

Company Registration No: 02762848

INTER GROUP INSURANCE SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2007

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COMPANIES HOUSE

**Group Secretariat
The Royal Bank of Scotland Group plc
3 Princess Way
Redhill
Surrey
RH1 1NP**

INTER GROUP INSURANCE SERVICES LIMITED

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INTER GROUP INSURANCE SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

R K Andrews
P D Bole
C R Crawford

SECRETARY

P A Hutchings

REGISTERED OFFICE

Lumbry Park
Selborne Road
Alton
Hampshire
GU34 3HF

AUDITORS:

Deloitte & Touche LLP
London

Registered in England and Wales.

INTER GROUP INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2007

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company is insurance intermediary services

The Company is a member 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 the Group Secretariat, RBS Gogarburn, Edinburgh EH12 1HQ or through the Group's website at rbs.com

Review of the year

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

The directors do not recommend the payment of a final dividend (2006: £nil).

The Company's financial performance is presented in the Income Statement on page 5. At the end of the year, the financial position showed total assets of £11,757,114 (2006: £19,294,866) and equity of £1,278,236 (2006: £2,419,173).

The Company is funded by facilities from other members of The Royal Bank of Scotland Group plc. It seeks to minimise its exposure to external financial risks; further information is disclosed in note 2.

SHARE CAPITAL

On 14 January 2008 the entire shareholding of 3,020,000 A £1 Ordinary shares and 201 B £1 Ordinary shares was transferred from Churchill Management Limited to RBS Insurance Group Limited.

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 2007 to date the following changes have taken place:

	Appointed	Resigned
Directors		
C R Crawford	7 March 2007	
R K Andrews	25 September 2007	
L C Hopkins		31 August 2007

INTER GROUP INSURANCE SERVICES LIMITED

DIRECTORS' REPORT (Continued)

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 those 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 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 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 the 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 R K Andrews, Mr P D Bole, Mr C R Crawford and Mr L C Hopkins 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 & Touche LLP have expressed their willingness to continue in office as auditors.

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


C R Crawford
Director

20 May 2008

INTER GROUP INSURANCE SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTER GROUP INSURANCE SERVICES LIMITED

We have audited the financial statements of Inter Group Insurance Services Limited for the year ended 31 December 2007 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 22. 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 ("IFRS") as adopted by the European Union are set out in the statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and 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 judgments 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 2007 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 & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

22 May 2008

INTER GROUP INSURANCE SERVICES LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007 £	2006 £
Revenue	3	6,260,449	8,244,846
Other operating expense	4	(19)	-
Administration expenses	5	(8,000,153)	(10,591,462)
Operating loss		(1,739,723)	(2,346,616)
Investment income	6	365,352	355,767
Finance costs	7	(250,615)	(360,624)
Loss before tax		(1,624,986)	(2,351,473)
Taxation	8	484,049	708,753
Loss for the year	9	(1,140,937)	(1,642,720)

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

The notes on pages 9 to 25 form part of these financial statements

INTER GROUP INSURANCE SERVICES LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	2007 £	2006 £
ASSETS			
<i>Non-current assets</i>			
Plant and equipment	10	281,903	585,423
Investments in subsidiaries	11	99,951	99,951
Deferred tax assets	12	139,854	102,196
		<u>521,708</u>	<u>787,570</u>
<i>Current assets</i>			
Prepayments and accrued income		548,684	668,643
Loans and receivables	14	3,346,923	4,952,551
Cash and cash equivalents	15	7,066,991	11,691,679
Current tax asset		272,808	1,194,423
		<u>11,235,406</u>	<u>18,507,296</u>
Total assets		<u>11,757,114</u>	<u>19,294,866</u>
EQUITY			
Share capital	16	3,020,201	3,020,201
Retained loss	17	(1,741,965)	(601,028)
Total equity		<u>1,278,236</u>	<u>2,419,173</u>
LIABILITIES			
<i>Current liabilities</i>			
Borrowings	18	2,636,611	8,138,246
Trade and other payables and deferred income	19	7,842,267	8,737,447
Total liabilities		<u>10,478,878</u>	<u>16,875,693</u>
Total equity and liabilities		<u>11,757,114</u>	<u>19,294,866</u>

The financial statements were approved by the board of directors and authorised for issue on 20 May 2008
They were signed on its behalf by



C R Crawford
Director

The notes on pages 9 to 25 form part of these financial statements

INTER GROUP INSURANCE SERVICES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	Share capital £	Retained earnings £	Total £
Balance as at 1 January 2006		20,201	1,041,692	1,061,893
Loss for the year		-	(1,642,720)	(1,642,720)
Issue of share capital		<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Balance as at 31 December 2006	16, 17	3,020,201	(601,028)	2,419,173
Loss for the year		-	(1,140,937)	(1,140,937)
Balance as at 31 December 2007	16, 17	<u>3,020,201</u>	<u>(1,741,965)</u>	<u>1,278,236</u>

The above were entirely attributable to equity shareholders of the Company

The notes on pages 9 to 25 form part of these financial statements

INTER GROUP INSURANCE SERVICES LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007 £	2006 £
Loss for the year		(1,140,937)	(1,642,720)
Adjustments for			
Loss on sale of plant and equipment	4	19	-
Investment revenues	6	(365,352)	(355,767)
Taxation	8	(484,049)	(708,753)
Depreciation of plant and equipment	10	368,347	477,338
Operating cash flows before movements in working capital		(1,621,972)	(2,229,902)
Net decrease/(increase) in prepayments and accrued income		119,959	(239,426)
Net decrease in loans and receivables		651,132	930,667
Net increase/(decrease) in inter-company creditor balances		147,026	(4,925,085)
Net (decrease)/increase in other operating liabilities		(87,711)	48,950
Cash used by operations		(791,566)	(6,414,796)
Taxes received/(paid)		1,368,006	(495,583)
Net cash generated from/(used by) operating activities		576,440	(6,910,379)
Cash flows from investing activities			
Interest received	6	365,352	355,767
Purchases of plant and equipment	10	(64,845)	(86,417)
Net cash generated from investing activities		300,507	269,350
Cash flow from financing activities			
Proceeds on issue of shares		-	3,000,000
Net cash generated from financing activities		-	3,000,000
Net increase/(decrease) in cash and bank overdrafts		876,947	(3,641,029)
Cash and bank overdrafts at the beginning of the year		3,553,433	7,194,462
Cash and bank overdrafts at the end of the year	15	4,430,380	3,553,433

The notes on pages 9 to 25 form part of these financial statements

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES

1.1 Basis of preparation

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.

The Company is exempt from preparing consolidated accounts by virtue of section 228 of the Companies Act 1985, as the Company is included in the accounts of a larger group.

1.2 Revenue and cost recognition

Fees and commissions are recognised as the right to consideration accrues through the provision of the service to the customer and correspond to the authorisation of an underlying insurance contract, provision of wordings and policy documentation and the administration of claims handling services. 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.

Where obligations exist to the performance of post placement activities, these obligations are taken into account when estimating the fair value of the consideration received or receivable and a relevant proportion of revenue received on placement is deferred and recognised over the period during which the activities are performed.

Investment income Interest income from deposits held with banks is recognised as received on the last day of each quarter.

1.3 Plant and equipment

Items of plant and equipment are stated at historical cost less accumulated depreciation (see below) and impairment losses. Where an item of plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of plant and equipment. The depreciable amount is the cost of an asset less its residual value. Estimated useful lives are:

- Vehicles - 3 years
- Equipment - 3 years

1.4 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals payable under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Incentives received as an inducement to enter into an operating lease are spread on a straight-line basis over the lease term.

1.5 Investment in subsidiaries

Investments in subsidiary companies are stated at cost less any impairment in the value of individual investments, based on an annual assessment. Any impairment is charged to the income statement.

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

1.6 Financial assets

Loans and receivables – financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. These are carried in the balance sheet at amortised cost. The directors consider that the carrying amount of loans and receivables approximates their fair value.

Loans and receivables include amounts for claims paid out on behalf of underwriters as well as outstanding insurance premiums where the policyholders have elected to pay in instalments, or amounts due from brokers, where they have collected the money from the policyholder.

1.7 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.

Loans and receivables – if there is 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 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 a 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.

The bad debt provision is calculated based upon prior loss experience. For all balances outstanding in excess of 3 months where the Company has no ongoing relationship with the debtor, a provision of 100% is made.

1.8 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.

1.9 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.

1.10 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 shareholder's and related party's perspective.

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

1 11 Cash and cash equivalents

Cash and cash equivalents comprise 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

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 12 Borrowings

Borrowings comprise bank overdrafts and inter-company loans. Interest on inter-company loans is recognised in the income statement as finance costs

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 13 Trade Payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method

1 14 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

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

The Company has also 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 Company has considered other new international accounting standards IFRS 8 'Operating Segments' and interpretations IFRIC 11 to 13 and has concluded that these will not apply to the Company. In addition, the Company has also considered IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction' issued in July 2007. The interpretation is effective for accounting periods beginning on or after 1 January 2008 and is not expected to have a material effect on the Company

2 MANAGEMENT OF FINANCIAL RISK

The Company has financial risk exposures. This section summarises these risks and the way the Company manages them

2 1 Financial risk

The Company is an entity within RBS Insurance which constitutes the Insurance Division of The Royal Bank of Scotland Group plc. The RBS Group 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 individual entity and on a combined basis. The disclosures below relate to the Insurance Division as a whole

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

2.1 Financial risk (Continued)

The Division is exposed to financial risk through its financial assets and financial liabilities (borrowings). The Division'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 Management Committee, which is made up of Senior Executives of the Insurance Division and executed on their behalf by the Funds Management Committee.

The Company's financial risk exposure is minimal and arises from its loans and receivables due from insurance and reinsurance contract holders, as well as other members of the Royal Bank of Scotland Group.

These balances are all payable on demand and carry a floating rate of interest which is reset on a monthly basis.

2.1.1 Market risk

Market risk encompasses any adverse movement in the value of assets and liabilities 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.

Interest rate risk

Interest rate risk arises primarily from the Company's loans and receivables due from, and loans due to other members of the Royal Bank of Scotland Group.

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

Currency risk

The financial assets and liabilities are denominated in sterling and bear minimal exposure to currency risk.

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 5%, the impact of an immediate change to 4% or 6%)
Expenses	The impact of an increase in ongoing administrative expenses by 10%

Sensitivity as at 31 December 2007

	Interest rates + 1%	Interest rates - 1%	Expenses + 10%
Impact on profit before tax (£)	93,793	(93,793)	(800,015)
Impact (before tax) on shareholders' equity (£)	93,793	(93,793)	(800,015)

Sensitivity as at 31 December 2006

	Interest rates + 1%	Interest rates - 1%	Expenses + 10%
Impact on profit before tax (£)	95,001	(95,001)	(1,059,146)
Impact (before tax) on shareholders' equity (£)	95,001	(95,001)	(1,059,146)

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

2 1 1 Market risk (Continued)

Limitations of sensitivity analysis

The preceding 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.

2 1 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 source of credit risk for the Company is loans and receivables.

The Royal Bank of Scotland Group plc Risk Management division sets standards for maintaining and developing credit risk management throughout The Royal Bank of Scotland Group plc. 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 Group Limited has established its own CRMF consistent with The Royal Bank of Scotland Group plc CRMF. The RBS Insurance Group Limited 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 The Royal Bank of Scotland Group plc level. Where appropriate, larger credit exposures are aggregated with other credit exposures elsewhere in the Group for credit approval and monitoring purposes.

At 31 December 2007

	Neither past due nor impaired	Past due 1 - 30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due more than 91 days	Carrying value in the balance sheet	Financial assets that have been impaired
	£	£	£	£	£	£	£
Cash in hand and at bank (note 15)	7,066,991	-	-	-	-	7,066,991	-
Loans and receivables (note 14)	3,079,338	113,963	132,087	-	21,535	3,346,923	-
	10,146,329	113,963	132,087	-	21,535	10,413,914	-

At 31 December 2006

	Neither past due nor impaired	Past due 1 - 30 days	Past due 31 - 60 days	Past due 61 - 90 days	Past due more than 91 days	Carrying value in the balance sheet	Financial assets that have been impaired
	£	£	£	£	£	£	£
Cash in hand and at bank (note 15)	11,691,679	-	-	-	-	11,691,679	-
Loans and receivables (note 14)	4,869,119	32,860	30,085	-	20,487	4,952,551	-
	16,560,798	32,860	30,085	-	20,487	16,644,230	-

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES (Continued)

2.1.2 Credit risk (Continued)

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 assets that are neither past due nor impaired by type of asset

At 31 December 2007

	AA £	Not rated £	Total £
Cash in hand and at bank (note 15 & 22)	7,066,991	-	7,066,991
Loans and receivables	-	3,079,338	3,079,338
Total assets bearing credit risk	7,066,991	3,079,338	10,146,329

At 31 December 2006

	AA £	Not rated £	Total £
Cash in hand and at bank (note 15 & 22)	11,691,679	-	11,691,679
Loans and receivables	-	4,869,119	4,869,119
Total assets bearing credit risk	11,691,679	4,869,119	16,560,798

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

2.1.3 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 RBS Insurance Division is undertaken within the limits and other policy parameters set out in the Investment Guidelines. Compliance is monitored in respect of the internal policy, where appropriate.

The maturity profiles of the Company's financial liabilities are outlined in notes 18 and 19.

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

3 REVENUE

	2007 £	2006 £
Commission - related parties (note 22)	1,561,422	1,817,547
Commission - non-related parties	1,254,943	2,863,182
Fees - related parties (note 22)	2,396,394	1,959,519
Fees - non-related parties	1,047,690	1,604,598
	<u>6,260,449</u>	<u>8,244,846</u>

All revenue derives from the provision of insurance intermediary services in the United Kingdom

4 OTHER OPERATING EXPENSE

	2007 £	2006 £
Loss on sale of plant and equipment	<u>19</u>	<u>-</u>

5 ADMINISTRATION EXPENSES

	2007 £	2006 £
Marketing and administrative expenses - related parties (note 22)	7,487,918	9,426,657
Marketing and administrative expenses - non related parties	143,888	687,467
Depreciation (note 10)	368,347	477,338
	<u>8,000,153</u>	<u>10,591,462</u>

6 INVESTMENT INCOME

	2007 £	2006 £
Interest income from deposits with related party credit institutions (note 22)	364,422	355,664
Interest income from other investments	930	103
	<u>365,352</u>	<u>355,767</u>

7 FINANCE COSTS

	2007 £	2006 £
Interest on borrowings from related parties (note 22)	247,399	356,348
Interest expense - interest payable other	3,216	4,276
	<u>250,615</u>	<u>360,624</u>

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

8 TAXATION

	2007 £	2006 £
Current tax	446,391	652,699
Deferred taxation (note 12)	37,658	56,054
Tax credit for the year	484,049	708,753

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax of 30% (2006 30%) as follows

	2007 £	2006 £
Expected tax credit	487,496	705,442
Effects of Non-deductible items	(3,447)	3,311
Tax credit for the year	484,049	708,753

The aggregate current and deferred tax relating to items that are charged or credited to equity is £nil (2006 £nil)

9 LOSS FOR THE YEAR

	2007 £	2006 £
Loss for the year is stated after charging		
Depreciation of plant and equipment	368,347	477,338
Loss on sale of plant and equipment	19	-
Operating lease rentals	209,264	209,264

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. The amounts recharged in respect of audit services was £6,000 (2006 £938). There were no non-audit services incurred during the current nor preceding financial year.

Directors' emoluments

	2007 £	2006 £
Other emoluments	20,329	-
Company pension contributions	2,540	-
	22,869	-

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 this Company's financial statements.

Included in the above are emoluments, excluding pension contributions, paid to the highest paid director amounting to £12,122 (2006 £nil).

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

9 LOSS FOR THE YEAR (Continued)

A contribution of £1,579 (2006 £nil) to a final salary scheme was made on behalf of the highest paid director. No other director (2006 no directors) had retirement benefits accruing under money purchase pension schemes in respect of qualifying service and one director (2006 no directors) had benefits accruing under a defined pension scheme.

During the year one director has exercised share options (2006 no directors).

10 PLANT AND EQUIPMENT

	Vehicles	Equipment	Total
	£	£	£
Cost			
At 1 January 2006	16,957	2,107,145	2,124,102
Additions	-	86,417	86,417
At 31 December 2006	16,957	2,193,562	2,210,519
Additions	-	64,845	64,845
Disposals	(16,957)	(252,316)	(269,273)
At 31 December 2007	-	2,006,091	2,006,091
Depreciation			
At 1 January 2006	13,565	1,134,193	1,147,758
Depreciation charge for the year	2,773	474,565	477,338
At 31 December 2006	16,338	1,608,758	1,625,096
Depreciation charge for the year	619	367,728	368,347
Eliminated on disposal	(16,957)	(252,298)	(269,255)
At 31 December 2007	-	1,724,188	1,724,188
Net book amount			
At 31 December 2007	-	281,903	281,903
At 31 December 2006	619	584,804	585,423

11. INVESTMENTS IN SUBSIDIARIES

	2007	2006
	£	£
Cost		
At 1 January and at 31 December	99,951	99,951

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

11 INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2007 are as follows

<u>Name of subsidiary</u>	Place of incorporation and operation	Proportion of ownership interest/ voting power held	Class/type of share held
* Amsport Limited	Great Britain	56%	Ordinary
Intergroup Assistance Services Limited	Great Britain	100%	Ordinary
* Inter Group Claims Services Limited	Great Britain	100%	Ordinary
* Inter Group Insurance Facilities Limited	Great Britain	100%	Ordinary
Inter Group Intermediary Services Limited	Ireland	100%	Ordinary
* Inter Group Insurance Intermediaries UK Limited	Great Britain	100%	Ordinary
* Inter Group Systems Services Limited	Great Britain	100%	Ordinary
* Inter Group Travel Extras Limited	Great Britain	50%	Ordinary
Journeywise Direct Limited	Great Britain	100%	Ordinary
* Medicovert Insurance Services Limited	Great Britain	100%	Ordinary
* Options Insurance Services Limited	Great Britain	100%	Ordinary
* Select Insurance Intermediaries Limited	Great Britain	100%	Ordinary

* Dormant companies

The principal activity of the other respective companies is the provision of insurance intermediary services

12 DEFERRED TAX

The following are the major tax assets recognised by Inter Group Insurance Services Limited, and the movements thereon, during the current and prior reporting periods

	Depreciation in excess of capital allowances
	£
At 1 January 2006	46,142
Credit to income statement (note 8)	56,054
At 31 December 2006	102,196
Credit to income statement (note 8)	37,658
At 31 December 2007	139,854

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

13 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.

As at 31 December 2007

	Loans and receivables £	Other (amortised costs) £	Non-financial assets / liabilities £	Total £
Plant and equipment	-	n/a	281,903	281,903
Investments in subsidiaries	-	n/a	99,951	99,951
Deferred tax asset	-	n/a	139,854	139,854
Current tax asset	-	n/a	272,808	272,808
Prepayments and accrued income	-	n/a	548,684	548,684
Loans and receivables	3,346,923	n/a	-	3,346,923
Cash and cash equivalents	7,066,991	n/a	-	7,066,991
	<u>10,413,914</u>	<u>n/a</u>	<u>1,343,200</u>	<u>11,757,114</u>
Borrowings	-	2,636,611	-	2,636,611
Trade and other payables and deferred income	-	7,842,267	-	7,842,267
	<u>-</u>	<u>10,478,878</u>	<u>-</u>	<u>10,478,878</u>
Equity				1,278,236
				<u>11,757,114</u>

As at 31 December 2006

	Loans and receivables £	Other (amortised costs) £	Non-financial assets / liabilities £	Total £
Plant and equipment	-	n/a	585,423	585,423
Investments in subsidiaries	-	n/a	99,951	99,951
Deferred tax asset	-	n/a	102,196	102,196
Current tax assets	-	n/a	1,194,423	1,194,423
Prepayments and accrued income	-	n/a	668,643	668,643
Loans and receivables	4,952,551	n/a	-	4,952,551
Cash and cash equivalents	11,691,679	n/a	-	11,691,679
	<u>16,644,230</u>	<u>n/a</u>	<u>2,650,636</u>	<u>19,294,866</u>
Borrowings	-	8,138,246	-	8,138,246
Trade and other payables and deferred income	-	8,737,447	-	8,737,447
	<u>-</u>	<u>16,875,693</u>	<u>-</u>	<u>16,875,693</u>
Equity				2,419,173
				<u>19,294,866</u>

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

14 LOANS AND RECEIVABLES

	2007 £	2006 £
Receivables arising from insurance and reinsurance contracts		
Due from underwriters and customers	3,312,661	3,963,793
Other loans and receivables		
Receivables from related parties (note 2 & 22)	34,262	988,758
	<u>3,346,923</u>	<u>4,952,551</u>

15 CASH AND CASH EQUIVALENTS

	2007 £	2006 £
Cash at bank and in hand		
- related parties (note 2 & 22)	<u>7,066,991</u>	<u>11,691,679</u>

The effective interest rate on short-term deposits with credit institutions was 5.50% (2006 4.80%) and had an average maturity of seven days

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

	2007 £	2006 £
Cash and cash equivalents	7,066,991	11,691,679
Bank overdrafts (note 18)	<u>(2,636,611)</u>	<u>(8,138,246)</u>
	<u>4,430,380</u>	<u>3,553,433</u>

16 SHARE CAPITAL

	2007 £	2006 £
Authorised		
Equity shares		
4,998,800 'A' ordinary shares of £1 each	4,998,800	4,998,800
1,200 'B' ordinary shares of £1 each	1,200	1,200
	<u>5,000,000</u>	<u>5,000,000</u>
Issued and fully paid		
Equity shares		
3,020,000 'A' ordinary shares of £1 each	3,020,000	3,020,000
201 'B' ordinary shares of £1 each	201	201
At 1 January and 31 December	<u>3,020,201</u>	<u>3,020,201</u>

Rights

The rights attaching to the A Shares and the B Shares of the Company are as follows

They shall rank pari passu in all respects but shall constitute separate classes of shares

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

16 SHARE CAPITAL (Continued)

Voting Rights

Only the A Shareholders shall be entitled to receive notice of general meetings and be entitled to attend general meetings and to vote. On a show of hands every member shall have one vote and on a poll every member shall have one vote for every share of which he is the holder. No member shall vote at any general meeting unless all monies presently payable by him in respect of that share have been paid.

Control Rights

The directors have unconditional authority to allot, grant options over or dispose of any relevant securities to persons, and on such conditions as they think proper.

Distributions on Winding Up

The liquidator may divide among the members in specie the whole or any part of the assets. The liability of the members is limited.

17 RETAINED EARNINGS

	£
Retained earnings at 1 January 2006	1,041,692
Loss for the year	(1,642,720)
Retained earnings at 31 December 2006	(601,028)
Loss for the year	(1,140,937)
Retained earnings at 31 December 2007	(1,741,965)

18 BORROWINGS

	2007 £	2006 £
Bank overdrafts		
with related parties (note 22)	2,456,807	8,138,246
with third parties	179,804	-
	2,636,611	8,138,246

The borrowings are repayable on demand (third parties) or within one year (related parties).

19 TRADE AND OTHER PAYABLES AND DEFERRED INCOME

	2007 £	2006 £
Due to related parties (note 22)	479,465	1,286,935
Trade creditors and accruals	819,392	992,512
Amounts owed to underwriters and customers	6,543,410	6,458,000
Total	7,842,267	8,737,447

Related party monies are mostly settled within 30 days. Trade creditors and accruals are settled in accordance with contract terms, mostly within two months. Amounts owed to underwriters and customers are paid back when the amount of business falls or is terminated, usually based on agreement between the Company and the underwriter.

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

20 COMMITMENTS

Operating lease commitments

The Company leases certain of its office properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2007 £	2006 £
Minimum lease payments under operating leases recognised as an expense in the year	<u>209,264</u>	<u>209,264</u>

At the balance sheet date, the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2007 £	2006 £
Within one year	151,152	151,152
In the second to fifth years inclusive	302,304	453,456
	<u>453,456</u>	<u>604,608</u>

21 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 and smallest 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. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

22 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

i Sales of services

	2007 £	2006 £
Sales of services: Commission (note 3)		
Churchill Insurance Company Limited	98,183	-
Indemnity Insurance Limited	231,271	211,411
Intergroup Assistance Services Limited	128,205	128,205
Inter Group Intermediary Services Limited	229,115	229,115
Journeywise Direct Limited	36,000	36,000
U K Insurance Limited	838,648	1,212,816
	<u>1,561,422</u>	<u>1,817,547</u>

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

22 RELATED PARTY TRANSACTIONS (Continued)

i Sales of services (Continued)

	2007 £	2006 £
Sales of services Fees (note 3)		
Churchill Insurance Company Limited	6,728	-
Indemnity Insurance Limited	231,269	280,207
The National Insurance and Guarantee Corporation Limited	141,175	99,152
The Royal Bank of Scotland plc	1,447,412	1,262,585
U K Insurance Limited	569,810	317,575
	<u>2,396,394</u>	<u>1,959,519</u>
Interest received (note 6)		
National Westminster Bank Plc	<u>364,422</u>	<u>355,664</u>

Sales of services with related parties are usually negotiated on a cost plus basis, allowing for a margin of up to 20%

The Company also acts as an intermediary for related parties, normally where costs are borne by the Company and then passed to the related party and also, where the Company acts in a collecting capacity No fee is charged on these services

Interest income received from deposits held with related parties was at the rate of 5.5% (2006 4.80%), and has an average maturity of seven days

ii Purchases of products and services

	2007 £	2006 £
Purchases of services (note 5)		
Intergroup Assistance Services Limited (Concierge services)	1,852	-
RBS Insurance Services Limited	7,486,066	9,426,657
	<u>7,487,918</u>	<u>9,426,657</u>
Interest paid (note 7)		
National Westminster Bank Plc	6,179	3,925
RBS Insurance Services Limited	241,220	352,423
	<u>247,399</u>	<u>356,348</u>

Services are usually negotiated with related parties on a cost-plus basis, allowing a margin of up to 20%

The Company also acts as an intermediary for related parties, normally where costs are borne by the Company and then passed to the related party and also, where the Company acts in a collecting capacity No fee is charged on these services

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 £5,358,029 (2006 £8,410,110)

iii Compensation of key management

	2007 £	2006 £
Other emoluments	140,674	-
Company pension contributions	4,615	-
	<u>145,289</u>	<u>-</u>

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

22 RELATED PARTY TRANSACTIONS (Continued)

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

	2007 £	2006 £
Bank deposits held with related parties (note 2 & 15)		
National Westminster Bank Plc	<u>7,066,991</u>	<u>11,691,679</u>
Receivables from related parties (note 14)		
Amsport Limited	-	26,038
Intergroup Assistance Services Limited	28,224	248,331
Inter Group Intermediary Services Limited	-	712,327
Inter Group Travel Extras Limited	-	2,062
Journeywise Direct Limited	6,038	-
	<u>34,262</u>	<u>988,758</u>

	2007 £	2006 £
Movements in receivables from related parties were as follows		
At 1 January	988,758	1,110,511
Transactions in the period	3,957,816	2,155,505
Settled in the period in cash	(4,912,311)	(2,277,258)
At 31 December	<u>34,262</u>	<u>988,758</u>

	2007 £	2006 £
Payables to related parties (note 19)		
Amsport Limited	200	-
Inter Group Claims Services Limited	100	100
Inter Group Insurance Intermediaries Services UK Limited	100	100
Inter Group Insurance Facilities Limited	100	100
Inter Group Intermediary Services Limited	52,954	-
Inter Group Systems Services Limited	100	100
Inter Group Travel Extras Limited	100	-
Journeywise Direct Limited	-	48,776
Medicover Insurance Services Limited	100	46,849
Options Insurance Services Limited	100	41,362
RBS Insurance Services Limited	425,511	1,149,448
Select Insurance Intermediaries Limited	100	100
	<u>479,465</u>	<u>1,286,935</u>

Movements in payables to related parties were as follows

At 1 January	1,286,935	6,375,232
Transactions in the period	7,487,918	5,930,042
Settled in the period in cash	(8,295,388)	(11,018,339)
At 31 December	<u>479,465</u>	<u>1,286,935</u>

INTER GROUP INSURANCE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

22 RELATED PARTY TRANSACTIONS (Continued)

v Borrowings from related parties

	2007 £	2006 £
Borrowings from related parties (note 18)		
RBS Insurance Services Limited	<u>2,456,807</u>	<u>8,138,246</u>

Movements in borrowings from related parties were as follows

	2007 £	2006 £
Borrowings from related parties (note 18)		
At 1 January	8,138,246	79,297
Loans advanced during year	47,632	8,138,246
Loan repayments received	(5,970,291)	(79,297)
Interest charged	241,220	-
At 31 December	<u>2,456,807</u>	<u>8,138,246</u>

The preceding figures relate to bank overdraft positions with National Westminster Bank Plc. They are normally reversed next day and relate to timing issues. These are within fluctuations of normal business and are covered by the agreed overdraft facility with the bank. The £8.1 million in 2006 was transferred from the intercompany balance and interest is charged on this at LIBOR rates.