

Company Registration No: 02568507

UK ASSISTANCE ACCIDENT REPAIR CENTRES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011



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

UK ASSISTANCE ACCIDENT REPAIR CENTRES LIMITED

02568507

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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UK ASSISTANCE ACCIDENT REPAIR CENTRES LIMITED

02568507

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J A Davidson
C Weeks

SECRETARY

P A Hutchings

REGISTERED OFFICE

Churchill Court
Westmoreland Road
Bromley
Kent
BR1 1DP

AUDITOR

Deloitte LLP
Chartered Accountants
London

Registered in England and Wales

DIRECTORS' REPORT

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

ACTIVITIES AND BUSINESS REVIEW**Activity**

The principal activity of the company continues to be the provision of motor vehicle repair services to the general insurance companies owned by The Royal Bank of Scotland Group plc. The directors do not anticipate any material change in either the type or level of activities of the company.

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 shareholders in seeking further opportunities for growth.

Financial performance

The company's financial performance is presented in the statement of comprehensive income on page 8.

Income for the year 2011 decreased by £7,883,000 (2010 decreased by £6,915,000), cost of sales decreased by £4,049,000 (2010 decreased by £8,769,000) and administration expenses increased by £1,536,000 (2010 increased by £2,381,000). Profit for the year was £16,403,000 (2010 £20,175,000), a decrease of 19% over 2010.

A dividend of £40,000,000 was paid on 30 November 2011 (2010 £35,000,000) and the directors do not recommend the payment of a final dividend (2010 £nil).

At the end of the year, the financial position showed total assets of £21,118,000 (2010 £47,204,000) and equity of £5,261,000 (2010 £28,858,000). The net book value of property, plant and equipment was £3,279,000 compared with £3,936,000 at the end of the previous year.

Principal risks and uncertainties

The company is funded by facilities from National Westminster Bank Plc.

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 22 to these financial statements.

Going concern

The directors, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

DIRECTORS' REPORT (continued)**DIRECTORS AND SECRETARY**

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

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

Directors	Appointed	Resigned
C P Davis		8 February 2011
T Woolgrove		8 February 2011
J A Davidson	8 February 2011	
C Weeks	8 February 2011	

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

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

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

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

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, Mr J A Davidson and Mr T Woolgrove have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

DIRECTORS' REPORT (continued)

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, which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

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

AUDITOR

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

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

A handwritten signature in black ink, appearing to read 'J A Davidson', with a long horizontal flourish extending to the right.

J A Davidson
Director
15 March 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK ASSISTANCE ACCIDENT REPAIR CENTRES LIMITED

We have audited the financial statements of UK Assistance Accident Repair Centres Limited ('the company') for the year ended 31 December 2011 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matters prescribed by the Companies Act 2006


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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK ASSISTANCE ACCIDENT REPAIR CENTRES LIMITED (continued)

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


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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
Revenue	2	106,060	113,943
Cost of sales	3	(66,465)	(70,514)
Gross profit		39,595	43,429
Administration expenses	4	(17,435)	(15,899)
Other operating income	5	42	270
Operating profit	7	22,202	27,800
Investment revenue	6	411	298
Profit before tax		22,613	28,098
Income tax expenses	8	(6,210)	(7,923)
Total comprehensive income for the year		16,403	20,175

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

The accompanying notes on pages 12 to 31 form an integral part of these financial statements

BALANCE SHEET
AS AT 31 DECEMBER 2011

	Notes	2011 £'000	2010 £'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	10	3,279	3,936
<i>Current assets</i>			
Inventories	12	988	1,543
Trade and other receivables	13	188	199
Prepayments and accrued revenue	14	127	153
Loans and receivables from related parties	15	16,536	41,373
		17,839	43,268
Total assets		21,118	47,204
Liabilities			
<i>Current liabilities</i>			
Borrowings	19	87	65
Deferred revenue and other payables	17	2,797	3,309
Payables to related parties	18	6,595	6,928
Current tax liabilities		6,150	7,918
		15,629	18,220
<i>Non-current liabilities</i>			
Deferred tax liabilities	11	228	126
Total liabilities		15,857	18,346
Equity			
Share capital	20	-	-
Retained earnings		5,261	28,858
Total equity		5,261	28,858
Total liabilities and equity		21,118	47,204

The accompanying notes on pages 12 to 31 form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 15 March 2012 and signed on its behalf by



J A Davidson
 Director

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

		Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2010		-	43,683	43,683
Total comprehensive income for the year		-	20,175	20,175
Dividends paid	9	-	(35,000)	(35,000)
Balance at 31 December 2010		-	28,858	28,858
Total comprehensive income for the year		-	16,403	16,403
Dividends paid	9	-	(40,000)	(40,000)
Balance at 31 December 2011		-	5,261	5,261

The accompanying notes on pages 12 to 31 form an integral part of these financial statements

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

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Profit for the year before tax		22,613	28,098
Adjustments for			
Depreciation of property, plant and equipment	10	845	985
Investment revenues	6	(411)	(298)
Gain on disposal of property, plant and equipment	5	(6)	(72)
Operating cash flows before movements in working capital		23,041	28,713
Movement in working capital			
Net decrease in inventories		555	311
Net decrease in trade and other receivables		11	243
Net decrease/(increase) in prepayments and accrued revenue		26	(83)
Net decrease in receivables from related parties		118	6,075
Net (decrease)/increase in payables to related parties		(333)	2,391
Net decrease in deferred revenue and other payables		(512)	(158)
Net cash from operating activities before tax		22,906	37,492
Income tax paid		(7,876)	(7,963)
Net cash generated from operating activities		15,030	29,529
Cash flows from investing activities			
Interest received	6	411	298
Purchases of property, plant and equipment	10	(188)	(83)
Proceeds from disposal of property, plant and equipment	5	6	72
Loans advanced to related parties	26	(105,017)	(112,409)
Loan repayments received from related parties	26	129,736	120,306
Net cash generated from investing activities		24,948	8,184
Cash flows from financing activities			
Dividends paid	9	(40,000)	(35,000)
Net cash flows from financing activities		(40,000)	(35,000)
Net (decrease)/increase in cash generated and bank overdrafts		(22)	2,713
Cash and cash equivalents at the beginning of the year		(65)	(2,778)
Cash and cash equivalents at the end of the year	16	(87)	(65)

The accompanying notes on pages 12 to 31 form an integral part of these financial statements

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

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

The accounts are prepared on the historical cost basis

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

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

b) Revenue recognition

The company's revenue comprises vehicle repair services provided to related parties as well as other third party customers. Revenue in respect of repairs to vehicles is recognised upon completion of the service. The price is determined using market rates for the services and materials used after discounts and sales taxes have been deducted where applicable. All revenue arises in the United Kingdom.

Investment revenue on financial assets that are classified as loans and receivables, interest expense on financial liabilities other than those at fair value through profit or loss are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability (or group of financial assets or liabilities) and of allocating the interest income or expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discount on acquisition on issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

c) Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate. Deferred taxation is accounted for in full for all temporary differences between the carrying amount for tax purposes, except in relation to overseas earnings where remittance is controlled by the company.

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

d) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment loss. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the profit or loss on a straight-line basis so as to write off the depreciable amount of property, 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. Land is not depreciated. Estimated useful lives are as follows:

Freehold and long leasehold buildings	- 50 years
Computer equipment	- up to 5 years
Vehicles	- 5 years
Other equipment	- 4 to 15 years

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****1 Accounting policies (continued)****d) Property, plant and equipment (continued)**

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

e) Impairment of property, plant and equipment

At each reporting date, the company assesses whether there is any indication that its intangible assets or 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.

f) Financial assets

On initial recognition, financial assets are classified into loans and receivables.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

g) 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 loans and receivables is impaired. A financial asset or portfolio of financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Loans and receivables

If there is 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 the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant or collectively for assets that are not individually significant.

Impairment losses are recognised in profit or loss 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.

h) Financial liabilities

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

Amortised cost

Other than derivatives, which are recognised and measured at fair value, all other financial liabilities are measured at amortised cost using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****Accounting policies (continued)****l) Derecognition**

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

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

j) Cash and cash equivalents

Cash and cash equivalents comprises cash 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

k) Inventories

Inventories, including work in progress, comprise labour, parts, paint and consumable materials used in the repair of vehicles. They are stated at the lower of cost and net realisable value less provisions for obsolete and slow-moving items. Cost is based on the first-in first-out principle

l) Adoption of new and revised Standards

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

m) Accounting developments

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Revenue

	2011 £'000	2010 £'000
Vehicle repairs from related parties (note 26)	97,366	104,404
Revenue from non-related parties		
Recoveries from policyholders	8,300	9,079
Vehicle repairs	394	460
	<u>106,060</u>	<u>113,943</u>

All revenue arises from operations in the United Kingdom

3 Cost of sales

	2011 £'000	2010 £'000
Cost of vehicle repairs charged by related parties	39,736	40,480
Cost of vehicle repairs charged by non-related parties	26,729	30,034
	<u>66,465</u>	<u>70,514</u>

4 Administration expenses

	2011 £'000	2010 £'000
Marketing and administration expenses charged by related parties	6,073	5,566
Marketing and administration expenses charged by non-related parties	1,141	2,403
Depreciation (note 10)	845	985
Management charges from related parties	8,872	6,097
Operating lease payments charged by related parties (note 26)	504	848
	<u>17,435</u>	<u>15,899</u>

Management recharge

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

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by RBSIS, the accounts of which contain full disclosure of employee benefit expenses incurred in the period including pensions. The company has no employees and pays a management charge for services provided by other group companies. The directors of the company do not receive remuneration for specific services provided to the company, however an apportionment of the relevant costs, based on an allocation of their time, is shown in note 7.

5 Other operating income

	2011 £'000	2010 £'000
Other income from related parties (note 26)	1	6
Gain on sale of vehicles, plant and equipment	6	72
Other income	-	2
Commission income	35	190
	<u>42</u>	<u>270</u>

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

6. Investment revenue

	2011 £'000	2010 £'000
Interest income from loans to related parties (note 26)	<u>411</u>	<u>298</u>

7. Operating profit before tax

	2011 £'000	2010 £'000
Operating profit before tax is stated after charging:		
Depreciation of property, plant and equipment (note 10)	845	985
Operating lease rentals		
Land and buildings	1,496	1,447
Vehicles (note 26)	504	848
	<u>2,845</u>	<u>3,280</u>

Auditor's remuneration

Fees for audit and non-audit services, included with administrative expenses are borne and recharged by a related party, RBSIS

Fees paid to the auditor in the respect of the statutory audit of the company amount to £20,000 (2010 £17,000)

Directors' emoluments	2011 £'000	2010 £'000
Other emoluments	150	47
Company pension contributions	<u>13</u>	<u>8</u>
	<u>163</u>	<u>55</u>

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 £117,971 (2010 £22,492)

A contribution of £7,652 (2010 £4,990) to a money purchase scheme was made on behalf of the highest paid director. Four of the directors (2010 three) had retirement benefits accruing under money purchase pension schemes in respect of qualifying service, none of the directors (2010 one) had benefits accruing under defined pension schemes.

None of the directors exercised share options during the year (2010 none)

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

8 Tax

	2011	2010
	£'000	£'000
Current taxation		
UK corporation tax charge for the year	6,150	7,919
(Over)/under provision in respect of prior periods	(42)	15
	<u>6,108</u>	<u>7,934</u>
Deferred taxation (note 11)		
Charge for the year	103	-
Over provision in respect of prior periods	(1)	(11)
	<u>102</u>	<u>(11)</u>
Tax charge for the year	<u>6,210</u>	<u>7,923</u>

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

	2011	2010
	£'000	£'000
Expected tax charge	5,992	7,867
Non-deductible items	53	57
Deferred tax provided at 25% (2010 27%)	53	(5)
Legal fees	67	-
Non qualifying depreciation	88	-
Adjustments in respect of prior periods	(43)	4
Actual tax charge for the year	<u>6,210</u>	<u>7,923</u>

9 Ordinary dividends

	2011	2010
	£'000	£'000
Declared and paid during the year		
Dividends paid	<u>40,000</u>	<u>35,000</u>

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

10 Property, plant and equipment

	Land and buildings £'000	Vehicles £'000	Computer and other equipment £'000	Total £'000
2011				
Cost				
At 1 January 2011	825	3,292	12,208	16,325
Additions	-	-	188	188
Reclassification	-	104	(104)	-
Disposals	-	(1,220)	-	(1,220)
At 31 December 2011	<u>825</u>	<u>2,176</u>	<u>12,292</u>	<u>15,293</u>
Accumulated depreciation				
At 1 January 2011	133	2,709	9,547	12,389
Charge for the year	12	266	567	845
Reclassification	-	-	-	-
Eliminated on disposal	-	(1,220)	-	(1,220)
At 31 December 2011	<u>145</u>	<u>1,755</u>	<u>10,114</u>	<u>12,014</u>
Carrying value				
At 31 December 2011	<u>680</u>	<u>421</u>	<u>2,178</u>	<u>3,279</u>
2010				
Cost				
At 1 January 2010	825	3,426	12,244	16,495
Additions	-	-	83	83
Reclassification	-	119	(119)	-
Disposals	-	(253)	-	(253)
At 31 December 2010	<u>825</u>	<u>3,292</u>	<u>12,208</u>	<u>16,325</u>
Accumulated Depreciation				
At 1 January 2010	121	2,670	8,866	11,657
Charge for the year	12	273	700	985
Reclassification	-	19	(19)	-
Eliminated on disposal	-	(253)	-	(253)
At 31 December 2010	<u>133</u>	<u>2,709</u>	<u>9,547</u>	<u>12,389</u>
Carrying value				
At 31 December 2010	<u>692</u>	<u>583</u>	<u>2,661</u>	<u>3,936</u>

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

11 Deferred tax

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

	Accelerated capital allowances £'000
At 1 January 2010	137
Credit to income (note 8)	(11)
At 31 December 2010	126
Charge to income (note 8)	102
At 31 December 2011	228

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

12 Inventories

	2011 £'000	2010 £'000
Work-in-progress	<u>988</u>	<u>1,543</u>

13 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	259	395
Less provision for impairment of trade receivables	<u>(71)</u>	<u>(196)</u>
	<u>188</u>	<u>199</u>

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

	1-29 days £'000	30-59 days £'000	60-89 days £'000	More than 90 days £'000	Total £'000
2011					
Trade and other receivables	<u>-</u>	<u>-</u>	<u>7</u>	<u>45</u>	<u>52</u>
2010					
Trade and other receivables	<u>78</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>80</u>

14 Prepayments and accrued revenue

	2011 £'000	2010 £'000
Prepayments	<u>127</u>	<u>153</u>

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

	2011 £'000	2010 £'000
Fellow subsidiaries (note 26)	<u>16,536</u>	<u>41,373</u>

16 Cash and cash equivalents

	2011 £'000	2010 £'000
Overdrafts		
Amounts owed to group banks (note 19)	(87)	(65)
Cash and cash equivalents per cash flow statement	<u>(87)</u>	<u>(65)</u>

17 Deferred revenue and other payables

	2011 £'000	2010 £'000
Accruals	2,552	3,000
Deferred revenue	149	160
Other tax payables	96	149
	<u>2,797</u>	<u>3,309</u>

18 Payables to related parties

	2011 £'000	2010 £'000
Fellow subsidiaries	6,682	6,993
Less borrowings from group banks	(87)	(65)
	<u>6,595</u>	<u>6,928</u>

19 Borrowings

	2011 £'000	2010 £'000
Bank overdrafts from related parties (note 26)	<u>87</u>	<u>65</u>

The borrowings are repayable on demand

20 Share capital

	2011 £	2010 £
Authorised		
Equity shares		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Issued and fully paid		
Equity shares		
2 ordinary shares of £1 each		
At 1 January and 31 December	<u>2</u>	<u>2</u>

**NOTES TO THE FINANCIAL STATEMENTS
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21 Financial instruments

Categories of financial instrument

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

2011	Loans and receivables £000	At amortised costs £000	Non-financial assets/ liabilities £000	TOTAL £000
Assets				
Vehicles, plant and equipment	-	-	3,279	3,279
Inventories	-	-	988	988
Trade and other receivables	188	-	-	188
Prepayments and accrued income	-	-	127	127
Loans and receivables from related parties	16,536	-	-	16,536
	<u>16,724</u>	<u>-</u>	<u>4,394</u>	<u>21,118</u>
Liabilities				
Borrowings	-	87	-	87
Deferred revenue and other payables	-	-	2,797	2,797
Payables to related parties	-	6,595	-	6,595
Current tax liabilities	-	-	6,150	6,150
Deferred tax liabilities	-	-	228	228
	<u>-</u>	<u>6,682</u>	<u>9,175</u>	<u>15,857</u>
Equity				5,261
				<u>21,118</u>
2010	Loans and receivables £000	At amortised costs £000	Non-financial assets/ liabilities £000	TOTAL £000
Assets				
Vehicles, plant and equipment	-	-	3,936	3,936
Inventories	-	-	1,543	1,543
Trade and other receivables	199	-	-	199
Prepayments and accrued income	-	-	153	153
Loans and receivables from/to related parties	41,373	-	-	41,373
	<u>41,572</u>	<u>-</u>	<u>5,632</u>	<u>47,204</u>
Liabilities				
Borrowings	-	65	-	65
Deferred revenue and other payables	-	-	3,309	3,309
Payables to related parties	-	6,928	-	6,928
Current tax liabilities	-	-	7,918	7,918
Deferred tax liabilities	-	-	126	126
	<u>-</u>	<u>6,993</u>	<u>11,353</u>	<u>18,346</u>
Equity				28,858
				<u>47,204</u>

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

21 Financial instruments (continued)

The following table shows the carrying value and the fair value of financial instruments carried on the balance sheet where financial instruments are not carried at fair value on the balance sheet. Where the financial instruments are of short maturity, the carrying value is equal to the fair value.

The fair value of loans and receivables is estimated by discounting expected future cash flows using current interest rates and making adjustments for credit.

	2011 Carrying value £000	2011 Fair value £000	2010 Carrying value £000	2010 Fair value £000
Financial assets				
Trade and other receivables (note 13)	188	188	199	199
Amounts due from group undertakings (note 15)	16,536	16,536	41,373	41,373
	16,724	16,724	41,572	41,572
Financial liabilities				
Borrowings (note 19)	87	87	65	65
Amounts due to group undertakings (note 18)	6,595	6,595	6,928	6,928
	6,682	6,682	6,993	6,993

22 Risk management

22.1 Risk management overview

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

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

22.1.1 Risk management within the RBS Group

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

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

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

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

22.1.2 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 Group Executive Committee (Group ExCo).

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

22 Risk management (continued)

22.2 RBS Insurance specific risk governance and oversight

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

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

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

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

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

Risk and Audit Committee

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

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

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

Executive Committee (ExCo)

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

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

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

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

22. Risk management (continued)

22.2 RBS Insurance specific risk governance and oversight (continued)

Executive Committee (ExCo) (continued)

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

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

Compliance with minimum standards

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

Identification, Assessment, Management, Monitoring, Reporting and Mitigation

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

22.3 Risk appetite

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

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

22.4 Enterprise Risk Management

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****22 Risk management (continued)****22.4.1 Risk controls**

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

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

22.5 Financial risk management

The principal risks associated with the company are as follows:

22.5.1 Interest rate risk

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

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

22.5.2 Currency risk

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

22.5.3 Credit risk

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
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22 Risk management (continued)

22.5 Financial risk management (continued)

22.5.4 Liquidity risk

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

Management focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. It is undertaken within limits and other policy parameters set by group Asset and Liability Management Committee (GALCO)

22.5.5 Market risk

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

Sensitivity analysis

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

Sensitivity factor	Description of sensitivity analysis			
Interest rate	The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate is 2%, the impact of an immediate change to 1% or 3%)			
Expenses	The impact of an increase in ongoing administrative expenses by 10%			
Cost of sales	The impact of an increase in ongoing cost of sales by 10%			

Sensitivity as at 31 December 2011

	Interest rates + 1% £'000	Interest rates - 1% £'000	Expenses + 10% £'000	Cost of sales + 10% £'000
Impact on profit before tax	492	(492)	(1,744)	(6,647)
Impact (before tax) on shareholders' equity	492	(492)	(1,744)	(6,647)

Sensitivity as at 31 December 2010

	Interest rates + 1% £'000	Interest rates - 1% £'000	Expenses + 10% £'000	Cost of sales + 10% £'000
Impact on profit before tax	457	(457)	(1,590)	(7,051)
Impact (before tax) on shareholders' equity	457	(457)	(1,590)	(7,051)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****22 Risk management (continued)****22.5 Financial risk management (continued)****22.5.5 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.

22.5.6 Operational risk

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

23 Capital risk management

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

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

24 Capital resources

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

25 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 renewable rights. The company also leases vehicles and other assets under non-cancellable lease agreements.

**NOTES TO THE FINANCIAL STATEMENTS
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25 Commitments (continued)

Operating lease commitments (continued)

At 31 December 2011, the company had obligations to make non-cancellable operating lease payments as follows

	2011		2010	
	Property £'000	Vehicles £'000	Property £'000	Vehicles £'000
Within 1 year	1,626	183	1,735	214
After 1 year but within 5 years	5,763	-	5,899	-
After 5 years	8,628	-	9,952	-
	16,017	183	17,586	214

26 Related parties

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

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

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

Revenue with other group companies in the period 1 January to 31 December 2011 comprised

1 Sales of services

	2011 £'000	2010 £'000
Sale of services (note 2)		
Fellow subsidiaries	97,366	104,404
	2011 £'000	2010 £'000
Sale of other services (note 5)		
Fellow subsidiaries	1	6
	2011 £'000	2010 £'000
Interest received (note 6)		
Fellow subsidiaries	411	298

Interest income received from deposits held with related parties was based on a floating rate above LIBOR ranging from 0.71% to 1.04% (2010: 0.56% to 0.74%).

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

ii Purchases of products and services

	2011 £'000	2010 £'000
Purchases of services		
Fellow subsidiaries	<u>54,681</u>	<u>52,143</u>
	2011 £'000	2010 £'000
Operating lease payments (note 4)		
Fellow subsidiaries	<u>504</u>	<u>848</u>

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 £43.1m (2010: £43.1m).

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

iii Compensation of key management

	2011 £'000	2010 £'000
Fellow subsidiaries	<u>424</u>	<u>256</u>

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

	2011 £'000	2010 £'000
Receivables from related parties		
Fellow subsidiaries	<u>4,545</u>	<u>4,663</u>

Movements in receivables from related parties were as follows:

	2011 £'000	2010 £'000
At 1 January	4,663	10,738
Transactions in the year	97,366	104,404
Settled during the year	(97,484)	(110,479)
At 31 December	<u>4,545</u>	<u>4,663</u>

	2011 £'000	2010 £'000
Payables to related parties		
Fellow subsidiaries	<u>6,595</u>	<u>6,928</u>

Movements in payables to related parties were as follows:

	2011 £'000	2010 £'000
At 1 January	6,928	4,537
Transactions in the year	54,681	52,143
Settled during the year	(55,014)	(49,752)
At 31 December	<u>6,595</u>	<u>6,928</u>

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

26. Related parties (continued)

v Loans to related parties

	2011 £'000	2010 £'000
Fellow subsidiaries	11,991	36,710
Movements in loans to related parties were as follows		
	2011 £'000	2010 £'000
At 1 January	36,710	44,607
Loans advanced during year	104,606	112,111
Loan repayments received	(129,736)	(120,306)
Interest received (note 6)	411	298
At 31 December	11,991	36,710