

Company Registered No: SC065913

**THE ROYAL BANK OF SCOTLAND GROUP INDEPENDENT FINANCIAL SERVICES
LIMITED**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2012

**RBS Secretariat
The Royal Bank of Scotland Group plc
PO Box 1000
Ground Floor, House G
Gogarburn
Edinburgh
EH12 1HQ**

MONDAY



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DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2012

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**THE ROYAL BANK OF SCOTLAND GROUP INDEPENDENT
FINANCIAL SERVICES LIMITED**

SC065913

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS: F L Davis
I M B McLaughlin

SECRETARY: Y Wood

REGISTERED OFFICE: 24/25 St Andrew Square
Edinburgh
EH2 1AF

AUDITOR: Deloitte LLP,
Lomond House
9 George Square
Glasgow
G2 1QQ

Registered in Scotland

DIRECTORS' REPORT

The directors of The Royal Bank of Scotland Group Independent Financial Services Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2012.

ACTIVITIES AND BUSINESS REVIEW

Principal activity

The principal activity of the Company continues to be the provision of brokerage services for a comprehensive range of independent life assurance, pensions and related investments and financial services. The Company is regulated by the Financial Services Authority (FSA).

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("the Group") 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 Group review these matters on a group basis. Copies can be obtained from RBS Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's website at rbs.com.

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.

Impact of Retail Distribution Review (RDR)

As a result of regulatory changes introduced from 1 January 2013 by the FSA the Company materially changed its business model. The changes, known in the industry as Retail Distribution Review ("RDR"), led to a review across the wider Retail Banks of The Royal Bank of Scotland plc ("RBS plc") and National Westminster Bank Plc which concluded that there would be a consolidation of the current sales forces providing advice to Retail customers and that the Company would no longer provide an advice service. The consolidated sales force now provides 'restricted' advice through the Retail Bank legal entities. As a result the Company will continue to receive trail commission from its existing assets under administration and legacy sales but will no longer advise new customers, and therefore no longer receive fee or commission income for this type of activity.

Financial performance

The Company's financial performance is presented on pages 8 to 10.

Income fell by £2,300,306 (2011: £1,511,910) and expenses rose by £359,276 (2011: £411,805). After impairment provisions of £28,086 (2011: credit of £238,008), the profit for the year was £2,572,701 (2011: £4,444,849), a decrease of 42.1% over 2011.

No interim dividend was paid for 2012 (2011: £7,000,000) and no final dividend in respect of 2012 is proposed (2011: £nil).

At the end of the year, the balance sheet showed total assets of £31,218,106 (2011: £30,842,384). Total shareholders' funds were £18,765,475 (2011: £16,192,774).

PRINCIPAL RISKS AND UNCERTAINTIES

The Company seeks to minimise its exposure to financial risks other than equity and credit risk.

Management focuses on both the overall balance sheet structure and the control, within prudent limits, of risk arising from mismatches, including currency, maturity, interest rate and liquidity. It is undertaken within limits and other policy parameters set by the Group Asset and Liability Management Committee (GALCO).

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The Company is funded by facilities from the Group. These are denominated in the functional currency and carry no significant financial risk.

The Company's assets mainly comprise investments which would expose it to market, credit, residual risk, except the majority of balances are with Group companies.

Interest rate risk

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

The Company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches.

The financial liabilities of the Company primarily consist of amounts due to Group undertakings and third party trade payables. The amounts due to Group undertakings do not have any significant interest rate risk as they are due primarily on demand. The third party trade payables do not have any significant interest rate risk as the Company follows the policy and practice on payment of creditors determined by the Group as detailed in the Directors' Report.

Currency risk

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

Credit risk

The objective of credit risk management is to enable the Company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the Company.

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

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

Liquidity risk

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

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the Group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

Market risk

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

The principal risk to which the Company is exposed is interest rate and is mitigated by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches.

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Conduct Risk

Conduct risk is the risk that the conduct of the Group and its staff towards its customers, or within the markets in which it operates, leads to reputational damage and/or financial loss by breaching regulatory rules or laws, or failing to meet customers' or regulators' expectations of the Group. Activities through which conduct risk may arise include: personal account dealing; privacy and data protection; conflicts of interest; and product design.

Effective conduct risk management is not only a commercial imperative for the Group; customers, clients and counterparties demand it as a precursor to building trust. It also reflects the changing regulatory environment.

The Group's Compliance function manages conduct risk facing the Group, including Anti-Money Laundering (AML); Sanctions and Terrorist Financing; and Anti-Bribery and Corruption. In doing so, Group Compliance is responsible for the design, implementation and maintenance of an effective management framework to enable consistent identification, assessment, management, monitoring and reporting of conduct risk.

GOING CONCERN

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

DIRECTORS AND SECRETARY

The present directors and secretary are listed on page 1.

From 1 January 2012 to date the following changes have taken place:

Directors	Appointed	Resigned
F L Davis	19 April 2013	-
M F Fleming	18 April 2012	22 March 2013
I M B McLaughlin	14 May 2012	-
S J Deaves	-	1 May 2012
I J Grant	-	5 October 2012
G Morrison	-	21 June 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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. Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss of the Company for that period. 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 Financial Reporting Standard 101 has been followed, and
- make an assessment of the Company's ability to continue as a going concern.

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITY (continued)

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 AUDITOR

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

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

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

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, F L Davis, S J Deaves, M F Fleming, I Grant, G Morrison, and I M B McLaughlin have been granted Qualifying Third Party Indemnity Provisions by the Group.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

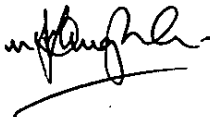
The Company follows the policy and practice on payment of trade creditors determined by The Royal Bank of Scotland Group plc, which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

At 31 December 2012, the Company had no trade creditors (2011: none).

AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor.

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



I M B McLaughlin
Director
Date: 15th April 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND GROUP INDEPENDENT FINANCIAL SERVICES LIMITED

We have audited the financial statements of The Royal Bank of Scotland Group Independent Financial Services Limited ('the Company') for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

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 in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

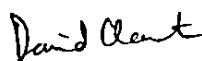
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF
SCOTLAND GROUP INDEPENDENT FINANCIAL SERVICES LIMITED (continued)**

Matters on which we are required to report by exception

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

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



David Claxton, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom

25 April 2013

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Notes	2012 £	2011 £
Continuing operations			
Interest receivable		205,153	276,662
Fees and commissions receivable		25,162,171	27,390,968
Total income		25,367,324	27,667,630
Operating expenses	3	(21,915,295)	(21,556,019)
Profit on ordinary activities before tax		3,452,029	6,111,611
Tax charge	4	(879,328)	(1,666,762)
Profit and total comprehensive income for the year		2,572,701	4,444,849

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

**THE ROYAL BANK OF SCOTLAND GROUP INDEPENDENT
FINANCIAL SERVICES LIMITED**

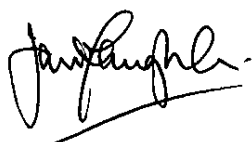
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**BALANCE SHEET
as at 31 December 2012**

	Notes	2012 £	2011 £
Fixed assets			
Investment in subsidiary undertakings	6, 12	100,000	100,000
Amounts due from other Group undertakings	12, 17	4,000,000	6,000,000
		<u>4,100,000</u>	<u>6,100,000</u>
Current assets			
Deferred tax asset	7, 12	274,797	82,342
Trade receivables	13	325,465	1,370,045
Amounts due from other Group undertakings	12	2,172,257	2,186,553
Prepayments and other assets	8, 12	176,031	-
Cash at bank	9, 12	24,169,556	21,103,444
Total assets		<u>31,218,106</u>	<u>30,842,384</u>
Creditors: amounts falling due within one year			
Trade and other payables	10, 12	302,339	803,677
Current tax liability	12	801,483	1,587,372
Amounts due to other Group undertakings	12, 17	6,326,657	7,632,674
Accruals, deferred income and other liabilities	12	2,033,614	2,107,567
		<u>9,464,093</u>	<u>12,131,290</u>
Creditors: amounts falling due after more than one year			
Provisions	11, 12	2,988,538	2,518,320
Total liabilities		<u>12,452,631</u>	<u>14,649,610</u>
Equity			
Called up share capital	14	3,050,000	3,050,000
Profit and loss account		15,715,475	13,142,774
Total shareholders' funds		<u>18,765,475</u>	<u>16,192,774</u>
Total liabilities and shareholders' funds		<u>31,218,106</u>	<u>30,842,384</u>

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 25th April 2013 and signed on its behalf by:



I M B McLaughlin
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Share capital £	Profit and loss account £	Total £
At 1 January 2011	3,050,000	15,697,925	18,747,925
Profit for the year	-	4,444,849	4,444,849
Dividend paid	-	(7,000,000)	(7,000,000)
At 31 December 2011	3,050,000	13,142,774	16,192,774
Profit for the year	-	2,572,701	2,572,701
At 31 December 2012	3,050,000	15,715,475	18,765,475

Total comprehensive income for the year of £2,572,701 (2011: £4,444,849) was wholly attributable to the owners of the Company.

The accompanying notes on pages 11 to 20 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation and preparation of financial statements

These financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS) and under Financial Reporting Standard 101 ("FRS101") (Reduced Disclosure Framework). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

Accordingly, in the year ended 31 December 2012 the Company has undergone transition from reporting under IFRS adopted by the European Union to FRS 101 as issued by the Financial reporting Council which the Company has adopted early. This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, non-current assets held for sale, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and standards not yet effective. Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in Note 17.

The financial statements are prepared on the historical cost basis. The principal policies adopted are set out below.

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

The Company is incorporated in the UK and registered in Scotland. The Company's financial statements are presented in accordance with the Companies Act 2006.

A number of changes to IFRS were effective from 1 January 2012. They have had no material effect on the Company's financial statements for the year ended 31 December 2012.

b) Consolidated financial statements

The financial statements contain information about The Royal Bank of Scotland Group Independent Financial Services Limited as an individual company and do not contain consolidated financial information as a parent company of a Group. The Company is exempt under International Accounting Standards (IAS) 27 Consolidated and Separate Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the Company and its subsidiaries are included by full consolidation in the IFRS consolidated accounts of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland.

c) Revenue recognition

Fees in respect of rendering of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered.

All of the Company's business is derived from operations in the UK. Fees and commissions are received from the agency sale of insurance and investment products. Commissions are earned when the insurance or investment product has been arranged and placed. However, provision is made where commission is refundable in the event of policy cancellation in line with estimated cancellations.

Dividend income is recognised when the paying entity is obliged to make the payment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

c) Revenue recognition (continued)

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

d) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the profit and loss account except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

e) Investment in Group undertakings

Investment in Group undertakings are stated at cost less any impairment.

f) Provisions

The Company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

g) Financial assets

Financial assets are classified as loans and receivables.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy 1(c)) less any impairment losses.

h) 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 a 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

i) Financial liabilities

On initial recognition financial liabilities are classified at amortised cost.

j) Derecognition of financial assets and liabilities

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition.

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

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK Company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable accounting standard, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. 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.

Trade receivables impairment provisions

The Company's trade receivable impairment provisions are established to recognise incurred impairment losses in its portfolio of trade receivables classified as loans and receivables and carried at amortised cost. A trade receivable is impaired when there is objective evidence that events since the receivable was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the trade receivable and the present value of estimated future cash flows at the receivable's original effective interest rate.

At 31 December 2012, gross trade receivables totalled £408,619 (2011: £1,425,113) and impairment provisions amounted to £83,154 (2011: £55,068).

Investments in and loans to group undertakings

The Company has reviewed the carrying value of investments in Group undertakings and concluded that there are no impairments.

Clawback provisions

The provision for indemnity commission is required by the FSA to provide for future cancellations of policies where the commission has been recognised up front. Provisions are determined by management based on historic experience of cancellations. Actual experience on future cancellations may differ from historic trends.

Claims provisions

The claims provision is a customer specific provision for outstanding compensation, and refers to anticipated reimbursement limited to the value of the professional indemnity policy excess. Provisions are determined on a case by case basis and are regularly assessed by management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Operating expenses

	2012 £	2011 £
Staff costs	15,401,411	15,615,386
Management fees	3,564,631	2,181,709
Other operating expenses	2,949,253	3,758,924
	21,915,295	21,556,019

The auditor's remuneration for statutory audit work for the Company was £27,000 (2011: £25,000). Audit fees and non audit fees are charged as a group service to RBS plc without specific allocation to the Company.

Management recharge

Management fees relate to the Company's share of Group resources such as the use of IT platforms operations staff and a share of central resources. These are re-charged on an annual basis by RBS plc.

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by RBS plc, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The Company has no employees and pays a management charge for services provided by other Group companies. The directors of the Company do not receive remuneration for specific services provided to the Company.

4. Taxation

	2012 £	2011 £
Current taxation:		
UK corporation tax charge for the year	801,483	1,587,372
Under provision in respect of prior periods	270,300	61,152
	1,071,783	1,648,524
Deferred taxation:		
Current year charge	93,187	44,181
Over provision in respect of prior periods	(285,642)	(25,943)
	(192,455)	18,238
Tax charge for the year	879,328	1,666,762

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 24.5% (2011: 26.5%) as follows:

	2012 £	2011 £
Profit before tax	3,452,029	6,111,611
Expected tax charge	868,062	1,619,158
Non-deductible items	1,320	5,101
Non-taxable items	-	-
Adjustments in respect of prior periods	(15,342)	35,209
Reduction in deferred tax liability following change in rate of UK Corporation Tax	25,288	7,294
Actual tax charge	879,328	1,666,762

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Taxation (continued)

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest enacted rate standing at 23% with effect from 1 April 2013. Further reductions of the rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were announced on 5 December 2012 and 20 March 2013 respectively, but not substantively enacted at the balance sheet date. Accordingly, the closing deferred tax assets and liabilities have been calculated at 23%.

5. Ordinary dividends

	2012 £	2011 £
Interim dividends paid	-	7,000,000

No dividends were distributed to equity holders during the year (2011: 229.5p per ordinary share).

6. Investment in subsidiary undertakings

Investments in subsidiary undertakings are carried at cost less impairment:

	2012 £	2011 £
At 1 January and 31 December	100,000	100,000

The Company's investment in Holt's Services Agency Limited was not impaired during the year.

The subsidiary undertakings of the Company are shown below. Their capital consists of ordinary shares.

Name of subsidiary	Country of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Holt's Services Agency Limited	UK	100%	100%	Dormant

During the year, the Company's subsidiaries, RoboScot (43) Limited and RoboScot (44) Limited, were dissolved. The investment in these subsidiary undertakings had been held at nil value.

7. Deferred taxation

The following are the major tax assets recognised by the Company, and the movements thereon.

	Provisions	Capital allowances £	Total £
At 1 January 2011	-	100,580	100,580
Charge/(credit) to Statement of Comprehensive Income	7,838	(26,076)	(18,238)
At 1 January 2012	7,838	74,504	82,342
Charge/(credit) to Statement of Comprehensive Income	211,096	(18,641)	192,455
At 31 December 2012	218,934	55,863	274,797

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Prepayments and other assets

	2012 £	2011 £
Prepayments	<u>176,031</u>	-

9. Cash at bank

	2012 £	2011 £
Demand deposits with banks - Group	<u>24,169,556</u>	<u>21,103,444</u>

10. Trade and other payables

	2012 £	2011 £
Trade payables	300,019	799,503
Other payables	2,320	4,174
	<u>302,339</u>	<u>803,677</u>

11. Provisions

	Provision for indemnity commission £	Claims provision £	Total £
At 1 January 2012	2,005,139	513,181	2,518,320
Charge to Statement of Comprehensive Income	2,123,178	2,181,603	4,304,781
Utilised in year	(2,061,771)	(1,772,792)	(3,834,563)
At 31 December 2012	<u>2,066,546</u>	<u>921,992</u>	<u>2,988,538</u>

The provision for indemnity commission is required by the FSA to provide for future cancellations of policies where the commission has been recognised up front.

The claims provision is a customer specific provision for outstanding compensation, and refers to anticipated reimbursement limited to the value of the professional indemnity policy excess.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial instruments

Categories of financial instrument

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

2012	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
Assets				
Investment in subsidiary undertakings	-	-	100,000	100,000
Deferred tax asset	-	-	274,797	274,797
Trade receivables	325,465	-	-	325,465
Amounts due from other Group undertakings	6,172,257	-	-	6,172,257
Prepayments and other assets	-	-	176,031	176,031
Cash at bank	24,169,556	-	-	24,169,556
	30,667,278	-	550,828	31,218,106
Liabilities				
Trade and other payables	-	302,339	-	302,339
Current tax liability	-	-	801,483	801,483
Amounts due to other Group undertakings	-	6,326,657	-	6,326,657
Accruals, deferred income and other liabilities	-	-	2,033,614	2,033,614
Provisions	-	-	2,988,538	2,988,538
	-	6,628,996	5,823,635	12,452,631
Equity				18,765,475
				31,218,106

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial instruments (continued)

2011	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
Assets				
Investment in subsidiary undertakings	-	-	100,000	100,000
Deferred tax asset	-	-	82,342	82,342
Trade receivables	1,370,045	-	-	1,370,045
Amounts due from other Group undertakings	8,186,553	-	-	8,186,553
Cash at bank	21,103,444	-	-	21,103,444
	<u>30,660,042</u>	<u>-</u>	<u>182,342</u>	<u>30,842,384</u>
Liabilities				
Trade and other payables	-	803,677	-	803,677
Current tax liability	-	-	1,587,372	1,587,372
Amounts due to other Group undertakings	-	7,632,674	-	7,632,674
Accruals, deferred income and other liabilities	-	-	2,107,567	2,107,567
Provisions	-	-	2,518,320	2,518,320
	<u>-</u>	<u>8,436,351</u>	<u>6,213,259</u>	<u>14,649,610</u>
Equity				<u>16,192,774</u>
				<u>30,842,384</u>

There is no material difference between the carrying value and the fair value of the financial instruments.

13. Financial assets impairments

	2012 £	2011 £
Gross receivables	408,619	1,425,113
Impairment provision	(83,154)	(55,068)
Trade and other receivables	<u>325,465</u>	<u>1,370,045</u>

The following table shows the movement in the provision for impairment of trade and other receivables.

	2012 £	2011 £
At 1 January 2012	55,068	311,097
Amounts written off	-	(18,021)
Charge/(credit) to Statement of Comprehensive Income	28,086	(238,008)
At 31 December 2012	<u>83,154</u>	<u>55,068</u>

A description of the impairment methodology used is provided in Note 2.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Financial assets impairments (continued)

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

	Past due 1 - 29 days £	Past due 30 - 59 days £	Past due 60 - 89 days £	Past due more than 90 days £	Total £
2012					
Trade and other receivables	101,951	39,106	8,406	15,922	165,385
2011					
Trade and other receivables	1,108,389	207,219	35,644	18,793	1,370,045

14. Share capital

	2012 £	2011 £
Authorised:		
3,100,000 Ordinary Shares of £1 each	3,100,000	3,100,000
Issued and fully paid:		
3,050,000 Ordinary Shares of £1 each	3,050,000	3,050,000

The Company has one class of Ordinary Shares which carry no right to fixed income.

15. Capital resources

The Company's capital consists of equity comprising issued share capital and retained earnings. The Company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the Company is governed by the Group's policy which is to maintain a strong capital base. The Company is separately regulated and has complied with FSA's capital requirements throughout the year. As part of the governance of the Company the capital position is actively managed and regularly reviewed with necessary action taken as required.

16. Commitment and contingent liabilities

The Company, together with other members of the Group, is party to a capital support deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Related party transactions

UK Government

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Financial Investments Limited, a company it wholly owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Company.

The Company enters into transactions with these bodies on an arms' length basis; they consisted solely of corporation tax, Value Added Tax and regulatory fees and levies.

Group Undertakings

The Company's ultimate and immediate parent company is The Royal Bank of Scotland Group plc, a company incorporated in the UK and registered in Scotland.

As at 31 December 2012, The Royal Bank of Scotland Group Plc heads the largest and the smallest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

Transactions with other Group companies in the period 1 January to 31 December 2012 comprised:

	2012 £	2011 £
Revenue (interest received)		
The Royal Bank of Scotland plc	205,153	276,662
Expense (management recharge)		
The Royal Bank of Scotland plc	3,564,631	2,181,709

Balances with other Group companies in the period 1 January to 31 December 2012 comprised:

	2012 £	2011 £
Amounts due from:		
The Royal Bank of Scotland plc	6,136,526	8,150,822
National Westminster Bank Plc	35,731	35,731
	6,172,257	8,186,553
Amounts due to:		
The Royal Bank of Scotland plc	3,488,388	4,878,768
Coutts & Co	2,738,269	2,653,906
Holt's Services Agency Limited	100,000	100,000
	6,326,657	7,632,674