

**Company Registered No: 01670887**

**FINSURE PREMIUM FINANCE LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2011**



**Group Secretariat  
The Royal Bank of Scotland Group plc  
P O Box 1000  
Gogarburn  
Edinburgh  
EH12 1HQ**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

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**FINSURE PREMIUM FINANCE LIMITED**

**01670887**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

P G Edwards  
K P O'Keeffe  
B Thornton

**SECRETARY.**

P A Hutchings

**REGISTERED OFFICE**

Crown House  
145 City Road  
London  
EC1V 1LP

**AUDITOR**

Deloitte LLP  
Chartered Accountants  
London

**Registered in England and Wales.**



**DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2011

**ACTIVITIES AND BUSINESS REVIEW****Activity**

The principal activity of the company was the financing of insurance premiums and this has now ceased. In due course, the company will be placed in members' voluntary liquidation.

The company is a subsidiary of The Royal Bank of Scotland Group plc 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 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 Group Secretariat, RBS Gogarburn, Edinburgh EH12 1HQ, the Registrar of Companies or through the group's web site at rbs.com.

**Review of the year***Business review*

The directors are satisfied with the company's performance in the year.

A dividend of £4.0m (2010: £nil) was paid on 30 September 2011; no further dividend for 2011 is proposed.

*Financial performance*

The company's financial performance is presented in the Statement of Comprehensive Income on page 8. At the end of the year, the balance sheet showed total assets of £2,070m (2010: £6,435m) and equity of £2,022m (2010: £5,871m).

*Principal risks and uncertainties*

The company is funded by facilities from The Royal Bank of Scotland plc and this will continue until the company is liquidated.

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 18 to these financial statements.

The company seeks to minimise its exposure to external financial risks other than equity and credit risk; further information on financial risk management policies and exposures is disclosed in note 18.

*Going concern*

A review of the company's operations has been undertaken and a decision was made to cease providing finance for new insurance premiums after 31 March 2010. The company continued to service existing customers into 2011 but these operations have now ceased. These financial statements have been prepared on a basis other than that of a going concern basis.

The basis of preparation is referred to further in note 1.

**DIRECTORS AND SECRETARY**

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 2.

From 1 January 2011 to date, the following changes have taken place:

<b>Directors</b>	<b>Appointed</b>
P G Edwards	21 December 2011



**DIRECTORS' REPORT (continued)****DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to

- select suitable accounting policies and then apply them consistently,
- 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 2006. 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

**DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the directors at the date of approval of this report confirms that

- so far as they are aware, there is no relevant audit information of which the company's auditors is unaware, and
- the director has 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 auditor is aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

**DIRECTORS' INDEMNITIES**

In terms of Section 236 of the Companies Act 2006, Mr P G Edwards and Mr K P O'Keeffe have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

**POLICY AND PRACTICE ON PAYMENT OF CREDITORS**

The company follows the policy and practice on payment of trade creditors determined by The Royal Bank of Scotland Group plc (RBSG), which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed

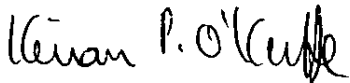
At 31 December 2011, the company had no trade creditors (2010: none)

**DIRECTORS' REPORT (continued)**

**AUDITOR**

Deloitte LLP have expressed their willingness to continue in office as auditor

Approved by the Board of Directors and signed on behalf of the board

A handwritten signature in black ink, appearing to read 'K P O'Keeffe', written in a cursive style.

K P O'Keeffe

Director

3<sup>rd</sup> April 2012



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FINSURE PREMIUM FINANCE LIMITED**

We have audited the financial statements of Finsure Premium Finance Limited ('the company') for the year ended 31 December 2011 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

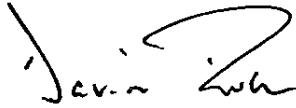


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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FINSURE PREMIUM FINANCE LIMITED (continued)**

**Emphasis of matter - Financial statements prepared other than on a going concern basis**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern



David Rush (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
3 April 2012

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2011**

		<b>2011</b>	<b>2010</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Discontinued operations</b>			
Revenue	3	285	14,937
Administration expenses	4	(86)	(19,512)
<b>Operating profit/(loss)</b>		<b>199</b>	<b>(4,575)</b>
Interest payable	5	-	(399)
<b>Profit/(loss) before tax</b>		<b>199</b>	<b>(4,974)</b>
Income tax (charge)/credit	7	(48)	1,383
<b>Total comprehensive income/(loss) for the year</b>		<b>151</b>	<b>(3,591)</b>

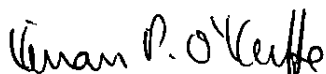
The total comprehensive income for the year is entirely attributable to equity shareholders of the company

The accompanying notes on pages 12 to 28 form an integral part of these financial statements

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables	10	-	4,002
Current tax asset		-	1,416
Loans and receivables from related parties	11	1,944	234
Cash and cash equivalents	12	27	644
Deferred tax asset	9	99	139
<b>Total assets</b>		<b>2,070</b>	<b>6,435</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	-	185
Deferred revenue and other payables	14	10	246
Payables to related parties	15	24	133
Current tax liabilities		14	-
<b>Total liabilities</b>		<b>48</b>	<b>564</b>
<b>Equity</b>			
Share capital	16	1,000	1,000
Retained earnings		1,022	4,871
<b>Total equity</b>		<b>2,022</b>	<b>5,871</b>
<b>Total liabilities and equity</b>		<b>2,070</b>	<b>6,435</b>

The financial statements were approved by the Board of Directors on 3<sup>rd</sup> April 2012 and signed on its behalf by



K P O'Keeffe  
Director

The accompanying notes on pages 12 to 28 form an integral part of these financial statements



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**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2010	1,000	8,462	9,462
Total comprehensive loss for the year	-	(3,591)	(3,591)
<b>Balance at 31 December 2010</b>	<b>1,000</b>	<b>4,871</b>	<b>5,871</b>
Total comprehensive income for the year	-	151	151
Dividends paid	-	(4,000)	(4,000)
<b>Balance at 31 December 2011</b>	<b>1,000</b>	<b>1,022</b>	<b>2,022</b>

The accompanying notes on pages 12 to 28 form an integral part of these financial statements





**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £'000	2010 £'000
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year before tax		199	(4,974)
<b>Adjustments for</b>			
Interest expense	5	-	399
<b>Operating cash flows before movements in working capital</b>		<b>199</b>	<b>(4,575)</b>
<b>Movements in working capital</b>			
Net decrease in prepayments		-	811
Net decrease in loans and receivables		4,002	163,492
Net decrease in payables to related parties		(109)	(1,786)
Net decrease in other operating liabilities		(421)	(21,293)
<b>Cash generated from operations</b>		<b>3,671</b>	<b>136,649</b>
Income tax paid		1,422	(1,627)
<b>Net cash flows generated from operating activities</b>		<b>5,093</b>	<b>135,022</b>
<b>Cash flow from financing activities</b>			
Interest paid	5	-	(399)
Repayments of borrowings		-	(193,336)
Proceeds from borrowings		-	55,632
<b>Net cash used by financing activities</b>		<b>-</b>	<b>(138,103)</b>
<b>Cash flow from investing activities</b>			
Loans advanced to related parties		(6,911)	(234)
Loan repayments received from related parties		5,201	-
Dividends paid	8	(4,000)	-
<b>Net cash used by investing activities</b>		<b>(5,710)</b>	<b>(234)</b>
<b>Net decrease in cash and bank overdrafts</b>		<b>(617)</b>	<b>(3,315)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	12	<b>644</b>	<b>3,959</b>
<b>Cash and cash equivalents at the end of the year</b>	12	<b>27</b>	<b>644</b>

The accompanying notes on pages 12 to 28 form an integral part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011****1. Accounting policies****a) Presentation of accounts**

The accounts have been prepared on an other than going concern basis (see page 3 of the Directors' Report) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS)

The company is incorporated in the UK and registered in England and Wales

The accounts are prepared on a break up basis which is not materially different from the historical cost basis

The company's accounts are presented in accordance with the Companies Act 2006

**b) Revenue recognition**

Interest income is recognised on acceptance of insurance premium finance loans by the customer

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method

**c) Taxation**

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered

**d) Financial assets**

On initial recognition, financial assets are classified into held-to-maturity investments, loans and receivables, held-for-trading, designated as at fair value through profit or loss, or available-for-sale financial assets

***Loans and receivables***

Financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses

***Available-for-sale***

Financial assets that are not classified as held-to-maturity, held-for-trading, designated as at fair value through profit or loss, or loans and receivables, are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss together with interest calculated using the effective interest method. Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in profit or loss

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011****1 Accounting policies (continued)****e) Impairment of financial assets**

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

**f) Financial liabilities**

On initial recognition financial liabilities are classified into held-for-trading, designated as at fair value through profit or loss, or amortised cost.

***Amortised cost***

All financial liabilities are measured at amortised cost using the effective interest method.

**g) Derecognition**

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition.

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires.

**h) Cash and cash equivalents**

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

**i) Adoption of new and revised Standards**

The IASB issued a revised IAS 24 Related Party Disclosure in November 2009 clarifying the existing standard and to provide exemptions for entities under government control. The revised standard became effective for accounting periods beginning on or after 1 January 2011. The company has chosen to adopt the exemption of disclosure of, other government controlled entities outside of the RBS Group as related parties.

**j) Accounting developments**

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability. The amendment and consequential withdrawal of SIC 21 'Deferred Tax: Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, are not expected to have a material effect on the company.

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation – Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements, was issued by the IASB in May 2011. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity. Effective for annual periods beginning on or after 1 January 2013, the new standard is not expected to have any effect on the company.

In May 2011 the IASB issued amendments to IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements, effective for annual periods beginning on or after 1 January 2013, the amendment to this standard is not expected to have any effect on the company.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011****1 Accounting policies (continued)****j) Accounting developments (continued)**

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures, was issued by the IASB in May 2011. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method. Effective for annual periods beginning on or after 1 January 2013, the company does not have any joint venture arrangements and therefore this standard will not have any impact on the company.

In May 2011 the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates, both must be accounted for using the equity method. The mechanics of the equity method are unchanged. Effective for annual periods beginning on or after 1 January 2013, the amendments to this standard are not expected to have any effect on the company.

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27, was issued by the IASB in May 2011. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities. The new standard is effective for annual periods beginning on or after 1 January 2013, and is not expected to have any effect on the company.

In May 2011 the IASB issued IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements, effective for annual periods beginning on or after 1 January 2013. The new standard will have an impact on the quantitative and qualitative disclosure requirements of financial assets and liabilities of the company, that are not covered by IFRS 7 Financial Instruments Disclosures.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification, was issued by the IASB in June 2011. The amendments are effective for annual periods beginning on or after 1 July 2012, and will have an impact on the disclosure requirements of the company's financial statements.

Amendments to IAS 19 Employee Benefits – these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach', interest costs to be calculated on the net pension liability or asset at the appropriate corporate bond rate, and all past service costs to be recognised immediately when a scheme is curtailed or amended, was issued by the IASB in June 2011. The amendments are effective for annual periods beginning on or after 1 January 2013 and they are not expected to have any impact on the company.

In December 2011 the IASB issued amendments to IFRS 7 Financial Instruments Disclosure – Offsetting financial assets and financial liabilities. The amended disclosure requirements are intended to enable the evaluation of the effect or potential effect of netting arrangements as permitted by IAS 32 (paragraph 42), on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2013 and are not expected to have an impact on the company.

The IASB amended IAS 32 Financial Instruments Presentation in December 2011 for the section dealing with Offsetting a financial asset and a financial liability. Effective for annual periods beginning on or after 1 January 2014, to be applied retrospectively, this amendment is not expected to have an impact on the company.



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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011****2 Critical accounting policies and key sources of estimation uncertainty**

The reported results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

**a) Deferred tax**

The company makes provision for deferred tax on short-term and other temporary differences where tax recognition occurs at a different time from accounting recognition. Deferred tax assets of £99,000 (2010: £139,000) were recognised as at 31 December 2011.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**3 Revenue**

	2011 £'000	2010 £'000
Commission from related parties (note 20)	-	27
Interest income from policyholders	263	14,910
Interest income from related parties (note 20)	22	-
	<u>285</u>	<u>14,937</u>

All revenue derives from activities in the United Kingdom

**4 Administration expenses**

	2011 £'000	2010 £'000
Marketing and administrative expenses	(615)	16,768
Commissions payable to related parties (note 20)	-	74
Management charges payable to related parties (note 20)	701	2,670
	<u>86</u>	<u>19,512</u>

**Management recharge**

Management charges relate to the company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by RBS Insurance Services Limited ('RBSIS'), a fellow subsidiary company.

**Staff costs, number of employees and directors' emoluments**

All staff and directors were employed by RBSIS, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The company has no employees and pays a management charge for services provided by other group companies. The directors of the company do not receive remuneration for specific services provided to the company.

**5 Interest payable**

	2011 £'000	2010 £'000
Interest payable on borrowings from related parties (note 20)	<u>-</u>	<u>399</u>

**6 Operating profit/(loss) before tax**

	2011 £'000	2010 £'000
Operating profit/(loss) before tax is stated after charging		
Impairment of financial assets	-	7,310
Auditor's remuneration - audit services	5	7
	<u>5</u>	<u>7,317</u>

Fees paid to the auditor with respect to the statutory audit amounted to £5,000 (2010: £7,000). There were no non-audit services recharged during the year (2010: none).

As at 31 December 2010, a financial asset of £7.3m was impaired and the management of the company still consider the level of impairment to be appropriate.





**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**6 Operating profit/(loss) before tax (continued)**

**Directors' emoluments**

	2011 £'000	2010 £'000
Other emoluments	-	60
Company pension contributions	-	5
	<u>-</u>	<u>65</u>

None of the directors who served during this or the previous financial year were remunerated by the company. The amounts disclosed above are those relating to their services as directors for the company based on an estimated time allocation basis. Emoluments in relation to services performed by the directors for other group companies are not disclosed in the company's financial statements.

Included in the above are emoluments, excluding pension contributions, paid to the highest paid director amounting to £nil (2010: £59,517).

A contribution of £nil (2010: £4,870) to a money purchase scheme was made on behalf of the highest paid director. Three directors (2010: two directors) had retirement benefits accruing under money purchase pension schemes in respect of qualifying service and no directors (2010: no directors) had benefits accruing under defined benefit pension schemes.

During the year no directors have exercised share options (2010: no directors).

**7 Tax**

	2011 £'000	2010 £'000
<b>Current taxation</b>		
UK corporation tax (charge)/credit for the year	(14)	1,416
Over provision in respect of prior years	6	-
	<u>(8)</u>	<u>1,416</u>
<b>Deferred taxation (note 9)</b>		
Charge for the year	<u>(40)</u>	<u>(33)</u>
<b>Total</b>		
Current tax	(8)	1,416
Deferred taxation	(40)	(33)
<b>Tax (charge)/credit for the year</b>	<u>(48)</u>	<u>1,383</u>

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax rate of 26.5% (2010: standard tax rate 28%) as follows:

Expected tax (charge)/credit	(53)	1,393
Non-deductible items	12	-
Non-taxable items	-	(6)
Deferred tax provided at 25% (2010: 27%)	(13)	(5)
Adjustments in respect of prior periods	6	1
<b>Actual tax (charge)/credit for the year</b>	<u>(48)</u>	<u>1,383</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**8 Ordinary dividends**

	2011 £'000	2010 £'000
Declared and paid during the year		
Dividends paid	<u>4,000</u>	<u>-</u>

**9 Deferred tax assets**

The following are the major tax assets recognised by the company, and the movements thereon

	Other timing differences £'000
At 1 January 2010	172
Charge to income (note 7)	(33)
At 31 December 2010	<u>139</u>
Charge to income (note 7)	(40)
At 31 December 2011	<u>99</u>

The Finance Act 2011 has reduced the corporation tax rate from 27% to 25% with effect from 1 April 2011. As a consequence the closing deferred tax assets and / or liabilities have been recognised at an effective rate of 25.0%

**10 Trade and other receivables**

	2011 £'000	2010 £'000
Receivables arising from the financing of insurance premiums		
Due from contract holders	1	11,021
Less provision for impairment of receivables from contract holders	(1)	(7,637)
Due from agents, brokers and intermediaries	41	588
Less provision for impairment of receivables from agents and brokers	(41)	-
Trade and other receivables	<u>-</u>	<u>30</u>
	<u>-</u>	<u>4,002</u>

The following assets were past due at the balance sheet date but not considered impaired

	1-29 days £'000	30-59 days £'000	60-89 days £'000	More than 90 days £'000	Total £'000
2011					
Trade and other receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2010					
Trade and other receivables	<u>222</u>	<u>64</u>	<u>32</u>	<u>-</u>	<u>318</u>

**NOTES TO THE FINANCIAL STATEMENTS  
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**11 Loans and receivables from related parties**

	2011 £'000	2010 £'000
Fellow subsidiaries	1,971	878
Less cash balances with group banks (note 20)	(27)	(644)
	<u>1,944</u>	<u>234</u>

**12 Cash and cash equivalents**

	2011 £'000	2010 £'000
Cash at bank and in hand with related parties (note 20)	27	644
<b>Cash and cash equivalents per cash flow statement</b>	<u>27</u>	<u>644</u>

**13 Trade and other payables**

	2011 £'000	2010 £'000
Amounts owed to agents, intermediaries and brokers	-	185

**14 Deferred revenue and other payables**

	2011 £'000	2010 £'000
Accruals	10	80
Deferred revenue	-	166
	<u>10</u>	<u>246</u>

**15 Payables to related parties**

	2011 £'000	2010 £'000
Fellow subsidiaries (note 20)	<u>24</u>	<u>133</u>

**16 Share capital**

The company's authorised share capital is made up of 1,000,100 £1 Ordinary shares amounting to £1,000,100 (2010 £1,000,100)

The company's issued and fully paid share capital is made up of 1,000,000 £1 Ordinary shares amounting to £1,000,000 (2010 £1,000,000)

**NOTES TO THE FINANCIAL STATEMENTS  
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**17 Financial instruments**

**Categories of financial instrument**

The following tables analyse the company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments", Recognition and Measurement. Assets and liabilities outside the scope of IAS 39 are shown separately.

<b>2011</b>	<b>Loans and receivables £'000</b>	<b>At amortised cost £'000</b>	<b>Non financial assets / liabilities £'000</b>	<b>Total £'000</b>
<b>Assets</b>				
Loans and receivables from related parties	1,944	-	-	1,944
Cash and cash equivalents	27	-	-	27
Deferred tax assets	-	-	99	99
	<u>1,971</u>	<u>-</u>	<u>99</u>	<u>2,070</u>
<b>Liabilities</b>				
Deferred revenue and other payables	-	-	10	10
Payables to related parties	-	24	-	24
Current tax liabilities	-	-	14	14
	<u>-</u>	<u>24</u>	<u>24</u>	<u>48</u>
<b>Equity</b>				<u>2,022</u>
				<u>2,070</u>

<b>2010</b>	<b>Loans and receivables £'000</b>	<b>At amortised cost £'000</b>	<b>Non financial assets / liabilities £'000</b>	<b>Total £'000</b>
<b>Assets</b>				
Trade and other receivables	4,002	-	-	4,002
Current tax assets	-	-	1,416	1,416
Loans and receivables from related parties	234	-	-	234
Cash and cash equivalents	644	-	-	644
Deferred tax assets	-	-	139	139
	<u>4,880</u>	<u>-</u>	<u>1,555</u>	<u>6,435</u>
<b>Liabilities</b>				
Trade and other payables	-	185	-	185
Deferred revenue and other payables	-	-	246	246
Payables to related parties	-	133	-	133
	<u>-</u>	<u>318</u>	<u>246</u>	<u>564</u>
<b>Equity</b>				<u>5,871</u>
				<u>6,435</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### 18 Risk management

#### 18.1 Risk management overview

Risk management is at the heart of the RBS Group of Companies. The company is subject to market risk, credit risk, liquidity risk, regulatory risk, operational risk and group risk.

The company is an entity within the RBS Insurance group structure (headed by Direct Line Insurance Group plc formerly RBS Insurance Group Limited) which constitutes the Insurance Division of The Royal Bank of Scotland Group plc (Group). The company operates within a risk framework and benefits from services provided by specialist risk and audit teams and risk management procedures and controls which are applied across the company. Within RBS Insurance, risk is managed at both an individual entity level and on a combined basis.

#### 18.1.1 Risk management within the RBS Group

The management of risk is a fundamental management activity performed throughout all the Group's operations. It is, therefore, critically important that the adequacy and effectiveness of the Group's risk management processes are of the highest standard and subject to continuous review and enhancement.

The Group has put in place a comprehensive risk management framework, predicated on a three lines of defence model, clearly separating risk management, risk oversight and risk assurance duties comprising:

- leadership, strategy and culture set by the Board and put into effect through Executive management,
- policies, procedures, processes and systems to execute effective risk management throughout the Group,
- a comprehensive committee structure operating at Group level to direct, approve and review actions taken to manage risk, replicated at the Insurance Division level where appropriate, and
- risk management functions that are independent of the business management to enforce agreed policy.

A number of high-level committees support the Board in the effective measurement and management of risk.

#### 18.1.2 RBS Group Policy Framework

The RBS Group has developed, and adopted globally, one comprehensive Group Policy Framework. The aim of the Group Policy Framework is to provide a simplified and effective framework to standardise the presentation and control of Group policy including new policies and amendments. All employees have easy access to current Group policies and policy standards through a single Group intranet site.

Group Policies address the major areas of risk to the Group and the standards that must be met to enable those risks to be managed in line with Group risk appetite. All Group Policies must be approved by the Group Executive Committee (Group ExCo).

#### 18.2 RBS Insurance specific risk governance and oversight

The Governance structure connects the business and risk function across the three lines of defence to provide a consistent approach to managing risk across the organisation. This includes various oversight committees which provide a robust governance and control of risk exposure.

The Direct Line Insurance Group plc Board (Divisional Board) oversees the business operations within RBS Insurance, ensuring competent and prudent management, the maintenance of adequate accounting and records management procedures as well as compliance with statutory and regulatory obligations.

Specifically the following are key areas that the Board considers and must approve at least annually:

- the high level controls document,
- the divisional high level risk register (HLRR),
- the divisional risk appetite (in relation to strategy and business plans),
- the divisional risk profile,
- the output from financial and other quantitative models (such as economic capital modelling).



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**18 Risk management (continued)**

**18.2 RBS Insurance specific risk governance and oversight (continued)**

The Board has responsibility for understanding and approving the nature and level of risk assumed by RBS Insurance and the methodologies, approaches and assumptions used to identify, measure, manage, monitor, report, control and mitigate such risk. As such they approve the risk appetite of RBS Insurance as a whole, by risk type and for the regulated insurance entities within it.

**Risk and Audit Committee**

The Risk and Audit Committee (RAC) is a Non Executive Committee of the Board which meets a minimum of once a quarter. The RAC operates under delegated authority from the Board with a remit specifically to review and challenge Risk and Governance in more depth on behalf of the Board. In relation to Risk Management, the responsibilities of the RAC are

- to review, challenge and recommend the Risk Strategy and Risk Appetite to the Divisional Board for approval,
- to review, challenge and recommend the Enterprise wide Risk Management Framework and other associated governance frameworks to the Divisional Board as appropriate,
- to review and challenge the risk profile including the operational adequacy and effectiveness of the risk management operating model and internal control environment across the company,
- to review and challenge the adequacy of the internal control framework through the provision of Internal Audit plans and reports

Internal audit is responsible for providing an opinion on the effectiveness of the Risk Management Framework to RAC.

**Executive Committee (ExCo)**

The ultimate responsibility for managing risk rests with the Chief Executive Officer (CEO), with first line control being through the Managing Directors of the business areas who operate a range of committees and other fora to oversee risk within their area of responsibility (e.g. pricing committees, loss ratio committees etc.)

The detailed responsibilities of the ExCo that are relevant to Risk Management (undertaken by the Risk Executive Committee) are

- to consider and determine relevant recommendations on risk management matters including risk appetite, risk policies and risk management strategies onward escalation to the RAC as appropriate,
- to consider and approve any policies, processes and procedures for the effective management of risk across the company,
- to consider and determine relevant recommendations on limits by risk type for onward communication to the RAC as required,
- to ensure that risk and capital considerations are incorporated within the strategic planning and budgeting processes and other decision making processes as appropriate, and
- to review, consider, discuss, and understand all issues relating to any other material risk mitigation strategies operated across the company

As part of this, the Risk function produces a range of regular reporting including a report each month to the Executive Committee and the Divisional Board that covers breaches and exceptions to risk policy, relevant MI including quantified risks and details of any new and emerging risks.

The Chief Risk Officer is a member of the Executive and has a reporting line to the Chief Executive Officer, assuring independence of the function.





**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**18 Risk management (continued)**

**18.2 RBS Insurance specific risk governance and oversight (continued)**

**Compliance with minimum standards**

- The First Line of Defence must comply with the minimum requirements that form an integral part of managing risk as part of the Risk Management Framework
- On at least a half-yearly basis, each Executive Committee member is responsible for signing off a Control Environment Certificate for their business area, including a statement of compliance with relevant policies and insurance risk management processes following such reviews as are appropriate
- In addition, the Second and Third Lines of Defence undertake risk-based reviews/audits to assess compliance with risk management requirements

**Identification, Assessment, Management, Monitoring, Reporting and Mitigation**

- The First Line of Defence
  - must implement such processes as it deems appropriate, and in accordance with the Risk Management framework, to ensure that it identifies and is able to assess, manage and report its exposure to risk,
  - must monitor the status of compliance and identify potential trends, key risks and any breaches arising. Such issues must then be escalated for review and challenge by the Risk function or higher if appropriate, and
  - is responsible for managing, mitigating and resolving any issues identified as appropriate to ensure that risk is managed within the Board's risk appetite
- The Risk function separately analyses all relevant risk reports, aggregating them as appropriate, to identify potential trends, key risks arising and breaches, which are then escalated for review and challenge by the relevant risk forum. The forum is responsible for discussing new, existing and emerging risks and issues, and assisting in the determination of action plans to mitigate risks and issues (including breaches), and then monitoring their resolution and mitigation
- The Risk function will report relevant deviations, trends and key risks and actions as appropriate to the Risk Management Committee, and to the Board through the RAC

**18.3 Risk appetite**

Risk appetite is a measure of the amount of risk that the company is willing to accept in pursuing its strategic objectives

The Divisional Board reviews and approves the risk appetite framework, the high level statements and associated targets, tolerances and limits on at least an annual basis for the main risk exposures, with this being aligned to the business and risk strategy as appropriate, subject to continuous improvement including enhancing the integration with the capital model. This is also coupled with policy and global account level limits

RBS Insurance has no appetite for Liquidity Risk, where scenario analysis and modelling is used to assess the exposure to this risk

**18.4 Enterprise risk management**

Enterprise risk management (ERM) within the division ensures that risk management is a forward looking discipline, focused on facilitating appropriate and fair outcome on a consistent and reliable basis for all stakeholders. ERM provides division and therefore the company with a consistent and holistic view of risk management



1 2 3

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**18 Risk management (continued)**

**18.4 Enterprise risk management (continued)**

**18.4.1 Risk controls**

In order to consider the key risks which pose a material threat to the company's strategic objectives, profits or capital, the risks are captured and monitored on the company's high-level risk register (HLRR). The HLRR is used to determine risks subject to stress and scenario testing in quantitative modelling. The potential profit variance arising from this modelling is used to assess the company's exposure to each respective risk, with these processes subject to continuous review and refinement.

'Business As Usual' risks and their mitigating controls are documented within lower level risk and controls assessment registers. These registers focus on business facing risks and predominantly comprise of operational risks. The registers are regularly reviewed by the business owner and by the central RBS Insurance risk team. Risks contained within these registers are subject to ongoing review and challenge to ensure that the risks are managed within our risk appetite.

**18.5 Financial risk management**

The principal risks associated with the company are as follows:

**18.5.1 Interest rate risk**

Structural interest rate risk arises where assets and liabilities have different repricing maturities.

The financial liabilities of the company consist of amounts due to group undertakings and third party trade payables. The amounts due to group undertakings do not have any significant interest rate risk as they are due primarily on demand. The third party trade payables do not have any significant interest rate risk as the company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc as detailed in the directors' report.

**18.5.2 Currency risk**

The company has no currency risk as all transactions and balances are denominated in sterling.

**18.5.3 Credit risk**

Credit risk arises from the potential that losses are incurred from the failure of a counterparty to meet its credit obligations.

The objective of the Credit Risk Policy and supporting Minimum Standards is to document the control processes by which the company is able to identify, monitor, measure, manage, control and mitigate the level of credit risk effectively against the risk appetite. The credit risk control environment is summarised below in the key elements of the policy.

The key principles of the group's Credit Risk Management Framework are set out below:

- Approval of all credit exposure is granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return.
- Credit risk authority is delegated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination.
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**18 Risk management (continued)**

**18.5 Financial risk management (continued)**

**18.5.4 Liquidity risk**

The company has no material liquidity risk as it has access to group funding

**18.5.5 Market risk**

Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities

Sensitivity Analysis

The results of sensitivity testing are set out below. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged.

**Sensitivity factor**

**Description of sensitivity analysis**

Interest rate and investment return

The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate is 2%, the impact of an immediate change to 1% or 3%)

Expenses

The impact of an increase in ongoing administrative expenses by 10%

**Sensitivity as at 31 December 2011**

	Interest rates +1% £'000	Interest rates -1% £'000	Expenses 10% £'000
Impact on profit before tax	41	(41)	(9)
Impact (before tax) on shareholders' equity	41	(41)	(9)

**Sensitivity as at 31 December 2010**

	Interest rates +1% £'000	Interest rates -1% £'000	Expenses 10% £'000
Impact on profit before tax	661	(661)	(1,951)
Impact (before tax) on shareholders' equity	661	(661)	(1,951)

Limitations of sensitivity analysis

The above tables show the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and large or smaller impacts should not be interpolated or extrapolated from these results.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**18 Risk management (continued)**

**18.5 Financial risk management (continued)**

**18.5.6 Operational risk**

Effective operational risk management requires the company to identify, assess, manage, monitor and report operational risk. Operational risk is inherent in all of the RBS Group's business processes, systems and products. Therefore, it is important to have a framework in place to ensure that operational risks are identified and managed at an acceptable level.

Effective operational risk management helps the company to achieve its objectives, including

- more focus on doing things the right way, leading to fewer surprises,
- fewer operational errors and losses, leading to increased customer satisfaction and higher quality earnings,
- achieving process efficiencies,
- better informed risk-taking, which creates greater rewards, and
- increased management attention on the risks and issues that really matter

**18.5.7 Capital management**

The company defines capital in accordance with the legal and statutory requirements and manages its capital in accordance with generally accepted processes and principles. In particular, its objectives when managing capital are

- to comply with legal and statutory obligations and maintain capital resources commensurate with the nature, scale and risk profile of the business,
- to provide a framework for monitoring the financial and capital position of the company, including the procedures to be followed during periods of general financial distress, either due to internal or external events, and
- to safeguard the company's liability to continue as a going concern

**19 Capital resources**

The company's capital consists of equity comprising issued share capital and retained earnings. The company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the company is governed by the group's policy which is to maintain a strong capital base. It is not separately regulated.

**20 Related parties**

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, which is incorporated in Great Britain and registered in Scotland. Its immediate parent company is Direct Line Insurance Group plc (formerly known as RBS Insurance Group Limited) which is incorporated in the UK and registered in England and Wales.

As at 31 December 2011, The Royal Bank of Scotland Group plc heads the largest and smallest group in which the company is consolidated. Copies of the consolidated accounts of The Royal Bank of Scotland Group plc may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

The following transactions were carried out with other Group companies in the period 1 January to 31 December 2011.

**NOTES TO THE FINANCIAL STATEMENTS  
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**20 Related parties (continued)**

**i Sales of services**

	2011 £'000	2010 £'000
Sales of services (note 3)		
Fellow subsidiaries	-	27
	2011 £'000	2010 £'000
Interest received (note 3)		
Fellow subsidiaries	22	-

Interest received on loans to related parties was based on a floating rate above LIBOR ranging from 0.71% to 1.04% (2010 0.56% to 0.74%)

**ii Purchases of products and services**

	2011 £'000	2010 £'000
Purchases of services (note 4)		
Fellow subsidiaries	701	2,744
Interest payable (note 5)		
Fellow subsidiaries	-	399

Interest paid to related parties was based on a floating rate above LIBOR ranging from 0.71% to 1.04% (2010 0.56% to 0.74%)

All employees were employed by RBS Insurance Services Limited, a fellow subsidiary company. Total employee costs, including directors' remuneration, recharged to the company by RBS Insurance Services Limited during the year were £147,000 (2010 £1,219,000).

Employee costs recharged by RBS Insurance Services Limited includes the full costs of key managers and other staff in respect of share-based payments. The attribution among members of the Royal Bank of Scotland Group has regard to the needs of the group as a whole.

**iii Compensation of key management**

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2011 £'000	2010 £'000
Other emoluments	-	72
Company pension contributions	-	6
	-	78

The company is a subsidiary of The Royal Bank of Scotland Group plc whose policy is for companies to bear the costs of their full time staff. The time and costs of executives and other staff who are primarily employed by the group are not specifically recharged. However, the group recharges subsidiaries for management fees which include an allocation of certain staff and administrative support costs.

In the company and the group, key management comprise directors of the company and members of the Group Executive Management Committee. The emoluments of the directors of the company are met by the Group.

The directors of the company do not receive remuneration for specific services provided to the company.





NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

20 Related parties (continued)

iv Year-end balances arising from sales/purchases of products/services

	2011 £'000	2010 £'000
Bank deposits held with related parties (note 12)		
Fellow subsidiaries	<u>27</u>	<u>644</u>

	2011 £'000	2010 £'000
Payables to related parties (note 15)		
Fellow subsidiaries	<u>24</u>	<u>133</u>

	2011 £'000	2010 £'000
Movements in payables to related parties were as follows		
At 1 January	133	1,919
Transactions in the year	2,918	9,806
Interest charged	-	-
Reclassification of balances	-	(724)
Settled in the year	(3,027)	(10,868)
At 31 December	<u>24</u>	<u>133</u>

v Loans to related parties

	2011 £'000	2010 £'000
Fellow subsidiaries	<u>1,944</u>	<u>234</u>

	2011 £'000	2010 £'000
Movements in loans to related parties were as follows		
At 1 January	234	-
Loans advanced during year	6,889	234
Loan repayments received	(5,201)	-
Interest charged	22	-
At 31 December	<u>1,944</u>	<u>234</u>