

Company Registered No 01670887

FINSURE PREMIUM FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2010



**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

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
2 New Street Square
London
EC4A 3BZ

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2010

ACTIVITIES AND BUSINESS REVIEW**Activity**

The principal activity of the company continues to be the financing of insurance premiums

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

No dividends were paid during the year ended 31 December 2010 (2009 £nil). The directors do not recommend the payment of a final dividend (2009 £nil).

Financial performance

The company's financial performance is presented in the Statement of Comprehensive Income on page 7. At the end of the year, the financial position showed total assets of £6.4m (2009 £172.4m) and equity of £5.9m (2009 £9.5m).

Principal risks and uncertainties

The company is funded by facilities from The Royal Bank of Scotland plc.

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 19 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 19.

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 continues to service existing customers and it is anticipated that the company will cease operations in 2011. These financial statements have been prepared on a basis other than that of a going concern basis.

DIRECTORS AND SECRETARY

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

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 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 and 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 AUDITORS

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 K P O'Keeffe has 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), as outlined below.

RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is RBSG's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers 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.

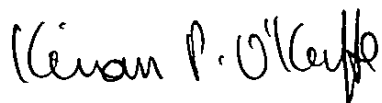
At 31 December 2010, the company had no trade creditors (2009: nil).

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

28 April 2011

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 2010 which have been prepared on a basis other than that of going concern and 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 21. 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 and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

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 2010 and of its loss 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.



Jeremy Casson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, England

3 May 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

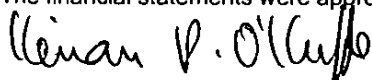
		2010	2009
	Notes	£'000	£'000
Discontinued operations			
Revenue	3	14,937	29,440
Administration expenses	4	(19,512)	(21,956)
Operating (loss)/profit		(4,575)	7,484
Interest payable	5	(399)	(1,574)
(Loss)/profit before tax		(4,974)	5,910
Tax credit/(charge)	7	1,383	(1,654)
(Loss)/income for the year		(3,591)	4,256

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
 as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Assets			
Current assets			
Trade and other receivables	9	4,002	167,494
Prepayments, accrued income and other assets	10	1,416	811
Amounts due from group undertakings	11	234	-
Cash and cash equivalents	12	644	3,959
Deferred tax asset	8	139	172
Total assets		6,435	172,436
Liabilities			
Current liabilities			
Borrowings	16	-	137,704
Trade and other payables	13	185	12,271
Accruals, deferred income and other liabilities	14	246	9,453
Amounts due to group undertakings	15	133	1,919
Current tax liabilities		-	1,627
Total liabilities		564	162,974
Equity			
Share capital	17	1,000	1,000
Retained earnings		4,871	8,462
Total equity		5,871	9,462
Total liabilities and equity		6,435	172,436

The financial statements were approved by the Board of Directors on 28 April 2011 and signed on its behalf by



K P O'Keeffe
Director

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2009	1,000	4,206	5,206
Profit for the year	-	5,910	5,910
Tax charge for the year	-	(1,654)	(1,654)
At 31 December 2009	1,000	8,462	9,462
Loss for the year	-	(4,974)	(4,974)
Tax credit for the year	-	1,383	1,383
At 31 December 2010	1,000	4,871	5,871

Total comprehensive loss for the year of £3.6m (2009 £4.3m profit) was wholly attributable to the owners of the company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
(Loss)/profit for the year		(3,591)	4,256
Adjustments for			
Interest expense	5	399	1,574
Tax charge	7	(1,383)	1,654
Operating cash flows before movements in working capital		(4,575)	7,484
Net decrease in prepayments		811	432
Net decrease/(increase) in loans and receivables		163,492	(23,711)
Net decrease in inter-company balances - trading		(1,786)	(80,126)
Net (increase)/decrease in inter-company balances - loans		(234)	6,103
Net (decrease)/increase in other operating liabilities		(21,293)	2,225
Net cash from operating activities before tax		136,415	(87,593)
Tax paid		(1,627)	(418)
Net cash flows from operating activities		134,788	(88,011)
Cash flow from financing activities			
Interest paid		(399)	(976)
Repayments of borrowings	21	(193,336)	(90,105)
Proceeds from borrowings	21	55,632	178,180
Net cash flows from financing activities		(138,103)	87,099
Net decrease in cash and cash equivalents		(3,315)	(912)
Cash and cash equivalents at the beginning of the year	12	3,959	4,871
Cash and cash equivalents at the end of the year	12	644	3,959

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS**1 Accounting policies****a) Presentation of accounts**

The accounts are prepared on a basis other than that of a going concern 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

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 January 2010. They have had no material effect on the company's financial statements for the year ended 31 December 2010

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

Non-derivative 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**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

Other than derivatives, which are recognised and measured at fair value, all other 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) Accounting developments

The International Accounting Standards Board (IASB) issued 'Improvements to IFRS' in May 2010 implementing minor changes to IFRS, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording. The revisions are effective for annual periods beginning on or after 1 July 2010 and are not expected to have a material effect on the company.

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments: Recognition and Measurement' in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include the classification and measurement of liabilities. It is not markedly different from IAS 39 except for liabilities measured at fair value where the movement is due to changes in credit rating of the preparer; it is recognised not in profit or loss but in other comprehensive income.

The standard is effective for annual periods beginning on or after 1 January 2013, early application is permitted.

NOTES TO THE FINANCIAL STATEMENTS**1 Accounting policies (continued)**

This standard makes major changes to the framework for the classification and measurement of financial assets but will not have a material effect on the company's financial statements. The changes relating to the classification and measurement of liabilities carried at fair value will have a less significant effect on the company. The company is assessing these impacts which are likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

The IASB issued 'Disclosures - Transfers of Financial Assets (Amendments to IFRS 7 Financial Instruments Disclosures)' in October 2010 to extend the standard's disclosure requirements about derecognition to align with US GAAP. The revisions are effective for annual periods beginning on or after 1 July 2011 and will not affect the financial position or reported performance of the company.

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, is not expected to have a material effect on the company.

The International Financial Reporting Interpretations Committee issued interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' in December 2009. The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. The interpretation, effective for the company for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the company.

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 £139,000 (2009: £172,000) were recognised as at 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

3 Revenue

	2010 £'000	2009 £'000
Commission from related parties (note 21)	27	188
Interest income from policyholders	14,910	29,068
Interest income from related parties (note 21)	-	184
	<u>14,937</u>	<u>29,440</u>

All revenue derives from activities in the United Kingdom

4 Administration expenses

	2010 £'000	2009 £'000
Marketing and administrative expenses	16,769	16,458
Commissions payable to related parties (note 21)	74	90
Management fees payable to related parties (note 21)	2,670	5,408
	<u>19,512</u>	<u>21,956</u>

Management fees

Management fees 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')

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

	2010 £'000	2009 £'000
Interest payable on borrowings to related parties (note 21)	<u>399</u>	<u>1,574</u>

6 Operating (loss)/profit before tax

	2010 £'000	2009 £'000
Operating (loss)/profit before tax is stated after charging		
Impairment of financial assets	7,310	-
Auditors' remuneration - audit services	7	9
	<u>7,317</u>	<u>9</u>

Fees paid to the auditors with respect to the statutory audit amounted to £7,000 (2009 £9,000). There were no non audit services recharged during the year (2009 none).

The financial asset of £7.3m that has been impaired relates to a series of premium finance agreements held with one specific customer. The company's credit control function has tried to pursue the debt but given the fact that full recoverability is dubious it was deemed prudent by management to provide for the full amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

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

Directors' emoluments

	2010	2009
	£'000	£'000
Other emoluments	60	96
Company pension contributions	5	15
	<u>65</u>	<u>111</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 £59,517 (2009 £95,883).

A contribution of £4,870 (2009 £13,283) to a money purchase scheme was made on behalf of the highest paid director. Two directors (2009 three directors) had retirement benefits accruing under money purchase pension schemes in respect of qualifying service and no directors (2009 one director) had benefits accruing under defined benefit pension schemes.

During the year no directors have exercised share options (2009 no directors).

7 Tax

	2010	2009
	£'000	£'000
Current taxation		
UK corporation tax credit/(charge) for the year	1,416	(1,627)
Over provision in respect of prior years	-	1
	<u>1,416</u>	<u>(1,626)</u>
Deferred taxation		
Charge for the year	<u>(33)</u>	<u>(28)</u>
Total		
Current tax	1,416	(1,626)
Deferred taxation	<u>(33)</u>	<u>(28)</u>
Tax credit/(charge) for the year	<u>1,383</u>	<u>(1,654)</u>

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax rate of 28% (2009 standard tax rate 28%) as follows:

Expected tax credit/(charge)	1,393	(1,655)
Non-taxable items	(6)	-
Effect of the reduction in deferred tax rate to 27%	(5)	-
Adjustments in respect of prior periods	1	1
Actual tax credit/(charge) for the year	<u>1,383</u>	<u>(1,654)</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

8 Deferred tax

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

	Other timing differences
	£'000
At 1 January 2009	200
Charge to income	(28)
At 31 December 2009	172
Charge to income	(33)
At 31 December 2010	139

9 Trade and other receivables

	2010 £'000	2009 £'000
Receivables arising from the financing of insurance premiums		
Due from contract holders	11,021	163,850
Less provision for impairment of receivables from contract holders	(7,637)	(418)
Due from agents, brokers and intermediaries	588	663
Less provision for impairment of receivables from agents and brokers	-	(105)
Trade and other receivables	30	3,504
	4,002	167,494

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
2010					
Trade and other receivables	222	64	32	-	318
2009					
Trade and other receivables	3,300	955	482	-	4,737

10 Prepayments, accrued income and other assets

	2010 £'000	2009 £'000
Prepayments	-	811
Current tax asset - related parties (note 21)	1,416	-
	1,416	811

11 Amounts due from group undertakings

	2010 £'000	2009 £'000
Fellow subsidiaries	878	3,959
Less cash balances with group banks (note 21)	(644)	(3,959)
	234	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

12 Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and in hand (note 21)	<u>644</u>	<u>3,959</u>

13 Trade and other payables

	2010 £'000	2009 £'000
Amounts owed to agents, intermediaries and brokers	<u>185</u>	<u>12,271</u>

14 Accruals, deferred income and other liabilities

	2010 £'000	2009 £'000
Accruals	80	123
Deferred income	<u>166</u>	<u>9,330</u>
	<u>246</u>	<u>9,453</u>

15 Amounts due to group undertakings

	2010 £'000	2009 £'000
Fellow subsidiaries (note 21)	<u>133</u>	<u>1,919</u>

16 Borrowings

	2010 £'000	2009 £'000
Borrowings from fellow subsidiaries (note 21)	<u>-</u>	<u>137,704</u>

17 Share capital

The company's authorised share capital is made up of 1,000,100 £1 Ordinary shares amounting to £1,000,100 (2009 £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 (2009 £1,000,000)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

18 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.

2010	Loans and receivables £'000	At amortised cost £'000	Non financial assets / liabilities £'000	Total £'000
Assets				
Deferred tax asset	-	n/a	139	139
Trade and receivables	4,236	n/a	-	4,236
Prepayments, accrued income and other assets	-	n/a	1,416	1,416
Cash	644	n/a	-	644
	<u>4,880</u>	<u>n/a</u>	<u>1,555</u>	<u>6,435</u>
Liabilities				
Trade and other payables	n/a	185	-	185
Accruals, deferred income and other liabilities	n/a	-	246	246
Amounts due to group undertakings	n/a	133	-	133
	<u>n/a</u>	<u>318</u>	<u>246</u>	<u>564</u>
Equity				<u>5,871</u>
				<u>6,435</u>

2009	Loans and receivables £'000	At amortised cost £'000	Non financial assets / liabilities £'000	Total £'000
Assets				
Deferred tax asset	-	n/a	172	172
Trade and receivables	167,494	n/a	-	167,494
Prepayments and accrued income	-	n/a	811	811
Cash	3,959	n/a	-	3,959
	<u>171,453</u>	<u>n/a</u>	<u>983</u>	<u>172,436</u>
Liabilities				
Trade and other payables	n/a	23,643	-	23,643
Accruals, deferred income and other liabilities	n/a	-	1,627	1,627
Borrowings	n/a	137,704	-	137,704
	<u>n/a</u>	<u>161,347</u>	<u>1,627</u>	<u>162,974</u>
Equity				<u>9,462</u>
				<u>172,436</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

19 Financial risk management

The principal risks associated with the company are as follows

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.

Currency risk

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

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.

Liquidity risk

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

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%.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

19 Financial risk management (continued)

Market risk (continued)

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)

Sensitivity as at 31 December 2009

	Interest rates +1% £'000	Interest rates -1% £'000	Expenses 10% £'000
Impact on profit before tax	1,266	(1,266)	(2,196)
Impact (before tax) on shareholders' equity	1,266	(1,266)	(2,196)

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.

Capital risk 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 its 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,
- to safeguard the company's liability to continue as a going concern

20 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.

21 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. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

21 Related parties (continued)

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 RBS Insurance Group Limited which is incorporated in Great Britain and registered in England and Wales.

As at 31 December 2010, 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.

Transactions between the company, the UK Government and UK Government controlled bodies, consisted solely of corporation tax.

Revenue with other group companies in the period 1 January to 31 December 2010 comprised

i Sales of services

	2010 £'000	2009 £'000
Sales of services (note 3)		
Fellow subsidiaries	<u>27</u>	<u>372</u>

ii Purchases of products and services

	2010 £'000	2009 £'000
Purchases of services (note 4)		
Fellow subsidiaries	<u>2,744</u>	<u>5,498</u>
Interest payable (note 5)		
Fellow subsidiaries	<u>399</u>	<u>1,574</u>

Interest paid to related parties was based on a floating rate above LIBOR ranging from 0.56% to 0.74% (2009: 0.57% to 2.35%).

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 £1,219,000 (2009: £2,157,000).

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:

	2010 £'000	2009 £'000
Other emoluments	72	103
Company pension contributions	<u>6</u>	<u>16</u>
	<u>78</u>	<u>119</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

21 Related parties (continued)

Key management

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.

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

	2010 £'000	2009 £'000
Bank deposits held with related parties (note 12)		
Fellow subsidiaries	<u>644</u>	<u>3,959</u>

	2010 £'000	2009 £'000
Movements in receivables from related parties were as follows		
At 1 January	-	465
Transactions in the year	27	372
Settled in the year	(27)	(837)
At 31 December	<u>-</u>	<u>-</u>

	2010 £'000	2009 £'000
Payables to related parties (note 15)		
Fellow subsidiaries	<u>133</u>	<u>1,919</u>

	2010 £'000	2009 £'000
Movements in payables to related parties were as follows		
At 1 January	1,919	82,510
Transactions in the year	9,806	12,683
Interest charged	-	976
Reclassification of balances	(724)	-
Settled in the year	(10,868)	(94,250)
At 31 December	<u>133</u>	<u>1,919</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

21 Related parties (continued)

v Loans to related parties

	2010 £'000	2009 £'000
Loans to related parties (note 11)		
Fellow subsidiaries	<u>234</u>	<u>-</u>

	2010 £'000	2009 £'000
Movements in loans to related parties were as follows		
At 1 January	-	6,103
Loans advanced during year	234	5,674
Loan repayments received	-	(11,777)
Interest charged	-	-
At 31 December	<u>234</u>	<u>-</u>

vi Loans from related parties

	2010 £'000	2009 £'000
Loans from related parties (note 16)		
Fellow subsidiaries	<u>-</u>	<u>137,704</u>

	2010 £'000	2009 £'000
Movements in loans from related parties were as follows		
At 1 January	137,704	49,031
Loans advanced during the year	54,274	178,180
Loan repayments made	(193,336)	(90,105)
Interest charged	399	598
Reclassification of balances	959	-
At 31 December	<u>-</u>	<u>137,704</u>

vii Tax

	£'000	£'000
Other tax receivables/(payables) include amounts receivable/(payable) from/(to) related parties as follows		
HM Revenue and customs (note 10)	<u>1,416</u>	<u>(1,627)</u>