 March 2004

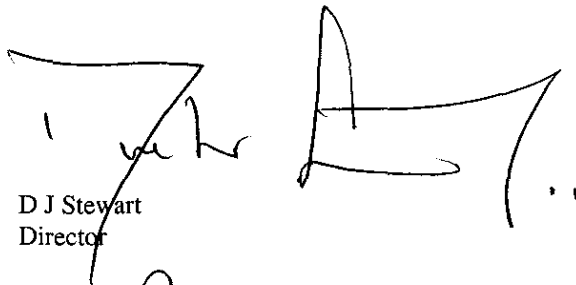
Statement of directors' responsibilities for financial reporting

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

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

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

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



D J Stewart
Director



D F S Rogers
Chief Executive

Independent Auditors' report

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

We have audited the financial statements of Royal Scottish Assurance plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders funds, the balance sheets and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

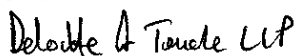
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Edinburgh

March 2004

Consolidated Profit and loss account

for the year ended 31 December 2003

Technical account - long term business

	Note	2003 £000	2002 £000
Earned premiums, net of reinsurance			
Gross premiums written	2	153,233	166,054
Outward reinsurance premiums		(9,074)	(6,103)
		<u>144,159</u>	<u>159,951</u>
Investment income	3	23,421	59,641
Unrealised gains on investments		114,016	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(253,631)	(345,869)
Reinsurers' share		4,373	1,017
		<u>(249,258)</u>	<u>(344,852)</u>
Change in the provision for claims			
Gross amount	17	(682)	15,209
Reinsurers' share	17	(829)	1,130
		<u>(1,511)</u>	<u>16,339</u>
		<u>(250,769)</u>	<u>(328,513)</u>
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
Gross amount	17	(11,422)	18,621
Reinsurers' share	17	5,741	4,940
		<u>(5,681)</u>	<u>23,561</u>
Other technical provisions, net of reinsurance	17	<u>26,434</u>	<u>361,097</u>
		<u>20,753</u>	<u>384,658</u>
Net operating expenses	4	(27,291)	(34,853)
Investment expenses and charges	5	(10,856)	(19,886)
Unrealised losses on investments		-	(207,585)
Tax attributable to long term business	8b	(10,554)	3,662
Balance on the technical account - long term business		<u>2,879</u>	<u>17,075</u>

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2003 of £211,000 (2002: Credit £984,000).

Consolidated Profit and loss account

for the year ended 31 December 2003

Non-technical account

	Note	2003 £000	2002 £000
Balance on the long term business technical account		2,879	17,075
Tax credit attributable to balance on the long term business technical account	8a	<u>1,234</u>	<u>7,318</u>
		4,113	24,393
Investment income	3	984	853
Operating profit on ordinary activities before taxation	6	5,097	25,246
Taxation on profit on ordinary activities	8a	<u>(1,529)</u>	<u>(7,614)</u>
Profit for the financial year after taxation		3,568	17,632
Dividends paid and proposed		-	-
Retained profit for the year		3,568	17,632

All results relate to continuing operations.

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

Statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	3,568	17,632
Other recognised gains and losses relating to the year		
Deferred tax adjustment (arising from change in accounting policy)	-	14,007
Total recognised gains and losses	3,568	31,639

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	3,568	17,632
Share Capital	-	-
Net addition to shareholders' funds	3,568	17,632
Opening shareholders' funds	127,672	110,040
Closing shareholders' funds	131,240	127,672

Balance Sheet – Group and Company

as at 31 December 2003

Assets

	Note	2003 £000	2002 £000
Investments			
Other financial investments	10	233,860	221,886
		<u>233,860</u>	<u>221,886</u>
Assets held to cover linked liabilities	11	1,044,652	1,071,086
Reinsurers' share of technical provisions			
Long term business provision	17	28,860	23,119
Claims outstanding	17	671	1,500
		<u>29,531</u>	<u>24,619</u>
Debtors			
Debtors arising out of direct insurance operations	12	1,862	649
Debtors arising out of reinsurance operations		2,415	22
Deferred tax	8e	-	8,952
Other debtors	13	33,963	32,964
		<u>38,240</u>	<u>42,587</u>
Other assets			
Tangible assets	14	37	308
Cash at bank and in hand		2,090	3,692
		<u>2,127</u>	<u>4,000</u>
Prepayments and accrued income			
Accrued interest and rent		1,375	2,362
Deferred acquisition costs		21,200	10,600
Other prepayments and accrued income		258	565
		<u>22,833</u>	<u>13,527</u>
Total assets		<u>1,371,243</u>	<u>1,377,705</u>

Balance Sheet – Group and Company

as at 31 December 2003

Liabilities

	Note	2003 £000	2002 £000
Capital and reserves			
Called up share capital	15	148,200	148,200
Profit and loss account	16	(16,960)	(20,528)
Shareholders' funds attributable to equity interests		131,240	127,672
Technical provisions			
Long term business provision	17	122,952	111,530
Claims outstanding	17	17,145	16,463
		140,097	127,993
Technical provisions for linked liabilities	17	1,044,652	1,071,086
Creditors			
Creditors arising out of direct insurance operations		3,801	3,725
Creditors arising out of reinsurance operations		2,421	516
Deferred tax	8e	421	-
Other creditors including taxation and social security	18	39,929	37,481
		46,572	41,722
Accruals and deferred income		8,682	9,232
Total liabilities		1,371,243	1,377,705

The financial statements on pages 8 to 29 were approved by the Board on 19 March 2004 and were signed on its behalf by



D F S Rogers *Chief Executive*

Shareholders' funds cash flow statement

For the year ended 31 December 2003

	Note	2003 £000	2002 £000
Operating activities			
Net cash inflow / (outflow) from operating activities	21	4,927	(6)
Returns on investments and servicing of finance	21	984	986
Capital expenditure and financial investment	21	-	(133)
Net cash inflow	21	5,911	847
The net cash inflow was applied / invested as follows:			
Net portfolio investments			
Deposits with credit institutions	21	5,802	769
Increase in cash holdings	21	109	78
Net investments of cash flows		5,911	847

Notes to the accounts

1 Accounting policies

Basis of preparation

The consolidated accounts have been prepared in accordance with the provisions of Section 255 A of, and Schedule 9A to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and comply with the Statement of Recommended Practice ('SORP') on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

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

The Company has one subsidiary, RSA (Services) Limited, which has been consolidated into the Group accounts. As permitted by section 230 of the Companies Act 1985, the Parent Company's profit and loss account has not been included in these accounts. All intercompany balances and transactions are eliminated from the Group accounts.

Premiums

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

Claims

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

Bonuses

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

Investment income

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

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

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

Unrealised gains and losses on investments

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

Notes to the accounts

1 Accounting policies (continued)

Acquisition costs and deferred acquisition costs

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

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

Taxation and deferred taxation

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

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

Pensions costs

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

Investments

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

Fixed assets

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

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

Leases

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

Notes to the accounts

1 Accounting policies (continued)

Long term business provision and provision for linked liabilities

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

Foreign currencies

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

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

Notes to the accounts

2 Premiums

Gross premiums written

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

	2003 £000	2002 £000
Gross premiums written		
Individual premiums	13,104	5,439
Premiums under group contracts	140,129	160,615
	153,233	166,054
Life Insurance business		
Non participating contracts - periodic premiums	12,861	14,301
- single premiums	13,104	5,477
Linked contracts - periodic premiums	28,682	28,397
- single premiums	67,092	83,215
	121,739	131,390
Pension business		
Non participating contracts - periodic premiums	1,620	1,695
- single premiums	4,871	3,156
Linked contracts - periodic premiums	22,384	23,371
- single premiums	2,619	6,442
	31,494	34,664
Gross premiums written	153,233	166,054
Outward reinsurance premiums	(9,074)	(6,103)
Net premiums written	144,159	159,951

New business

	2003 £000	2002 £000
New annual premiums	12,071	5,712
New single premiums	87,686	98,290

The above figures are gross of reinsurance.

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

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

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

Notes to the accounts

3 Investment income

	Technical account		Non-Technical account	
	2003 £000	2002 £000	2003 £000	2002 £000
Income from other investments	43,229	54,481	984	986
Net (losses) / gains on the realisation of investments	(19,808)	5,160	-	(133)
	23,421	59,641	984	853

4 Net operating expenses

	2003 £000	2002 £000
Acquisition costs	20,568	14,903
Change in deferred acquisition costs	(10,600)	(571)
Administrative expenses	17,435	21,616
Commission received	(112)	(1,095)
	27,291	34,853

5 Investment expenses and charges

	Technical account		Non-Technical account	
	2003 £000	2002 £000	2003 £000	2002 £000
Interest payable	8,914	15,838	-	-
Investment management expenses	1,942	4,048	-	-
	10,856	19,886	-	-

Notes to the accounts

6 Operating profit on ordinary activities before tax

	2003 £000	2002 £000
Operating profit on ordinary activities before tax is stated after charging/(crediting):		
Remuneration of auditors:		
Audit		
Deloitte & Touche LLP	236	291
PricewaterhouseCoopers	65	71
Other services		
Deloitte & Touche LLP	556	246
PricewaterhouseCoopers	81	305
Depreciation	72	273
Loss on disposal of tangible fixed assets	14	306
Net commissions payable in respect of direct business	2,409	1,955
Land and buildings operating lease rentals	602	937

7 Directors and employees

Directors' emoluments

Aggregate emoluments of the directors were £43,882 (2002: £80,895). Retirement benefits are accruing to 1 (2002: 1) director under a defined benefit scheme.

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

Employees

	2003 No	2002 No
The average number of persons (including executive directors) employed by the Company during the period was:-	2	2
	£000	£000
Wages and salaries	35	23
Social security costs	4	4
Other pension costs	3	3
	42	30
Recharge from The Royal Bank of Scotland Group plc for services of the sales force and other staff	11,711	17,106
	11,753	17,136

Notes to the accounts

8 Taxation

a) Tax on profit on ordinary activities

Tax charged in the non-technical account comprises:

	2003 £000	2002 £000
Current Tax:		
UK corporation tax	295	296
Tax credit attributable to balance on the long term business technical account	1,234	7,318
Total current tax	1,529	7,614
 Total tax charged in the non-technical account	 1,529	 7,614
 The total tax charged in the non-technical account relates to the following:		
Company	1,529	7,614
Total tax charged to non-technical account	1,529	7,614

(b) Long term business

Tax charged/(credited) in the long term business technical account comprises:

	2003 £000	2002 £000
Current tax:		
UK corporation tax	705	4,928
Overseas tax	476	438
Prior year adjustments		
UK	-	(288)
Total current tax	1,181	5,078
 Deferred tax:		
Origination and reversal of timing differences	9,373	(8,740)
Total deferred tax	9,373	(8,740)
 Total tax charged / (credited) in the long term business technical account	 10,554	 (3,662)

Notes to the accounts

8 Taxation (continued)

(c) Factors affecting current tax charge for the year

The tax assessed in the non-technical account in 2002 was higher than the standard UK corporation tax rate, because of the following factors:

	Non-technical account	
	2003	2002
	£000	£000
Profit on ordinary activities before tax:	5,097	25,246
Current tax charge at standard UK corporation tax rate of 30% (2002: 30%)	1,529	7,574
Fiscal adjustments	-	40
Current tax charge for the year	1,529	7,614

(d) Factors that may affect future tax charges

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

	Technical account	
	2003	2002
	£000	£000
Unrealised and realised losses on investments	8,008	17,499
Losses	1,773	1,984
Unrelieved expenses carried forward	5,022	-
	14,803	19,483

(e) Balance sheet

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

	2003	2002
	£000	£000
Unrelieved expenses carried forward	10,584	10,797
Deferred acquisition costs	(6,383)	(2,120)
Other timing differences	(4,622)	275
Unrealised gains on investments	-	-
Undiscounted deferred tax balance	(421)	8,952

Notes to the accounts

8 Taxation (continued)

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

	Technical account		Non-technical account	
	2003 £000	2002 £000	2003 £000	2002 £000
Balance at 1 January	8,952	212	-	-
Amounts (charged) / credited to the profit and loss account	(9,373)	8,740	-	-
Balance at 31 December	(421)	8,952	-	-

9 Subsidiary Company

At 31 December 2003 the Company held shares in the following subsidiary company, which is incorporated in Great Britain, registered in Scotland. The subsidiary has only one class of ordinary share, and has issued share capital of £100:-

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

10 Other financial investments

	Carrying value		Cost	
	2003 £000	2002 £000	2003 £000	2002 £000
Debt securities and other fixed income securities	33,681	55,328	35,227	54,173
Deposits with credit institutions:-				
Attributable to the long-term business	164,923	127,370	164,927	127,370
Attributable to shareholders	29,102	23,299	29,100	23,299
Other	6,154	15,889	6,154	15,889
	233,860	221,886	235,408	220,731

Carrying value is market value.

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

	2003 £000	2002 £000
Debt securities and other fixed income securities	33,681	55,328

Notes to the accounts

11 Assets held to cover linked liabilities

	2003 £000	2002 £000
Carrying value	1,044,652	1,071,086
Purchase price	1,046,300	1,818,539

12 Debtors arising out of direct insurance operations

	2003 £000	2002 £000
Amounts owed by policyholders	1,862	649

13 Other debtors

	2003 £000	2002 £000
Amounts due from property linked funds	-	112
Amounts due from parent undertakings	6,013	14,539
Amounts due from fellow subsidiaries	17,885	14,036
Tax debtors	1,162	2,990
Other debtors	8,903	1,287
	33,963	32,964

14 Tangible assets

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

	£000
Cost	
Balance at 1 January 2003	1,536
Additions	-
Disposals	(481)
Balance at 31 December 2003	1,055
Depreciation	
Balance at 1 January 2003	1,228
Charged in period	72
On disposals	(282)
Balance at 31 December 2003	1,018
Net book value	
At 31 December 2003	37
At 31 December 2002	308

Notes to the accounts

15 Share capital

	2003 £000	2002 £000
Authorised:		
172,000,000 (2002: 172,000,000) ordinary shares of £1 each	172,000	172,000
Allotted, called up and fully paid:		
148,200,000 (2002: 148,200,000) ordinary shares of £1 each	148,200	148,200

16 Profit and loss account

	£000
At 1 January 2003	(20,528)
Retained profit for the financial year	3,568
At 31 December 2003	(16,960)

The distributable reserves of the Company at 31 December 2003 were £nil (2002: £nil).

17 Technical Provisions

	Long term business provision	Technical provision for linked liabilities	Claims outstanding	Total
	£000	£000	£000	£000
Gross amount				
Balance at 1 January 2003	111,530	1,071,086	16,463	1,199,079
Transfer (to) / from the long term business technical account	11,422	(26,434)	682	(14,330)
Balance at 31 December 2003	122,952	1,044,652	17,145	1,184,749
Reinsurers' share				
Balance at 1 January 2003	23,119	-	1,500	24,619
Transfer (to) / from long term business technical account	5,741	-	(829)	4,912
Balance at 31 December 2003	28,860	-	671	29,531
Net technical provisions				
At 31 December 2003	94,092	1,044,652	16,474	1,155,218
At 31 December 2002	88,411	1,071,086	14,963	1,174,460

Notes to the accounts

17 Technical Provisions (continued)

The Company is following guidance from the FSA to review certain past sales of personal pension policies which involved transfers, opt outs and non joiners from occupational schemes. This review has led to the company making payments and having further future liabilities in relation to business written. Provision has been made based on the basis of the best estimate of information available to the industry and the Company and as at 31 December 2003 amounted to £800,000 (2002: £2,800,000). The review is expected to be completed in the next financial year.

The Royal Bank of Scotland plc has provided funding to the Company of £21,200,000 in total (2002: £21,200,000) to cover certain costs and/or liabilities which may be incurred by the Company in relation to pension mis-selling.

Following the Financial Services Authority and Personal Investment Authority pronouncements on Free Standing Additional Voluntary Contributions the Company established a provision based on the best estimate of information available. At 31 December 2003 this amounted to £40,000 (2002: £200,000). The review commenced in 2000 and is expected to be completed in the next financial year.

A provision of £10,200,000 was recognised in 1999 in relation to the design and administration of certain policies sold by the Company before 1999. Following agreement of the basis of compensation with the Financial Services Authority in 2001 this provision was increased to £33,600,000 at 31 December 2001. Payment of compensation commenced in 2002 and will continue over the remaining lifetime of the policies concerned. The level of provision required for the outstanding compensation has been reviewed and amounted to £15,300,000 at 31 December 2003 (2002: £22,000,000).

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

The Royal Bank of Scotland plc has provided funding of £24,000,000 (2002: £24,000,000) to cover certain costs and / or liabilities incurred by the company in relation to these policies.

18 Other creditors including taxation and social security

	2003 £000	2002 £000
Corporation taxation payable	1,043	7,994
Amounts due to property linked funds	-	181
Amounts owed to parent undertakings	2,186	820
Investments purchased for subsequent settlement	10,000	-
Other creditors	26,700	28,486
	39,929	37,481

All creditors are payable within a period of one year.

Notes to the accounts

19 Pension commitments

The company participates in The Royal Bank of Scotland Group Pension Fund, which is a funded defined benefit scheme whose assets are independent of the Group's finances. This scheme was formed from the merger of the National Westminster Bank Pension Fund and The Royal Bank of Scotland Staff Pension Scheme on 1 April 2002. Scheme valuations are carried out by independent professionally qualified actuaries to determine pension costs, using the projected unit method; any imbalance between assets and liabilities is adjusted over the average future service life of members of the scheme. The latest full valuation was carried out as at 31 March 2001 on a basis that assumed the merger would occur and showed scheme assets representing 108% of scheme liabilities. The pension costs of this scheme are assessed across its membership as a whole, and it is not possible to determine the share of the scheme's assets and liabilities that relates to the Company. Accordingly, the requirements of FRS 17 'Pension Costs' relating to multi-employer schemes apply. In accordance with the transitional requirements of FRS 17 interim valuations of the Group scheme were prepared as at 31 December 2003 and 31 December 2002 by independent actuaries, using actuarial bases and assumptions consistent with the requirements of that standard. Further information on the scheme and the actuarial valuations is given in the financial statements of The Royal Bank of Scotland Group plc.

The pension costs included in the profit and loss account are £nil (2002: £nil). At 31 December 2003 there was a pension costs accrual of £nil (2002: £nil).

Pension contributions totalling £nil (2002: £3,000) were paid in respect of employees who are members of other schemes. The Company has reimbursed The Royal Bank of Scotland plc for amounts of pension contributions paid on behalf of former and existing employees and these are included as part of the recharge shown in Note 7.

20 Operating lease commitments

Operating lease commitments in respect of land and buildings are as follows:
Expiring within one year

2003 £000	2002 £000
-	31

Notes to the accounts

21 Notes to Cash flow statement

Reconciliation of operating profit to net cash inflow /
(outflow) from operating activities

	2003 £000	2002 £000
Profit on ordinary activities before tax	5,097	25,246
Interest and dividends received	(984)	(853)
Pre tax (profit) relating to long term business	(4,113)	(24,393)
Decrease / (increase) in debtors	2	(82)
Increase in creditors	4,925	76
Net cash inflow / (outflow) from operating activities	4,927	(6)

Movement in cash, portfolio investments and financing

	At 1 January 2003 £000	Cashflow £000	At 31 December 2003 £000
Net cash at bank and in hand	1,981	109	2,090
Deposits with credit institutions	23,299	5,802	29,101
	25,280	5,911	31,191

Returns on investment and servicing of finance

	2003 £000	2002 £000
Interest and dividends received	984	986

Capital expenditure and financial investment

	2003 £000	2002 £000
Loss on sale of Certificate of deposit	-	(133)

Notes to the accounts

22 Related party transactions

The Company is a related party of The Royal Bank of Scotland Group plc ("RBSG"), its ultimate holding company. In the course of its business as a provider of finance RBSG and its subsidiaries have undertaken transactions with the Company. The Royal Bank of Scotland plc also provides services in relation to the company's business, primarily the company's salesforce and some of its head office personnel. The total costs in relation to these services reimbursed by the Company during the period was £41.3 million (2002: £49.8 million). In addition the Company pays commission to The Royal Bank of Scotland plc. Commission payable during the period totalled £3.0 million (2002: £2.2 million) of which £1.9 million (2002: £0.4 million) was outstanding at the year end.

During the year a management services agreement existed with Norwich Union Life Services Limited. Under this agreement, Norwich Union Life Services Limited make a charge to the company for the provision of administrative services. The total amount charged by that company during the year was £9.5 million (2002: £10.6 million).

The Company had an agreement with Newton Fund Management Limited ('Newton') whereby the Company received commission in respect of Newton funds sold by the Company's sales force. Commission received during the period totalled £0.1 million (2002: £1.1 million), none of which was outstanding at the period end. The agreement was terminated in 2003.

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

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

23 Long term fund

The assets representing the long term fund at 31 December 2003 were £1,310,450,000 (2002: £1,263,135,000).

24 Parent undertaking

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

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

Notes to the accounts

25 Technical provisions assumptions

The principal assumptions underlying the calculation of the long term business provision are as follows:

Interest Rates

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

Mortality for Pre-JV Products

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

Mortality for JV Products

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

Written prior to October 1997

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

Written after September 1997

Lifestyle Protection Plan (without/with critical illness)	£24.73 p.a. / £27.11 p.a.
Mortgage Protection Plan (without/with critical illness)	£24.73 p.a. / £27.11 p.a.
Pensions Term Assurance (stand-alone/ in conjunction)	£23.78 p.a. / £11.90 p.a.
Lifetime Security Plan	£88.89 p.a.
Flexible Mortgage Plan	£61.88 p.a.
Endowment Savings Plan	£58.31 p.a.
Mortgage Savings Plan	£53.64 p.a.
Capital Investment Bond	£29.10 p.a.
PPP / FSAVC (regular / single)	£63.86 p.a. / £50.42 p.a.
EPP (regular / single)	£100.30 p.a. / £79.72 p.a.
Guaranteed Capital Bond	£11.30 p.a.

Joint Venture

Term Assurance	£21.79 p.a.
Mortgage Protection	£21.79 p.a.
Stand Alone Critical Illness	£21.79 p.a.
Family Income Benefit Plan	£21.79 p.a.
Flexible Investment Bond	£21.79 p.a.
Guaranteed Capital Bond	£23.71 p.a.
Stakeholder Pensions	£22.63 p.a.