Company Registration No: 02445040

INDEMNITY INSURANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008

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

INDEMNITY INSURANCE LIMITED

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INDEMNITY INSURANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	I Falconer M A Hesketh N C McLuskie E J G Smith C P Sullivan
SECRETARY:	P A Hutchings
REGISTERED OFFICE:	Churchill Court Westmoreland Road Bromley Kent BR1 1DP
AUDITORS:	Deloitte LLP London

Registered in England and Wales.

INDEMNITY INSURANCE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2008.

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company continues to be the provision of general insurance.

The Company ceased its general insurance underwriting activities in 2007. The Company has continued to be in run-off throughout the year.

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. The directors have reviewed these policies and consider them to be appropriate. 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 website at rbs.com.

Review of the year

Business review

The directors are satisfied with the Company's performance in the year. The Company will be guided by its immediate parent company in seeking further opportunities for growth.

No dividends were paid in 2008 (2007: £nil). The directors do not recommend the payment of a final dividend (2007: £nil).

Financial performance

The Company's financial performance is presented in the Income Statement on page 6.

Net earned premiums decreased by £3,815,000 and other income decreased by £106,000. Net claims decreased by £2,221,000. Expenses decreased by £1,983,000. The loss for the year was £43,000, an increase of £28,000 from 2007.

The overall net loss ratio in the year decreased from 47% in 2007 to 9% in 2008. The combined ratio in the year increased from 117% in 2007 to 139% in 2008.

At the end of the year, the financial position showed total assets of £13,494,000, including income generating assets comprising investments of £11,080,000, together representing a decrease of 0.7% from 2007.

Going concern

The Company has considerable financial resources and as a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic climate. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Principal risks and uncertainties

The Company seeks to minimise its exposure to external financial risks and the principal uncertainties that arise from those risks. Further information on insurance and financial risk management policies and exposures is disclosed in note 3.

Review of the year *(Continued)*

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1.

From 1 January 2008 to date the following changes have taken place:

	Appointed	Resigned
Directors		
R C Ramsden		12 February 2008
E J G Smith	12 May 2008	
M A Fisher		27 February 2009

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 and 2006 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, as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 1985 and 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:

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

(b) the director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, Mr I Falconer, Mr M A Fisher, Mr M A Hesketh, Mr N C McLuskie, Mr R C Ramsden, Mr E J G Smith and Mr C P Sullivan had 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 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.

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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

M A Hesketh
Director
24 March 2009

INDEMNITY INSURANCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INDEMNITY INSURANCE LIMITED

We have audited the financial statements of Indemnity Insurance Limited ("the Company") for the year ended 31 December 2008 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, the accounting policies and the related notes to the accounts 2 to 24. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' Responsibilities.

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

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

We read the directors' report for the above year and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion:

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

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
25 March 2009

INDEMNITY INSURANCE LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £'000	2007 £'000
Insurance premium revenue	5	1,108	6,323
Insurance premium ceded to reinsurers	5	-	(1,400)
Net insurance premium revenue		**1,108**	**4,923**
Fee income	6	-	29
Investment income	7	525	594
Other operating income	8	-	8
Net income		**1,633**	**5,554**
Insurance claims and loss adjustment expenses	9	(83)	(3,189)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	(17)	868
Net insurance claims		**(100)**	**(2,321)**
Commission expenses	10	(1,413)	(2,348)
Expenses for marketing and administration	10	(30)	(1,078)
Expenses		**(1,443)**	**(3,426)**
Profit/(loss) before tax		**90**	**(193)**
Taxation	11	(133)	178
Loss for the year	12	**(43)**	**(15)**

The loss for the year was entirely attributable to equity shareholders of the Company and is derived from continuing operations.

The notes on pages 10 to 40 form part of these financial statements.

INDEMNITY INSURANCE LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	2008 £'000	2007 £'000
ASSETS			
Insurance contracts			
Deferred acquisition costs	13	-	1,187
Prepayments and accrued income		-	375
Financial investments	15	10,297	5,534
Loans and receivables	16	2,414	1,280
Current tax assets		-	101
Cash and cash equivalents	17	783	5,111
Total assets		**13,494**	**13,588**
EQUITY			
Share capital	18	14,900	14,900
Other reserves	19	85	4
Retained losses	19	(5,334)	(5,291)
Total equity		**9,651**	**9,613**
LIABILITIES			
Insurance liabilities	20	749	3,554
Trade and other payables including insurance payables	21	3,058	421
Current tax liabilities		36	-
Total liabilities		**3,843**	**3,975**
Total equity and liabilities		**13,494**	**13,588**

The financial statements were approved by the Board of Directors and authorised for issue on 24 March 2009. They were signed on its behalf by:

M A Hesketh
Director

The notes on pages 10 to 40 form part of these financial statements.

INDEMNITY INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Share capital £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2007		**14,900**	**6**	**(5,276)**	**9,630**
Net fair value gain on available-for-sale investments	19	-	(2)	-	(2)
Net income recognised directly in equity		-	(2)	-	(2)
Loss for the year		-	-	(15)	(15)
Total recognised income /(expense) for the year		-	(2)	(15)	(17)
Balance as at 31 December 2007		**14,900**	**4**	**(5,291)**	**9,613**
Net fair value gain on available-for-sale investments	19	-	81	-	81
Net income recognised directly in equity		-	81	-	81
Loss for the year		-	-	(43)	(43)
Total recognised income /(expense) for the year		-	81	(43)	38
Balance as at 31 December 2008		**14,900**	**85**	**(5,334)**	**9,651**

Total recognised income and expense for the year was entirely attributable to equity shareholders of the Company.

The notes on pages 10 to 40 form part of these financial statements.

INDEMNITY INSURANCE LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £'000	2007 £'000
Loss for the year		(43)	(15)
Adjustments for:			
Fee income	6	-	(29)
Investment revenues	7	(525)	(594)
Other operating income	8	-	(8)
Income tax expense/(credit)	11	133	(178)
Interest received		465	672
Income received from other investments		-	8
Proceeds on disposal/maturity of available-for-sale debt securities		-	10,035
Purchases of debt securities		(4,584)	(3,893)
Operating cash flows before movements in working capital		**(4,554)**	**5,998**
Net increase in insurance net assets		(1,887)	(5,143)
Net decrease in reinsurance assets		-	674
Net (increase)/decrease in loans and receivables		(766)	1,341
Net decrease/(increase) in other assets		381	(403)
Net increase in related party balances		(518)	(194)
Net increase/(decrease) in other operating liabilities		3,045	(258)
Cash (used by)/generated from operations		**(4,299)**	**2,015**
Taxes (paid)/received		(29)	965
Net cash (used by)/generated from operating activities		**(4,328)**	**2,980**
Net (decrease)/increase in cash and bank overdrafts		**(4,328)**	**2,980**
Cash and cash equivalents at the beginning of the year	17	5,111	2,131
Cash and cash equivalents at the end of the year	17	**783**	**5,111**

The Company classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows from payment of insurance claims.

The notes on pages 10 to 40 form part of these financial statements.

1. ACCOUNTING POLICIES

1.1 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with EU IAS regulation. The financial statements also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis except that available-for-sale financial assets are stated at their fair value.

The Company has considerable financial resources and as a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic climate. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Activities and Business Review section of the Directors' Report on page 2. In addition, notes 3 and 4 to the financial statements include the Company's objectives, policies and processes for managing its insurance and financial risks and capital.

1.2 Insurance premium revenue

Insurance premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium provision, which represents the proportion of the premiums that relate to periods of insurance after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, a 12ths basis, 24ths basis or allowing for the estimated incidence of exposure under policies.

Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in insurance premiums. Insurance premiums exclude insurance premium tax and are shown gross of any commission payable to intermediaries.

1.3 Insurance claims and loss adjustment expenses

Insurance claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries. Costs for both direct and indirect claims handling costs are also included.

The estimation of insurance claims and loss adjustment expenses has been explained in note 2.1.

1.4 Liability adequacy provision

Provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium provision in relation to such policies after the deduction of any acquisition costs deferred. The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.5 Reinsurance

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business being reinsured. Outward reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

1. ACCOUNTING POLICIES (Continued)

1.5 Reinsurance (Continued)

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

Where the Company is not certain about the collectability of a reinsurance asset or where the reinsurer's credit rating has been downgraded significantly, the Company reduces the carrying value of the asset accordingly and the impairment loss is recognised in the income statement.

1.6 Deferred acquisition costs

Acquisition costs relating to new and renewing insurance policies are matched with the earning of the premiums to which they relate. A proportion of acquisition costs incurred during the year is therefore deferred to the subsequent accounting period to match the extent to which premiums written during the year are unearned at the balance sheet date.

The principal acquisition costs so deferred are commissions paid, third party administration fees and costs associated with the telesales and underwriting staff.

1.7 Revenue recognition (non insurance)

Interest income on financial assets that are classified as loans and receivables or available-for-sale and interest expense on financial liabilities is determined using the effective interest rate method. In the case of loans and receivables this is estimated using the Rule of 78 method and for available-for-sale assets estimates are based on the straight-line method, both of which management has determined are a close approximation to the effective interest rate.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

1.8 Financial assets

On initial recognition financial assets are classified into available-for-sale financial assets or loans and receivables.

Available-for-sale – available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Exchange differences resulting from retranslating the amortised cost of currency monetary available-for-sale financial assets are recognised in the income statement.

Changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity. Interest and premium/discount on acquisition are calculated using the straight-line method and are recognised in the income statement.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date.

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

1. ACCOUNTING POLICIES (Continued)

1.8 Financial assets (Continued)

The valuation methodology described above uses observable market data.

If the market for a financial asset is not active, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

Loans and receivables – financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. These include deposits with credit institutions which are long-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risks of change in value.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less impairment.

Loans and receivables principally comprise loans to related parties and other debtors.

Financial assets are derecognised when the rights to receive cashflows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

1.9 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 available-for-sale or 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.

Financial assets carried at fair value – when a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through the income statement, but those on available-for-sale debt instruments are reversed, if there is an increase in fair value that is objectively related to an event subsequent to the recognition of the impairment.

Loans and receivables – If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and its recoverable amount. Impairment losses are assessed individually where significant or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

1. ACCOUNTING POLICIES (Continued)

1.10 Foreign currencies

The Company's financial statements are presented in sterling which is the functional and presentation currency of the Company.

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the values were determined.

1.11 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, except in relation to overseas earnings where remittance is controlled by the Group, and goodwill.

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

1.12 Transactions with related parties

IFRS requires all entities to disclose related party transactions. The Company's policy is to have regard to materiality from both the shareholders' and the related party's perspective.

1.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on 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.

Under IAS 7 the Company is producing a cash flow statement using the indirect method. This shows an explanation of the movement in cash and cash equivalents as defined above.

1.14 Financial Liabilities

The Company classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Company after the deduction of liabilities.

1.15 Accounting developments

The IASB reissued IAS 23 'Borrowing Costs' in March 2007. Entities are required to capitalise borrowing costs attributable to the development or construction of intangible assets or property, plant or equipment. The standard is effective for accounting periods beginning on or after 1 January 2009 and is not expected to have a material effect on the Company.

1. ACCOUNTING POLICIES (Continued)

1.15 Accounting developments (Continued)

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

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

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

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

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

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

The Company has considered IFRIC 12 'Service Concession Arrangements' applicable for accounting period beginning on or after 1 January 2008 (IFRIC 12 has not yet been endorsed by EU) and concluded it will not apply to the Company.

The Company has considered IFRIC 13 "Customer loyalty programmes" issued in June 2007. The interpretation is effective for annual periods beginning on or after 1 July 2008 and it is not expected to have a material impact on the Company's financial statements.

The Company has considered new interpretations (IFRIC 15 to 17) issued during the year and has concluded that these will not apply.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Company's principal accounting policies are set out on pages 10 to 14. 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 Board 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.

2.1 Outstanding claims provisions and related reinsurance recoveries

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the incidence, timing and amount of claims and any specific factors such as adverse weather conditions. In order to calculate the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate, within acceptable probability parameters, the value of outstanding claims (gross and net) at the balance sheet date. Also included in the estimation of outstanding claims are factors such as the potential for judicial or legislative inflation. In addition an allowance is made for reinsurance assets deemed not recoverable.

For more recent claim periods the provisions will make use of techniques that incorporate expected loss ratios. As periods mature, the reserves are increasingly driven by methods based on actual claims experience. The approaches adopted take into account the nature, type and significance of the business and the type of data available, with large claims generally being assessed separately. The data used for statistical modelling purposes is internally generated.

The calculation is particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business at gross and net levels, the estimation of future claims handling costs and the rate of investment return assumed in the calculation.

Outstanding claims provisions net of related reinsurance recoveries at 31 December 2008 amounted to £746,000 (2007: £1,907,000).

2.2 Impairment provisions – financial assets

Available-for-sale – the Company determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility of share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in these factors.

Each month, the Company reviews whether there is any objective evidence that the direct investments in debt securities are impaired based on the following criteria:

- Price performance of a particular debt security, or group of debt securities, demonstrating an adverse trend compared to the market as a whole;
- Adverse movements in the credit rating for corporate debt; and/or
- Actual, or imminent, default on coupon interest or nominal.

Impairment provisions on available-for-sale financial assets at 31 December 2008 amounted to £nil (2007: £nil).

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Had all the declines in fair values below cost been considered significant or prolonged, the Company would suffer a £75,178 loss in its 2008 financial statements (2007: £268), being the transfer of the total equity reserve for unrealised losses to the income statement.

2.3 Fair value

Financial assets classified as available-for-sale are recognised in the financial statements at fair value. In the balance sheet, financial assets carried at fair value are included within available-for-sale debt securities and equity shares. Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity unless an impairment loss is recognised.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters.

The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique as described in note 1.13 above. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement. Where possible, the Company seeks at least external quotations for each bond and considers whether these are representative of fair value in the light of current traded levels, and in comparison to the internal group valuation models. Where this information is not available or where it is considered to be not representative of fair value, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The fair value of certain asset backed securities has been determined by use of an internal model which predicts the future cashflows from the instruments in a number of projected economic scenarios. These economic scenarios are probability weighted based on recent economic forecasts and the resulting cash flows are discounted using risk adjusted discount rates determined by reference to currently observable market discount rates adjusted to take account of the risk characteristics of the securities being valued. There is significant subjectivity in this valuation as there is little recent market activity in these or other similar instruments.

The fair value of available-for-sale financial assets at 31 December 2008 amounted to £10,297 million (2007: £5,534 million) and 100% were determined using observable market inputs.

2.4 Deferred acquisition costs

As noted in paragraph 1.6, the Company defers a proportion of acquisition costs incurred during the year to subsequent accounting periods. The total deferred acquisition costs as at 31 December 2008 amounted to £nil (2007: £1,187,000). During 2008, management have further reviewed the costs included in the calculation of deferred acquisition costs and consider them to be appropriate.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that accept insurance risk in return for a premium. It also has financial risk exposures. This section summarises these risks and the way the Company manages them.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

The Company is an entity within RBS Insurance which constitutes the Insurance Division of The Royal Bank of Scotland Group plc (the RBS Group) and benefits from services provided by specialist teams and risk management procedures and controls which are applied across the Division. Within RBS Insurance, risk is managed both by the individual entity and on a combined basis across the Insurance Division, and this is explained in more detail in the sections below.

The Company is regulated by the Financial Services Authority (FSA).

3.1 Risk management

The RBS Group has developed, and adopted globally, one comprehensive Risk Management Framework to ensure that a consistent risk philosophy is communicated and enacted throughout the Group's operations. This risk framework defines the risk organisation, risk approach, risk people and risk infrastructure. It sets out the monitoring and reporting that are required to:

- Execute the Group's risk appetite objectives;
- Support internal control of the risk profile;
- Communicate risk appetite with both internal and external stakeholders;
- Ensure compliance with regulatory requirements;
- Ensure that all risks are identified in a timely manner, and subsequently properly assessed and managed and/or mitigated in accordance with the relevant risk policy, appetite and tolerances; and
- Monitor and report on risks and issues across the businesses and RBS Insurance as a whole to facilitate management information for decision making, strategy setting and best practice internal control.

The management of risk is a fundamental management activity performed throughout all of RBS Insurance's operations. The primary role of RBS Insurance's Risk Management function is to provide the framework and support to the relevant Senior Management (including the Approved Persons) of RBS Insurance to manage the risks faced across the Division.

In order to consider the key risks which pose a material threat to the Company's strategic objectives or to the Company's profit and capital, a 'top down' risk policy and process has been developed and approved.

In accordance with the RBS Insurance Top Down Risk Management Policy, RBS Insurance uses a high-level risk register (HLRR) to record the major risks faced by the business. This register has been used to determine risks which have been subjected to stress and scenario analysis in the quantitative modelling. The potential profit variance arising from these stress and scenario tests is used to assess the Company's exposure to each of these risks.

'Business as usual' risks and their mitigating controls for each category and the Central Functions are recorded within each area's Risk and Control Register. These risks are reviewed at least monthly by the area/register owner, and by the central RBS Insurance Risk Team (Divisional Risk) on a quarterly basis. The Risk and Control Registers focus on business facing risks and predominantly comprise operational risks. Although other risk types such as insurance and credit risk are not specifically excluded, the key requirement is the documentation of operational risks which threaten business processing. Risks contained in the Risk and Control Registers are subject to ongoing review and control testing to ensure that risks are managed within operational risk appetite. A materialised risk identification, reporting and resolution process takes place to ensure that corrective actions are taken in response to any unacceptable operational weakness.

The responsibility for ensuring that each legal entity within RBS Insurance has sufficient capital to meet its liabilities rests with the Board of each legal entity. To this end RBS Insurance carries out detailed capital modelling of its assets, liabilities and the key risks to which it is exposed. This work feeds into each entity's own assessment of its capital requirements for solvency purposes in the submission of its Individual Capital Assessment (ICA) to the FSA quantifying the following categories of risk: insurance risk, market risk, credit risk, liquidity risk, operational risk, and group risk.

The Board of each regulated entity is closely involved in the ICA process and signs off on its assumptions and results. Specifically the following are fundamental areas that the Board has key involvement in:

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.1 Risk management (Continued)

- Completion of a HLRR for each Business Category or Central Function, input to the aggregated HLRR for RBS Insurance as a whole, sign-off of the final HLRR and regular review (at least quarterly) of the HLRR;
- Assessment of the risk appetite in relation to strategy and business plans;
- Input to, and review and approval of stress and scenario tests; attendance at the scenario workshops as required by the facilitators;
- Sign off of the parameter setting for the DFA (Dynamic Financial Analysis) modelling;
- Review and sign off of the output from DFA models and other quantitative modelling; and
- Review, agreement and sign off of the ICA submission to the FSA including any surrounding documentation, policies, explanations and assumptions.

RBS Insurance seeks to engender awareness and a shared responsibility for risk management at all levels of the organisation. The Company's Insurance Risk Appetite Policy supports this. Risk Appetite can be described as the willingness of RBS Insurance to tolerate risk related to the pursuit of its approved business activities and objectives. Risk Appetite is restricted to, and limits are set for, approved lines of business. Insurance Risk can be measured as follows:

- Level one – Individual limits

This is expressed in terms of the type of business transacted, (e.g. product types that are underwritten) and the maximum limits per individual risk by these product types. This is captured in a risk appetite matrix of underwriting limits expressed as a function of products and limits.

- Level two – Aggregate limits

This can be expressed in terms of the aggregate volume of business for a particular class (exposure and premium as recorded in business plans, business category budget plans and subsequent quarterly re-forecast plans of each business unit).

- Level three – Mitigated risk

This can be expressed in terms of the potential profit variance which could result from the risks accepted; this will include the quantification of major risks to the business as outlined in the HLRR scenario analysis, based on modelling of these risks on a 1:200 year event as defined in the FSA ICA submission.

To enable RBS Insurance to monitor, control and manage the level of risk effectively against Risk Appetite Statements a control environment has been developed within RBS Insurance which consists of the following components:

- Clearly defined management responsibilities and organisational structures;
- A process for delegated limits of authority;
- Appropriate policies and procedures (in line with FSA Senior Management Arrangements Systems and Controls rules (SYSC));
- Accounting controls and reconciliations;
- Management reporting systems comprising information of Key Performance Indicators and Key Risk Indicators;
- A structured budget and reforecast process;
- Personnel requirements for key positions (FSA controlled functions rules);
- Segregation of duties; and
- Regular internal review and audit mechanisms.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.2 Insurance risk

Insurance risk can arise from:

- Fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting;
- Inaccurate pricing at underwriting;
- Inadequate reinsurance protection;
- Inadequate reserves; and
- Concentration of business leading to unexpected claims from a single source.

The Company predominantly underwrites personal lines insurance including travel and pet insurance. Contracts are issued typically on a single or annual basis, which means that the Company's liability usually extends for a 12-month period, after which the Company is entitled to decline to renew or can impose renewal terms by amending the premium or excess or both.

3.2.1 Underwriting and pricing risk

Underwriting and pricing risk is the risk that inappropriate business will be written and/or inappropriate prices charged.

The classes and sectors of business written, underwriting criteria, and relevant limits, define underwriting risk appetite.

The Company manages this risk through a wide range of processes and forums, some of which include:

- Underwriting guidelines which exist for all business transacted restricting the types and classes of business that may be accepted;
- Exception reports and other underwriting monitoring tools;
- Comprehensive internal quality review audit programmes;
- Pricing policies which are set by management and implemented through pricing committees by product line and by brand;
- Central control, within underwriting, of policy wordings and any subsequent changes;
- Insurance risk framework that involves, among other things, regular minuted meetings where all aspects of insurance risk are discussed, and additional meetings where detailed claims data are examined and discussed;
- Weekly monitoring within the business of key performance indicators by product and brand;
- Formal monthly monitoring and reporting to the Executive, by product and brand; and
- Annual budgeting and quarterly re-forecasting, signed off by the Company Executive.

The following paragraphs explain the frequency and severity of specific risks under the key classes that the Company is exposed to:

a) Travel insurance contracts

The main causes of travel insurance claims are medical expenses incurred from the illness of or accident to the insured while on a trip, loss or theft of their personal possessions and cancellation of the trip before departure due to illness or accident of the insured or a close relative.

Policies can either be on a single trip, or annual basis where all trips taken in a 12 month period are covered. Either way the risk factors are the age and state of health of the insured, the destinations of trips, the activities to be undertaken on the trip, and the duration.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.2.1 Underwriting and pricing risk (Continued)

b) Pet insurance contracts

The main cause of claims is the incurring of vet fees to treat a sick dog or cat. Vet fee inflation is an issue that we deal with by rate and excess increases. Liability to third parties for accidents caused by the animal are also covered. Policies are either annually or monthly renewable. The species (cat or dog), age and breed of the animal are prime risk factors, as well as the postcode of its owner.

The following paragraphs explain the source of uncertainty in respect of the specific key classes of business:

a) Travel insurance contracts

The main source of variability is large individual claims or events such as motor accidents or coach crashes, natural catastrophes or acts of terrorism. The Company mitigates these risks by buying excess of loss reinsurance.

b) Pet insurance contracts

Large liability claims are few and far between, but the Company protects itself from them by buying appropriate reinsurance.

3.2.2 Claims management risk

Claims management risk is the risk that claims are paid or handled inappropriately.

Claims are managed utilising a range of IT system driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner.

Each member of staff has a specified handling authority, with controls preventing claims staff handling or paying claims outside of their authorities, as well as controls to avoid paying invalid claims. In addition, there are various outsourced claims handling arrangements all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures.

Loss adjustors are used in certain circumstances to handle claims to conclusion. This involves liaison with the policyholder, third parties, suppliers and management.

3.2.3 Reinsurance risk

Reinsurance risk arises from a failure of reinsurance to control exposure to losses, to reduce volatility or to protect capital. RBS Insurance uses reinsurance:

- To protect the insurance results against the impact of major catastrophic events, e.g. flood, storm;
- To protect the insurance results against unforeseen volumes of, or adverse trends in, large individual claims, in order to reduce volatility and to improve stability of earnings; and
- To transfer risk that is not within the Company's current risk retention strategy.

RBS Insurance reviews its reinsurance purchases at least annually to ensure that the levels of protection being bought reflect any changes in exposure and risk appetite of the group.

Reinsurance is only effective when the counterparty is financially secure. Before entering into a contract with a new reinsurer, it must satisfy the Credit Risk Approval process that uses information derived internally and from security ratings agencies. Acceptable reinsurers are rated at A- or better by Standard and Poors ratings agency unless specifically authorised by the RBS Insurance Board.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.2.4 Reserving risk

Reserving risk relates to both premium and claims. It is the risk that reserves are assessed incorrectly such that insufficient funds have been retained to pay or handle claims as the amounts fall due, both in relation to those claims which have already occurred (in relation to claims reserves) or will occur in future periods of insurance (in relation to premium reserves).

It is the Company's policy to hold undiscounted claims reserves (including reserves to cover claims which have occurred but not been reported (IBNR reserves)) for all classes at a sufficient level to meet all liabilities as they fall due.

Reserving risk is controlled through a range of processes, the most significant ones being:

- Regular periodic reviews of the claims reserves for the main classes of business by the internal actuarial team;
- The use of internal actuaries to periodically review the adequacy of the reserves for the major classes; and
- Oversight of the reserving process by the Board of the Company.

The following table summarises earned premiums and the claims incurred together with the corresponding loss ratios for each major class of business on a gross and net of reinsurance basis for the two most recent financial years.

		2008			2007		
		Earned premiums £ '000	Claims Incurred £ '000	Loss Ratio %	Earned premiums £ '000	Claims Incurred £ '000	Loss Ratio %
Travel	Gross	718	(353)	(49)%	4,556	1,246	27%
	Net	718	(336)	(47)%	3,496	708	20%
Pet	Gross	390	436	112%	1,767	1,943	110%
	Net	390	436	112%	1,427	1,613	113%
Total	**Gross**	1,108	83	8%	6,323	3,189	50%
	Net	1,108	100	9%	4,923	2,321	47%

3.3 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. The Company's financial risk is concentrated within its investment portfolio. This portfolio is managed in accordance with the RBS Insurance Investment Policy and Investment Guidelines. These are drawn up in compliance with the objectives and risk appetite parameters set by The Royal Bank of Scotland Group plc and are approved by the RBS Insurance Group Limited Board. The Investment Policy is operated by the Investment Committee, which is made up of Senior Executives of both the Insurance Division and the Company, and executed on their behalf by the Funds Management Committee (FMC).

The Investment Committee determines high level policy and controls, covering such areas as safety, liquidity and performance. It meets at least half-yearly to evaluate risk exposure, the current strategy and to consider investment recommendations submitted to it. Any strategy changes are included in a revised Terms of Reference for the FMC and the Company's Investment Policy and Guidelines are updated to reflect the changes.

The objectives set out in the Investment Policy are:

- To maintain safety of the portfolio's principal both in economic terms and from an accounting and reporting perspective;
- To maintain sufficient liquidity to provide cash requirements for operations; and
- To maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the Investment Guidelines.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.3 Financial risk (Continued)

To achieve these objectives the portfolio is split between Operating Funds and Long-Term Funds. Operating Funds are those needed for current business operations and to support identified liabilities, together with an adequate safety margin, and must always be at least 35% of the total portfolio. The remainder of the portfolio is classified as long term. The Investment Guideline set out asset allocation rules and controls for each component part of the portfolio as follows:

Operating Funds

Asset Allocation - The Operating Funds segment of the investment portfolio shall only be invested in high quality liquid fixed and floating rate interest securities and in cash (bank deposits). Qualifying investments include:

- Bank Deposits ;
- Certificates of Deposit (CDs) and Commercial Paper (CP);
- Floating Rate Notes (FRNs);
- Government securities with maturities up to five years (including index linked); and
- Listed Debt Securities with maturity up to five years.

Investments should be managed to ensure a reasonably even spread of maturities over the forthcoming three-month period. In addition, the maturity profile must take account of any potential market price reduction due to interest rate or credit risk.

Long Term Funds

Asset Allocation - To achieve its investment objective, the Long-Term Funds segment of the investment portfolio may be invested in the following asset classes, in addition to those mentioned in the Operating Funds.

- Equities;
- Property;
- Fixed Interest Debt Securities (five to fifteen years); and
- Floating Rate Debt Securities (up to forty years).

Opportunistic investments in individual equity stocks will also be allowed up to a maximum of £100m and will be held as an Individual Equity Fund. This type of investment purchased for this portfolio would typically be those which are of undoubted credit quality and offer a good dividend yield. It is likely that such stocks would be liquid and traded on one of the major world stock exchanges.

In general, the long-term fund will be invested in a manner such that at least 90% (by market value) of the investments are admissible assets for regulatory purposes.

The most important components of financial risk are market risk, credit risk and liquidity risk.

3.3.1 Market risk

Market risk encompasses any adverse movement in the value of assets as a consequence of market movements such as interest rates, credit spreads, foreign exchange rates, equity prices and property valuations.

The Company is exposed to market risk in both the value of its liabilities and the value of assets held. Exposure to market risk in the investment portfolio is managed in accordance with the guidelines set out in the RBS Insurance Investment Policy as detailed above.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.3.1 Market risk (Continued)

The Company assesses the financial impact from changes in market risk through DFA modelling and stress testing adopted as part of the Individual Capital Assessment (ICA) process. These tests are designed to consider the impact on capital arising from various scenarios based on changes in the financial circumstances and budget assumptions.

Interest rate risk

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates.

For claims reserves, the Company does not have exposure to interest rate risk in that the amount of claims reserves do not change as a result of interest rate movements as they are undiscounted.

A table showing the sensitivity of profits to changes in interest rates is included below.

Valuation risk

Valuation risk arises from the Company's investments in debt securities which are exposed to fluctuations in market prices, specifically in the current economically challenged market.

Currency risk

For claims reserves there is very little foreign exchange risk as the absolute majority of claims are denominated in UK Sterling (£) except some foreign travel risks (travel policies).

All other financial assets and liabilities are denominated in sterling and do not bear any exposure to currency risk.

Sensitivity analysis

Some 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**
Market prices	This sensitivity factor is a new analysis this year. It has been selected due to the financial turbulence in the economic environment. The method used in calculating this sensitivity is to apply a 20% change to market values of the debt securities portfolio.
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 and the claims handling expenses provision by 10%.
Gross loss ratios	The impact of an increase in loss ratios by 5%, which assumes no large losses triggering reinsurance recoveries.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.3.1 Market risk (Continued)

Sensitivity at 31 December 2008

Impact on profit before tax (£'000)

	Market Prices +20%	Market Prices -20%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	-	-	60	(60)	11	55
Net of reinsurance	-	-	60	(60)	11	44

Impact before tax on shareholders' equity (£'000)

	Market Prices +20%	Market Prices -20%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	2,059.4	(2,059.4)	(102)	105	11	55
Net of reinsurance	2,059.4	(2,059.4)	(102)	105	11	44

Sensitivity at 31 December 2007

Impact on profit before tax (£'000)

	Market Prices +20%	Market Prices -20%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	-	-	(113)	116	171	316
Net of reinsurance	-	-	(113)	116	155	253

Impact before tax on shareholders' equity (£'000)

	Market Prices +20%	Market Prices -20%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	1,106.8	(1,106.8)	(113)	116	171	316
Net of reinsurance	1,106.8	(1,106.8)	(113)	116	155	253

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 larger or smaller impacts should not be interpolated or extrapolated from these results.

3.3.2 Credit risk

Credit risk arises from the potential that losses are incurred from the failure of a counterparty to meet its credit obligations. The main sources of credit risk for the Company are as follows:

- Investment Counterparty – this arises from the investment of monies in the range of investment vehicles permitted by the Investment Policy; and
- Reinsurance Recoveries – credit exposure to reinsurance counterparties arises in respect of reinsurance claims that have been incurred but not yet settled.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.3.2 Credit risk (Continued)

Royal Bank of Scotland Group Risk Management sets standards for maintaining and developing credit risk management throughout the Group. This is achieved via a combination of governance structures, credit risk policies, control processes and infrastructure collectively known as the Group's Credit Risk Management Framework ("CRMF").

RBS Insurance has established its own CRMF consistent with The Royal Bank of Scotland Group CRMF. The RBS Insurance CRMF sets out the prior approval process for credit exposures and provides for appropriate analysis and reporting of these exposures at both the Company and Royal Bank of Scotland Group level. Where appropriate, larger credit exposures are aggregated with other credit exposures, elsewhere in the Group for credit approval and monitoring purposes.

The following table provides information regarding the carrying value of financial and insurance assets that are neither past due nor impaired, the ageing of financial assets that are past due but not impaired and financial assets that have been impaired.

At 31 December 2008

	Neither past due nor impaired £'000	Past due 1 - 30 days £'000	Past due 31 - 60 days £'000	Past due 61 - 90 days £'000	Past due more than 91 days £'000	Carrying value in the balance sheet £'000	Financial assets that have been impaired £'000
Debt securities (note 15)	10,297	-	-	-	-	10,297	-
Deposits with credit institutions (note 17)	764	-	-	-	-	764	-
Reinsurance asset (note 20)	-	-	-	-	-	-	-
Cash at bank and in hand (note 17)	19	-	-	-	-	19	-
Loans and receivables (note 16)	2,414	-	-	-	-	2,414	575.0
Total assets bearing credit risk	13,494	-	-	-	-	13,494	575.0

At 31 December 2007

	Neither past due nor impaired £'000	Past due 1 - 30 days £'000	Past due 31 - 60 days £'000	Past due 61 - 90 days £'000	Past due more than 91 days £'000	Carrying value in the balance sheet £'000	Financial assets that have been impaired £'000
Debt securities (note 15)	5,534	-	-	-	-	5,534	-
Deposits with credit institutions (note 17)	5,000	-	-	-	-	5,000	-
Reinsurance asset (note 20)	-	-	-	-	-	-	-
Cash at bank and in hand (note 17)	111	-	-	-	-	111	-
Loans and receivables (note 16)	1,280	-	-	-	-	1,280	1,341
Total assets bearing credit risk	11,925	-	-	-	-	11,925	1,341

The Company does not hold any collateral as security.

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

The following table analyses the credit quality of financial and insurance assets that are neither past due nor impaired by type of asset. The table includes reinsurance exposure, after provision. Refer to 3.2.3 for details of reinsurance credit risk management.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.3.2 Credit risk (Continued)

At 31 December 2008

	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Debt securities (note 15)	3294	2,535	4,468	-	-	-	**10,297**
Equity securities							**0**
Deposits with credit institutions (note 17)	-	764	-	-	-	-	**764**
Reinsurance asset (note 20)	-	-	-	-	-	-	-
Cash at bank and in hand (note 17)	-	19	-	-	-	-	**19**
Loans and receivables (note 16)	-	-	-	-	-	2,414	**2,414**
Total	**3,294**	**3,318**	**4,468**	-	-	**2,414**	**13,494**

At 31 December 2007

	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Debt securities (note 15)	-	3020	2,514	-	-	-	**5,534**
Equity securities							**0**
Deposits with credit institutions (note 17)	-	5,000	-	-	-	-	**5,000**
Reinsurance asset (note 20)	-	-	-	-	-	-	-
Cash at bank and in hand (note 17)	-	111	-	-	-	-	**111**
Loans and receivables (note 16)	-	9	-	-	-	1,271	**1,280**
Total	-	**8,140**	**2,514**	-	-	**1,271**	**11,925**

Other loans and receivables due from policyholders, agents, brokers and intermediaries generally do not have a credit rating.

3.3.3 Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch.

The management of liquidity risk within the Royal Bank of Scotland Insurance Division is undertaken within the limits and other policy parameters set out in the Investment Guidelines. The asset class and maturity parameters contained within this policy are summarised above. Compliance is monitored both in respect of the internal policy and the regulatory requirements of the FSA.

The Company performs liquidity risk stress testing as part of its Individual Capital Assessment (ICA) process. These tests are designed to assess the Company's liquidity requirement in order to meet claims and other liabilities in a number of different extreme event scenarios and compare this requirement against the liquidity available from its investment portfolio and other assets. In all of the events considered the Company is comfortably able to meet its liabilities as they fall due.

3. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3.3.3 Liquidity risk (Continued)

Analysis of maturity of liabilities

For each category of insurance and financial liabilities, the following table shows the gross liability at 31 December 2008 analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period.

At 31 December 2008

	Total £'000	Within 1 year £'000	1 - 3 years £'000	3 - 5 years £'000	5-10 years £'000	Over 10 years £'000
Insurance liabilities (note 20)	746	567	179	-	-	-
Trade and other payables including insurance payables (note 21)	3,058	3,058	-	-	-	-
Total	3,804	3,625	179	-	-	-

At 31 December 2007

	Total £'000	Within 1 year £'000	1 - 3 years £'000	3 - 5 years £'000	5-10 years £'000	Over 10 years £'000
Insurance liabilities (note 20)	1,907	954	953	-	-	-
Trade and other payables including insurance payables (note 21)	421	421	-	-	-	-
Total	2,328	1,375	953	-	-	-

The above tables exclude unearned premium provisions as there are no liquidity risks inherent in them.

3.3.4 Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The distribution of the debt securities held across industry sectors was as follows:

	2008 £'000	2008 %	2007 £'000	2007 %
Finance	7,003	68%	5,534	100%
Government	3,294	32%	-	0%
	10,297	100%	5,534	100%

4. CAPITAL RISK MANAGEMENT

The Company defines capital in accordance with regulations prescribed by the Financial Services Authority (FSA) and manages it in accordance with the RBS Insurance Capital Management Policy. Its objectives when managing capital are:

- to comply with legal and regulatory obligations and maintain capital resources commensurate with the nature, scale and risk profile of its business;
- to provide a framework for monitoring the capital position of the Company, including the procedures to be followed during periods of general financial stress, either due to internal or external events;
- to safeguard its ability to continue as a going concern; and
- provide an adequate return to its shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The principle underlying the rules prescribed by the FSA is that the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance, and that there is a suitable matching of assets and liabilities. The FSA rules require the Company to maintain a surplus of admissible assets over its liabilities which is at all times at least equal to the higher of its Minimum Capital Requirement (MCR) or its Individual Capital Guidance (ICG). The MCR is a formulaic approach based on business volumes; whereas the ICG is specified by the FSA following the bi-annual submission of a risk based capital assessment (Individual Capital Adequacy Standards) by the Company to the regulator.

As at 31 December 2008, the Company held a surplus of at least £6,500,000 (2007: £250,000) above its MCR requirement of £2,518,000 (2007: £2,460,000).

Management information to monitor the Company's capital position is produced and presented to the RBS Insurance Capital Committee on a regular basis ensuring that the Company meets its capital requirements at all times.

The Company has complied with the FSA imposed rules and guidance in respect of capital in both 2008 and 2007.

5. NET INSURANCE PREMIUM REVENUE

	2008 £'000	2007 £'000
Premium income from insurance contracts issued:		
Premium receivables	(103)	2,925
Change in unearned premium provision	1,211	3,398
	1,108	6,323
Premium revenue ceded to reinsurers on insurance contracts issued:		
Premium payables	-	(442)
Change in unearned premium provision	-	(958)
	-	(1,400)
Net insurance premium revenue	**1,108**	**4,923**

6. FEE INCOME

	2008 £'000	2007 £'000
Profit participation from related parties	**-**	**29**

7. INVESTMENT INCOME

	2008 £'000	2007 £'000
Available-for-sale financial assets:		
Interest income from debt securities	463	180
Interest income:		
From deposits with credit institutions	71	394
Net amortisation of discount on purchase of financial assets	(9)	20
	525	**594**

8. OTHER OPERATING INCOME

	2008 £'000	2007 £'000
Other income	**-**	**8**

9. INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2008		
	Gross £'000	Reinsurance £'000	Net £'000
Current accident year claims paid	407	-	407
Prior accident years' claims paid	1,271	17	1,288
Movement in current accident year claims provision	88	-	88
Movement in prior accident years' claims provision	(1,683)	-	(1,683)
	83	**17**	**100**

	2007		
	Gross £'000	Reinsurance £'000	Net £'000
Current accident year claims paid	2,799	(628)	2,171
Prior accident years' claims paid	4,094	(1,345)	2,749
Movement in current accident year claims provision	1,307	-	1,307
Movement in prior accident years' claims provision	(5,011)	1,105	(3,906)
	3,189	**(868)**	**2,321**

Loss adjustment expenses for the year of £80,403 (2007: £475,000) have been included in the accident year figures above.

A movement in relation to liability adequacy provisions of £433,000 has been recorded in 2008 and is included in prior accident year claims provision.

10. EXPENSES

a) Commission expenses	2008 £'000	2007 £'000
Cost incurred for the acquisition of insurance contracts expensed in the year	1,413	2,533
Expense contributions under quota share contracts	-	(185)
	1,413	**2,348**

b) Expenses for marketing and administration	2008 £'000	2007 £'000
Marketing and administration expenses	30	1,233
Expense contributions under quota share contracts	-	(155)
	30	**1,078**

11. TAXATION

	2008 £'000	2007 £'000
Current taxation:		
Tax charge/(credit) for the period	25	(59)
Under/(over) provision in respect of prior periods	108	(119)
Tax charge/(credit) for the period	**133**	**(178)**

11. TAXATION (Continued)

The actual tax charge/(credit) differs from the expected tax charge/(credit) computed by applying the standard rate of UK corporation tax of 28.5% (2007: 30%) as follows:

	2008 £'000	2007 £'000
Expected tax charge/(credit)	25	(59)
Effects of:		
Adjustments in respect of prior years	108	(119)
Tax charge/(credit)	**133**	**(178)**

The aggregate current and deferred tax relating to items that are charged to equity is £33,000 (2007: £953).

12. LOSS FOR THE YEAR

Auditors' remuneration

Fees for audit and non-audit services, included within marketing and administration expenses, are borne and recharged by a related party, RBS Insurance Services Limited.

Fees paid to the auditors with respect to the statutory audit of the Company amount to £8,500 (2007: £10,000).

Other services fees in respect of the audit of the FSA Return amount to £5,000 in 2008 (2007: £6,000).

Directors' emoluments

	2008 £'000	2007 £'000
Other emoluments	-	2
Company pension contributions	-	-
	-	2

Fees paid to directors during the year amounted to £nil (2007: £nil).

No 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 (2007: £582).

A contribution of £nil (2007: £nil) to a defined pension scheme was made on behalf of the highest paid director. No directors (2007: four directors) had retirement benefits accruing under defined pension schemes in respect of qualifying service, no directors (2007: no directors) had benefits accruing under money purchase pension schemes.

During the year no directors have exercised options (2007: six).

13. DEFERRED ACQUISITION COSTS

	2008 £'000	2007 £'000
At 1 January	1,187	2,758
Net charge to income statement	(1,187)	(1,571)
At 31 December	-	1,187

14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in note 1 describes how the classes of financial instrument are measured and how income and expenses of the financial assets and liabilities by category are defined in IAS39 and by the balance sheet heading.

At 31 December 2008

	Available for-sale £'000	Loans and receivables £'000	Other (amortised costs) £'000	Non-financial assets/ liabilities £'000	Total £'000
Deferred acquisition costs	-	-	n/a	-	-
Prepayments and accrued income	-	-	n/a	-	-
Financial investments	10,297	-	n/a	-	10,297
Loans and receivables	-	2,414	n/a	-	2,414
Current tax assets	-	-	n/a	-	-
Cash and cash equivalents	-	783	n/a	-	783
	10,297	3,197	-	-	13,494
Insurance liabilities	n/a	n/a	-	749	749
Trade and other payables including insurance payables	n/a	n/a	3,058	-	3,058
Current tax liabilities	n/a	n/a	-	36	36
	-	-	3,058	785	3,843
Equity					9,651
					13,494

14. CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2007

	Available for-sale £'000	Loans and receivables £'000	Other (amortised costs) £'000	Non-financial assets/ liabilities £'000	Total £'000
Financial investments	5,534	-	n/a	-	5,534
Loans and receivables	-	1,280	n/a	-	1,280
Current tax assets	-	-	n/a	101	101
Prepayments and accrued	-	-	n/a	375	375
Deferred acquisition costs	-	-	n/a	1,187	1,187
Cash and cash equivalents	-	5,111	n/a	-	5,111
	5,534	6,391	-	1,663	13,588
Insurance liabilities	n/a	n/a	-	3,554	3,554
Trade and other payables including insurance payables	n/a	n/a	421	-	421
	-	-	421	3,554	3,975
Equity					9,613
					13,588

15. FINANCIAL INVESTMENTS

	2008 £'000	2007 £'000
Available-for-sale investments		
Debt securities:		
Listed - fixed interest rate	4,334	-
Listed - floating interest rate	5,963	5,534
	10,297	5,534

Included within the debt securities balance above is £3,300,000 (2007: £5,004,000) placed with related parties, as analysed in note 24.

16. LOANS AND RECEIVABLES

	2008 £'000	2007 £'000
Receivables arising from insurance and reinsurance contracts:		
Due from agents, brokers and intermediaries	2,848	2,580
Less provision for impairment of receivables from policyholders	(575)	(1,341)
Due from reinsurers		
- third party reinsurers	-	9
Accrued interest	-	4
Receivables from related parties (note 24)	119	-
Other debtors	22	28
Total loans and receivables including insurance receivables	2,414	1,280

17. CASH AND CASH EQUIVALENTS

	2008 £'000	2007 £'000
Cash at bank and in hand		
- related parties (note 24)	19	111
Short-term deposits with credit institutions		
- related parties (note 24)	764	5,000
	783	5,111

The effective interest rate on short term deposits with credit institutions was 1.75% (2007: 5.5%) and has an average maturity of two days.

For the purposes of the cash flow statement, cash and bank overdrafts are as follows:

	2008 £'000	2007 £'000
Cash and cash equivalents	783	5,111

18. SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised:		
Equity shares		
50 million ordinary shares of £1 each	50,000	50,000
Issued and fully paid:		
Equity shares		
14.9 million (2006: 14.9 million) ordinary shares of £1 each		
At 1 January and 31 December	14,900	14,900

19. OTHER RESERVES AND RETAINED LOSSES

	2008 £'000	2007 £'000
Other reserves at 31 December	85	4
Retained losses at 31 December	(5,334)	(5,291)

Movements in the revaluation reserve for available-for-sale investments were as follows:

	2008 £'000	2007 £'000
At 1 January	4	6
Revaluation during the period - gross	114	(3)
Revaluation during the period - taxation	(33)	1
At 31 December	85	4

20. INSURANCE CONTRACTS AND REINSURANCE ASSETS

	2008 £'000	2007 £'000
Gross		
Claims reported	567	1,421
Claims incurred but not reported	179	486
Unearned premiums	3	1,214
Liability adequacy provision	-	433
Total insurance liabilities, gross	749	3,554
Recoverable from reinsurers		
Claims reported	-	-
Unearned premiums	-	-
Total reinsurers' share of insurance liabilities	-	-
Net		
Claims reported	567	1,421
Claims incurred but not reported	179	486
Unearned premiums	3	1,214
Liability adequacy provision	-	433
Total insurance liabilities, net	749	3,554

20. INSURANCE CONTRACTS AND REINSURANCE ASSETS (Continued)

Insurance claims - gross

Accident year	2001 £'000	2002 £'000	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	Total £'000
Estimate of ultimate claims costs:									
At end of accident year	592	1,526	9,778	14,821	13,758	12,856	3,482	445	57,258
One year later	158	212	(887)	(12)	(452)	(892)	(40)	-	(1,913)
Two years later	(22)	(380)	2,556	1,614	823	25	-	-	4,616
Three years later	-	(29)	169	(1,151)	(62)	-	-	-	(1,073)
Four years later	-	7	13	(36)	-	-	-	-	(16)
Five years later	-	6	(388)	-	-	-	-	-	(382)
Six years later	-	500	-	-	-	-	-	-	500
Seven years later	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims	728	1,842	11,241	15,236	14,067	11,989	3,442	445	58,990
Cumulative payments to date	(728)	(1,842)	(11,239)	(15,226)	(13,923)	(11,581)	(3,310)	(395)	(58,244)
Liability recognised in balance sheet	-	-	2	10	144	408	132	50	746
Liability in respect of prior years									-
Loss adjustment expenses									-
Total liability included in the balance sheet									746

Insurance claims - net of reinsurance

Accident year	2001 £'000	2002 £'000	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000	Total £'000
Estimate of ultimate claims costs:									
At end of accident year	602	1,008	7,661	11,784	11,114	10,352	2,854	445	45,820
One year later	88	200	(524)	74	(476)	(842)	(40)	-	(1,520)
Two years later	(22)	(380)	2,069	1,272	343	25	-	-	3,307
Three years later	-	(29)	136	(958)	(62)	-	-	-	(913)
Four years later	-	7	9	(36)	-	-	-	-	(20)
Five years later	-	6	(388)	-	-	-	-	-	(382)
Six years later	-	500	-	-	-	-	-	-	500
Seven years later	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims	668	1,312	8,963	12,136	10,919	9,535	2,814	445	46,792
Cumulative payments to date	(668)	(1,312)	(8,961)	(12,126)	(10,775)	(9,127)	(2,682)	(395)	(46,046)
Liability recognised in balance sheet	-	-	2	10	144	408	132	50	746
Liability in respect of prior years									-
Loss adjustment expenses									-
Total liability included in the balance sheet									746

20. INSURANCE CONTRACTS AND REINSURANCE ASSETS (Continued)

Movements in insurance liabilities and reinsurance assets

(i) Claims and loss adjustment expenses

	Gross £'000	Reinsurance £'000	Net £'000
Notified claims	3,866	(665)	3,201
Incurred but not reported	2,178	(440)	1,738
At 1 January 2007	**6,044**	**(1,105)**	**4,939**
Cash paid for claims settled in the year	(6,893)	1,973	(4,920)
Increase in liabilities			
- arising from current year claims	3,673	(628)	3,045
- arising from prior year claims	(917)	(240)	(1,157)
At 31 December 2007	**1,907**	**-**	**1,907**
Notified claims	1,421	-	1,421
Incurred but not reported	486	-	486
At 1 January 2008	**1,907**	**-**	**1,907**
Cash paid for claims settled in the year	(1,678)	(17)	(1,695)
Increase in liabilities			
- arising from current year claims	495	-	495
- arising from prior year claims	22	17	39
At 31 December 2008	**746**	**-**	**746**
Notified claims	567	-	567
Incurred but not reported	179	-	179
At 31 December 2008	**746**	**-**	**746**

(ii) Provisions for unearned premiums and unexpired short term insurance risks

	Gross £'000	Reinsurance £'000	Net £'000
Unearned premium provision			
At 1 January 2007	4,612	(958)	3,654
Net (decrease)/increase in the period	(3,398)	958	(2,440)
At 31 December 2007	**1,214**	**-**	**1,214**
Net (decrease)/increase in the period	(1,211)	-	(1,211)
At 31 December 2008	**3**	**-**	**3**

	£'000
Liability adequacy provision	
At 1 January 2007	-
Increase in the year	(433)
At 31 December 2007	**(433)**
At 1 January 2008	(433)
Decrease in the year	433
At 31 December 2008	-

21. TRADE AND OTHER PAYABLES INCLUDING INSURANCE PAYABLES

	2008 £'000	2007 £'000
Due to reinsurers:		
- third party reinsurers	11	20
Due to related parties (note 24)	-	399
Trade creditors and accruals	3,047	2
	3,058	**421**

22. CONTINGENT LIABILITIES

There are no contingent liabilities that require disclosure in these financial statements.

23. PARENT COMPANIES

The Company's immediate parent company is RBS Insurance Group Limited.

The Company's ultimate holding company, ultimate controlling party and the parent of the largest group into which the Company is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarbum, Edinburgh EH12 1HQ.

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

Transactions with the Government during the period 1 December 2008 to 31 December 2008 have not been disclosed as the volume of such transactions is not material.

24. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties.

i. Purchases of products and services	2008 £'000	2007 £'000
Purchases of services:		
Inter Group Intermediary Services Limited (Ireland)	-	198
RBS Insurance Services Limited	81	775
	81	**973**

24. RELATED PARTY TRANSACTIONS (Continued)

Purchases of services also includes payments made between companies determined by the levels of business generated and as agreed between the parties on an arm's length basis.

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 £77,000 (2007: £339,000).

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 RBS Group has regard to the needs of the group as a whole.

ii. Acquisition of reinsurance contracts

	2008 £'000	2007 £'000
In relation to Headrow Reinsurance Limited		
Purchases of reinsurance:		
Written premium	-	402
Change in unearned premium provision	-	958
	-	1,360
Amounts recoverable in respect of:		
Claims paid	-	1,956
Movement in claims reserves	-	(1,105)
Expenses	-	340
Profit share receivable (note 6)	-	29
	-	1,220

iii. Compensation of key management

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

	2008 £'000	2007 £'000
Other emoluments	-	4
	-	4

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

	2008 £'000	2007 £'000
Bank deposits held with related parties (note 17)		
National Westminster Bank Plc	**783**	**5,111**

	2008 £'000	2007 £'000
Debt securities held with related parties (note 15)		
The Royal Bank of Scotland plc	-	5,004
UK Government	3,300	-
	3,300	5,004

24. RELATED PARTY TRANSACTIONS (Continued)

Receivables from related parties	2008 £'000	2007 £'000
Inter Group Insurance Services Limited	100	-
RBS Insurance Services Limited	19	-
	119	-

Movements in receivables from related parties were as follows:	2008 £'000	2007 £'000
At 1 January	-	33
Transactions in the year	1,369	-
Settled in the year	(1,250)	(33)
At 31 December	119	-

Payables to related parties (note 21)

Due to other related parties:		
Churchill Insurance Company Limited	-	169
Inter Group Intermediary Services Limited (Ireland)	-	197
RBS Insurance Services Limited	-	33
	-	399

Movements in payables to related parties were as follows:	2008 £'000	2007 £'000
At 1 January	399	1,881
Transactions in the year	81	973
Settled in the year	(480)	(2,455)
At 31 December	-	399

v. Reinsurance assets

In relation to Headrow Reinsurance Limited	2008 £'000	2007 £'000
Reinsurance assets		
At 1 January	-	2,063
Movement in claims provision	-	(1,105)
Change in uneamed premium provision	-	(958)
At 31 December	-	-

As noted in the directors' report, the reinsurance arrangement with Headrow Reinsurance Limited was commuted at book value on 30 September 2007.

vi. Tax

Current tax liabilities are payable as follows:	2008 £'000	2007 £'000
HM Revenue and Customs	36	-