Company Registration No: 00042133

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2009

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

CONTENTS

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION LIMITED **00042133**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS.	L J Bartlett I Falconer P R Geddes J P Greenwood S K Howard C P Sullivan
SECRETARY	P A Hutchings
REGISTERED OFFICE	Crown House 145 City Road London EC1V 1LP
AUDITORS	Deloitte LLP London

Registered in England and Wales

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009

ACTIVITIES AND BUSINESS REVIEW

Activity

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

The Company is a subsidiary of The Royal Bank of Scotland Group plc which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's 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 ultimate parent company in seeking further opportunities for growth

No dividend has been paid in 2009 (2008 £nil) The directors do not recommend the payment of a final dividend (2008 £nil)

Financial performance

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

During the year, the Company was severely affected by the rising cost of bodily injury claims, which increased by £78 million in the year The following paragraphs summarise the results of the Company after taking into account the above

Net insurance premium revenue decreased by £94 2 million and other income decreased by £40 million Net insurance claims increased by £26 6 million Expenses decreased by £21 5 million The loss for the year after tax was £63 1 million, a deterioration of £100 2 million during 2009

The overall net loss ratio in the year increased from 71% in 2008 to 85% in 2009 The combined ratio in the year increased from 105% in 2008 to 121% in 2009

At the end of the year, the financial position showed total assets of £2,324 1 million (2008 £2,195 2 million), including investments of £1,952 3 million (2008 £1,722 5 million) which are income-generating assets, together representing an increase of 5 9% (2008 decrease of 0 1%) The net book value of property, plant and equipment was £0 3 million, the same value as at the end of the previous year

Going concern

Despite the Company's performance in the year, it 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 risk factors and the principal uncertainties that arise from those risks Further information on financial risk management policies and exposures is disclosed in note 3 It also has exposure to asset risk on the residual value of property, plant and equipment, as disclosed in note 15

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 2009 to date the following changes have taken place

Directors	Appointed	Resigned
M A Fisher		27 February 2009
G F Pell	21 April 2009	31 July 2009
J P Greenwood	11 August 2009	
P R Geddes	12 August 2009	
M A Hesketh		28 August 2009
L J Bartlett	18 September 2009	
S K Howard	18 September 2009	
E J G Smith		15 December 2009
N C McLuskie		11 February 2010

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping 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 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 are 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 themselves 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 418 of the Companies Act 2006

DIRECTORS' REPORT (Continued)

DIRECTORS' INDEMNITIES

In terms of Section 236 of the Companies Act 2006 Mr L J Bartlett, Mr I Falconer, Mr M A Fisher, Mr P R Geddes, Mr J P Greenwood, Mr M A Hesketh, Ms S K Howard, Mr N C McLuskie, Mr G F Pell, 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

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

L J Bartlett

L J Bartlett

Director

22nd February 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE NATIONAL INSURANCE AND GUARANTEE CORPORATION LIMITED

We have audited the financial statements of The National Insurance and Guarantee Corporation Limited ('the Company') for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Slow Statement and the related notes 1 to 31 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jeremy Casson

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

23 February 2010

THE NATIONAL INSURANCE AND GUARANTEE CORPORATION LIMITED 00042133

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £ Million	2008 £ Million
Insurance premium revenue	5	708 0	820 5
Insurance premium ceded to reinsurers	5	(25 6)	(43 9)
Net insurance premium revenue		**682 4**	**776 6**
Investment income	6	56 1	104 4
Net realised gains on financial assets	7	7 6	-
Other operating income	8	(1 8)	(2 5)
Net income		**744.3**	**878 5**
Insurance claims and loss adjustment expenses	9	(591 3)	(563 5)
Insurance claims and loss adjustment expenses recovered from reinsurers	9	10 4	9 2
Net insurance claims		**(580.9)**	**(554 3)**
Commission expenses	10	(144 1)	(163 9)
Expenses for marketing and administration	10	(97 8)	(99 5)
Expenses		**(241 9)**	**(263 4)**
Results of operating activities		**(78 5)**	**60 8**
Finance costs	11	(9 2)	(8 8)
(Loss)/profit before tax		**(87.7)**	**52 0**
Tax credit/(charge)	12	24 6	(14 9)
(Loss)/profit for the year	13	**(63 1)**	**37 1**
Other comprehensive income			
Net fair value gains/(losses) on available-for-sale investments	23	36 8	(30 6)
Less reclassification adjustments for gains included in profit	23	(7 6)	-
		29 2	(30 6)
Tax on other comprehensive income	23	(8 2)	8 7
Other comprehensive income for the year		**21 0**	**(21.9)**
Total comprehensive income for the year		**(42 1)**	**15 2**

The total comprehensive income for the year is entirely attributable to equity shareholders of the Company and is derived from continuing operations

The notes on pages 10 to 60 form part of these financial statements

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Notes	2009 £ Million	2008 £ Million
ASSETS			
Plant and equipment	15	0 3	0 3
Investments in subsidiaries	16	-	1 0
Insurance contracts			
Reinsurance assets	17, 24	90 2	89 9
Deferred acquisition costs	18	86 7	83 7
Prepayments and accrued income		1 8	0 4
Financial investments	19	726 0	779 4
Loans and receivables	20	298 3	565 4
Current tax assets		17 5	-
Cash and cash equivalents	21	1,103 3	675 1
Total assets		**2,324 1**	**2,195 2**
EQUITY			
Share capital	22	265 0	265 0
Other reserves	23	175 9	24 1
Retained earnings	23	33 6	97 5
Total equity		**474 5**	**386 6**
LIABILITIES			
Insurance liabilities	24	1,515 8	1,466 8
Borrowings	25	254 0	252 9
Provisions for other liabilities and charges	26	10 1	11 7
Trade and other payables including insurance payables	27	56 7	59 7
Deferred tax liabilities	28	13 0	12 7
Current tax liabilities		-	4 8
Total liabilities		**1,849 6**	**1,808.6**
Total equity and liabilities		**2,324 1**	**2,195.2**

The financial statements of The National Insurance and Guarantee Corporation Limited were approved by the Board of Directors and authorised for issue on 22nd February 2010 They were signed on its behalf by

L J Bartlett

L J Bartlett
Director

The notes on pages 10 to 60 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Share capital £ Million	Other reserves £ Million	Retained earnings £ Million	Total £ Million
Balance as at 1 January 2008		**265 0**	**41 7**	**64 7**	**371 4**
Profit for the year		-	-	37 1	37 1
Other comprehensive income		-	(21 9)	-	(21 9)
Movement in claims equalisation reserves	23	-	4 3	(4 3)	-
Total comprehensive income		-	(17 6)	32 8	15 2
Balance as at 31 December 2008		**265 0**	**24 1**	**97 5**	**386.6**
Loss for the year		-	-	(63 1)	(63 1)
Other comprehensive income		-	21 0	-	21 0
Movement in claims equalisation reserves	23	-	0 8	(0 8)	-
Total comprehensive income		-	21 8	(63 9)	(42 1)
Capital contribution		-	130 0	-	130 0
Balance as at 31 December 2009		**265 0**	**175 9**	**33 6**	**474 5**

The changes in equity for the year was entirely attributable to equity shareholders of the Company

The notes on pages 10 to 60 form part of these financial statements

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £ Million	2008 £ Million
(Loss)/profit for the year		(63 1)	37 1
Adjustments for			
Investment revenues	6	(56 1)	(104 4)
Other operating income	8	1 8	2 5
Finance costs	11	9 2	8 8
Tax expense	12	(24 6)	14 9
Depreciation of property, plant and equipment	15	-	0 1
Profit on sale of available-for-sale debt securities	7	(7 6)	-
Interest received		67 7	116 5
Net foreign exchange translation (gains)/losses	8	(0 2)	1 1
Income received from other investments	8	(1 6)	(3 6)
Operating cash flows before movements in working capital		**(74 5)**	**73 0**
Net decrease/(increase) in insurance net assets		32 2	(124 2)
Net decrease in reinsurance assets		-	4 6
Proceeds on disposal/maturity of available-for-sale debt securities		693 3	111 4
Net decrease in investment balances held with credit institutions		145 0	102 0
Purchases of debt securities		(606 9)	(200 7)
Net decrease in loans and receivables		1 2	5 8
Net decrease in other assets		5 0	2 2
Net decrease in related party balances		123 9	7 7
Net (decrease)/increase in other operating liabilities		(7 2)	3 2
Cash generated from/(used by) operations		**312.0**	**(15 0)**
Taxes (paid)/received		(5 7)	11 0
Interest paid	11	(9 2)	(8 8)
Net cash generated from/(used by) operating activities		**297 1**	**(12.9)**
Cash flow from financing activities			
Capital contribution		130 0	-
Proceeds from borrowings		(0 2)	98 0
Net cash generated from financing activities		**129 8**	**98 0**
Net increase in cash and bank overdrafts		**426 9**	**85 1**
Cash and bank overdrafts at the beginning of the year	21	652 4	567 3
Cash and bank overdrafts at the end of the year	21	**1,079.3**	**652 4**

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 60 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 The financial statements also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared on the historical cost basis except available-for-sale financial assets, which are stated at their fair values

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, 24ths basis or allowing for the estimated incidence of exposure under policies Insurance premiums exclude insurance premium tax

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 Outstanding claims provisions are not discounted for the time value of money except for claims funded by periodic payments established under the Courts Act 2003 The exception to this is a small number of self-funded Periodic Payment orders (PPO) cases where the Company has followed the same valuation principle as in the Ogden table in terms of discounting future cash flows gross and net of reinsurance Costs for both direct and indirect claims expenses 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 Special Risks business - reserves

The Special Risks business was put into run-off during 2003 Future levels of premiums, their earnings profile and claims are linked but subject to particular uncertainty This business has consequently been reserved on an ultimate result basis Premium and associated acquisition costs are deemed to be fully earned and a single reserve for claims, net of future premium movements but gross of reinsurance has been established Movements on the Special Risks' technical reserves are largely recoverable from a previous ultimate holding company Due to the nature of Special Risks' insurance contracts, claims reserves are reported on an underwriting year basis

1. **ACCOUNTING POLICIES (Continued)**

1 6 Claims equalisation

A statutory claims equalisation reserve continues to be included as a non distributable reserve within Other Reserves in Equity This reserve is calculated in accordance with chapter 1 4 of the Prudential Sourcebook for Insurers (INSPRU)

1 7 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

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 statement of comprehensive income

1 8 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 to brokers, third party administration fees and costs associated with the underwriting staff

1 9 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

1 10 Provisions

Regulatory levies – the Company accrues for all insurance industry levies, which are based on past underwriting levels at the best estimate given the available information at the balance sheet date Such amounts are not included within insurance liabilities but are included under provisions in the balance sheet They are charged to the statement of comprehensive income as an expense

1 11 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

1 ACCOUNTING POLICIES (Continued)

1 11 Plant and equipment (continued)

Depreciation is charged to the statement of comprehensive income on a straight-line basis so as to write off the depreciable amount of plant and equipment (including assets owned and let on operating leases) over their estimated useful lives The depreciable amount is the cost of an asset less its residual value Estimated useful lives are as follows

Vehicles	5 years
Other equipment, including property adaptation costs	4 to 15 years

The gain or loss arising from the derognition of an item of property, plant and equipment shall be determined as the difference between the disposal proceeds if any and the carrying amount of the item

1 12 Impairment of plant and equipment

At each reporting date, the Company assesses whether there is any indication that its plant and equipment are impaired If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss if any The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use Value in use is the present value of future cash flows from the asset discounted at a rate that reflects market interest rates adjusted for risks specific to the asset that have not been reflected in the estimation of future cash flows

If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately in the statement of comprehensive income and the carrying value of the asset reduced by the amount of the loss

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

1 13 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 statement of comprehensive income 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 14 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 statement of comprehensive income

1 15 Financial assets

On initial recognition financial assets are classified into available for sale financial assets, designated as at fair value through profit or loss, 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 profit and loss

1 ACCOUNTING POLICIES (Continued)

1 15 Financial assets (continued)

Changes in the fair value of AFS are reported in other comprehensive income Interest and premium/discount on acquisition are calculated using the straight line method (see note 1 9) and are recognised in other comprehensive income

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

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

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments or amounts due from third parties, where they have collected the money from the policyholder

Other loans and receivables principally comprise loans to related parties and other debtors

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

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the company has also transferred substantially risks and rewards of ownership

1 16 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 other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is removed from other comprehensive income and recognised in the statement of comprehensive income The loss is measured as the difference between the acquisition 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

1 ACCOUNTING POLICIES (Continued)

1 16 Impairment of financial assets (continued)

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 statement of comprehensive income 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

For debts due from intermediaries and brokers the bad debt provision is calculated based upon prior loss experience For all balances outstanding in excess of 6 months, a provision of 50% is made, with a full provision against all debts over one year old

Where a policy is subsequently cancelled, the outstanding debt that is overdue is written off to the statement of comprehensive income and the provision is written back to the statement of comprehensive income

1.17 Derivatives and hedging

Derivative financial instruments are recognised initially, and subsequently measured, at fair value Fair value is derived from prices for the derivative's components using appropriate pricing or valuation models

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the statement of comprehensive income unless the derivative is the hedging instrument in a qualifying hedge

1.18 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 statement of comprehensive income 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 19 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 20 Transactions with related parties

IFRS requires all entities to disclose related party transactions

1 ACCOUNTING POLICIES (Continued)

1 21 Cash and cash equivalents

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

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 22 Borrowings

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

Borrowings comprise bank overdrafts

Borrowings are measured at amortised cost using the effective interest method

1 23 Accounting developments

The International Accounting Standards Board published a revised IFRS 3 'Business Combinations' and related revisions to IAS 27 'Consolidated and Separate Financial Statements' following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries The standards improve convergence with US GAAP and provide new guidance on accounting for changes in interests in subsidiaries The cost of an acquisition will comprise only consideration paid to vendors for equity, other costs will be expensed immediately Groups will only account for goodwill on acquisition of a subsidiary, subsequent changes in interest will be recognised in equity and only on a loss of control will there be a profit or loss on disposal to be recognised in income The changes are effective for accounting periods beginning on or after 1 July 2009 but both standards may be adopted together for accounting periods beginning on or after 1 July 2007 These changes will affect the Company's accounting for future acquisitions and disposals of subsidiaries

In May 2008, the IASB issued amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements' that change the investor's accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate It does not affect the consolidated accounts but may prospectively affect the Company's accounting and presentation of receipts of dividends from such entities

The IASB issued amendments to a number of standards in April 2009 as part of its annual improvements project The amendments are effective for accounting periods beginning on or after 1 January 2010 and are not expected to have a material effect on the Company

The IASB issued an amendment, 'Group Cash-settled Share-based Payment Transactions', to IFRS 2 'Share-based Payment' in June 2009 that will change the accounting for share awards by permitting accounting for equity settlement only by entities that either grant awards over their own equity or have no obligation to settle a share-based payment transaction The amendment is effective for accounting periods beginning on or after 1 January 2010 and is not expected to have a material effect on the Company

The IASB published an amendment 'Classification of Rights Issues' to IAS 32 'Financial Instuments Presentation' and consequential revisions to other standards in October 2009 to improve the accounting for issues of equity for consideration fixed other than in the reporting entity's functional currency The amendment is effective for accounting periods beginning on or after 1 January 2010 but it may be adopted earlier It is not expected to have a material effect on the Company

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. ACCOUNTING POLICIES (Continued)

1 23 Accounting developments (continued)

The IASB reissued IAS 24, 'Related Party Disclosures', in November 2009 clarifying the existing standard and to provide certain exemptions for entities under government control The revised standard is effective for accounting periods beginning on or after 1 January 2011 and is expected generally to reduce the volume of disclosure between the Group and other parties related to the UK Government

The International Financial Reporting Interpretations Committee (IFRIC) issued interpretation IFRIC 17 'Distributions of Non-Cash Assets to Owners' and the IASB made consequential amendments to IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations' in December 2008 The interpretation requires distributions to be presented at fair value with any surplus or deficit to be recognised in income The amendment to IFRS 5 extends the definition of disposal groups and discontinued operations to disposals by way of distribution The interpretation is effective for accounting periods beginning on or after 1 July 2009, to be adopted at the same time as IFRS 3 (revised 2008), and is not expected to have a material effect on the Company

The IFRIC issued interpretation IFRIC 18 'Transfers of Assets from Customers' in January 2009 The interpretation addresses the accounting by suppliers that receive assets from customers, requiring measurement at fair value The interpretation is effective for assets from customers recieved on or after 1 July 2009 and is not expected to have a material effect on the Company

The IASB published an amendment to IAS 39, 'Financial Instruments Recognition and measurement' on 'Eligible hedged items This amendment makes two significant changes It prohibits designating inflation as a hedgeable component of a fixed rate debt It also prohibits including time value in the one-sided hedged risk when designating options as hedges The amendment is effective for accounting periods beginning on or after 1 July 2009 and must be applied retrospectively in accordance with IAS 8, 'Accounting policies' This amendment is not expected to have a material effect on the Company

The IASB published in November 2009, IFRS 9, 'Financial instruments' on classification and measurement This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 IFRS 9 has two measurement categories amortised cost and fair value All equity instruments are measured at fair value A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest Otherwise it is at fair value through profit or loss The standard is effective for accounting periods beginning on or after 1 January 2013 These changes will affect the Company's accounting for debt securities

The IASB published in July 2009, an amendment to IFRS 1 on first time adoption of IFRS additional exemptions These amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 The amendment is effective for accounting periods beginning on or after 1 January 2010 and is not expected to have a material effect on the Company

The IFRIC issued interpretation IFRIC 19 'Extinguishing financial liabilities with equity instruments' in November 2009 This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor A gain or loss is recognised in the statement of comprehensive income based on the fair value of the equity instruments compared to the carrying amount of the debt The interpretation is effective for accounting periods beginning on or after 1 July 2010, and is not expected to have a material impact on the Company

The IFRIC issued an amendment to IFRIC 14, 'Prepayments of a minimum funding requirement' in November 2009 This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement The amended interpretation is effective for accounting periods beginning on or after 1 January 2011, and is not expected to have a material impact on the Company

1 ACCOUNTING POLICIES (Continued)

1 24 Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements

IAS 1 (Revised) Presentation of Financial Statements

The IASB issued revised IAS 1 Presentation of Financial Statements in September 2007 which is effective for the financial years beginning on or after 1 January 2009 This standard requires all owner changes in equity to be presented in a statement of changes in equity, and all non-owner changes either in one statement of comprehensive income or in two separate statements which are income statement and a statement of comprehensive income The previous standard required components of comprehensive income to be presented in the statement of changes in equity The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements

Amendment to IFRS 7 Financial Instruments Disclosures

The IASB published an amendment to IFRS 7 in March 2009 In particular, the amendment requires disclosure of the level of the fair value hierarchy into which fair value measurements are categorised based on a three level fair value hierarchy for financial instruments, a detailed reconciliation from beginning to ending balances for those instruments where significant unobservable inputs or valuation techniques have been used in their valuation, and a movement analysis between the different levels of the fair value hierarchy and the reasons for those movements In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities

The amendment applies for financial years beginning on or after 1 January 2009

Listed below are Standards and Interpretations that have been issued, which became applicable for this year, but had no impact on the reported results nor the financial position

- IFRS 1 (Revised 2008) First-time adoption of International Financial Reporting Standards – Cost of an investment
- IFRS 2 Share-Based Payment (Amendment),
- IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly
- IAS 39 Financial Instruments Recognition and Measurement and IFRS 7 Financial Instruments Disclosures
- IAS 32 Financial Instruments Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial
- IFRIC 13 Customer Loyalty Programmes,
- IFRIC 15 Agreement for the Construction of Real Estate, and
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation,

The following amendments were made as part of Improvements to IFRSs (2008) These improvements did not affect the reported results nor the financial position of the Company

- Amendment to IAS 38 Intangible Assets,
- Amendment to IAS 40 Investment Property,
- Amendment to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, and
- Amendment to IFRS 2 Share-based payment-vesting conditions and cancellations,

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 17 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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 and the estimation of future claims handling costs

Management use the work of the external actuaries to undertake their internal benchmark assessment of the level of gross and net outstanding claims provision required and adopt a measurement basis of reserves which results in a provision in excess of the external actuaries' best estimate

Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may exceed that assumed As a result management adopt a cautious view and set the reserves at a margin above the best estimate It is this amount that is recorded as claims reserves

Outstanding claims provisions are not discounted for the time value of money except for claims settled by periodic payments established under the Courts Act 2003 Total reserves for claims settled prior to year end by periodic payment are £10 7 million (2008 nil) gross and £1 7 million (2008 nil) net of reinsurance The corresponding undiscounted amounts are £39 4 million (2008 nil) gross and £5 7 million (2008 nil) net of reinsurance The category of claims subject to periodical payments is motor liability The rate of interest used for the calculation of present values is 4 14% (2008 nil%), being the 40 year gilt rate as at October 2009 The average interval between the date of the last future cash flow being discounted and the end of the financial year is 56 1 years on settled cases Reserves include provision for claims that maybe settled in due course by periodic payments under the Courts Act 2003

This is calculated for each of the claims settled by periodic payment as the mean of the insurer's and the claimant's expert medical advice on the claimant's life expectancy The value of claims with a periodic payment are calculated via a cash flow model The periodic payments are projected using the terms of the settlement, the assumed life expectancy, and adjusted for the inflation agreed in the settlement Outstanding lump sums are estimated using the claims handlers' case estimates, for both the claim with the periodic payment and any other claims arising from the same accident Reinsurance is calculated on the accident's entire costs, and the net cash flows are discounted to allow for investment earnings

Outstanding claims provisions net of related reinsurance recoveries at 31 December 2009 amounted to £1,049 8 million (2008 £1,035 1 million)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 2009 amounted to £nil (2008 £nil)

Had all the declines in fair values below cost been considered significant or prolonged, the Company would suffer a £12 1 million loss in its 2009 financial statements (£44 5 million loss in 2008), being the transfer of the total equity reserve for unrealised losses to the income statement

2 3 Impairment provisions - investments in subsidiaries

The Company considers that an investment in a subsidiary company is impaired when the recoverable value of the subsidiary company is less than the carrying amount Recoverable value is determined as the higher of the net realisable value or the discounted cash flow of future profits after tax Determining the discounted cash flow of future profits requires judgement in forecasting the level of future profits

Impairment provisions on investments in subsidiaries at 31 December 2009 amounted to £nil (2008 £0 3 million)

2 4 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 other comprehensive income 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 15 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 maturity and yield characteristics

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

2 4 Fair value (continued)

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 all available-for-sale financial assets at 31 December 2009 were determined using observable market input and amounted to £726 0 million (2008 £779 4 million and 96% were determined using observable market inputs)

2 5 Provisions

The main regulatory levies, which are included under Provisions, are the Financial Services Compensation Scheme (FSCS) and the Motor Insurance Bureau (MIB) levies

The levy accruals are based on a percentage of gross premium written The Company will receive levy invoices from the Regulatory bodies based on the Company's market share of the industry, which is not known with certainty at the time of approval of these financial statements and, therefore some judgement is required

In 2009 the FSCS levy provision held is £0 2 million relating to the 2009/10 fiscal year

The MIB levy was calculated by apportioning the 'total levy' for the UK motor insurance industry (as communicated by the MIB) by the Company's estimated share of the UK motor insurance market

Total regulatory levy provisions at 31 December 2009 amounted to £10 1 million (2008 £11 7 million)

2 6 Deferred acquisition costs

As noted in paragraph 1 8, the Company defers a proportion of acquisition costs incurred during the year to subsequent accounting periods The total deferred acquistion costs as at 31 December 2009 amounted to £86 7 million (2008 £83 7 million) During 2009, 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

The Company is an entity within RBS Insurance which constitutes the Insurance Division of The Royal Bank of Scotland Group plc (RBSG) 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 individual entity and on a combined basis

The Company is regulated by the Financial Services Authority

3 1 Risk management within RBS Group

The management of risk is a fundamental management activity performed throughout all the Group's operations As such it underpins the Group's reputation, performance and future success It is, therefore, critically important that the adequacy and effectiveness of the Group's risk management processes are of the highest standard and subject to continuous review and enhancement

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 1 Risk management within RBS Group (continued)

The Group has put in place a comprehensive risk management framework comprising

- Leadership, strategy and culture set by the Board and put into effect through Executive Management,
- Policies, procedures, processes and systems to execute effective risk management throughout the Group,
- A comprehensive committee structure operating at Group level to direct, approve and review actions taken to manage risk Where appropriate this is replicated at a Divisional level, and
- Risk Management functions that are independent of the business management to enforce agreed policy

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

3 1 2 RBS Group policy framework

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

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

3 1 3 RBS Insurance specific risk management

There are significant regulatory and practical differences between the management of risk for banks and that for insurance firms RBS Insurance therefore has its own risk policies and associated minimum standards, approved by RBS Group, for the following key risk types

- Insurance Risk Policy and Minimum Standards,
- Liquidity Risk Policy and Minimum Standards,
- Credit Risk Policy,
- Market Risk Policy, and
- Operational Risk Policy

A summary of the objectives of each of the Insurance specific risks faced by the Company are described below The risks associated with market, credit and liquidity risks are described further in the Financial risk in note 3 3 below Operational risk policy is described in note 3 3 5

3 1 4 Insurance risk policy and minimum standards

The primary objective of the Insurance Risk Policy is to detail the approach to ensure that all aspects of Insurance Risk are appropriately managed within the Company

The policy is also aimed at ensuring that the Company meets the relevant requirements of RBS Group Market Risk Management (who are responsible for Insurance Risk Management from a Group perspective) and the Financial Services Authority (FSA), as well as embedding best practice and facilitating as high a level of Insurance Risk Management as is feasible

Compliance with this policy ensures that the Company stays within its stated risk appetite The policy is, therefore, kept under constant review to take into account any changes in the Company's objectives, including changes in the strategy, business plans and risk appetite

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 1 Risk management within RBS Group (Continued)

3 1 4 Insurance risk policy and minimum standards (continued)

The Insurance Risk Policy has associated Minimum Standards which detail how the policy requirements will be met The types of risk deemed to be covered within the scope of insurance risk minimum standards are

- **Underwriting and pricing** - how the pricing and underwriting strategy is set, controlled, monitored and modified, how breaches of risk appetite are identified and handled, how price changes are decided, implemented and the impact monitored, how policy terms and conditions are decided, applied and monitored etc ,

- **Claims management** - how the claims strategy is set, controlled, monitored and modified, how claims are assessed, how individual claims reserves are determined, reviewed and updated, how recoveries are handled, how claims inflation is set, monitored and controlled, how the claims cost is controlled, including how suppliers are controlled, how claims handling authority limits are monitored, how claims fraud and general leakage is monitored and managed,

- **Reinsurance** - how the reinsurance strategy is set, controlled, monitored and modified, how the exposure to reinsurers is assessed, controlled and monitored, how recoveries are identified and controlled, how concentration risk is managed and monitored,

- **Reserving** - how the reserving strategy is set, controlled, monitored and modified, how the technical reserves are assessed, reviewed, monitored and updated, including oversight procedures

3 1 5 Top down risk management

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 Top Down Risk Management Policy, the Company 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 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 the Company's Risk and Control Register These risks are reviewed at least monthly by the 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 the Company has sufficient capital to meet its liabilities rests with the Board To this end the Company carries out detailed capital modelling of its assets, liabilities and the key risks to which it is exposed This work feeds into the Company'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

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 1 Risk management within RBS Group (Continued)

3 1 5 Top down risk management (continued)

The Board 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

- 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, 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

The Company seeks to engender an awareness of 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 the Company 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 FSA ICA submission

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

- 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 processes,
- 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 residential property, motor, assistance, creditor risks, travel and pet The Company also underwrites commercial risks for low to medium risk trades within the small to medium enterprise (SME) market Contracts are issued typically on an 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 For creditor insurance, contracts are issued on a monthly renewable basis (regular premium) and can be amended or cancelled by either party at any point during the contract

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

Special Risks

This division of the business was discontinued and closed to new business in 2003 The Special Risks portfolio is now in run-off The lines of business underwritten in the Special Risks business were motor warranty, vehicle assistance, extended warranty, miscellaneous and pecuniary loss, legal expenses, miscellaneous property, miscellaneous accident, bonds & guarantees and travel No policies have renewal rights attached The longest policy terms are for miscellaneous property (land) insurance (25 years), bonds (20 years) and legal expense insurance (20 years)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 2 1 Underwriting and pricing risk (continued)

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

a) Motor insurance contracts

The causes of motor claims are theft of, or from, the vehicle, personal accident, accidental damage to the vehicle, third-party property damage and third-party personal injury To meet statutory requirements, policies of insurance provide unlimited exposure for policyholders' liability at law for third party bodily injury and reinsurance is purchased for the unlimited element over a suitable deductible

Claims experience is quite variable, due to a wide number of factors, such as the age, gender and experience of the driver, the type of vehicle and the area Contracts are issued typically on an annual basis, which means that our liability usually extends for a 12-month period, after which we are entitled to decline to renew or we can impose renewal terms by amending the premium or excess or both

b) Property insurance contracts

The major claim perils for residential property insurance are theft, flood, escape of water, fire, storm, subsidence, liability and various types of accidental damage

Contracts are written typically on an annual basis meaning our commitment is usually for a 12-month period, after which we can decline to renew or can impose special renewal terms through increased premium, excesses or both

c) Commercial motor insurance contracts

Commercial motor insurance contracts can include individual commercial vehicles, fleets of vehicles for businesses or motor trade risks The causes of commercial motor claims are theft of, or from, the vehicle, personal accident, accidental damage to the vehicle, third party property damage and third party personal injury

Claims experience is quite variable, due to a wide number of factors, the principal ones are age and experience of driver, type of vehicle and use Contracts are typically issued on an annual basis, which means that our liability extends to a 12-month period, after which we are entitled to decline to renew or we can impose renewal terms by amending the premium, terms, excesses or a combination

d) Commercial other insurance contracts

Commercial claims come mainly from property loss or damage, business interruption and loss arising from the negligence of the Insured (liability insurance)

Property loss/damage claims come from causes such as fire, theft, storm, flood and other defined perils Business interruption losses come from the loss of income, revenue and/or profit as a result of the cause of the property damage claim These covers are generally written on a sum insured basis based on the values at risk

Liability insurance can be broken down between employers liability and public/products liability The first is to indemnify employees for injury caused as a result of the insured's negligence Public/products liability is to indemnify a third party for injury and/or damage as a result of the Insured's negligence Employers liability has a standard limit of indemnity of £10 million plus authorised costs, but can be increased to £25 million for larger policyholders on request

Public/products liability generally has a limit of up to £5 million, but can be increased to £10 million on request

Insurance contracts are typically issued on an annual basis which means that our liability is limited to a 12-month period, after which we can decline to renew the policy or can impose renewal terms such as increasing the premium or applying special terms such as an increased policy excess However, as liability insurance is written on an occurrence basis, these covers are still subject to claims that manifest over a substantial period of time, but where loss was in existence during the life of the policy (for example long-tail disease claims such as asbestosis)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 2 1 Underwriting and pricing risk (continued)

e) Special Risks contracts

Loss reserve movements in the discontinued special risks portfolio are largely covered by an indemnity from the Company's former parent company, Winterthur Swiss Insurance

The portfolio comprises non-standard risk schemes and there are large variations in policy coverages across the range of schemes The wide variety of risks covered means that there is very little standardisation of terms between schemes Administrators are required to provide updates on the activity on individual schemes through regularly submitted bordereaux These provide details of claims for the period as well as exposure details such as the mix by policy term Scheme performance is reviewed regularly by internal and external actuaries and reserves are adjusted accordingly This involves best estimates based on the development of earning patterns by scheme and ultimate loss ratios based on available exposure information This requires analysis of the incidence of exposure in the underlying policies throughout the policy term

f) 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

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

a) Motor insurance contracts (both private and commercial contracts)

There are various sources of uncertainty which will impact the Company's experience under motor insurance, including operational risk, reserving risk, premiums rates not matching claims inflation rates, the social, economic and legislative environment (for example periodical payments under the Courts Act, a review of the Ogden tables used by courts when setting personal injury claim values) and reinsurance failure risks However, the Company has documented risk policies, coupled with governance frameworks to oversee and control those risks and hence minimise the losses

b) Property insurance contracts

The major source of uncertainty in the performance of the Company's property account is the volatility of the weather Weather in the UK can affect the following causes of claims flood, storm, escape of water following freezing (burst pipes) and subsidence The Company's flood and subsidence strategies are maintained in order to control these exposures

Over a longer period the strength of the economy is also a factor During tougher times as more businesses close down and unemployment increases, arson, theft and similar types of claims tend to increase

There are many other sources of uncertainty which include operational, reserving and reinsurance issues However, the Company has documented risk policies, coupled with governance frameworks to oversee and control those risks and hence minimise the losses

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 2 1 Underwriting and pricing risk (continued)

c) Commercial other insurance contracts

There are a number of uncertainties which will impact the Company's general liability account These include changes in the social, economic and legislative environment and in particular court judgments and legislation (for example, periodical payments under the Courts Act, a review of the Ogden tables used by courts when setting personal injury claim values), significant events (for example, terrorist attacks) and any emerging new heads of damage or types of claim that are not envisaged when the policy is written

There are many other sources of uncertainty which include operational, reserving and reinsurance issues However, the Company has documented risk policies, coupled with governance frameworks to oversee and control those risks and hence minimise the losses

d) Special Risks contracts

The wide variety of risks covered means that there are a significant number of uncertainties which affect the underwriting performance of the special risks portfolio arising from the economic, social and legislative environment Reserving risk is monitored through regular review by internal and external actuaries The Company's exposure is mitigated through the indemnity from the Company's former parent

e) Travel insurance contracts

The main source of variability are 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

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

A process is in place to deal with severe weather / other catastrophic events, known as SWEP (Severe Weather Event Plan) SWEP is the collective name given to an incident which significantly impacts the volume and cost of claims reported to the claims management of the Company The plan covers triggers, stages of incident, operational impact, communication, and management information monitoring of the impact

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

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 2 3 Reinsurance risk (continued)

RBS Insurance uses reinsurance

- to protect the insurance results against low frequency, high severity losses through the transfer of catastrophe claims volatility to reinsurers,
- to save capital,
- 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 external reinsurers are rated at A- or better by Standard and Poor's and/or AM Best ratings agency unless specifically authorised by the RBS Insurance Board

3 2 4 Concentration risk

RBS Insurance purchases a group wide catastrophe reinsurance programme to protect against a modelled 1 in 273 year windstorm and costal inundation loss This cover protects all of the RBS Insurance UK general insurance companies underwriting property insurance The combined retained loss is £220 million which has been modelled as a 1 in 19 year return period loss

3 2.5 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 The exception to this is a small number of self-funded Periodic Payment orders (PPO) cases where the Company has followed the same valuation principle as in the Ogden table in terms of discounting future cash flows gross and net of reinsurance In particular, the Company's policy is to hold claims reserves for the major classes of business (namely motor, domestic property and creditor) in excess of the actuarial best estimate

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 external actuaries to review periodically the adequacy of the reserves for the major classes, and
- oversight of the reserving process by the Board of the Company

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 2 5 Reserving risk (continued)

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

		2009			2008		
		Earned premiums £ Million	Claims incurred £ Million	Loss ratio %	Earned premiums £ Million	Claims incurred £ Million	Loss ratio %
Personal motor	Gross	263 7	328 3	124%	337 8	289 5	86%
	Net	260 6	328 6	126%	332 3	310 7	93%
Residential property	Gross	67 0	28 7	43%	62 2	35 4	57%
	Net	62 9	28 4	45%	58 0	35 1	61%
Commercial motor	Gross	91 8	95 1	104%	92 7	83 5	90%
	Net	90 7	90 6	100%	91 3	79 3	87%
Commercial property	Gross	172 0	66 7	39%	194 0	79 0	41%
	Net	157 0	68 4	44%	174 0	82 3	47%
Discontinued (Special Risks)	Gross	0 3	(3 4)	(1,143%)	6 6	(1 1)	(17%)
	Net	0 1	(3 5)	(3,500%)	(0 3)	(1 4)	(43%)
Other	Gross	113 2	75 9	67%	127 2	77 2	61%
	Net	111 2	68 5	62%	121 3	48 3	40%
Total	**Gross**	708 0	591 3	84%	820 5	563 5	69%
	Net	682 4	580 9	85%	776 6	554 3	71%

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 Investment Policy and Guidelines are updated to reflect the changes

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 3 Financial risk (continued)

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

The portfolio is split between Operating Funds and Long-Term Funds to achieve these objectives Operating Funds which must be at least 35% of the total portfolio are required to support current business operations, identified liabilities and to provide an adequate safety margin The remainder of the portfolio is classified as long term

The Investment Guidelines 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

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

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

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

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 The 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

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

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

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 The Company does not hold investments for trading purposes Exposure to market risk in the investment portfolio is managed in accordance with the guidelines set out in the Company's Investment Policy as detailed above The FMC is responsible for ensuring that the Company is compliant with the standards and limits set out in the Investment Policy and Guidelines The compliance of controls in respect of market risk is reported to the FMC on at least a monthly basis

The Company assesses the financial impact from changes in market risk through DFA modelling and stress testing adopted as part of the ICAS 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

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

Under the terms of the Investment Policy and Guidance, RBS Insurance Group (of which the Company is a part of) is permitted to hold non sterling denominated investments up to a maximum of 10% of its total invested funds The market value of the non sterling investment at 31 December 2009 was £0 6 million, amounting to approximately 0 03% of the Company's overall invested funds (2008 £nil)

For claims reserves there is very little foreign exchange risk as the absolute majority of claims are denominated in sterling (£) except for some travel risks (motor and travel policies) and Special Risks policies

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

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 has little exposure to interest rate risk in that the majority of claims reserves do not change as a result of interest rate movement as they are undiscounted except a few PPO cases

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

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

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 3 1 Market risk (continued)

Sensitivity factor	Description of sensitivity analysis
Market prices	The impact of a change in market prices by +/- 20%
Currency risk	The impact of an increase of 5% in the value of Sterling against major currencies
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%) Interest rate sensitivity is for investments only and does not include any impact of PPOs
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 gross loss ratios by 5%, which assumes no large losses triggering reinsurance recoveries

Sensitivity at 31 December 2009

Impact on profit before tax (£ Million)

	Market prices +20%	Market prices -20%	Currency risk +5%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	-	-	-	3 7	(3 7)	(12 5)	(35 4)
Net of reinsurance	-	-	-	3 7	(3 7)	(12 5)	(35 4)

Impact before tax on shareholders' equity (£ Million)

	Market prices +20%	Market prices -20%	Currency risk +5%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	145 2	(145 2)	0 1	(16 0)	17 4	(12 5)	(35 4)
Net of reinsurance	145 2	(145 2)	0 1	(16 0)	17 4	(12 5)	(35 4)

Sensitivity at 31 December 2008

Impact on profit before tax (£ Million)

	Market prices +20%	Market prices -20%	Currency risk +5%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	-	-	-	5 5	(5 5)	(12 9)	(41 0)
Net of reinsurance	-	-	-	5 5	(5 5)	(12 9)	(41 0)

Impact before tax on shareholders' equity (£ Million)

	Market prices +20%	Market prices -20%	Currency risk +5%	Interest rates +1%	Interest rates -1%	Expenses +10%	Loss ratio +5%
Gross of reinsurance	155 9	(155 9)	0 8	(15 4)	18 0	(12 9)	(41 0)
Net of reinsurance	155 9	(155 9)	0 8	(15 4)	18 0	(12 9)	(41 0)

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 3.1 Market risk (continued)

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

Credit risk governance

A Credit Risk Management Framework must be in place that is appropriate for the agreed risk appetite that is established and maintained by adequately skilled credit risk professionals and is supported by appropriate minimum standards, tools, techniques and credit systems and reporting

Credit risk assessment and credit limit approvals

A credit risk assessment is a process to determine the credit worthiness of a counterparty prior to entering into a transaction or contract with that counterparty A credit limit is used to define the level of credit risk that the Company is prepared to accept by a counterparty

Where appropriate, the Company must assess credit risk and set a credit limit prior to entering into a transaction or contract with the counterparty Each assessment and credit limit must be approved in accordance with Credit Authorities

Credit authority

Credit risk assessments and limits must be approved by an individual or committee that has been provided with formally documented credit approval authority Approval authorities must be reviewed and renewed at least annually

Monitoring and reporting

Relevant business units must monitor the level of actual credit exposure and measure this against the defined credit assessments and limits

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,
- Reinsurance Recoveries – credit exposure to reinsurance counterparties arises in respect of reinsurance claims, and
- Financing of Premiums - loans made to customers in respect of deferred payments of their insurance premiums These amounts are managed within the Credit Risk Management Framework and benefit from our ability to cancel the underlying policy in the event of non-payment

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

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 3 2 Credit risk (continued)

At 31 December 2009

	Neither past due nor impaired £ Million	Past due 1 - 30 days £ Million	Past due 31 - 60 days £ Million	Past due 61 - 90 days £ Million	Past due more than 91 days £ Million	Carrying value in the balance sheet £ Million	Financial assets that have been impaired £ Million
Debt securities (note 19)	726 0	-	-	-	-	726 0	-
Deposits with credit institutions (note 21 & 20)	1,221 9	-	-	-	-	1,221 9	-
Insurance liabilities - reinsurance asset (note 24)	77 5	-	-	-	-	77 5	0 3
Cash at bank and in hand (note 21)	4 4	-	-	-	-	4 4	-
Other loans and receivables (note 20)	130 5	31 7	4 9	3 8	4 4	175 3	3 0
Total assets bearing credit risk	**2,160 3**	**31 7**	**4 9**	**3 8**	**4 4**	**2,205 1**	**3 3**

At 31 December 2008

	Neither past due nor impaired £ Million	Past due 1 - 30 days £ Million	Past due 31 - 60 days £ Million	Past due 61 - 90 days £ Million	Past due more than 91 days £ Million	Carrying value in the balance sheet £ Million	Financial assets that have been impaired £ Million
Debt securities (note 19)	779 4	-	-	-	-	779 4	-
Deposits with credit institutions (note 21 & 20)	940 3	-	-	-	-	940 3	-
Insurance liabilities - reinsurance asset (note 24)	76 6	-	-	-	-	76 6	0 5
Cash at bank and in hand (note 21)	2 8	-	-	-	-	2 8	-
Other loans and receivables (note 20)	262 4	24 2	3 8	2 9	4 1	297 4	1 8
Total assets bearing credit risk	**2,061 5**	**24 2**	**3 8**	**2 9**	**4 1**	**2,096 4**	**2 3**

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 Note 3 2 3 details the Company's approach to reinsurance credit risk management

At 31 December 2009

	AAA £ Million	AA £ Million	A £ Million	BBB £ Million	CC £ Million	Not rated £ Million	Total £ Million
Debt securities (note 19)	460 4	119 2	113 4	2 1	0 9	30 0	726 0
Deposits with credit institutions (note 20 & 21)	462 8	278 0	481 1	-	-	-	1,221 9
Insurance liabilities - reinsurance asset (note 24)	6 8	21 9	33 5	-	-	15 3	77 5
Cash at bank and in hand (note 21)	-	-	4 4	-	-	-	4 4
Other loans and receivables	0 3	3 3	6 1	-	-	120 8	130 5
Total	**930 3**	**422 4**	**638 5**	**2 1**	**0 9**	**166 1**	**2,160 3**

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 3 2 Credit risk (continued)

At 31 December 2008

	AAA £ Million	AA £ Million	A £ Million	BBB £ Million	CC £ Million	Not rated £ Million	Total £ Million
Debt securities (note 19)	344 9	212 6	193 8	4 6	-	23 5	779 4
Deposits with credit institutions (note 20 & 21)	-	637 0	303 3	-	-	-	940 3
Insurance contracts - reinsurance asset (note 24)	7 1	34 9	16 2	-	-	18 4	76 6
Cash at bank and in hand (note 21)	-	0 8	2 0	-	-	-	2 8
Other loans and receivables	0 8	5 2	5 0	-	-	251 4	262 4
Total	**352 8**	**890 5**	**520 3**	**4 6**	**-**	**293 3**	**2,061 5**

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 measurement and management of liquidity risk within the Company is undertaken within the limits and other policy parameters of the Company's liquidity risk appetite It is included as part of the monthly Funds Management Committee pack and reviewed by the FMC The asset class and maturity parameters contained within this policy are summarised in note 3 3 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 ICA process These tests are designed to assess the Company's liquidity requirement in order 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

In the event that one or more liquidity stress or scenario crystallises, or should any other event that may impact liquidity occur, the Company seeks to ensure that the event has a rapid and controlled response A Liquidity Crisis Management Team will be formed to assess the nature and extent of the threat and to develop an appropriate response

<u>Analysis of maturity of liabilities</u>

For each category of insurance and financial liabilities, the following table shows the gross liability at 31 December 2009 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 2009

	Total £ Million	Within 1 year £ Million	1 - 3 years £ Million	3 - 5 years £ Million	5-10 years £ Million	Over 10 years £ Million
Insurance liabilities (note 24)	1,127 4	440 4	392 5	177 2	97 3	20 0
Borrowings (note 25)	254 0	24 0	-	100 0	-	130 0
Trade and other payables including insurance payables (note 27)	56 7	56 7	-	-	-	-
Total	**1,438 1**	**521 1**	**392.5**	**277 2**	**97 3**	**150 0**

3 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

3 3 3 Liquidity risk (continued)

At 31 December 2008

	Total £ Million	Within 1 year £ Million	1 - 3 years £ Million	3 - 5 years £ Million	5-10 years £ Million	Over 10 years £ Million
Insurance liabilities (note 24)	1,111 7	424 1	399 5	196 3	88 4	3 4
Borrowings (note 25)	252 9	22 9	-	-	100 0	130 0
Trade and other payables including insurance payables (note 27)	59 7	59 7	-	-	-	-
Total	**1,424 3**	**506 7**	**399 5**	**196 3**	**188 4**	**133 4**

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

	2009 £ Million		2008 £ Million	
Communications	1 5	0%	-	0%
Consumer goods	6 9	1%	-	0%
Diversified	1 2	0%	-	0%
Energy	1 6	0%	-	0%
Finance	287 7	40%	482 4	62%
Government	266 9	37%	130 6	17%
Mortgage backed securities	130 0	18%	155 3	20%
Utilities	30 2	4%	11 1	1%
	726 0	100%	779 4	100%

3 3 5 Operational risk

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

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

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

4 CAPITAL RISK MANAGEMENT

The Company defines capital in accordance with regulations prescribed by the 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 financial and capital position of the Company, including the procedures to be followed during periods of general financial distress, either due to internal or external events, and
- to safeguard the Company's ability to continue as a going concern

Under the rules prescribed by the FSA, 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, prescribed by the EU, based on business volumes and claims reserves, whereas the ICG is specified by the FSA following the bi-annual submission of a risk based capital assessment (in accordance with the Individual Capital Adequacy Standards) by the Company to the regulator

As at 31 December 2009, the Company held a surplus of at least £502 million (2008 £366 million) above its MCR requirement of £154 million (2008 £159 million)

Management information to monitor the Company's capital requirements and solvency position is produced and presented to the RBS Insurance Capital Committee and the Company Board 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 2009 and 2008

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

5 NET INSURANCE PREMIUM REVENUE

	2009 £ Million	2008 £ Million
Premium income from insurance contracts issued		
Premium receivables	717 3	748 7
Change in unearned premium provision	(9 3)	71 8
	708 0	820 5
Premium revenue ceded to reinsurers on insurance contracts issued		
Premium payables	(25 0)	(34 8)
Change in unearned premium provision	(0 6)	(9 1)
	(25 6)	(43 9)
Net insurance premium revenue	**682 4**	**776 6**

6 INVESTMENT INCOME

	2009 £ Million	2008 £ Million
Available-for-sale financial assets		
Interest income from debt securities	38 8	43 9
Interest income		
from policyholders	2 2	2 6
from loans to related parties (note 31)	1 6	7 5
from deposits with credit institutions	14 4	50 1
Net amortisation of (premium)/discount on purchase of financial assets	(0 9)	0 3
	56 1	**104 4**

7 NET REALISED GAINS ON FINANCIAL ASSETS

	2009 £ Million	2008 £ Million
Net realised gains on financial assets - available-for-sale		
Debt securities	**7 6**	**-**

8 OTHER OPERATING INCOME

	2009 £ Million	2008 £ Million
Net foreign exchange translation (losses)/gains	(0 2)	1 1
Other income	2 2	(2 7)
Other income (Special Risks)	(3 8)	(0 9)
	(1 8)	**(2 5)**

Due to the nature of the indemnity with Winterthur, amounts can be payable to/from the Company depending on the performance in the year of the Special Risks division

9 INSURANCE CLAIMS AND LOSS ADJUSTMENT EXPENSES

	2009		
	Gross £ Million	Reinsurance £ Million	Net £ Million
Current accident year claims paid	218 5	(0 2)	218 3
Prior accident years' claims paid	333 1	(9 3)	323 8
Movement in current accident year claims provision	379 4	(0 2)	379 2
Movement in prior accident years' claims provision	(339 7)	(0 7)	(340 4)
	591.3	**(10 4)**	**580 9**

	2008		
	Gross £ Million	Reinsurance £ Million	Net £ Million
Current accident year claims paid	253 9	(0 3)	253 6
Prior accident years' claims paid	365 9	(13 1)	352 8
Movement in current accident year claims provision	383 1	-	383 1
Movement in prior accident years' claims provision	(439 4)	4 2	(435 2)
	563.5	**(9 2)**	**554 3**

Loss adjustment expenses for the year of £26 7 million (2008 £29 8 million) have been included in the accident year figures above

A movement in relation to liability adequacy provisions of £24 1 million (2008 (£0 3) million credit) has been included in the movement in the current accident year claims provision

10 EXPENSES

a) Commission expenses	2009 £ Million	2008 £ Million
Commission expenses	144 1	163 9
	144 1	**163 9**

b) Expenses for marketing and administration	2009 £ Million	2008 £ Million
Marketing and administration expenses	97 8	99 4
Depreciation (note 15)	-	0 1
	97 8	**99 5**

11 FINANCE COSTS

	2009 £ Million	2008 £ Million
Interest expense		
Borrowings from related parties (note 31)	**9 2**	**8 8**

12 TAX CREDIT/(CHARGE)

	2009 £ Million	2008 £ Million
Current taxation		
Income tax (credit)/charge for the year	(24 9)	13 6
Under provision in respect of prior years	-	0 1
	(24 9)	13 7
Deferred taxation (note 28)		
Charge for the year	0 3	1 3
Over provision in respect of prior years	-	(0 1)
	0 3	1 2
Tax (credit)/charge for the period	**(24 6)**	**14 9**

The actual income tax (credit)/charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2008 28 5%) as follows

	2009 £ Million	2008 £ Million
Expected tax (credit)/charge	(24 6)	14 9
	(24 6)	**14 9**

The aggregate current and deferred tax relating to items that are charged or (credited) to other comprehensive income is £8 3 million (2008 £(8 9) million)

13 (LOSS)/PROFIT FOR THE YEAR

	2009 £ Million	2008 £ Million
(Loss)/profit for the year is stated after charging		
Depreciation of plant and equipment (note 15)	-	0 1
Operating lease rentals (note 30)	3 0	3 2

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 £190,000 (2008 £185,000)

Fees in respect of the audit of the FSA Return amount to £18,000 (2008 £18,000) and fees for other services amount to £nil (2008 £14,000)

Directors' emoluments

	2009 £ Million	2008 £ Million
Other emoluments	0 2	0 5
Company pension contributions	-	-
	0 2	**0 5**

Fees paid to directors during the year amounted to £6,930 (2008 £5,890), and company pension contributions amounted to £37,794 (2008 £41,324)

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 £65,720 (2008 £229,724)

A contribution of £11,488 to a final salary scheme was made on behalf of the highest paid director (2008 £17,899 final salary scheme) One director (2008 one director) had retirement benefits accruing under the defined contribution pension schemes in respect of qualifying service and eight directors (2008 five directors) had benefits accruing under the final salary pension schemes

During the year no directors exercised share options (2008 one director)

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 2009	Available for sale	Loans and receivables	Other (amortised costs)	Non-financial assets/ liabilities	Total
	£ Million	£ Million	£ Million	£ Million	£ Million
Plant and equipment	-	-	n/a	0 3	0 3
Investments in subsidiaries	-	-	n/a	-	-
Reinsurance assets	-	-	n/a	90 2	90 2
Deferred acquisition costs	-	-	n/a	86 7	86 7
Prepayments and accrued income	-	-	n/a	1 8	1 8
Financial investments	726 0	-	n/a	-	726 0
Loans and receivables	-	298 3	n/a	-	298 3
Current tax assets	-	-	n/a	17 5	17 5
Cash and cash equivalents	-	1 103 3	n/a	-	1 103 3
	726 0	1 401 6	n/a	196 5	2,324 1
Insurance liabilities	n/a	n/a	-	1 515 8	1 515 8
Borrowings	n/a	n/a	254 0	-	254 0
Provision for other liabilities and charges	n/a	n/a	-	10 1	10 1
Trade and other payables including insurance payables	n/a	n/a	56 7	-	56 7
Deferred tax liabilities	n/a	n/a	-	13 0	13 0
Current tax liabilities	n/a	n/a	-	-	-
	n/a	n/a	310 7	1 538 9	1 849 6
Equity					474 5
					2 324 1

14 CLASSIFICATION OF FINANCIAL INSTRUMENTS (Continued)

At 31 December 2008

	Available for sale £ Million	Loans and receivables £ Million	Other (amortised costs) £ Million	Non-financial assets/ liabilities £ Million	Total £ Million
Plant and equipment	-	-	n/a	0 3	0 3
Investments in subsidiaries	-	-	n/a	1 0	1 0
Reinsurance assets	-	-	n/a	89 9	89 9
Deferred acquisition costs	-	-	n/a	83 7	83 7
Prepayments and accrued income	-	-	n/a	0 4	0 4
Financial investments	779 4	-	n/a	-	779 4
Loans and receivables	-	565 4	n/a	-	565 4
Current tax assets	-	-		-	-
Cash and cash equivalents	-	675 1	n/a	-	675 1
	779 4	1 240 5	-	175 3	2 195 2
Insurance liabilities	n/a	n/a	-	1 466 8	1 466 8
Borrowings	n/a	n/a	252 9	-	252 9
Provision for other liabilities and charges	n/a	n/a	-	11 7	11 7
Trade and other payables including insurance payables	n/a	n/a	59 7	-	59 7
Deferred tax liabilities	n/a	n/a	-	12 7	12 7
Current tax liabilities	n/a	n/a	-	4 8	4 8
	n/a	n/a	312 6	1 496 0	1 808 6
Equity					386 6
					2 195 2

15 PLANT AND EQUIPMENT

	Vehicles £ Million	Other equipment £ Million	Total £ Million
Cost			
At 1 January and 31 December 2008	0 4	9 0	**9 4**
Disposals	(0 3)	(8 2)	**(8.5)**
At 31 December 2009	0 1	0 8	**0 9**
Depreciation			
At 1 January 2008	0 4	8 6	**9 0**
Depreciation charge for the year	-	0 1	**0 1**
At 31 December 2008	0 4	8 7	**9 1**
Eliminated on disposal	(0 3)	(8 2)	**(8 5)**
At 31 December 2009	0 1	0 5	**0 6**
Net book amount			
At 31 December 2009	-	**0 3**	**0 3**
At 31 December 2008	-	**0 3**	**0 3**

Depreciation charged during 2009 amounted to £46,885 (2008 £48,779)

16 INVESTMENTS IN SUBSIDIARIES

	2009 £ Million	2008 £ Million
At 1 January	1 0	1 3
Disposals in the year	(1 0)	(0 3)
At 31 December	-	1 0

The previously derecognised subsidiaries, set2print Limited and All Risk Management Limited, remain in Members' Voluntary Liquidation No date for dissolution has been set

The disposal in the year of £1 0 million represents the derecognition of the investment in the Company's subsidiary, Finsure Premium Finance Limited The disposal was approved by the Board of the Company on 12 November 2009

17 REINSURANCE ASSETS

	2009 £ Million	2008 £ Million
Reinsurers' share of insurance liabilities		
- third party reinsurers	72 1	73 8
- related parties (note 31)	18 4	16 6
Impairment provision	(0 3)	(0 5)
Total assets arising from reinsurance contracts	**90 2**	**89 9**

18. DEFERRED ACQUISITION COSTS

	2009 £ Million	2008 £ Million
At 1 January	83 7	90 1
Net credit/(charge) to statement of comprehensive income	3 0	(6 4)
At 31 December	**86 7**	**83 7**

19 FINANCIAL INVESTMENTS

	2009 £ Million	2008 £ Million
Available-for-sale investments		
Debt securities		
Listed - fixed interest rate	488 0	397 8
Listed - floating interest rate	238 0	381 6
Total financial investments	**726 0**	**779 4**

Included within the debt securities balance above is £306 5 million (2008 £164 6 million) placed with related parties as analysed in note 31

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy

At 31 December 2009

	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)	Total	Sensitivity Analysis	
	£ Million	£ Million	£ Million	£ Million	Low	High
Financial assets						
Available-for-sale financial						
Debt securities	182 0	544 0	-	726 0	-	-
	182 0	**544 0**	**-**	**726 0**	**-**	**-**

At 31 December 2008

	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)	Total	Sensitivity Analysis	
	£ Million	£ Million	£ Million	£ Million	Low	High
Financial assets						
Available-for-sale financial assets						
Debt securities	105 0	644 9	29 5	779 4	28 0	31 0
	105 0	**644 9**	**29 5**	**779 4**	**28 0**	**31 0**

Notes

Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

In order to determine reasonably possible alternative assumptions, the Company adjusted key unobservable model inputs as follows

For debt securities, the Company's adjustment was to increase and decrease the assumption by 5%

There were no transfers between level 1 and level 2 during the year

1 Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market A financial instrument 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

19 FINANCIAL INVESTMENTS (Continued)

Notes (continued)

2 Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions These are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the majority of assumptions are market observable

3 Included in the Level 3 category are financial assets measured using non market observable inputs This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data The main asset classes in this category are debt securities Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk) These inputs are developed based on the best information available, which might include the Company's own data

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value

Financial assets	At 1 January 2009	Purchases and issuances	Sales and settlements	Transfers in / out of level 3 from/to level 2		At 31 December 2009
				In	(Out)	
Available-for-sale financial assets						
Debt securities	29 5	-	-	-	(29 5)	-
	29 5	**-**	**-**	**-**	**(29 5)**	**-**

Financial assets	At 1 January 2008	Purchases and issuances	Sales and settlements	Transfers in / out of level 3 from/to level 2		At 31 December 2008
				In	(Out)	
Available-for-sale financial assets						
Debt securities	-	-	-	29 5	-	29 5
	-	**-**	**-**	**29 5**	**-**	**29 5**

There were no gains or losses (realised or unrealised) included in the loss for the year as presented in the statement of comprehensive income

The reason for the change in level is that the market for the securities had become inactive, which has led to a change in the method used to determine fair value Prior to transfer, fair value for level 2 securities was determined using observable market transactions or broker quotes for the same or similar instruments Since transfer, all such assets have been valued using valuation models incorporating significant non market-observable inputs A description of the models and assumptions used is provided above

20 LOANS AND RECEIVABLES

	2009 £ Million	2008 £ Million
Loans and receivables		
Deposits with credit institutions with maturities in excess of three months		
- third parties	78 0	218 0
- related parties (note 31)	45 0	50 0
	123 0	268 0
Other loans and receivables, including insurance receivables	175 3	297 4
	298 3	**565 4**

	2009 £ Million	2008 £ Million
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	38 2	39 8
Less provision for impairment of receivables from policyholders	(0 1)	(0 5)
Due from agents, brokers and intermediaries	101 4	92 0
Less provision for impairment of receivables from agents, brokers and intermediaries	(2 9)	(1 3)
Due from reinsurers		
third party reinsurers	12 6	12 2
related parties (note 31)	0 4	-
Other loans and receivables		
Accrued interest	1 6	9 4
Receivables from related parties (note 31)	0 5	83 6
Loans to related parties (note 31)	17 4	49 6
Other debtors	6 2	12 6
Total loans and receivables including insurance receivables	**175 3**	**297 4**

21. CASH AND CASH EQUIVALENTS

	2009 £ Million	2008 £ Million
Cash at bank and in hand		
- third parties	3 6	0 9
- related parties (note 31)	0 8	1 9
Short term deposits with credit institutions		
- third parties	1,050 7	593 0
- related parties (note 31)	48 2	79 3
	1,103.3	**675 1**

The effective interest rate on short term deposits with credit institutions was 1 0% (2008 4 30%) and has an average maturity of 55 days (2008 31 days)

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

	2009 £ Million	2008 £ Million
Cash and cash equivalents	1,103 3	675 1
Bank overdrafts (note 25)	(24 0)	(22 7)
	1,079 3	**652 4**

22 SHARE CAPITAL

	2009 £ Million	2008 £ Million
Authorised		
Equity shares		
275 million ordinary shares of £1 each	**275 0**	**275 0**

Issued and fully paid	2009 £ Million	2008 £ Million
Equity shares		
265 million ordinary shares of £1 each		
At 1 January and 31 December	**265.0**	**265 0**

23 OTHER RESERVES AND RETAINED EARNINGS

	2009 £ Million	2008 £ Million
Capital contribution reserve	130 0	-
Reserve for revaluation of available-for-sale investments	(1 4)	(22 4)
Claims equalisation reserve	47 3	46 5
Other reserves at 31 December	**175 9**	**24 1**
Retained earnings at 31 December	**33 6**	**97 5**

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

	Debt securities £ Million
At 1 January 2008	(0 5)
Revaluation during the period - gross	(30 6)
Revaluation during the period - taxation	8 7
At 31 December 2008	**(22 4)**
Revaluation during the period - gross	36 8
Revaluation during the period - taxation	(10 3)
Net gains transferred to net profit on disposal and impairment - gross (note 7)	(7 6)
Net gains transferred to net profit on disposal and impairment - taxation	2 1
At 31 December 2009	**(1 4)**

Movements in the claims equalisation reserve were as follows:

	£ Million
At 1 January 2008	42 2
Transfer from retained earnings for movement in year	4 3
At 31 December 2008	46 5
Transfer from retained earnings for movement in year	0 8
At 31 December 2009	**47 3**

During 2009 the Company received a capital contribution of £130 million from RBS Insurance Group Limited

24 INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2009 £ Million	2008 £ Million
Gross		
Claims reported	776 1	785 6
Claims incurred but not reported	327 0	302 4
Loss adjustment expenses	24 2	23 7
Unearned premiums	359 5	350 2
Liability adequacy provision	29 0	4 9
Total insurance liabilities, gross	**1,515 8**	**1,466 8**
Recoverable from reinsurers		
Claims reported	(52 8)	(52 1)
Claims incurred but not reported	(24 7)	(24 5)
Unearned premiums	(12 7)	(13 3)
Total reinsurers' share of insurance liabilities	**(90 2)**	**(89 9)**

	2009 £ Million	2008 £ Million
Net		
Claims reported	723 3	733 5
Claims incurred but not reported	302 3	277 9
Loss adjustment expenses	24 2	23 7
Unearned premiums	346 8	336 9
Liability adequacy provision	29 0	4 9
Total insurance liabilities, net	**1,425 6**	**1,376 9**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

24 INSURANCE CONTRACTS AND REINSURANCE ASSETS (Continued)

Insurance claims gross

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Estimate of ultimate claims costs										
At end of accident year	294 8	348 3	520 4	541 1	677 4	741 9	802 1	616 0	555 6	5,097 6
One year later	(7 3)	0 1	(66 1)	(72 5)	(73 6)	(69 1)	7 4	46 8		(234 3)
Two years later	8 7	(7 4)	(28 4)	(28 7)	(42 7)	(28 4)	(18 1)			(145 0)
Three years later	(8 1)	(13 7)	(27 5)	(12 2)	(21 3)	(4 6)				(87 4)
Four years later	(8 2)	(11 3)	(17 7)	(28 6)	(23 6)					(89 4)
Five years later	(6 2)	(3 3)	(2 2)	(5 4)						(17 1)
Six years later	(6 0)	(5 5)	(5 6)							(17 1)
Seven years later	(2 0)	(0 7)								(2 7)
Eight years later	(2 3)								-	(2 3)
Current estimate of cumulative claims	263 4	306 5	372 9	393 7	516 2	639 8	791 4	662 8	555 6	4,502 3
Cumulative payments to date	(259 2)	(298 2)	(349 2)	(361 4)	(466 2)	(495 2)	(592 5)	(402 5)	(208 0)	(3,432 4)
Liability recognised in balance sheet	4 2	8 3	23 7	32 3	50 0	144 6	198 9	260 3	347 6	1 069 9
Liability in respect of prior years										23 5
Loss adjustment expenses										24 2
Total liability included in the balance sheet										1,117 6

Insurance claims net of reinsurance

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Estimate of ultimate claims costs										
At end of accident year	286 6	340 5	421 0	418 6	520 1	591 7	646 1	616 0	555 0	4 395 6
One year later	(9 2)	(1 7)	(55 8)	(59 6)	(57 3)	(58 0)	7 9	44 6	-	(189 1)
Two years later	7 6	(8 5)	(20 6)	(26 0)	(34 6)	(37 6)	(16 5)		-	(136 2)
Three years later	(6 2)	(13 8)	(26 7)	(9 9)	(16 9)	(9 7)			-	(83 2)
Four years later	(6 5)	(10 8)	(17 1)	(27 3)	(21 1)				-	(82 8)
Five years later	(7 3)	(4 3)	(20 8)	(5 5)					-	(37 9)
Six years later	(2 5)	(29 5)	(3 5)						-	(35 5)
Seven years later	(43 2)	(0 5)							-	(43 7)
Eight years later	(0 5)								-	(0 5)
Current estimate of cumulative claims	218 8	271 4	276 4	290 3	390 2	486 4	637 5	660 6	555 0	3 786 7
Cumulative payments to date	(215 4)	(267 1)	(259 9)	(270 2)	(344 1)	(364 1)	(446 1)	(402 2)	(208 0)	(2,777 1)
Liability recognised in balance sheet	3 4	4 3	16 5	20 1	46 1	122 4	191 4	258 4	347 0	1 009 6
Liability in respect of prior years										6 3
Loss adjustment expenses										24 2
Total liability included in the balance sheet										1 040 1

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

24 INSURANCE CONTRACTS AND REINSURANCE ASSETS (Continued)

Insurance claims gross

Underwriting year	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Estimate of ultimate claims costs										
At end of underwriting year	88 2	102 1	64 9	2 1						257 3
One year later	50 0	66 9	55 7	0 4					-	173 0
Two years later	21 8	17 3	(6 3)	0 1						32 9
Three years later	32 6	39 9	3 4	0 2						76 1
Four years later	(3 9)	(2 6)	(0 7)	(0 1)						(7 3)
Five years later	2 4	(0 9)	2 7	(0 0)						4 2
Six years later	1 5	(2 0)	0 8							0 3
Seven years later	(0 8)	(2 9)								(3 7)
Eight years later	(0 8)									(0 8)
Current estimate of cumulative claims	191 0	217 8	120 5	2 7						531 9
Cumulative payments to date	(189 8)	(216 1)	(116 9)	(0 6)						(523 3)
Liability recognised in balance sheet	1 2	1 7	3 6	2 0						8 6
Liability in respect of prior years										1 1
Total liability included in the balance sheet										9 7

Insurance claims net of reinsurance

Underwriting year	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million	£ Million
Estimate of ultimate claims costs										
At end of underwriting year	89 5	70 3	50 5	2 1			-	-		192 4
One year later	34 8	71 6	52 1	0 4		-				158 9
Two years later	26 3	13 1	(7 0)	0 1						32 5
Three years later	32 3	39 8	2 7	0 2		-				74 8
Four years later	(7 1)	(2 5)	(0 7)	(0 1)		-				(10 4)
Five years later	2 4	(0 9)	2 7	(0 0)		-				4 2
Six years later	1 5	(2 0)	0 8			-				0 3
Seven years later	(0 8)	(2 9)						-		(3 7)
Eight years later	(0 8)									(0 8)
Current estimate of cumulative claims	158 1	186 3	101 1	2 7		-				448 1
Cumulative payments to date	(156 9)	(184 6)	(97 5)	(0 6)		-		-		(439 5)
Liability recognised in balance sheet	1 2	1 7	3 6	2 0		-		-		8 6
Liability in respect of prior years										1 1
Total liability included in the balance sheet										9 7

24 INSURANCE CONTRACTS AND REINSURANCE ASSETS (Continued)

Movements in insurance liabilities and reinsurance assets

(i) Claims and loss adjustment expenses

	Gross £ Million	Reinsurance £ Million	Net £ Million
Notified claims	787 8	(59 4)	728 4
Incurred but not reported	380 2	(21 4)	358 8
At 1 January 2008	**1,168 0**	**(80.8)**	**1,087 2**
Cash paid for claims settled in the year	(619 8)	13 4	(606 4)
Increase / (decrease) in liabilities			
- arising from current year claims	637 0	(0 3)	636 7
- arising from prior year claims	(73 5)	(8 9)	(82 4)
At 31 December 2008	**1,111 7**	**(76 6)**	**1,035.1**
Notified claims	809 3	(52 1)	757 2
Incurred but not reported	302 4	(24 5)	277 9
At 31 December 2008	**1,111 7**	**(76 6)**	**1,035 1**
Cash paid for claims settled in the year	(551 6)	9 5	(542 1)
Increase / (decrease) in liabilities			
- arising from current year claims	573 8	(0 4)	573 4
- arising from prior year claims	(6 6)	(10 0)	(16 6)
At 31 December 2009	**1,127 3**	**(77 5)**	**1,049 8**
Notified claims	800 3	(52 8)	747 5
Incurred but not reported	327 0	(24 7)	302 3
At 31 December 2009	**1,127 3**	**(77 5)**	**1,049 8**

(ii) Provisions for unearned premiums

	Gross £ Million	Reinsurance £ Million	Net £ Million
Unearned premium provision			
At 1 January 2008	422 0	(22 4)	399 6
Net (decrease)/increase in the year	(71 8)	9 1	(62 7)
At 31 December 2008	**350 2**	**(13 3)**	**336.9**
Net increase in the year	9 3	0 6	9 9
At 31 December 2009	**359 5**	**(12 7)**	**346 8**

(iii) Provisions for liability adequacy reserve

	£ Million
Liability adequacy provision	
At 1 January 2008	5 2
Decrease in the year	(0 3)
At 31 December 2008	**4 9**
Increase in the year	24 1
At 31 December 2009	**29 0**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

25 BORROWINGS

	2009 £ Million	2008 £ Million
Loans from related parties (note 31)	230 0	230 2
Bank overdrafts from related parties (note 31)	24 0	22 7
	254 0	**252 9**

The borrowings are repayable as follows

	2009 £ Million	2008 £ Million
On demand or within one year	24 0	22 9
One to five years	100 0	100 0
Six to ten years	-	-
After ten years	130 0	130 0
	254 0	**252 9**

The carrying value of the short term borrowings approximates to their fair value

26 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Regulatory levies £ Million
At 1 January 2008	**14 1**
Charged to the statement of comprehensive income	
- additional provisions	14 2
Used during year	(16 6)
At 31 December 2008	**11.7**
Charged to the statement of comprehensive income	
- additional provisions	10 0
Used during year	(11 6)
At 31 December 2009	**10 1**

The expected timing of any resulting outflows falls within twelve months of the balance sheet date

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

27 TRADE AND OTHER PAYABLES INCLUDING INSURANCE PAYABLES

	2009 £ Million	2008 £ Million
Due to agents, brokers and intermediaries		
third party	8 4	14 1
Due to reinsurers		
third party reinsurers	14 4	14 0
related parties (note 31)	0 7	-
Due to related parties (note 31)	13 4	5 8
Trade creditors and accruals	3 7	9 8
Other creditors	7 1	8 2
Other taxes (note 31)	9 0	7 8
	56 7	59.7

28 DEFERRED TAXATION

The following are the deferred tax assets/(liabilities) recognised by the Company, and the movements thereon, during the current and prior reporting periods

	Accelerated capital allowances £ Million	Equalisation reserve £ Million	Total £ Million
At 1 January 2008	0 3	(11 8)	**(11.5)**
Charge to income statement (note 12)	-	(1 2)	**(1.2)**
31 December 2008	**0 3**	**(13 0)**	**(12 7)**
Charge to income statement (note 12)	-	(0 3)	**(0 3)**
At 31 December 2009	**0 3**	**(13 3)**	**(13 0)**

The following is the analysis of the deferred tax balances (after offset)

	2009 £ Million	2008 £ Million
Deferred tax assets	0 3	0 3
Deferred tax liabilities	(13 3)	(13 0)
Deferred tax liabilities as shown on the balance sheet	**(13 0)**	**(12 7)**

29 CONTINGENT LIABILITIES

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

30 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

The Company also leases vehicles and other assets under cancellable operating lease agreements

	2009 £ Million	2008 £ Million
Minimum lease payments under operating leases recognised as an expense in the year	**3 0**	**3 2**

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

	2009 £ Million	2008 £ Million
Within one year	2 9	3 0
In the second to fifth years inclusive	7 9	10 7
After five years	0 8	1 2
	11 6	**14 9**

31. RELATED PARTIES

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government As a result, the UK Government and UK Government controlled bodies became related parties of the Company

The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland Its immediate parent company is RBS Insurance Group Limited which is incorporated in Great Britain and registered in England and Wales

As at 31 December 2009, The Royal Bank of Scotland Group plc heads the largest and smallest group in which the Company is consolidated Copies of the consolidated accounts of The Royal Bank of Scotland Group plc may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ

The volume and diversity of transactions within government related entities are such that their full disclosure of their amounts during the year are impractical

The following transactions were carried out with related parties, who are all members of The Royal Bank of Scotland Group plc

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

31 RELATED PARTIES (Continued)

i Sales of insurance contracts and other services

	2009 £ Million	2008 £ Million
Sales of services		
Churchill Insurance Company Limited	1 6	2 5
Finsure Premium Finance Limited	6 8	9 0
Inter Group Insurance Services Ltd	-	0 5
	8 4	**12 0**
Interest received (note 6)		
Finsure Premium Finance Limited	1 5	6 2
RBS Insurance Services Limited	0 1	1 3
	1 6	**7 5**

Sales of services are provided between related parties on an arm's length basis

Interest income received from deposits held with related parties were at rates ranging from 0 10% to 5 91% (2008 3 17% to 6 19%)

ii Purchases of products and services and other purchases

	2009 £ Million	2008 £ Million
Purchases of services		
Devitt Insurance Services Limited	1 9	2 0
Direct Line Insurance plc	0 4	-
RBS Insurance Services Limited	113 8	116 8
RBS Business Insurance Services Limited	5 0	5 8
UK Assistance Accident Repair Centres Limited	8 8	11 8
U K Insurance Limited	-	0 1
	129 9	**136 5**

	2009 £ Million	2008 £ Million
Interest paid (note 11)		
RBS Insurance Group Limited	9 2	8 8
	9 2	**8 8**

31 RELATED PARTIES (Continued)

ii Purchases of products and services (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 £98 1 million (2008 £103 1 million)

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

iii Acquisition of reinsurance contracts

	2009 £ Million	2008 £ Million
In relation to Headrow Reinsurance Limited		
Purchases of reinsurance		
Written premium	3 2	-
Change in unearned premium provision	(1 6)	-
	1 6	-

	2009 £ Million	2008 £ Million
Amounts recoverable in respect of		
Movement in claims provision	0 1	2 7
	0 1	2 7

	2009 £ Million	2008 £ Million
Due to reinsurers		
Headrow Reinsurance Limited	0 3	-
	0 3	-

iv Compensation of key management

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

	2009 £ Million	2008 £ Million
Other emoluments	0 5	0 6
Company pension contributions	0 1	0 1
	0 6	0 7

Fees paid to directors during the year amounted to £6,930 (2008 £5,890)

v Year-end balances arising from cash and investment transactions

	2009 £ Million	2008 £ Million
Bank deposits held with related parties (note 21)		
National Westminster Bank Plc	49 0	81 2
	49 0	81 2

31 RELATED PARTIES (Continued)

v Year-end balances arising from cash and investment transactions (continued)

	2009 £ Million	2008 £ Million
Bank overdrafts held with related parties (note 25)		
National Westminster Bank Plc	17 8	15 3
The Royal Bank of Scotland plc	6 2	7 4
	24 0	22 7

	2009 £ Million	2008 £ Million
Term deposits held with related parties (note 20)		
National Westminster Bank Plc	45 0	50 0
	45 0	50 0

	2009 £ Million	2008 £ Million
Argon Capital plc	0 9	4 6
Arran Master Trust Limited	14 7	13 5
Arran Residential Mortgages Funding plc	17 6	17 3
Granite Mortgages 04-1 plc	1 3	1 2
Granite Mortgages 06-1 plc	4 9	4 7
Granite Mortgages 06-3 plc	7 9	7 5
The Royal Bank of Scotland plc	77 3	31 4
UK Government	181 9	84 4
	306 5	164 6

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

Receivables from related parties (note 20)

	2009 £ Million	2008 £ Million
Churchill Insurance Company Limited	-	0 5
Finsure Premium Finance Limited	0 5	82 3
Inter Group Insurance Services Limited	-	0 8
	0 5	83 6

Movements in receivables from related parties were as follows	2009 £ Million	2008 £ Million
At 1 January	83 6	69 3
Transactions in the period	8 4	12 0
Interest received (note 6)	-	4 1
Settled in the year	(91 5)	(1 8)
At 31 December	0 5	83 6

31 RELATED PARTIES (Continued)

vi. Year-end balances arising from sales/purchases of products/services (continued)

Movements in receivables from Headrow Reinsurance Limited (note 27)	2009 £ Million	2008 £ Million
At 1 January	-	-
Transactions in the period	0 4	-
At 31 December	0 4	-

Due to related parties (note 27)

	2009 £ Million	2008 £ Million
Due to other related parties		
Direct Line Insurance Plc	-	0 2
RBS Insurance Services Limited	13 4	5 4
UK Assistance Accident Repair Centres Limited	-	0 2
	13 4	5 8

Movements in payables to Headrow Reinsurance Limited	2009 £ Million	2008 £ Million
At 1 January	-	-
Transactions in the period	0 3	-
At 31 December	0 3	-

Movements in due to other related parties were as follows	2009 £ Million	2008 £ Million
At 1 January	5 8	-
Transactions in the period	129 9	136 5
Settled in the year	(122 3)	(130 7)
At 31 December	13 4	5 8

vii Loans to related parties

	2009 £ Million	2008 £ Million
Loans to related parties (note 20)		
Finsure Premium Finance Limited	-	49 0
RBS Insurance Services Limited	17 4	0 6
	17 4	49 6

Movements in loans to related parties were as follows	2009 £ Million	2008 £ Million
At 1 January	49 6	65 5
Loans advanced during year	326 8	336 9
Loan repayments received	(360 6)	(356 2)
Interest received (note 6)	1 6	3 4
At 31 December	17 4	49 6

31 RELATED PARTIES (Continued)

viii. Loans from related parties

	2009 £ Million	2008 £ Million
Loans from related parties (note 25)		
RBS Insurance Group Limited	230 0	230 2
	230 0	230 2

Movements in loans from related parties were as follows	2009 £ Million	2008 £ Million
At 1 January	230 2	132 2
Loans advanced during year	-	100 0
Loan repayments made	(9 4)	(10 8)
Interest charged (note 11)	9 2	8 8
At 31 December	230 0	230 2

ix Reinsurance assets (note 17)

	2009 £ Million	2008 £ Million
In relation to Headrow Reinsurance Limited		
Amounts in respect of technical provisions		
Claims reported and incurred but not reported	16 8	16 6
Unearned premium	1 6	-
	18 4	16 6

Movements in reinsurance assets were as follows	2009 £ Million	2008 £ Million
At 1 January	16 6	7 8
Movement in claims provision	0 1	8 8
Change in unearned premium provision	1 7	-
At 31 December	18 4	16 6

x Tax

	2009 £ Million	2008 £ Million
Other taxes (notes 27) includes amounts payable to related parties as follows		
HM Revenue and Customs	9 0	7 8
Current tax (assets)/liabilities are (receivable)/payable as follows		
HM Revenue and Customs	(17 5)	4 8