Company Registration No 02622895

GREEN FLAG GROUP LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2009

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

GREEN FLAG GROUP LIMITED **02622895**

CONTENTS

GREEN FLAG GROUP LIMITED **02622895**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS	L J Bartlett S Treloar
SECRETARY	P A Hutchings
REGISTERED OFFICE	The Wharf Neville Street Leeds LS1 4AZ
AUDITORS	Deloitte LLP London

Registered in England and Wales

GREEN FLAG GROUP LIMITED 02622895

DIRECTORS' REPORT

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

ACTIVITIES AND BUSINESS REVIEW

Activity

The Company is the intermediate parent undertaking of a subsidiary involved in motor vehicle assistance, repair and recovery services

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 immediate parent company in seeking further opportunities for growth

No dividends were paid during the year ended 31 December 2009 (2008 £nil) The directors do not recommend the payment of a final dividend (2008 £nil)

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 5

At the end of the year, the financial position showed total assets of £7 0m (2008 £7 8m) and equity of £2 2m (2008 £1 8m)

Going concern

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2009, approved on 24 February 2010, which were prepared on a going concern basis

Principal risks and uncertainties

The Company seeks to minimise its exposure to external risk factors and the principal uncertainties that arise from those risks Further information on financial risk management policies and exposures is disclosed in note 2

DIRECTORS AND SECRETARY

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

From 1 January 2009 to date the following changes have taken place

Directors	Appointed	Resigned
C R Crawford		30 June 2009
S Treloar	21 July 2009	
M A Hesketh		28 August 2009
L J Bartlett	7 September 2009	

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

The directors are responsible for keeping 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

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

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

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

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, Mr L J Bartlett, Mr C R Crawford, Mr M A Hesketh and Mr S Treloar had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

AUDITORS

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

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

L J Bartlett

L J Bartlett
Director
20 May 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GREEN FLAG GROUP LIMITED

We have audited the financial statements of Green Flag Group Limited ('the Company') for the year ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 15 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its 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

Matters on which we are required to report by exception

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

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

Jeremy Casson

Jeremy Casson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
21 May 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
Other operating income	3	516	-
Operating profit		**516**	**-**
Investment income	4	65	34
Finance costs	5	(71)	(329)
Profit/(loss) before tax		**510**	**(295)**
Tax (charge)/credit	6	(142)	84
Profit/(loss) for the year	7	**368**	**(211)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**368**	**(211)**

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

The notes on pages 9 to 24 form part of these financial statements

GREEN FLAG GROUP LIMITED 02622895

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	9	7,013	7,013
Current assets			
Loans and receivables	10	3	689
Current tax assets		-	84
		3	773
Total assets		**7,016**	**7,786**
EQUITY			
Share capital	11	1,001	1,001
Retained earnings	12	1,167	799
Total equity		**2,168**	**1,800**
LIABILITIES			
Current liabilities			
Borrowings	13	4,706	5,986
Current tax liabilities		142	-
Total liabilities		**4,848**	**5,986**
Total equity and liabilities		**7,016**	**7,786**

The financial statements were approved by the Board of Directors on 20 May 2010 and signed on its behalf by

L J Bartlett

L J Bartlett
Director

The notes on pages 9 to 24 form part of these financial statements

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

	Notes	Share Capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2008		**1,001**	**1,010**	**2,011**
Loss for the year		-	(211)	**(211)**
Balance as at 31 December 2008	11, 12	**1,001**	**799**	**1,800**
Profit for the year		-	368	**368**
Balance as at 31 December 2009	11, 12	**1,001**	**1,167**	**2,168**

Total changes in equity for the year were entirely attributable to equity shareholders of the Company

The notes on pages 9 to 24 form part of these financial statements

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
Profit/(loss) for the year		368	(211)
Adjustments for			
Finance costs	5	71	329
Tax charge/(credit)	6	142	(84)
Operating cash flows before movements in working capital		**581**	**34**
Net decrease/(increase) in inter-company balances - receivables		28	(28)
Repayments of loans due from related parties	15	693	-
Loans advanced to related parties	15	(35)	(34)
Net decrease in other operating liabilities		-	(552)
Cash generated from/(used by) operations		**1,267**	**(580)**
Tax credit		84	28
Interest paid		(71)	(329)
Net cash generated from/(used by) operating activities		**1,280**	**(881)**
Cash flow from financing activities			
Repayments of borrowings from related parties	15	(6,129)	-
Proceeds from borrowings from related parties	15	4,849	881
		(1,280)	881
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

Non-cash transactions

The Company did not operate a bank account during the current or previous years Trading was carried out via bank accounts owned by related parties and therefore, through inter-company transactions As a result, all cash flows as shown above, were non-cash transactions

The notes on pages 9 to 24 form part of these financial statements

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

1 ACCOUNTING POLICIES

1 1 Basis of accounting

The financial statements, which should be read in conjunction with the Director's Report, are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union The financial statements also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

The financial statements have been prepared on the historical cost basis

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

The Company is exempt from the requirement to prepare consolidated financial statements by virtue of section 400 of the Companies Act 2006 as the Company is included in the IFRS financial statements of The Royal Bank of Scotland Group plc, details of which are in note 15

1 2 Revenue recognition

Dividend income from investments in subsidiaries is recognised when the shareholder's rights to receive payment have been established Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value

1 3 Investments in subsidiary undertakings

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

1 4 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

1 5 Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables is impaired A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset

Loans and receivables – if there is 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

1 ACCOUNTING POLICIES (Continued)

1 5 Impairment of financial assets (Continued)

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

1 6 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 7 Transactions with related parties

IFRS requires all entities to disclose related party transactions

1 8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with banks

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 9 Financial liabilities

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

1 10 Borrowings

The Company classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement

Borrowings comprise inter-company loans Borrowing costs are recognised in the statement of comprehensive income as finance costs in the period in which they are incurred

Borrowings are measured at amortised cost using the effective interest method

1 11 Accounting developments

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

1 ACCOUNTING POLICIES (Continued)

1 11 Accounting developments (Continued)

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

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

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

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

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

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

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

The IASB published an amendment to IFRS 7, 'Financial instruments Disclosures' in March 2009 This amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities The amendment is effective for accounting periods beginning on or after 1 January 2009 These changes are not expected to have a material effect on the Company

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

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

1 ACCOUNTING POLICIES (Continued)

1 11 Accounting developments (Continued)

The IASB published in November 2009, IFRS 9, 'Financial instruments' on classification and measurement This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 IFRS 9 has two measurement categories amortised cost and fair value All equity instruments are measured at fair value A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest Otherwise it is at fair value through profit or loss The standard is effective for accounting periods beginning on or after 1 January 2013 These changes are not expected to have a material effect on the Company

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

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

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

1 12 Adoption of new and revised Standards

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

IAS 1 (Revised) Presentation of Financial Statements

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

1 ACCOUNTING POLICIES (Continued)

1 12 Adoption of new and revised Standards (Continued)

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

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

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

- amendment to IAS 38 Intangible Assets,
- amendment to IAS 40 Investment Property,
- amendment to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, and
- amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations

2 MANAGEMENT OF FINANCIAL RISK

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

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

2 1 Risk management

2 1 1 Risk management within the RBS Group

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

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

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

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

2 MANAGEMENT OF FINANCIAL RISK (Continued)

2 1 Risk management (Continued)

RBS Group Policy Framework

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

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

2 2 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities

The Company's financial risk exposure is minimal and arises primarily from its loans due to related parties

The loans are all payable on demand and carry a floating rate of interest which is reset on a monthly basis

2 2 1 Market risk

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

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

Interest rate risk

Interest rate risk arises primarily from the Company's loans due to related parties

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

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	Description on sensitivity analysis
Interest rate	The impact of a change in market rates by +/- 1% (e g if a current interest rate is 5%, the impact of an immediate change to 4% or 6%)

Sensitivity as at 31 December 2009

	Interest rates + 1% £'000	Interest rates - 1% £'000
Impact on profit before tax	(51)	51
Impact (before tax) on shareholders' equity	(51)	51

Sensitivity as at 31 December 2008

	Interest rates + 1% £'000	Interest rates - 1% £'000
Impact on loss before tax	(49)	49
Impact (before tax) on shareholders' equity	(49)	49

2 MANAGEMENT OF FINANCIAL RISK (Continued)

2 2 1 Market risk (Continued)

Limitations of sensitivity analysis

The above tables show the effect of a change in a key assumption while other assumptions remain unchanged In reality, there is a correlation between the assumptions and other factors It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results

2 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 Company's credit risk is minimal and arises from loans due from related parties

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

Credit risk governance

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

Credit risk assessment and credit limit approvals

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

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

Credit authority

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

Monitoring and reporting

The Company monitors the level of actual credit exposure and measures this against the defined credit assessments and limits

The main source of credit risk for the Company is loans due from related parties These amounts are managed within the Credit Risk Management Framework

2 MANAGEMENT OF FINANCIAL RISK (Continued)

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 2009

	Neither past due nor impaired £'000	Past due 1-30 days £'000	Past due 31-60 days £'000	Past due 61-90 days £'000	Past due more than 91 days £'000	Carrying value in the balance sheet £'000	Financial assets that have been impaired £'000
Loans and receivables from related parties (note 10)	3	-	-	-	-	3	-

At 31 December 2008

	Neither past due nor impaired £'000	Past due 1-30 days £'000	Past due 31-60 days £'000	Past due 61-90 days £'000	Past due more than 91 days £'000	Carrying value in the balance sheet £'000	Financial assets that have been impaired £'000
Loans and receivables from related parties (note 10)	689	-	-	-	-	689	-

The Company does not hold any collateral as security

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

The following table analyses the credit quality of financial assets that are neither past due nor impaired by type of asset

At 31 December 2009	Total - not rated £'000
Loans and receivables from related parties (note 10)	3
Total assets bearing credit risk	3

At 31 December 2008	Total - not rated £'000
Loans and receivables from related parties (note 10)	689
Total assets bearing credit risk	**689**

Loans and receivables due from related parties generally do not have a credit rating

2 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 Liquidity Risk Policy Compliance is monitored in respect of the internal policy where appropriate

The maturity profile of the Company's financial liabilities is outlined in notes 13 and 14

2 MANAGEMENT OF FINANCIAL RISK (Continued)

2 2 4 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

2 2 5 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

3 OTHER OPERATING INCOME

	2009 £'000	2008 £'000
Other income	516	-

4 INVESTMENT INCOME

	2009 £'000	2008 £'000
Interest income from loans to related parties (note 15)	7	34
Interest income from other investments	58	-
	65	34

5 FINANCE COSTS

	2009 £'000	2008 £'000
Interest expense		
Borrowings from related parties (note 15)	71	302
Unwinding of discount on deferred consideration (note 14)	-	27
	71	329

6 TAX (CHARGE)/CREDIT

	2009 £'000	2008 £'000
Current tax		
Tax (charge)/credit for the year	(142)	84

There was no difference between the actual tax (charge)/credit compared to the expected tax (charge)/credit computed by applying the standard rate of UK corporation tax of 28% (2008 28 5%)

7 PROFIT FOR THE YEAR

Profit is stated after charging

Auditors' remuneration

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

Fees paid to the auditors in respect of the statutory audit of the Company amount to £1,000 (2008 £1,000)

Employees

The Company had no employees at any time during the current nor preceding year

Directors' emoluments

None of the directors who served during this or the previous financial year were remunerated by the Company Emoluments in relation to services performed by the directors for other group companies are not disclosed in the Company's financial statements

8. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

As at 31 December 2009

	Loans and receivables £'000	Other (amortised costs) £'000	Non-financial assets/ liabilities £'000	Total £'000
Investments in subsidiaries	-	n/a	7,013	7,013
Loans and receivables	3	n/a	-	3
	3	n/a	7,013	7,016
Borrowings	n/a	4,706	n/a	4,706
Current tax liabilities	n/a	-	142	142
	n/a	4,706	142	4,848
Equity				2,168
				7,016

As at 31 December 2008

	Loans and receivables £'000	Other (amortised costs) £'000	Non-financial assets/ liabilities £'000	Total £'000
Investments in subsidiaries	-	n/a	7,013	7,013
Loans and receivables	689	n/a	-	689
Current tax assets	-	n/a	84	84
	689	n/a	7,097	7,786
Borrowings	n/a	5,986	n/a	5,986
	n/a	5,986	n/a	5,986
Equity				1,800
				7,786

9 INVESTMENTS IN SUBSIDIARIES

Cost	2009 £'000	2008 £'000
At 1 January and at 31 December 2009	7,013	7,013

Details of the Company's subsidiaries as at 31 December 2009 are as follows

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Green Flag Limited	Great Britain	100%	100%	Motor vehicle assistance
Kickshaws Limited*	Great Britain	100%	100%	In Members' Voluntary Liquidation*
National Breakdown Recovery Club Limited	Great Britain	100%	100%	Dormant
Nationwide Breakdown Recovery Services Limited	Great Britain	100%	100%	Dormant

* Dissolved on 24 February 2010

10 LOANS AND RECEIVABLES

	2009 £'000	2008 £'000
Receivables from related parties (note 15)	-	28
Loans to related parties (note 15)	3	661
	3	689

11 SHARE CAPITAL

The Company's authorised share capital is made up of 2,994,000 ordinary shares of £1 ordinary shares amounting to £2,994,000 (2008 £2,994,000), 500,000 525% cumulative non-voting Preferred ordinary shares of 1p each amounting to £5,000 and 1,000 Deferred ordinary shares of £1 amounting to £1,000 (2008 £1,000)

The Company's issued and fully paid share capital is made up of 1,000,000 ordinary shares of £1 each amounting to £1,000,000 (2008 £1,000,000) and 1,000 Deferred ordinary shares of £1 each amounting to £1,000 (2008 £1,000) The Company also has 333,667 525% cumulative non-voting Preferred ordinary shares of 1p each in issue which have been classified as borrowings in accordance with IAS 32 - 'Financial Instruments Presentation' (see note 13)

Rights
The rights attaching to the share capital of the Company are as follows

Dividends
- deferred ordinary shares shall not rank for dividend, and
- ordinary shares shall be entitled to the profits of the Company which it may from time to time determine to distribute in respect of any financial year or other period

Voting rights
- ordinary shares are the only shares that entitle a holder thereof to receive notice of and to attend and to vote at meetings of the Company

Winding up
On a return of assets or liquidation, the assets if any remaining after the debts and liabilities of the Company and the costs of winding up have been paid or allowed for shall be applied

- first to holders of Preferred ordinary shares the sum of £1 for each share,
- next to ordinary shares the amount paid up on such shares,
- next to ordinary shares one million times the amounts paid up on such shares, and
- next to Deferred ordinary shares the amounts paid up on such shares

The balance of such surplus assets shall belong to holders of ordinary shares

See note 13 for further details on the rights attached to Preferred ordinary shares

12 RETAINED EARNINGS

	£'000
Balance as at 1 January 2008	1,010
Loss for the year	(211)
Balance as at 31 December 2008	**799**
Profit for the year	368
Balance as at 31 December 2009	**1,167**

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

13 BORROWINGS

	2009 £'000	2008 £'000
Loans from related parties (note 15)	4,703	5,983
Preferred ordinary shares (note 15)	3	3
	4,706	**5,986**

The Preferred ordinary shares were made up as follows

	2009 £'000	2008 £'000
333,667 525% cumulative non-voting Preferred ordinary shares of 1p each	**3**	**3**

No dividend was paid in the current or the prior year on the Preferred ordinary shares

Preferred ordinary shares shall carry the right to a cumulative preferential dividend at the rate of 525% per annum (net of basic rate income tax) on the amount being paid up or credited as paid up on the shares The shares shall rank for dividend in priority to any other shares of the Company

See note 11 for further details on the rights attached to the Preferred ordinary shares

The borrowings are repayable on demand The directors consider that the carrying amount of borrowings approximates their fair value

14 TRADE AND OTHER PAYABLES AND DEFERRED INCOME

	2009 £'000	2008 £'000
At 1 January	-	550
Settled in the year	-	(577)
Unwinding of discount on deferred consideration (note 5)	-	27
At 31 December	-	-

The deferred consideration in 2008 was payable to the vendors of Kickshaws Limited over three years from the acquisition date As a result, the deferred consideration was discounted to reflect the economic value of the acquisition The discount was then unwound at the end of each year, until the date of final settlement in 2008

15 RELATED PARTIES

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

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

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

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

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

i Revenue - investment income

	2009 £'000	2008 £'000
Interest received (note 4)		
RBS Insurance Services Limited	7	34

ii Interest charges

	2009 £'000	2008 £'000
Interest paid (note 5)		
RBS Insurance Services Limited	9	-
U K Insurance Limited	62	302
	71	**302**

iii Receivables from related parties (note 10)

	2009 £'000	2008 £'000
Direct Line Group Limited	-	28

Movements in receivables from related parties were as follows	2009 £'000	2008 £'000
At 1 January	28	-
Transactions in the period	-	28
Settled in the period	(28)	-
At 31 December	**-**	**28**

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

15 RELATED PARTIES (Continued)

iv Loans to related parties (note 10)

	2009 £'000	2008 £'000
RBS Insurance Services Limited	**3**	**661**

Movements in loans to related parties were as follows	2009 £'000	2008 £'000
At 1 January	661	627
Loans advanced during year	28	-
Loan repayments received	(693)	-
Interest charged (note 4)	7	34
Settled in the year	-	-
At 31 December	**3**	**661**

v Loans from related parties note 13)

	2009 £'000	2008 £'000
Green Flag Holdings Limited	3	3
RBS Insurance Services Limited	4,703	-
U K Insurance Limited	-	5,983
	4,706	**5,986**

Movements in loans from related parties were as follows	2009 £'000	2008 £'000
At 1 January	5,986	5,105
Loans advanced during year	4,778	579
Loan repayments made	(6,129)	-
Interest charged (note 5)	71	302
At 31 December	**4,706**	**5,986**

Interest received from, and interest paid to, related parties were at rates ranging from 0 57% to 2 35% (2008 3 17% to 6 19%) These loans are unsecured and repayable on demand

vi Tax

Current tax (liabilities)/assets are (payable)/receivable from related parties as follows	2009 £'000	2008 £'000
HM Revenue & Customs	**(142)**	**84**