

Company Registration No: 03001989

RBS INSURANCE SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2007

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COMPANIES HOUSE

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

RBS INSURANCE SERVICES LIMITED

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RBS INSURANCE SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS:

A D Cornish
C R Crawford
M A Hesketh
C P Sullivan

SECRETARY:

P A Hutchings

REGISTERED OFFICE:

3 Edndge Road
Croydon
Surrey
CR9 1AG

AUDITORS:

Deloitte & Touche LLP
London

Registered in England and Wales.

RBS INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

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

Activity

The principal activities of the Company are the provision of managerial, advisory and data processing services and the provision of inspection, investigation and legal services activities

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

Review of the year

The directors are satisfied with the development of the Company's activities during the year. The Company will be guided by its immediate parent company in seeking further opportunities for growth. Dividends paid during 2007 were £nil (2006 £57.7m). The directors do not recommend the payment of a final dividend (2006 £nil).

The Company's financial performance is presented in the Income Statement on page 6. At the end of the year, the financial position showed total assets of £441.9m (2006 £511.5m) and equity of £73.0m (2006 £11.4m).

The Company is funded by facilities from members of The Royal Bank of Scotland Group plc. It seeks to minimise its exposure to external financial risks, further information is disclosed in note 3.

DIRECTORS AND SECRETARIES

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

From 1 January 2007 to date the following changes have taken place:

Directors	Appointed	Resigned
A D Comish	22 January 2007	
C R Crawford	22 January 2007	
C Moat	22 January 2007	27 November 2007
M N Quinton	22 January 2007	20 September 2007
R C Ramsden	22 January 2007	12 February 2008
C P Sullivan	22 January 2007	
R D Houghton		22 January 2007

RBS INSURANCE SERVICES LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Acts 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards, as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors of the Company holding office at the date of approval of this report confirms that

(1) so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(2) each 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 auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

DIRECTORS' INDEMNITIES

In terms of Section 236 of the Companies Act 2006, Mr A D Cornish, Mr C R Crawford, Mr M A Hesketh, Mr R D Houghton, Mr C Moat, Mr M N Quinton, Mr R C Ramsden and Mr C P Sullivan had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

CHARITABLE DONATIONS

The total amount given for charitable purposes by the Company during the year ended 31 December 2007 was £68,616 (2006 £40,879).

RBS INSURANCE SERVICES LIMITED

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 ('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.

EMPLOYMENT OF DISABLED PERSONS

During the year, the Company gave full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes and abilities and to appropriate vacancies.

The Company will continue to ensure that disabled employees are considered on the same basis as any other member of staff with regard to training, career, development and promotion.

EMPLOYEE INVOLVEMENT

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Company and are of interest and concern to them as employees. All permanent members of staff are eligible to participate in The Royal Bank of Scotland Group plc profit share scheme.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

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



Director

MAHESKETH
26 February 2008

RBS INSURANCE SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RBS INSURANCE SERVICES LIMITED

We have audited the financial statements of RBS Insurance Services Limited for the year ended 31 December 2007 which comprise the income statement, the balance sheet, the statement of recognised income and expense, the cash flow statement, the accounting policies and the related notes to the accounts 2 to 29. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
26 February 2008

RBS INSURANCE SERVICES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £ Million	2006 £ Million
Revenue	4	1,005.5	956.0
Other operating income	5	35.7	-
Operating expenses	6	(966.6)	(912.4)
Operating profit		74.6	43.6
Investment income	7	16.0	8.5
Finance costs	8	(19.8)	(6.1)
Profit before tax		70.8	46.0
Tax charge	9	(13.2)	(16.0)
Profit for the year	10	57.6	30.0

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

The notes on pages 10 to 32 form part of these financial statements

RBS INSURANCE SERVICES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 £ Million	2006 £ Million
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	14	48.9	34.5
Intangible assets	15	84.3	73.9
Investment in associate	16	9.0	7.8
Deferred tax assets	17	4.0	-
		<u>146.2</u>	<u>116.2</u>
<i>Current assets</i>			
Prepayments and accrued income		2.8	3.0
Loans and receivables	18	290.1	392.3
Cash and cash equivalents	19	2.8	-
		<u>295.7</u>	<u>395.3</u>
Total assets		<u>441.9</u>	<u>511.5</u>
EQUITY			
Share capital	20	-	-
Retained earnings	21	73.0	11.4
Total equity		<u>73.0</u>	<u>11.4</u>
LIABILITIES			
<i>Non-current liabilities</i>			
Borrowings	22	14.0	-
Retirement benefit obligation	26	10.3	18.5
Deferred tax liabilities	17	-	1.7
		<u>24.3</u>	<u>20.2</u>
<i>Current liabilities</i>			
Borrowings	22	187.9	319.0
Trade and other payables and deferred income	23	145.4	144.1
Current tax liabilities		11.3	15.8
Bank overdrafts	19	-	1.0
		<u>344.6</u>	<u>479.9</u>
Total liabilities		<u>368.9</u>	<u>500.1</u>
Total equity and liabilities		<u>441.9</u>	<u>511.5</u>

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2008
They were signed on its behalf by



Director M H E S K E T H

The notes on pages 10 to 32 form part of these financial statements

RBS INSURANCE SERVICES LIMITED

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £ Million	2006 £ Million
Actuarial gain on defined benefit plan	26	5.6	0.7
Deferred tax credit on actuarial gain on defined benefit plan	17	(1.6)	(0.2)
Net income recognised directly in equity		<u>4.0</u>	<u>0.5</u>
 Profit for the year		 57.6	 30.0
 Total recognised income and expense for the year		 <u><u>61.6</u></u>	 <u><u>30.5</u></u>

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

The notes on pages 10 to 32 form part of these financial statements

RBS INSURANCE SERVICES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £ Million	2006 £ Million
Profit for the year		57 6	30 0
Adjustments for			
Investment revenues	7	(16 0)	(8 5)
Finance costs	8	19 8	6 1
Tax expense	9	13 2	16 0
Depreciation of property, plant and equipment	14	6 6	6 1
Amortisation of intangible assets	15	26 7	21 8
Impairment of intangible assets	15	5 5	6 7
Derecognition of intangible assets	15	4 0	-
Profit on sale of property, plant and equipment	5	(34 4)	(1 1)
Operating cash flows before movements in working capital		83 0	77 1
Net decrease in loans and receivables		1 6	2 3
Net decrease/(increase) in inter-company balances - trading		106 7	(48 9)
Net decrease/(increase) in inter-company balances - loans		0 3	(208 9)
Net decrease in other operating liabilities		(5 4)	(19 8)
Cash generated from/(used by) operations		186 2	(198 2)
Interest paid		(19 8)	(6 1)
Tax paid		(27 1)	(9 5)
Net cash generated from/(used by) operating activities		139 3	(213 8)
Cash flows from investing activities			
Interest received		16 0	8 5
Proceeds on disposal of property, plant and equipment		92 2	1 9
Purchases of plant and equipment		(78 8)	(13 3)
Capital contribution in associate		(1 2)	(1 6)
Purchases of intangible assets		(46 6)	(44 1)
Net cash used by investing activities		(18 4)	(48 6)
Cash flow from financing activities			
Dividends paid		-	(57 7)
Proceeds from borrowings		1,136 5	383 0
Repayments of borrowings		(1,253 6)	(64 0)
Net cash (used by)/generated from financing activities		(117 1)	261 3
Net increase/(decrease) in cash and bank overdrafts		3 8	(1 1)
Cash and cash equivalents at the beginning of the year	19	(1 0)	0 1
Cash and cash equivalents at the end of the year	19	2 8	(1 0)

The notes on pages 10 to 32 form part of these financial statements

RBS INSURANCE SERVICES LIMITED

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

1 ACCOUNTING POLICIES

1.1 Basis of accounting

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

The financial statements have been prepared on the historical cost basis.

1.2 Revenue recognition

Rendering of services

The Company has undertaken the provision of inspection, investigation and legal services formerly undertaken by a fellow group company - C S G Claims Services Limited. Invoices relating to this activity are issued on a monthly basis for commissions receivable from customers, and the revenue is recognised in full on the date of the invoice.

With respect to the fixed term contracts, quarterly invoices are issued to the customer for the current month and two months in advance. The revenue for the current month is recognised immediately, and the remainder is deferred over the following two months to which the service relates. The arrangements are contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

Management fees

These are made up of staff costs and expenses recharged to subsidiary companies, excluding VAT. These fees are credited to the income statement in the period in which the management fee is billable.

The recharges are based on criteria set out in the Company's cost allocation model. Non-customer facing staff costs are recovered at a 6% mark-up above the cost to the Company. Costs other than staff costs are recovered at the cost to the Company. Revenue is accounted for on an accruals basis and matched to costs in the period in which the costs are incurred and charged to the income statement.

1.3 Property, plant and equipment

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

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of plant and equipment 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 or the period of the lease if shorter
Other equipment, including property adaptation costs	4 to 15 years
Vehicles	5 years

1.4 Leases

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

Rentals payable under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Incentives received as an inducement to enter into an operating lease are spread on a straight line basis over the lease term.

1.5 Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. These assets are derecognised if they are deemed to no longer meet the capitalisation criteria for intangible assets before the asset is brought into use. The cost is then charged back to the income statement. Amortisation is charged to the income statement once the asset is brought into use, using methods that best reflect the economic benefits over their estimated useful economic lives and included in operating expenses. The estimated useful economic lives are as follows:

Software development costs	3 to 5 years
Expenditure on internally generated brands is written off as incurred	

During the year the directors revisited the methodology applied to amortise intangible assets. As a result of the review the estimated useful economic lives of software development costs have been changed from 3 years to 3 to 5 years. The impact of this change in accounting estimate on the retained earnings and net assets is an increase of £4.1m as at 31 December 2007.

RBS INSURANCE SERVICES LIMITED

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

1 ACCOUNTING POLICIES (Continued)

1.6 Impairment of intangible assets, property, plant and equipment

At each reporting date, the Company assesses whether there is any indication that its intangible assets or property, 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 or cash generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash that have not been reflected in the estimation of future cash flows.

If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in the income statement 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 for the asset in prior years. A reversal of an impairment loss is 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.

1.7 Pensions and other post-retirement benefits

The Company operates a defined contribution and a defined benefit pension scheme (now the "Closed Scheme"). The costs of providing pensions under the Closed Scheme, which is now closed to regular contributions, are explained in note 2.1. Actuarial gains/losses that arise in the year in respect of the Closed Scheme are accounted for in full in the Statement of Recognised Income and Expense, in accordance with IAS 19 - Employee Benefits (amended December 2004).

The defined contribution pension scheme pension charge includes the amounts payable by the Company to it in respect of the year. This scheme replaced the defined benefit scheme (see note 2.1), and the costs of providing pensions under the latter have been assessed and charged to the income statement in accordance with the advice of an independent professionally qualified actuary.

The Company provides Funded Unapproved Retirement Benefits Schemes for certain senior employees. The cost of these are charged to the income statement as incurred.

The Company also provides other post retirement benefits for certain directors and senior employees. The cost of these are charged to the income statement as incurred.

The Company provides no other post retirement benefits to its employees.

1.8 Investment in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not in control or joint control over these policies.

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

The financial statements are separate financial statements. The Company is exempt from preparing consolidated financial statements. See note 28 on the ultimate controlling party and address where those consolidated financial statements are obtainable.

1.9 Financial assets

Loans and receivables – financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables.

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 all risks and rewards of ownership.

RBS INSURANCE SERVICES LIMITED

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

1 ACCOUNTING POLICIES (Continued)

1 10 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 is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

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

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

For trade and other receivables, a bad debt provision of 100% is calculated for all balances outstanding in excess of 3 months.

1 11 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 income statement unless the derivative is the hedging instrument in a qualifying hedge.

1 12 Foreign currencies

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

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

1 13 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 14 Transactions with related parties

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

1 15 Share based payments

The Royal Bank of Scotland Group grants options over shares in The Royal Bank of Scotland Group plc to its employees under various share option schemes. IFRS 2 'Share-based Payment' is applied to grants under these schemes after 7 November 2002 that had not vested on 1 January 2005. The Royal Bank of Scotland Group recognises an expense for these transactions with its employees based on the fair value on the date the options are granted. It includes the cost of these awards in determining any recharges of employee costs it makes to UK subsidiaries in the Group.

RBS INSURANCE SERVICES LIMITED

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

1 ACCOUNTING POLICIES (Continued)

1.16 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

1.17 Borrowings

Borrowings comprise bank overdrafts and inter company loans. The borrowing costs are recognised in the income statement as finance costs in the period in which they are incurred

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

1.18 Accounting developments

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

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

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

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

RBS INSURANCE SERVICES LIMITED

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

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 13. UK company law and IFRSs 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 IFRSs dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements.

The judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

2.1 Pensions

The Direct Line Group Staff Pension and Life Assurance Scheme (the "Staff Scheme") was a non-contributory defined benefit scheme. On 1 April 2003, the assets and liabilities of the Staff Scheme were transferred into the Green Flag Group Pension Plan (the "Green Flag Plan"). Subsequently, on the same date, the Green Flag Plan was renamed as the Direct Line Group Closed Pension Scheme (the "Closed Scheme"). The Staff Scheme was a closed scheme, which continued to provide benefits based on final pensionable salary to pensioners and deferred members. The Staff Scheme was wound up on 10 December 2003. The Closed Scheme has no active members. The Closed Scheme continues to provide benefits for individuals that were pensioners at the time the scheme closed, defined benefit members based on their final pensionable salary at the time the member left the scheme and defined contribution benefits for other members. The liabilities of the Closed Scheme relate to payment of pensions and deferred pensions.

The assets and liabilities of the Closed Scheme are held separately from those of the Company, however the net deficit is accounted for on the Company balance sheet. The assets of the Closed Scheme are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset / (surplus) or liability / (deficit). An asset is only recognised to the extent that the surplus can be recovered through reduced contributions in the future or through refunds from the scheme.

An actuarial valuation was performed by the Scheme Administrators, as at 31 December 2006 and as at 31 December 2007. The deficits on the above dates and the movements thereon have been accounted for as per note 26.

In determining the value of scheme liabilities assumptions are made as to price inflation, dividend growth, pension increases, earnings growth and employees. There is a range of assumptions that could be adopted in valuing the scheme's liabilities. Different assumptions could significantly alter the amount of the deficit recognised in the balance sheet and the pension cost charged to the income statement. The assumptions underlying the 2007 deficit and pension cost are set out in note 26 to the financial statements.

RBS INSURANCE SERVICES LIMITED

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

3. MANAGEMENT OF FINANCIAL RISK

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

3.1 Financial risk

The Company is a member of the Insurance Division of The Royal Bank of Scotland Group plc. As such, the Company benefits from services provided by specialist teams and risk management procedures and controls which are applied consistently across the Division. The disclosures below relate to the Insurance Division as a whole.

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

The Company's financial risk exposure is minimal and arises from its loans and receivables due from, and loans to, other members of the Royal Bank of Scotland Group.

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

Controls - Bank Deposits up to one year may be approved by one member of the IMC. Other transactions must be approved by at least two members of the IMC. Any investment not specifically named in the limits agreed with The Royal Bank of Scotland Group plc risk management division must be approved by at least three members of the IMC.

3.2.1 Market risk

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

The Company is exposed to market risk in both the value of its liabilities and the value of assets held.

Interest rate risk

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

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

Currency risk

Under the terms of the RBS Insurance Group Investment Policy and Guidelines, 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 total invested funds. For individual non-sterling investments the Company manages the foreign exchange risk through forward exchange contracts as per note 27.

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

Sensitivity analysis

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

Sensitivity factor

Interest rate and investment return

Expenses

Description of sensitivity analysis

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%).

The impact of an increase in ongoing administrative expenses by 10%.

Sensitivity at 31 December 2007

	Interest rates	Interest rates	Expenses
	+1%	-1%	+10%
Impact on profit before tax (£ Million)	(0.5)	0.5	(96.6)
Impact before tax on shareholders' equity (£ Million)	(0.5)	0.5	(96.6)

Sensitivity at 31 December 2006

	Interest rates	Interest rates	Expenses
	+1%	-1%	+10%
Impact on profit before tax (£ Million)	(0.5)	0.5	(91.2)
Impact before tax on shareholders' equity (£ Million)	(0.5)	0.5	(91.2)

RBS INSURANCE SERVICES LIMITED

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

3. MANAGEMENT OF FINANCIAL 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.

3.2.2 Credit risk

Credit risk arises from the potential that losses are incurred from the failure of a counterparty to meet its credit obligations. The main source of credit risk for the Company is loans and receivables.

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

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

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

At 31 December 2007

	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
Cash at bank and in hand (note 19)	2.8	-	-	-	-	2.8	-
Other loans and receivables (note 18)	290.1	-	-	-	-	290.1	-
	292.9	-	-	-	-	292.9	-

At 31 December 2006

	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
Cash at bank and in hand (note 19)	-	-	-	-	-	-	-
Other loans and receivables (note 18)	392.3	-	-	-	-	392.3	-
	392.3	-	-	-	-	392.3	-

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated. The Company does not hold any collateral as security.

RBS INSURANCE SERVICES LIMITED

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

3 MANAGEMENT OF FINANCIAL RISK (Continued)

The following table analyses the credit quality of financial assets that are neither due or impaired by type of asset

At 31 December 2007

	AA £	Not Rated £	Total £
Cash at bank and in hand (note 19)	2 8	-	2 8
Other loans and receivables (note 18)	-	290 1	290.1
Total	2 8	290 1	292 9

At 31 December 2006

	AA £	Not Rated £	Total £
Cash at bank and in hand (note 19)	-	-	-
Other loans and receivables (note 18)	-	392 3	392.3
Total	-	392.3	392 3

3.2.3 Liquidity risk

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

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

RBS INSURANCE SERVICES LIMITED

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

4. REVENUE

	2007 £ Million	2006 £ Million
Rendering of services	39.5	42.0
Management fee income (note 29)	966.0	914.0
	<u>1,005.5</u>	<u>956.0</u>

5 OTHER OPERATING INCOME

	2007 £ Million	2006 £ Million
Other operating income	1.3	-
Profit on sale of property, plant and equipment	34.4	-
	<u>35.7</u>	<u>-</u>

6 OPERATING EXPENSES

	2007 £ Million	2006 £ Million
Provision of inspection, investigation and legal services	2.5	2.9
Marketing and administrative expenses	715.9	673.6
Depreciation (note 14)	6.6	6.1
Management fees (note 29)	205.4	201.3
Amortisation of intangible assets	26.7	21.8
Impairment of intangible assets	5.5	6.7
Derecognition of intangible assets	4.0	-
	<u>966.6</u>	<u>912.4</u>

Expenses for marketing and administration include integration costs of £nil (2006 £0.7 million) arising from the integration of Tracker Network (UK) Limited.

7 INVESTMENT INCOME

	2007 £ Million	2006 £ Million
Interest income		
from loans to related parties (note 29)	<u>16.0</u>	<u>8.5</u>

RBS INSURANCE SERVICES LIMITED

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

8. FINANCE COSTS

	2007 £ Million	2006 £ Million
Interest expense		
Borrowings from related parties (note 29)	19.5	6.1
Interest expense - interest payable other	0.3	-
	<u>19.8</u>	<u>6.1</u>

9. TAX CHARGE

	2007 £ Million	2006 £ Million
Current taxation		
Charge for period	15.4	17.2
Under provision in respect of prior periods	5.1	0.2
	<u>20.5</u>	<u>17.4</u>
Deferred taxation (note 17)		
Charge / (credit) for period	0.2	(1.6)
(Over) / under provision in respect of prior periods	(7.5)	0.2
	<u>(7.3)</u>	<u>(1.4)</u>
Tax charge for the period	<u>13.2</u>	<u>16.0</u>

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

	2007 £ Million	2006 £ Million
Expected tax charge	21.2	13.8
Effects of		
Non-deductible items	(0.8)	1.8
Deferred tax provided at 28%	0.3	-
Non-taxable items	(5.1)	-
Adjustments in respect of prior periods	(2.4)	0.4
Tax charge	<u>13.2</u>	<u>16.0</u>

The aggregate current and deferred tax relating to items that are charged or (credited) to equity is £1.6 million (2006 £0.2 million)

10. PROFIT FOR THE YEAR

	2007 £ Million	2006 £ Million
Profit for the year is stated after charging/(crediting)		
Depreciation of property, plant and equipment (note 14)	6.8	6.1
Amortisation of intangible assets	26.7	21.8
Impairment of intangible assets	5.5	6.7
Derecognition of intangible assets	4.0	-
Operating leases	4.1	3.6
Net foreign exchange losses	0.5	-
Employee benefit expense (note 12)	502.2	469.1
Auditors' remuneration		
	2007 £ Million	2006 £ Million
Audit fees for the current year	1.3	1.3
Other services - Financial Services Authority compliance	0.1	0.1
	<u>1.4</u>	<u>1.4</u>
Recharged to related parties	(1.4)	(1.4)
	<u>-</u>	<u>-</u>

Fees for audit and non-audit services, included within operating expenses, were incurred by the Company in respect of all RBS Insurance Group statutory entities. These were recharged to related parties as part of the management fee recharge, with the exception of the Company's own fee for audit services of £40,000 (2006 £40,000)

RBS INSURANCE SERVICES LIMITED

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

10 PROFIT FOR THE YEAR (Continued)

Directors' emoluments

	2007 £ Million	2006 £ Million
Other emoluments	3.3	2.2
Company pension contributions	0.2	0.1
	<u>3.5</u>	<u>2.3</u>
Recharged to related parties	(3.2)	(2.1)
	<u>0.3</u>	<u>0.2</u>

Any expenses borne by the Company during 2007 in respect of directors' emoluments were recharged out to other RBS Insurance Group statutory entities, with the exception of the Company's own allocation of directors' emoluments

Included in the above are emoluments, excluding pension contributions, paid to the highest paid director amounting to £719,560 (2006 £967,516)

A contribution of £20,470 (2006 £73,732) to a money purchase scheme was made on behalf of the highest paid director. One other director (2006 two directors) had retirement benefits accruing under money purchase pension schemes in respect of qualifying service, five directors (2006 no director) had benefits accruing under defined benefit pension schemes

During the year seven directors have exercised options (2006 four directors)

11 DIVIDENDS

	2007 £ Million	2006 £ Million
Declared and paid during the year		
Equity dividends on ordinary shares		
Interim dividend	-	57.7

12 EMPLOYEE BENEFIT EXPENSES

	2007 No	2006 No
The average monthly number of employees, including executive directors, was		
Operations	16,125	17,106
Support	1,112	1,185
	<u>17,237</u>	<u>18,291</u>
	2007 £ Million	2006 £ Million
Salaries and other short-term employee benefits	462.2	428.8
Termination benefits	4.5	6.7
Retirement benefit obligations	35.5	33.6
	<u>502.2</u>	<u>469.1</u>

Services are usually recharged to related parties on a cost-plus basis, allowing a margin ranging from 0% to 6%

Employee costs, including directors' remuneration and non-payroll costs, were recharged by the Company to fellow subsidiary companies during the year. The total amounts recharged were £511.3 million (2006 £508.1 million)

Employee costs recharged by the Company includes the full costs of key managers and other staff in respect of share-based payments in The Royal Bank of Scotland Group plc. The attribution among members of The Royal Bank of Scotland Group plc has regard to the needs of the group as a whole. It would be inappropriate to deem that any employee had received share-based payments as a result of their employment with the Company

RBS INSURANCE SERVICES LIMITED

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

13. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in note 1 describes how the classes of financial instrument are measured and how income and expenses of the financial assets and liabilities by category are defined in IAS 39 and by the balance sheet heading.

As at 31 December 2007

	Loans and receivables £ Million	Other (amortised costs) £ Million	Non-financial assets/ liabilities £ Million	Total £ Million
Property, plant and equipment	-	n/a	48.9	48.9
Intangible assets	-	n/a	84.3	84.3
Investments in associates	-	n/a	9.0	9.0
Loans and receivables	290.1	n/a	-	290.1
Prepayments and accrued income	-	n/a	2.8	2.8
Deferred tax assets	-	n/a	4.0	4.0
Cash and cash equivalents	2.8	n/a	-	2.8
	292.9	n/a	149.0	441.9
Borrowings	n/a	201.9	-	201.9
Retirement benefit obligation	n/a	-	10.3	10.3
Trade & other payables & deferred income	n/a	145.4	-	145.4
Current tax liabilities	n/a	-	11.3	11.3
Deferred tax liabilities	n/a	-	-	-
	n/a	347.3	21.6	368.9
Equity				73.0
				441.9

As at 31 December 2006

	Loans and receivables £ Million	Other (amortised costs) £ Million	Non-financial assets/ liabilities £ Million	Total £ Million
Property, plant and equipment	-	n/a	34.5	34.5
Intangible assets	-	n/a	73.9	73.9
Investments in associates	-	n/a	7.8	7.8
Loans and receivables	392.3	n/a	-	392.3
Prepayments and accrued income	-	n/a	3.0	3.0
Cash and cash equivalents	-	n/a	-	-
	392.3	n/a	119.2	511.5
Borrowings	n/a	319.0	-	319.0
Retirement benefit obligation	n/a	-	18.5	18.5
Trade & other payables & deferred income	n/a	144.1	-	144.1
Bank Overdraft	n/a	1.0	-	1.0
Current tax liabilities	n/a	-	15.8	15.8
Deferred tax liabilities	n/a	-	1.7	1.7
	n/a	464.1	36.0	500.1
Equity				11.4
				511.5

RBS INSURANCE SERVICES LIMITED

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

14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £ Million	Vehicles £ Million	Other Equipment £ Million	Total £ Million
Cost				
At 1 January 2006	-	6.3	51.7	58.0
Additions	-	-	13.3	13.3
Disposals	-	(4.1)	-	(4.1)
At 31 December 2006	-	2.2	65.0	67.2
Additions	54.2	-	24.6	78.8
Disposals	(51.9)	(1.0)	(8.7)	(61.6)
At 31 December 2007	2.3	1.2	80.9	84.4
Depreciation				
At 1 January 2006	-	4.4	25.6	30.0
Depreciation charge for the year	-	0.9	5.2	6.1
Eliminated on disposal	-	(3.4)	-	(3.4)
At 31 December 2006	-	1.9	30.8	32.7
Depreciation charge for the year	-	0.1	6.5	6.6
Eliminated on disposal	-	(0.8)	(3.0)	(3.8)
At 31 December 2007	-	1.2	34.3	35.5
Net book amount				
At 31 December 2007	2.3	-	46.6	48.9
At 31 December 2006	-	0.3	34.2	34.5

During the year the Company acquired land and buildings from Churchill Court Limited, Churchill Insurance Company Limited and D L Buildings Limited at net book value. These companies are members of The Royal Bank of Scotland Group plc. Subsequently, land and buildings with a net book value of £51.9m were sold at an open market value of £86.3m. The profit on disposal of £34.4m has been credited to the Income Statement (note 5).

RBS INSURANCE SERVICES LIMITED

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

15 INTANGIBLE ASSETS

	Software Development Costs £ Million
Cost	
At 1 January 2006	66.6
Additions	44.1
Impaired in period	(7.2)
At 31 December 2006	103.5
Additions	46.6
Impaired in period	(7.1)
Derecognised in period	(4.0)
At 31 December 2007	139.0
Amortisation	
At 1 January 2006	8.3
Amortisation charge for the year	21.8
Impaired in period	(0.5)
At 31 December 2006	29.6
Amortisation charge for the year	26.7
Impaired in period	(1.6)
At 31 December 2007	54.7
Net book amount	
At 31 December 2007	84.3
At 31 December 2006	73.9

16 INVESTMENT IN ASSOCIATE

	2007 £ Million	2006 £ Million
At 1 January	7.8	6.2
Additions in the year	1.2	1.6
At 31 December	9.0	7.8

Investment in associate represents the Company's 10% holding of ordinary unlisted shares in Direct Line Insurance S p A, a company incorporated in Italy. The Company's proportion of voting power held is 10%. The further investment in 2007 is the Company's share of the additional capital injected in the year.

The remaining 90% investment in Direct Line Insurance S p A is held by a group company, Direct Line Group Limited.

RBS INSURANCE SERVICES LIMITED

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

17. DEFERRED TAX

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

	Software development costs £ Million	Retirement benefit obligation £ Million	Other timing differences £ Million	Total £ Million
At 1 January 2006	(8.5)	6.4	(1.0)	(3.1)
Credit/(charge) to income statement	2.9	(0.1)	(1.4)	1.4
Credit to equity directly	-	(0.2)	-	(0.2)
Transfer from group companies	-	-	0.2	0.2
At 31 December 2006	<u>(5.6)</u>	<u>6.1</u>	<u>(2.2)</u>	<u>(1.7)</u>
At 1 January 2007	(5.6)	6.1	(2.2)	(1.7)
Credit/(charge) to income statement	4.6	(1.5)	4.2	7.3
Credit to equity directly	-	(1.6)	-	(1.6)
At 31 December 2007	<u><u>(1.0)</u></u>	<u><u>3.0</u></u>	<u><u>2.0</u></u>	<u><u>4.0</u></u>

	2007 £ Million	2006 £ Million
Deferred tax assets	5.0	6.1
Deferred tax liabilities	(1.0)	(7.8)
Deferred tax assets/(liabilities)	<u>4.0</u>	<u>(1.7)</u>

18. LOANS AND RECEIVABLES

	2007 £ Million	2006 £ Million
Other loans and receivables		
Receivables from related parties (note 29)	42.6	143.1
Loans to related parties (note 29)	243.4	243.7
Trade and other receivables	4.1	5.5
Total loans and receivables	<u><u>290.1</u></u>	<u><u>392.3</u></u>

19. CASH AND CASH EQUIVALENTS

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

	2007 £ Million	2006 £ Million
Cash and cash equivalents (note 29)	2.8	-
Bank overdrafts (note 29)	-	(1.0)
	<u>2.8</u>	<u>(1.0)</u>

20. SHARE CAPITAL

The Company's authorised share capital is made up of 100 £1 ordinary shares amounting to £100 (2006 £100)
The Company's issued and fully paid share capital is made up of 2 £1 ordinary shares amounting to £2 (2006 £2)

RBS INSURANCE SERVICES LIMITED

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

21. RETAINED EARNINGS

Retained earnings	£ Million
Balance as at 1 January 2006	38.6
Actuarial gains on defined benefit plan	0.7
Deferred tax on actuarial gains on defined benefit plans	(0.2)
Profit for the year	30.0
Dividends	(57.7)
Balance as at 31 December 2006	11.4
Actuarial gains on defined benefit plan	5.6
Deferred tax on actuarial gains on defined benefit plans	(1.6)
Profit for the year	57.6
Balance as at 31 December 2007	73.0

22. BORROWINGS

	2007 £ Million	2006 £ Million
Loans from related parties (note 29)	201.9	319.0
The borrowings are repayable as follows		
Current	187.9	319.0
Non-current (repayable between five - ten years)	14.0	-
	201.9	319.0

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

23. TRADE AND OTHER PAYABLES AND DEFERRED INCOME

	2007 £ Million	2006 £ Million
Due to related parties (note 29)	38.7	36.1
Trade creditors and accruals	99.1	100.8
Other creditors	0.3	1.7
Other taxes	2.8	0.7
Deferred income	4.5	4.8
Total	145.4	144.1

Trade creditors are settled in accordance with contract terms, mostly within two months. Similarly, accruals are generally for goods and services for settlement mostly within two months.

24. CONTINGENT LIABILITIES

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

25. COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2007 £ Million	2006 £ Million
Plant and equipment	-	1.2

RBS INSURANCE SERVICES LIMITED

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

25 COMMITMENTS (Continued)

Operating lease commitments

The Company leases vehicles under non cancellable operating lease agreements

	2007 £ Million	2006 £ Million
Minimum lease payments under operating leases recognised as an expense in the year	<u>4.1</u>	<u>3.6</u>

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

	2007 £ Million	2006 £ Million
Within one year	4.8	5.3
In the second to fifth years inclusive	<u>8.3</u>	<u>8.6</u>
	<u>13.1</u>	<u>13.9</u>

26 RETIREMENT BENEFITS OBLIGATIONS

Defined contribution scheme

The Company operates the Direct Line Group Pension Scheme (1998) (the "1998 Scheme") on behalf of its employees. The 1998 Scheme is a money purchase arrangement with defined contribution levels. The assets of the 1998 Scheme are held separately from those of the Company and are invested in managed funds. The 1998 Scheme was renamed the RBS Insurance Pension Scheme as of 1 January 2005. The contributions paid by the Company are charged to the income statement, as incurred.

The pension charge in respect of the defined contribution scheme for the year was £34.8 million (2006: £33.1 million).

Defined benefit scheme

The following disclosure is in respect of the Closed Scheme, a defined benefit scheme. Details of this scheme are as per note 2.1.

The Company is the sponsoring employer of the scheme and therefore accounts for the deficit in the pension scheme.

The assumptions in respect of the defined benefit scheme and the amounts accounted for under IAS 19 are set out below.

	2007 %	2006 %
Rate of increase in pension payment	3.2	2.9
Rate of increase in salaries	4.5	4.2
Rates of increase of deferred pensions	3.2	2.9
Discount rate	6.0	5.3
Inflation rate	3.2	2.9

RBS INSURANCE SERVICES LIMITED

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

26. RETIREMENT BENEFITS OBLIGATIONS (Continued)

The assets in the Scheme and the expected rates of return are included in the table below together with the present value of the obligations and deficit in the Scheme

	Expected return 2007 %	Value at 2007 £ Million	Expected return 2006 %	Value at 2006 £ Million
Equities	8.1	29.8	8.1	26.2
Bonds	4.5	4.4	4.5	4.1
Government bonds	4.5	4.3	4.5	4.1
Corporate bonds	5.5	4.2	5.3	3.6
Other	4.6	0.6	4.6	0.7
Total market value of assets		43.3		38.7
Present value of fund obligations		53.6		57.2
Deficit in the Scheme		(10.3)		(18.5)
Deferred tax asset at 28%		(3.0)		(5.6)

The expected return on plan assets reflects the average rate of earnings expected on the investments made to provide the pension benefit obligations that are secured by the pension Scheme. The starting point for setting the expected return was the nominal gross redemption yield on UK gilt-edged securities at the balance sheet date. As at 31 December 2007 (31 December 2006) the relevant yield was 4.5% (4.5%) a year. This assumption was used for the expected return on government bonds. The expected return on corporate bonds was set equal to the discount rate which implies a risk premium over government bonds of 1.0% (0.8%) a year. For equities it has been assumed that they will outperform government bonds by 3.6% (3.6%) a year.

The deferred tax asset has not been netted off against the net pension liability and has been accounted for as an asset (note 17).

Amounts charged to the income statement

	2007 £ Million	2006 £ Million
Interest on obligation	(3.0)	(2.6)
Expected return on plan assets	2.8	2.3
	(0.2)	(0.3)

The charge to the income statement has been included under operating expenses

Amounts credited to the statement of recognised income and expense

	2007 £ Million	2006 £ Million
Actual return on scheme assets	2.5	3.0
less expected return on scheme assets	(2.8)	(2.3)
Experience gain on scheme assets	(0.3)	0.7
Experience (loss) on scheme liabilities	1.0	(0.9)
Changes in assumptions underlying the present value of scheme liabilities	4.9	0.9
Actuarial gain	5.6	0.7

The cumulative actuarial gain before deferred tax recognised in the Statement of Recognised Income and Expense as at 31 December 2007 amounted to £5,633,000 (2006: £739,000)

RBS INSURANCE SERVICES LIMITED

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

26 RETIREMENT BENEFITS OBLIGATIONS (Continued)

Changes in the present value of the defined benefit obligation are as follows

	2007 £ Million	2006 £ Million
Opening defined benefit obligation	57.2	55.3
Interest cost	3.0	2.6
Actuarial losses	(5.9)	(0.1)
Benefits paid	(0.7)	(0.6)
Closing defined benefit obligation	53.6	57.2

Changes in the fair value of the plan assets are as follows

	2007 £ Million	2006 £ Million
Opening fair value of plan assets	38.7	34.7
Expected return	2.7	2.3
Actuarial (losses)/gains	(0.2)	0.7
Contributions by company	2.8	1.6
Benefits paid	(0.7)	(0.6)
Closing fair value of plan assets	43.3	38.7

Net pension deficit before deferred tax
brought forward
carried forward

	(18.5)	(20.6)
	(10.3)	(18.5)

The Company contributed £2.8m to its defined benefit plan in 2007

The history of the plan for the current and prior years is as follows

	2007 £ Million	2006 £ Million	2005 £ Million	2004 £ Million
Present value of defined benefit obligation	53.6	57.2	55.3	43.9
Fair value of plan assets	(43.3)	(38.7)	(34.7)	(29.2)
Deficit	10.3	18.5	20.6	14.7
Experience adjustments on plan liabilities	1.0	(0.9)	(0.4)	-
Experience adjustments on plan assets	(0.3)	(0.7)	3.1	1.0

27. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative financial instruments (derivatives) to manage balance sheet foreign exchange risk as per note 3.2.1

The table below analyses the Company's derivative position at the balance sheet date

	2007		2006	
	Notional amounts £ Million	Assets/ (Liabilities) £ Million	Notional amounts £ Million	Assets/ (Liabilities) £ Million
Forward foreign exchange contracts	5.8	(0.3)	5.3	-

28 PARENT COMPANIES

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

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest and smallest group into which the Company is consolidated is The Royal Bank of Scotland Group plc, which is incorporated in Great Britain and registered in Scotland. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ

RBS INSURANCE SERVICES LIMITED

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

29 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties

i. Sales of services

	2007 £ Million	2006 £ Million
Sales of services (note 4)		
All Risk Management Limited	0.3	0.8
Churchill Insurance Company Limited	206.5	200.3
Devitt Insurance Services Limited	8.5	11.6
Direct Line Group Limited	2.8	1.8
Direct Line Insurance plc	336.6	317.6
Direct Line Life Insurance Company Limited	2.2	-
Finsure Premium Finance Limited	4.8	4.4
Green Flag Limited	0.4	-
Indemnity Insurance Limited	0.8	2.8
Inter Group Insurance Services Limited	0.3	0.5
Inter Group Intermediary Services Limited	0.3	-
Inter Group Assistance Services Limited	0.1	-
The National Insurance and Guarantee Corporation Limited	124.3	134.3
RBS Business Insurance Services Limited	4.9	5.1
RBS Insurance Group Limited	19.6	27.5
set2print Limited	0.5	0.5
Tracker Network (UK) Limited	14.1	3.2
UK Assistance Accident Repair Centres Limited	48.9	5.5
U K Insurance Limited	190.1	198.1
	<u>966.0</u>	<u>914.0</u>

	2007 £ Million	2006 £ Million
Interest income (note 7)		
All Risk Management Limited	0.1	-
Churchill Court Limited	0.1	-
Churchill Management Limited	-	0.2
C S G Claims Services Limited	-	0.9
D L Buildings Limited	0.2	0.1
Direct Line Insurance plc	-	0.3
Green Flag Holdings Limited	4.5	1.2
Green Flag Limited	0.2	-
Inter Group Insurance Services Limited	0.2	0.4
Kickshaws Limited	-	1.6
RBS Insurance Group Limited	9.9	2.7
The National Insurance and Guarantee Corporation Limited	-	0.2
UK Assistance Accident Repair Centres Limited	0.3	0.6
Weald Leasing Limited	0.5	0.3
	<u>16.0</u>	<u>8.5</u>

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 5.49% to 6.63%

ii Purchases of products and services

	2007 £ Million	2006 £ Million
Lombard Vehicle Management Limited	4.1	3.6
National Westminster Insurance Services Limited	10.7	11.4
The Royal Bank of Scotland Group plc	190.6	186.3
	<u>205.4</u>	<u>201.3</u>

RBS INSURANCE SERVICES LIMITED

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

29 RELATED PARTY TRANSACTIONS (Continued)

	2007 £ Million	2006 £ Million
Interest paid (note 8)		
Churchill Insurance Company Limited	2.6	0.8
Churchill Management Limited	1.0	-
Direct Line Accident Management Limited	-	0.1
Direct Line Group Limited	1.3	0.2
Direct Line Insurance plc	3.0	1.0
Direct Line Property Investments Limited	0.4	0.4
Green Flag Group Limited	4.2	1.1
Green Flag Limited	1.1	0.9
National Westminster Bank Plc	0.1	-
The National Insurance and Guarantee Corporation Limited	1.4	0.2
The Royal Bank of Scotland Group plc	0.3	-
Tracker Network (UK) Limited	0.7	1.1
U K Insurance Limited	3.4	0.3
	<u>19.5</u>	<u>6.1</u>

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

III Compensation for key management

The aggregate remuneration of directors and other members of key management for the Company during the year was £578,472 (2006 £385,648)

Any expenses borne by the Company during 2007 in respect of directors' emoluments were recharged out to other RBS Insurance Group statutory entities, with the exception of the Company's own allocation of directors' emoluments

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

	2007 £ Million	2006 £ Million
Bank deposits held with related parties (note 19)		
The Royal Bank of Scotland plc	2.8	-
	<u>2.8</u>	<u>-</u>
	2007 £ Million	2006 £ Million
Bank overdrafts held with related parties (note 19)		
The Royal Bank of Scotland plc	-	(1.0)
	<u>-</u>	<u>(1.0)</u>
	2007 £ Million	2006 £ Million
Receivables from related parties (note 18)		
All Risk Management Limited	-	0.1
Churchill Insurance Company Limited	-	13.4
C S G Claims Services Limited	-	0.1
Devitt Insurance Services Limited	0.8	0.9
Direct Line Financial Services Limited	-	0.8
Direct Line Insurance plc	6.1	19.4
Direct Line Life Insurance Company Limited	3.6	0.6
Finsure Premium Finance Limited	0.4	0.3
Indemnity Insurance Limited	-	0.2
Inter Group Insurance Services Limited	0.4	1.3
Inter Group Assistance Services Limited	0.1	-
RBS Business Insurance Services Limited	0.4	0.4
RBS Insurance Group Limited	1.0	56.6
The National Insurance and Guarantee Corporation Limited	-	15.1
The Royal Bank of Scotland Group plc	-	11.4
Tracker Network (UK) Limited	2.3	2.6
UK Assistance Accident Repair Centres Limited	5.7	4.7
U K Insurance Limited	21.8	15.2
	<u>42.6</u>	<u>143.1</u>

RBS INSURANCE SERVICES LIMITED

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

29. RELATED PARTY TRANSACTIONS (Continued)

Movements in receivables from related parties were as follows

	2007 £ Million	2006 £ Million
At 1 January	143 1	93 9
Transactions in the period	966 0	914 0
Payments on behalf of related party	(51 9)	-
Settled in the year	(1,014 6)	(864 8)
At 31 December	<u>42 6</u>	<u>143 1</u>

	2007 £ Million	2006 £ Million
Payables to related parties (note 23)		
Churchill Management Limited	-	0 4
D L Buildings Limited	-	0 1
Direct Line Group Limited	-	34 1
Green Flag Limited	17 5	-
Lombard Vehicle Management Limited	-	0 5
National Westminster Insurance Services Limited	1 0	0 8
The Royal Bank of Scotland Group plc	20 2	-
set2print Limited	-	0 2
	<u>38 7</u>	<u>36 1</u>

	2007 £ Million	2006 £ Million
Movements in payables to related parties were as follows		
At 1 January	36 1	35 8
Transactions in the period	205 4	201 3
Receipts on behalf of related party	44 5	-
Settled in the year	(247 3)	(201 0)
At 31 December	<u>38 7</u>	<u>36 1</u>

v Loans to related parties

	2007 £ Million	2006 £ Million
All Risk Management Limited	1 0	0 8
Churchill Court Limited	-	0 2
Devitt Insurance Services Limited	4 4	-
Direct Line Group Limited	73 8	-
D L Buildings Limited	-	6 1
Green Flag Holdings Limited	134 0	40 6
Green Flag Limited	16 5	-
Inter Group Insurance Services Limited	2 5	8 1
RBS Insurance Group Limited	-	162 2
RBS Insurance Services Ireland Limited	1 1	-
set2print Limited	-	0 5
UK Assistance Accident Repair Centres Limited	2 3	16 2
Weald Leasing Limited	7 8	9 0
	<u>243 4</u>	<u>243 7</u>

Movements in loans to related parties were as follows

	2007 £ Million	2006 £ Million
Loans to related parties		
At 1 January	243 7	34 8
Loans advanced during year	354 0	358 2
Loan repayments received	(370 3)	(157 8)
Interest received (note 7)	16 0	8 5
At 31 December	<u>243 4</u>	<u>243 7</u>

RBS INSURANCE SERVICES LIMITED

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

29. RELATED PARTY TRANSACTIONS (Continued)

vi Loans from related parties (note 22)

	2007	2006
	£ Million	£ Million
Churchill Insurance Company Limited	58.9	40.4
Churchill Management Limited	-	25.8
Direct Line Group Limited	-	8.5
Direct Line Insurance plc	2.8	47.5
Direct Line Property Investments Limited	-	16.1
RBS Insurance Group Limited	41.5	-
Green Flag Group Limited	0.6	109.1
Green Flag Limited	-	33.3
The National Insurance and Guarantee Corporation Limited	32.2	8.4
National Westminster Bank Plc	17.9	-
The Royal Bank of Scotland Group plc	15.8	-
Tracker Network (UK) Limited	22.0	6.7
U K Insurance Limited	10.2	23.2
	<u>201.9</u>	<u>319.0</u>

Movements in loans from related parties were as follows

	2007	2006
	£ Million	£ Million
At beginning of year	319.0	-
Loans advanced during year	1,136.5	383.0
Loan repayments paid	(1,273.1)	(70.1)
Interest charged (note 8)	19.5	6.1
At end of year	<u>201.9</u>	<u>319.0</u>

Interest has been charged at a rate of 3 month LIBOR - approximately 6.35% (2006 5.29%)