DIRECT LINE INSURANCE GROUP PLC

HISTORICAL FINANCIAL INFORMATION

FOR THE YEARS ENDED 31 DECEMBER 2011, 31 DECEMBER 2010 AND 31 DECEMBER 2009

The unaudited combined financial information for the three years ended 31 December 2011, 2010 and 2009 contained in this document has been prepared for the combined group which comprises Direct Line Insurance Group plc (the "**Company**") and its subsidiaries, and Direct Line Versicherung AG (together referred to as the "**Group**"). The information has been extracted from the prospectus issued by Direct Line Insurance Group plc on 25 April 2012.

The historical financial information does not comprise statutory accounts within the meaning of Section 434(3) of the Companies Act 2006, as amended.

25 April 2012

DIRECT LINE INSURANCE GROUP PLC

COMBINED INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2011, 2010 AND 2009

	Notes	2011 £ Million	2010 £ Million	2009 £ Million
Gross earned premium	5	4,522.9	5,152.4	5,330.4
Reinsurance premium ceded	5	(269.9)	(178.9)	(202.1)
Net earned premium		**4,253.0**	**4,973.5**	**5,128.3**
Investment return	6	281.9	321.7	365.6
Instalment income	7	145.0	187.7	155.9
Other operating income	7	95.1	107.5	78.6
Total income		**4,775.0**	**5,590.4**	**5,728.4**
Insurance claims	8	(3,160.6)	(4,884.7)	(4,301.7)
Insurance claims recoverable from reinsurers	8	193.1	256.7	119.4
Net insurance claims		**(2,967.5)**	**(4,628.0)**	**(4,182.3)**
Commission expenses	9	(518.9)	(378.7)	(560.8)
Other operating expenses	10	(944.6)	(959.1)	(1,064.8)
Total expenses		**(1,463.5)**	**(1,337.8)**	**(1,625.6)**
Operating profit/(loss)		**344.0**	**(375.4)**	**(79.5)**
Finance costs	11	(2.7)	(2.7)	(4.4)
Gain recognised on disposal of subsidiary and joint venture	21	1.6	—	216.1
Profit/(loss) before tax		**342.9**	**(378.1)**	**132.2**
Tax (charge)/credit	12	(93.9)	106.2	0.9
Profit/(loss) for the year	15	**249.0**	**(271.9)**	**133.1**
Profit/(loss) attributable to:				
Owners of the Company		249.0	(271.9)	133.1
Non-controlling interests		—	—	—
		249.0	**(271.9)**	**133.1**
Earnings/(loss) per share				
– basic & diluted (pence)	14	16.6	(18.1)	8.9

DIRECT LINE INSURANCE GROUP PLC

COMBINED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2011, 2010 AND 2009

	Notes	2011 £ Million	2010 £ Million	2009 £ Million
Profit/(loss) for the year		**249.0**	**(271.9)**	**133.1**
Other comprehensive income/(loss)				
Actuarial (loss)/gain on defined benefit plan	33	(0.6)	10.9	(8.6)
Exchange differences on translation of foreign operations		(3.5)	(2.8)	(19.6)
Fair value gain on available-for-sale investments	28	183.8	133.6	247.9
Less: reclassification adjustments for gains	28	(52.3)	(46.8)	(62.1)
		127.4	94.9	157.6
Tax on other comprehensive income		(36.8)	(27.4)	(41.5)
Other comprehensive income for the year		**90.6**	**67.5**	**116.1**
Total comprehensive income/(loss) for the year		**339.6**	**(204.4)**	**249.2**
Total comprehensive income attributable to:				
Owners of the Company		339.6	(204.4)	249.2
Non-controlling interests		—	—	—
		339.6	**(204.4)**	**249.2**

DIRECT LINE INSURANCE GROUP PLC

COMBINED BALANCE SHEET

AS AT 31 DECEMBER 2011, 2010 AND 2009

	Notes	2011 £ Million	2010 £ Million	2009 £ Million
ASSETS				
Goodwill and other intangible assets	20	365.8	286.1	290.3
Property, plant and equipment	18	46.9	52.6	59.2
Investment property	19	69.5	83.5	77.8
Reinsurance assets	22	741.6	660.9	517.6
Deferred acquisition costs	23	310.5	299.5	338.5
Prepayments, accrued income and other assets		92.2	113.3	92.2
Insurance and other receivables	25	1,252.9	1,606.2	1,732.8
Current tax assets	12	—	25.9	50.8
Deferred tax assets	13	26.9	17.0	17.1
Derivative financial instruments	32	0.1	—	1.3
Retirement benefit asset	33	2.6	—	—
Financial investments	24	9,480.3	8,830.5	8,747.9
Cash and cash equivalents	26	1,379.8	1,841.4	1,260.3
Assets held for sale	17	1.0	—	—
Total assets		**13,770.1**	**13,816.9**	**13,185.8**
EQUITY				
Invested capital	27	1,500.0	1,500.0	1,500.0
Other reserves	28	575.2	590.4	411.4
Retained earnings	28	1,537.6	1,133.2	1,410.7
Total invested equity		3,612.8	3,223.6	3,322.1
Non-controlling interest	28	258.5	258.5	258.5
Total equity		**3,871.3**	**3,482.1**	**3,580.6**
LIABILITIES				
Insurance liabilities	29, 30	6,509.0	6,941.4	5,928.5
Unearned premium reserve	29	1,931.6	2,288.6	2,499.8
Borrowings	31	317.9	327.1	285.2
Derivative financial instruments	32	—	0.7	—
Retirement benefit obligations	33	—	0.1	13.6
Trade and other payables including insurance payables	34	910.2	698.0	801.0
Deferred tax liabilities	13	12.1	76.3	76.8
Current tax liabilities	12	218.0	2.6	0.3
Total liabilities		**9,898.8**	**10,334.8**	**9,605.2**
Total equity and liabilities		**13,770.1**	**13,816.9**	**13,185.8**

DIRECT LINE INSURANCE GROUP PLC

COMBINED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2011, 2010 AND 2009

	Note	Invested capital £ Million	Other reserves £ Million	Retained earnings £ Million	Total invested equity £ Million	Non-controlling interest £ Million	Total equity £ Million
Balance as at 1 January 2009		1,500.0	119.0	1,312.6	2,931.6	258.5	3,190.1
Profit for the year		—	—	133.1	133.1	—	133.1
Other comprehensive income		—	122.4	(6.3)	116.1	—	116.1
Transfers to/(from) non distributable reserves	28	—	25.3	(25.3)	—	—	—
Movement in demerger reserve	28	—	143.3	—	143.3	—	143.3
Movement in net assets of Direct Line Versicherung AG		—	1.4	(3.4)	(2.0)	—	(2.0)
Balance as at 31 December 2009		1,500.0	411.4	1,410.7	3,322.1	258.5	3,580.6
Loss for the year		—	—	(271.9)	(271.9)	—	(271.9)
Other comprehensive income		—	59.5	8.0	67.5	—	67.5
Transfers to/(from) non distributable reserves	28	—	14.0	(14.0)	—	—	—
Movement in demerger reserve	28	—	102.2	—	102.2	—	102.2
Movement in net assets of Direct Line Versicherung AG		—	3.3	0.4	3.7	—	3.7
Balance as at 31 December 2010		1,500.0	590.4	1,133.2	3,223.6	258.5	3,482.1
Profit for the year		—	—	249.0	249.0	—	249.0
Other comprehensive income		—	91.2	(0.6)	90.6	—	90.6
Transfers to/(from) non distributable reserves	28	—	(167.3)	167.3	—	—	—
Movement in demerger reserve	28	—	55.9	—	55.9	—	55.9
Movement in net assets of Direct Line Versicherung AG		—	5.0	(11.3)	(6.3)	—	(6.3)
Balance as at 31 December 2011		1,500.0	575.2	1,537.6	3,612.8	258.5	3,871.3

DIRECT LINE INSURANCE GROUP PLC

COMBINED CASH FLOW STATEMENT

AS AT 31 DECEMBER 2011, 2010 AND 2009

	Notes	2011 £ Million	2010 £ Million	2009 £ Million
Net cash (used by)/generated from operating activities before investment of insurance assets	36	**(245.8)**	**459.8**	**(370.5)**
Cash generated from investment of insurance assets	36	38.8	486.0	875.7
Net cash (used by)/generated from operating activities		**(207.0)**	**945.8**	**505.2**
Cash flows from investing activities				
Proceeds on disposal of property, plant and equipment		1.2	0.1	1.6
Purchases of property, plant and equipment		(7.5)	(5.2)	(8.4)
Purchases of intangible assets		(119.8)	(26.2)	(8.1)
Net cash flows from disposal of subsidiary and joint venture	21	(0.1)	—	330.9
Net cash (used by)/generated from investing activities		**(126.2)**	**(31.3)**	**316.0**
Cash flows from financing activities				
Repayments of borrowings		(205.0)	(242.2)	—
Net loan advances to related parties		(114.5)	(129.3)	(34.9)
Proceeds from borrowings		205.0	—	226.5
Net cash (used by)/generated from financing activities		**(114.5)**	**(371.5)**	**191.6**
Net (decrease)/increase in cash and cash equivalents		**(447.7)**	**543.0**	**1,012.8**
Cash and cash equivalents at the beginning of the year	26	1,763.5	1,225.9	238.5
Effect of foreign exchange rate changes		(6.2)	(5.4)	(25.4)
Cash and cash equivalents at the end of the year	26	**1,309.6**	**1,763.5**	**1,225.9**

The Group classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows from payment of insurance claims.

DIRECT LINE INSURANCE GROUP PLC

NOTES TO THE FINANCIAL INFORMATION

Corporate information

Direct Line Insurance Group plc (the "Company") is a public limited company incorporated in the United Kingdom. The address of the registered office is Churchill Court, Westmoreland Road, Bromley, Kent BR1 1DP, England.

The Company, formerly RBS Insurance Group Limited, was incorporated on 26 July 1988 as a private limited company with a registered number 02280426 as a wholly owned subsidiary of The Royal Bank of Scotland Group plc ("RBS Group"). RBS Group comprises The Royal Bank of Scotland Group plc and its subsidiaries.

In 2009, RBS Group committed to the European Commission to sell its insurance business as a condition of its receipt of State Aid. To comply with this requirement, RBS Group must cede control of the Company by the end of 2013 and must have divested its entire interest by the end of 2014.

1. ACCOUNTING POLICIES

Basis of preparation

The combined financial information for the three years ended 31 December 2011, 2010 and 2009 has been prepared for the combined group which comprises the Company and its subsidiaries, and Direct Line Versicherung AG (together the "Group"). The combined financial information has been prepared on a historical cost basis except for investment properties and those financial instruments that have been measured at fair value.

The combined financial information has been prepared in accordance with the requirements of the PD regulation and the Listing Rules and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") except as described below.

IFRSs as adopted by the EU do not provide for the preparation of combined financial information and accordingly, in preparing the combined financial information certain accounting conventions commonly used in the preparation of historical financial information for the inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departure from IFRSs as adopted by the EU. In all other respects, IFRSs as adopted by the EU has been applied.

- the Group was formed on 2 April 2012 when the Company acquired Direct Line Versicherung AG. Prior to this date, the Group was not held by a single legal entity and, accordingly, consolidated financial statements do not exist. The combined financial information has been prepared using merger accounting principles, as if the transaction that gave rise to the formation of the Group had taken place at the beginning of the comparative period. Under these principles, the combined financial information has been prepared as if the Company were the holding company of Direct Line Versicherung AG from 1 January 2009, the date of the beginning of the comparative period. The assets, liabilities and the profit or loss of the Company and its subsidiaries and Direct Line Versicherung AG have been combined and all transactions and balances between the entities included within the Group consolidation have been eliminated. The combined financial information reflects a liability for the Direct Line Versicherung AG consideration. As the basis of preparation represents a reorganisation of entities under common control, it is therefore outside the scope of IFRS 3, Business Combinations. Accordingly, as permitted by IAS 8, it has been accounted for as a group reorganisation as described in UK accounting literature; and

- the preparation of the combined financial information has required the allocation of certain RBS Group costs to the Group. While such costs have been allocated on the basis intended to reflect their nature, the financial information has not necessarily reflected the results of the Group had it been a stand-alone group during this time. As these cost allocations did not result in a corresponding cash payment, they are offset by an entry in equity, described as 'demerger reserves', and are reflected in the notes to the cash flow statements (Note 36) within 'non cash movement in demerger reserves'.

DIRECT LINE INSURANCE GROUP PLC

NOTES TO THE FINANCIAL INFORMATION

Adoption of new and revised standards

The IASB issued a revised IAS24 Related Party Disclosure in November 2009 clarifying the existing standard and to provide exemptions for entities under government control. The revised standard became effective for accounting periods beginning on or after 1 January 2011. The Group has chosen to adopt the exemption of disclosure of other government controlled entities outside of the RBS Group as related parties.

1.1 Basis of consolidation and combination

The financial information comprises the financial statements of each of the companies within the Direct Line Insurance Group as at 31 December each year.

The results of subsidiaries acquired or disposed of during the period are included in the combined income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments have been made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on combination. The policies set out below have been applied consistently throughout all the periods presented to items considered material to the combined financial information.

As set out in the basis of preparation note above, Direct Line Versicherung AG was not owned or controlled by Direct Line Insurance Group plc as at 31 December 2011 either directly or indirectly. Therefore the assets and liabilities of this company have been combined with those of the consolidated Group companies to present financial information for the Group as it is constituted from 2 April 2012.

1.2 Foreign currencies

The Group's combined financial information are presented in sterling which is the functional currency of the Group. Group entities record transactions in the currency of the primary economic environment in which they operate (their functional currency) at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in the income statement except for differences arising on hedges of net investments in foreign operations. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the relevant functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary-financial assets, for example equity shares which are recognised in other comprehensive income.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into sterling at the foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in the combined statement of other comprehensive income. The amount accumulated in equity is reclassified from equity to the combined income statement on disposal or partial disposal of a foreign operation.

1.3 Contract classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

1.4 Revenue recognition

Premiums earned

Insurance and reinsurance premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepted during the financial year, adjusted by an unearned premium provision, which represents the proportion of the premiums that relate to periods of insurance after the balance sheet date. Unearned premiums are calculated over the period of exposure under the policy, on a daily basis, 24ths basis or allowing for the estimated incidence of exposure under policies. Insurance premiums exclude insurance premium tax or equivalent local taxes.

Premiums collected by intermediaries or other parties, but not yet received, are assessed based on estimates from Underwriting or past experience, and are included in insurance premiums. Insurance premiums exclude insurance premium tax or equivalent local taxes and are shown gross of any commission payable to intermediaries or other parties.

The Group's long-term assurance contracts include whole-life and term assurance contracts that are expected to remain in force for an extended period of time. These contracts insure events associated with human life (for example death or the occurrence of a critical illness). These are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission.

Investment return

Interest income on financial assets that are classified as available-for-sale other than those at fair value through income statement are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset. In the case of available-for-sale assets estimates are based on the straight-line method, which management has determined is a close approximation to the effective interest rate.

Rental income from investment properties is recognised in the income statement on a straight-line basis over the period of the contract. Any gains or losses arising from a change in fair value are recognised in the income statement.

Instalment Income

Instalment income comprises the interest income earned on policyholder balances, where outstanding premiums are settled by a series of instalment payments. Interest is earned using an effective interest rate method over the term of the policy.

Other operating income

Referral fees

Invoices relating to this activity are issued on a monthly basis for revenue receivable from third parties, and the revenue is recognised in full on the date of the invoice. With respect to the fixed term contracts, monthly invoices are issued to the third parties in arrears. The revenue for the current month is accrued for and recognised immediately. The arrangements are contractual and the cost of providing the service is recognised as the service is rendered.

Vehicle recovery, repairs and management systems income

Fees in respect of services for vehicle recovery 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. The price is usually fixed and always determinable.

The Group's income comprises vehicle repair services provided to other third-party customers. Income in respect of repairs to vehicles is recognised upon completion of the service. The price is determined using market rates for the services and materials used after discounts and sales taxes have been deducted where applicable.

Management systems income represents the sale of tracking units, installation services and monitoring services. Revenue is recognised immediately, with the exception of the non-cancellable network subscriptions which are receivable in advance, classified as deferred income in the combined balance sheet, and recognised on a straight-line basis over the stated term of the subscription.

Other income

Commission fee income in respect of services is recognised when a policy has been placed and incepted.

1.5 Insurance claims

Insurance claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date including claims incurred but not yet reported at that date, net of salvage and subrogation recoveries. Outstanding claims provisions are not discounted for the time value of money except for claims to be settled by periodical payment orders ("PPOs") established under the Courts Act 2003, implemented in 2005. A UK Court can award damages for future pecuniary loss in respect of personal injury or for other damages in respect of personal injury and may order that the damages are wholly or partly to take the form of PPOs. These are covered in more detail in notes 2.1 and 3.5.1. Costs for both direct and indirect claims handling expenses are also included.

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the incidence, timing and amount of claims and any specific factors such as adverse weather conditions. In order to calculate the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate, within acceptable probability parameters, the value of outstanding claims (gross and net) at the balance sheet date. Also included in the estimation of outstanding claims are factors such as the potential for judicial or legislative inflation. In addition an allowance is made for reinsurance assets deemed not recoverable.

For more recent claim periods the provisions will make use of techniques that incorporate expected loss ratios and inflated average claims cost and frequency methods. As periods mature, the reserves are increasingly driven by methods based on actual claims experience. The approach adopted takes into account the nature, type and significance of the business and the type of data available, with large claims generally being assessed separately. The data used for statistical modelling purposes is internally generated and reconciled to the accounting data as part of the process.

The insurance claims reserves are particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business at gross and net levels and the estimation of future claims handling costs.

Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may exceed that assumed. As a result management adopt a cautious view and use the work of internal and external actuaries to assess the level of gross and net outstanding claims provision required and adopt a measurement basis of reserves which results in a provision in excess of the actuarial best estimate. It is this amount that is recorded as claims reserves.

A liability adequacy provision is made for unexpired risks arising where the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium reserve in relation to such policies after the deduction of any acquisition costs deferred and other prepaid amounts (eg. reinsurance). The expected value is determined by reference to recent experience and allowing for changes to the premium rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

1.6 Reinsurance

The Group has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk.

The Group cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by line of business. Outward reinsurance premiums are generally accounted for in the same accounting period as the premiums for the related direct business being reinsured. Outward reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract. Recoveries in respect of periodical payment orders are discounted for the time value of money.

A reinsurance bad debt provision is assessed in respect of outstanding reinsurance claims, to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly. This also includes an assessment in respect of outstanding reinsurance claims to reflect the credit risk exposure to long-term reinsurance assets particularly in relation to periodical payments. This is effected by the Group reducing the carrying value of the asset accordingly and the impairment loss is recognised in the income statement.

1.7 Deferred acquisition costs

Acquisition costs relating to new and renewing insurance policies are matched with the earning of the premiums to which they relate. A proportion of acquisition costs incurred during the year is therefore deferred to the subsequent accounting period to match the extent to which premiums written during the year are unearned at the balance sheet date.

The principal acquisition costs so deferred are direct advertising expenditure, third party administration fees, commission paid and costs associated with the telesales and underwriting staff.

1.8 Goodwill and other intangible assets

Acquired goodwill, being the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture acquired, is initially recognised at cost and subsequently at cost less any accumulated impairment losses. Goodwill arising on the acquisition of subsidiaries and joint ventures is included in the balance sheet category 'goodwill and other intangible assets'. The gain or loss on the disposal of a subsidiary, associate or joint venture includes the carrying value of any related goodwill.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement over the assets' economic lives using methods that best reflect the pattern of economic benefits and is included in other operating expenses. The estimated useful economic lives are as follows:

Computer software.. 3 to 5 years

Expenditure on internally-generated goodwill and brands is written off as incurred. Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established. These costs include payroll costs, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the projected benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised.

1.9 Property, plant and equipment

Items of property, plant and equipment (except investment property—see accounting policy 1.11) are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are as follows:

Freehold and long leasehold buildings	50 years or the period of the lease if shorter
Vehicles	5 years
Computer equipment	Up to 5 years
Other equipment, including property adaptation costs	4 to 15 years

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

1.10 Impairment of intangible assets, goodwill and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets, goodwill or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been reflected in the estimation of future cash flows.

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

A reversal of an impairment loss on intangible assets or property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

1.11 Investment property

Investment property comprises freehold and long-leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated and is stated at fair value based on valuations by independent registered valuers. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

Investment properties are derecognised when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

1.12 Financial assets

On initial recognition financial assets are classified as held to maturity; available-for-sale; held for trading; designated as at fair value through profit or loss; or loans and receivables. The Group only has available-for-sale financial assets and loans and receivables.

Available-for-sale—Financial assets that are not classified as held-to-maturity; held for trading; designated as at fair value through profit or loss; or loans and receivables, are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss together with interest calculated using the effective interest rate method. Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the income statement.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date.

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

The valuation methodology described above uses observable market data.

If the market for a financial asset is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument are reliably measurable if:

(a) the variability in the range of reasonable fair value estimates is not significant for that instrument; or

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

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, except those that are classified as available-for-sale or designated as at fair value through the income statement. 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 rate method less any impairment losses.

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

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

Impairment of financial assets

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

Available-for-sale—When a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through profit or loss, but those on available-for-sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event. Subsequent increases in the fair value of available-for-sale other investment funds are all recognised in equity.

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 Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

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

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

For amounts due from policyholders, the bad debt provision is calculated based upon prior loss experience. For all balances outstanding in excess of three months, a bad debt provision is made. Where a policy is subsequently cancelled, the outstanding debt that is overdue is written off to the income statement and the bad debt provision is written back to the income statement.

Derivatives and hedging

Derivative financial instruments are recognised initially, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the income statement unless the derivative is the hedging instrument in a qualifying hedge. The Group currently enters into one type of hedge relationship: hedges of the net investment in a foreign operation.

Hedge relationships are formally documented at inception. The documentation identifies the hedged item, the hedging instrument and details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued.

In the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised in the income statement. Non-derivative financial liabilities as well as derivatives may be the hedging instrument in a net investment hedge.

1.13 Cash and cash equivalents

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

Borrowings comprising bank overdrafts and group loans are measured at amortised cost using the effective interest method.

1.14 Financial liabilities

Amortised cost

Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest method.

1.15 Provisions

Regulatory levies

The Group accrues for all insurance industry levies, such as the Financial Services Compensation Scheme and Motor Insurance Bureau in the UK, as a provision in the balance sheet and not within insurance liabilities. The levy accruals are based on past underwriting levels at the best estimate rate given the available information at the balance sheet date. They are charged to the income statement as an expense.

1.16 Leases

Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

1.17 Pensions and other post-retirement benefits

The Group provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to the Group's defined contribution pension scheme are recognised in the income statement when payable.

Contributions to the Group's defined contribution pension scheme are recognised in the income statement when payable. As described in note 33, the Group's defined benefit pension scheme was closed in 2003. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.

Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities is charged to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside the income statement and presented in other comprehensive income.

Certain employees of the Group have defined benefit pension arrangements with RBS Group entities. There is no contractual agreement or policy on the way that the cost of RBS Group defined benefit pension schemes and healthcare plans are allocated to the Group. It therefore accounts for the charges it incurs as payments to a defined contribution scheme.

1.18 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.

1.19 Share-based payments

RBS Group issues equity-settled share-based payments to certain employees of the Group. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, adjusted for the effect of non market-based vesting conditions. The fair value of an option is estimated using valuation techniques which take into account its exercise price, its term, the risk free interest rate and the expected volatility of the market price of The Royal Bank of Scotland Group plc’s shares.

Given that the Group’s employees directly benefit from participation in these plans, the expense incurred by RBS Group for options granted to the employees has been reflected in the Group’s combined financial income statement as other operating expenses. The compensation expense recognised for share options plans was immaterial for 2011, 2010 and 2009.

1.20 Capital

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

1.21 Accounting developments

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

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

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

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

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

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

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

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

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

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

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

The IASB has published IFRS 9: Financial Instruments: recognition and measurement, that will apply to financial years beginning on 1 January 2015. The new standard has not been adopted by the EU, nor is there a timetable when an approval can be expected. The standard is a complete revision and will replace the current standard IAS 39, Financial Instruments: Recognition and Measurement. The standard reduces the number of valuation categories for financial assets and means that they are recognised at amortised cost or fair value through profit or loss. The rules for financial liabilities correspond to the existing rules in IAS 39 plus a supplement on how credit risk is presented when financial liabilities are measured at fair value. The change in the credit risk for financial liabilities designated at fair value according to the so-called fair value option is normally presented in other comprehensive income and not in the traditional income statement, provided that further inconsistencies do not arise in presentation of any eliminated changes in value.

The standard will be complemented by new rules for impairment of financial assets that are categorised as financial assets at amortised cost and new rules for hedge accounting. The adoption of IFRS 9 which the Group plans not to adopt before the year beginning on 1 January 2015 will impact both the measurement and disclosures of financial instruments.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Group's principal accounting policies are set out on pages F-11 to F-22. UK company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group'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 Group would affect its reported results.

2.1 General insurance: outstanding claims provisions and related reinsurance recoveries

The Group makes provision for the full cost of outstanding claims from its general insurance business at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date and loss adjustment expenses. Outstanding claims provisions net of related reinsurance recoveries at 31 December 2011 amounted to £5,807.7 million (2010: £6,311.0 million, 2009: £5,434.1 million).

Outstanding claims provisions are not discounted for the time value of money except for those in respect of PPOs under the Courts Act 2003. Total discounted reserves for claims which have already been settled by way of a PPO are £203.9 million (2010: £204.9 million; 2009: £91.6 million) gross and £80.3 million (2010: £35.5 million, 2009: £26.1 million) net of reinsurance. The corresponding undiscounted amounts are £730.4 million (2010: £707.2 million; 2009: £296.5 million) gross and £245.1 million (2010: £134.3 million; 2009: £41.0 million) net of reinsurance. Total discounted claims reserves estimated to be settled by PPOs in respect of both claims reported prior to the year end and incurred but not reported claims at the year end are £1,166.5 million (2010: £1,180.0 million; 2009: £91.6 million) gross and £835.3 million (2010: £826.6 million; 2009: £26.1 million) net of reinsurance. The corresponding undiscounted amounts are £3,856.9 million (2010: £4,320.9 million; 2009: £275.7 million) gross and £2,404.9 million (2010: £2,659.6 million; 2009: £61.8 million) net of reinsurance.

The amounts for 2011 and 2010 include a provision for estimated PPOs incurred but not reported which is not available for 2009.

The rate of interest used for the calculation of present values is 4.5% (2010: 4.5%, 2009: 4.14%). The average interval between the date of the last future cash flow being discounted and the end of the financial year is 50 years on settled cases (2010: 50 years, 2009: 40 years). This is calculated for each of the claims settled by PPO as the mean of the insurer's and the claimant's expert medical advice on the claimant's life expectancy. The value of claims with a periodical payment are calculated via a cash flow model. The PPO are projected using the terms of the settlement, the assumed life expectancy, and adjusted for the inflation agreed in the settlement. Outstanding lump sums are estimated using the claims handlers' case estimates, for both the claim with the PPO and any other claims arising from the same accident. Reinsurance is calculated on the accident's entire costs, and the net cash flows are discounted for the time value of money to allow for investment earnings. Details on sensitivity analysis are shown in note 3.6.1.

2.2 Impairment provisions—financial assets

Available-for-sale—the Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or if there is objective evidence that an event or events since initial recognition of the assets have adversely affected the amount or timing of future cashflows from the asset. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility of share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in these factors.

Every month, the Group reviews whether there is any objective evidence that the direct investments in debt securities are impaired based on the following criteria:

- price performance of a particular debt security, or group of debt securities, demonstrating an adverse trend compared to the market as a whole;
- adverse movements in the credit rating for corporate debt; and
- actual, or imminent, default on coupon interest or nominal.

Impairment provisions on debt securities available-for-sale financial assets at 31 December 2011 amounted to £2.0 million (2010: £21.4 million, 2009: nil).

Had all the declines in available-for-sale asset values met the criteria above, the Group would suffer a further £37.3 million loss in its 2011 financial information (2010: £58.2 million loss, 2009: £102.3 million loss), being the transfer of the total available-for-sale reserve for unrealised losses to the income statement.

2.3 Fair value

Financial assets classified as available-for-sale are recognised in the financial information at fair value. In the balance sheet, financial assets carried at fair value are included within available-for-sale debt securities and equity shares. Unrealised gains and losses on available-for-sale financial assets are recognised directly in other comprehensive income unless an impairment loss is recognised.

The fair value of all available-for-sale financial assets at 31 December 2011 were determined using observable market input and amounted to £7,990.7 million (2010: £7,867.1 million, 2009: £7,346.6 million). The judgements and assumptions adopted by management in the valuation of available-for-sale financial assets when a market is not active, require the use of valuation techniques. These valuation techniques involve a degree of estimation and are noted in note 1.12. Details on sensitivity analysis are shown in note 3.6.1.

2.4 Deferred acquisition costs

The Group defers a proportion of acquisition costs incurred during the year to subsequent accounting periods. Management use estimation techniques to determine the level of costs to be deferred, by category of business, judgement is used to determine the types of cost that can be deferred and these are referred to in note 1.7. The total deferred acquisition costs as at 31 December 2011 amounted to £310.5 million (2010: £299.5 million, 2009: £338.5 million). During 2011, management reviewed the costs included in the calculation of deferred acquisition costs and considers them to be appropriate, and have estimated that they are recoverable.

2.5 Goodwill

The Group capitalises goodwill arising on the acquisition of businesses as discussed in accounting policy 1.8. The carrying value of goodwill as at 31 December 2011 was £211.0 million (2010: £221.2 million, 2009: £230.5 million).

Goodwill is the excess of the cost of an acquired business over the fair value of its net assets. The determination of the fair value of assets and liabilities of businesses acquired requires the exercise of management judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions, such as property. Different fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash-generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units.

Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed. Details on sensitivity analysis are shown in note 20.

3. MANAGEMENT OF INSURANCE, FINANCIAL AND OPERATIONAL RISK

3.1 Risk Management Overview

Risk management is at the heart of the insurance business. The Group issues contracts that accept insurance risk in return for a premium. The Group is also subject to investment risk (market risk and credit risk), other credit risk, liquidity risk, regulatory risk, operational risk and group risk.

The Group constitutes the Insurance Division of The Royal Bank of Scotland Group plc. The Group operates within a risk framework and benefits from services provided by specialist risk and audit teams and risk management procedures and controls which are applied across the Group. Within the Group, risk is managed at both the individual entity level and on a combined basis.

The Group is supervised on a combined basis by the Financial Services Authority ("FSA"), its lead regulator. The UK regulated entities are supervised by the FSA, the Group's business in Italy is regulated by the ISVAP and the Group's business in Germany by the BaFin.

3.1.1 Risk management within the RBS Group

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

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

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

A number of high-level committees support the RBS Group's board in the effective measurement and management of risk.

3.1.2 RBS Group policy framework

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

RBS Group Policies address all the major areas of risk to the RBS Group and the standards that must be met to enable those risks to be managed in line with RBS Group's risk appetite. All RBS Group Policies must be approved by the RBS Group Executive Committee.

3.2 Direct Line Insurance Group plc specific risk governance and oversight

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

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

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

- the high level controls document;
- the divisional risk appetite (in relation to strategy and business plans); and
- the divisional risk profile, including the output from financial and other quantitative models (such as economic capital modelling). This encompasses the Individual Capital Assessments ("ICAs") and other capital related submissions to the supervisory authority where appropriate.

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

Risk and Audit Committee

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

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

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

Executive Committee ("ExCo")

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

The detailed responsibilities of the ExCo that are relevant to Risk Management are:

- to consider and determine relevant recommendations on risk management matters including risk organisation, risk strategy, risk appetite, risk policy framework and other frameworks for onward escalation to the RAC for approval as appropriate;

- to consider and approve any relevant policies, processes and procedures for the effective management of risk across the organisation;

- to consider and determine relevant recommendations on limits by risk type for onward communication to the RAC for approval as required;

- to ensure that risk and capital considerations are incorporated within the strategic planning and budgeting processes and other decision making processes as appropriate; and

- to review, consider, discuss, and understand all issues relating to the reinsurance arrangements or any other material risk mitigation strategies operated by the Group.

As part of this, the Risk function produces a range of regular reporting including a report each month to the ExCo and the Group Board that covers breaches and exceptions to risk policy, relevant management information including quantified risks and details of any new and emerging risks.

The Chief Risk Officer ("CRO") is a member of the Executive and has a reporting line to the CEO, assuring independence of the function.

Capital Management Committee

The Capital Management Committee operates as a sub-committee of, and is responsible to, the ExCo.

The role of the Capital Management Committee is to consider and recommend options that optimise the regulatory solvency capital and manage held capital appropriately in accordance with all regulatory and Board requirements and objectives, in order to maximise the capital efficiency and return on capital of the Group.

The Group also holds a Reserving Review Committee at least quarterly and a series of Loss Ratio Committees monthly, (one for each UK product category—motor, home, growth and commercial).

Compliance with Minimum Standards

The business and support functions (the First Line of Defence) must comply with the Enterprise Wide Risk Management framework, including all policies and associated minimum standards which detail the minimum requirements for managing risk within the Group. To do this each ExCo member must:

- implement such processes as it deems appropriate and in accordance with the Enterprise Wide Risk Management framework to enable the identification, assessment, management, control, reporting and mitigation of its risk exposure;
- monitor the area's compliance with the Risk Management framework;
- ensure key risks and any breaches arising are identified and escalated for review and challenge by the Risk function or higher as appropriate;
- ensure that any issues identified are managed, mitigated and resolved in a timely and appropriate manner to ensure that risk is managed within the Board's agreed risk appetite; and
- on at least a half-yearly basis, sign a control environment certificate in relation to their area of responsibility, including an assessment of their compliance with the relevant policies and minimum standards and risk management processes, following such reviews as are appropriate.

The risk function separately analyses such risk reports, aggregated as appropriate, breaches and other issues and matters to identify overall potential trends and key risks to help determine the Group's risk profile compared to its risk appetite, escalating any overall breaches and other issues for review and challenge by relevant risk fora as appropriate. Such fora, including the RAC where appropriate, are responsible for discussing, reviewing and challenging new, existing and emerging risks and issues, assisting in the formulation of action plans to mitigate them, including breaches of policy or risk appetite, and then monitoring their resolution and mitigation. As part of this, the risk function will report relevant information, including deviations, trends, key risks and actions to the ExCo and to the Board, through the RAC.

A key part of the oversight of the first line of defence's compliance with the Risk Management framework and its associated policies and procedures, is a programme of risk-based reviews and audits undertaken by the second and third lines of defence, with the results of such reviews being reported to relevant fora for consideration, to help them determine and direct future risk management activity.

3.3 Risk appetite

Risk appetite is a measure of the amount of risk that the Group is willing to accept in pursuit of its strategic objectives.

The Group's appetite for insurance risk is defined through its permissions and a Board approved statement regarding the type of business the Group will write together with a series of other statements detailing desired levels of capital, availability of earnings and stakeholder confidence. The Board reviews and approves the risk appetite framework, the high level statements and associated targets, tolerances and limits on at least an annual basis for the main risk exposures, with this being aligned to the business and risk strategy as appropriate and subject to continuous improvement including enhancing the integration of the framework with the capital model. The underlying global tolerances and limits are translated into product level targets, tolerances and units and are supported by a range of policy limits.

3.4 Enterprise risk management

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

3.4.1 Risk controls

In order to consider the key risks which pose a material threat to the Group's strategic objectives, profits or capital, they are captured and monitored on the Group's High Level Risk Register ("HLRR"). The HLRR is used to determine risks subject to stress and scenario testing in quantitative modelling as well as to cross check to the risks modelled in its capital model. The potential profit variance arising from this modelling is used to assess the Group's exposure to each respective risk, with these processes subject to continuous review and refinement.

'Business As Usual' risks and their mitigating controls are documented within lower level risk assessment registers. These registers focus on business facing risks. The registers are regularly reviewed by the business owner and by the risk function.

Risks contained within these registers are subject to ongoing review and challenge to ensure that the risks are managed within the Group's risk appetite.

3.4.2 Risk and capital management modelling

The Board has ultimate responsibility for ensuring that the Group has sufficient capital to meet its liabilities as they fall due. The Group carries out detailed capital modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Group's own assessment of its capital requirements for solvency purposes, in its submission of its Individual Capital Assessment ("ICA") to the Financial Services Authority ("FSA") in respect of its UK regulated entities. The ICA quantifies the insurance, market, credit, liquidity, operational and group risk that the UK regulated entities are undertaking.

The Board is closely involved in the ICA process and signs off on its assumptions and results. Specifically, the following are fundamental areas that the Board has key involvement in:

- the sign off of the parameter setting for the Dynamic Financial Analysis ("DFA") modelling;
- the review and sign off of the output from the DFA models and other quantitative modelling; and
- the review, agreement and sign off of the ICA submission to the FSA, including any surrounding documentation, policies, explanations and assumptions.

The international businesses are assessed under European Solvency I rules and Solvency I returns to the relevant supervisory bodies are reviewed and approved by the local boards, within the oversight of the Group Board.

3.5 Insurance risk

Insurance risk can arise from:

- fluctuations in the timing, frequency and severity of insured events and their ultimate settlement, relative to the expectations of the Group at the time of underwriting, including those driven by inaccurate pricing, inappropriate underwriting guidelines and terms and conditions and holding inadequate reserves;
- inadequate reinsurance protection; and
- concentration of business leading to unexpected claim levels (frequency and severity) from a single source.

The Group predominantly underwrites personal lines insurance including residential property, motor, assistance, creditor, travel and pet business. The Group also underwrites commercial risks primarily for low to medium risk trades within the small to medium enterprise ("SME") market. Contracts are typically issued on an annual basis, which means that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can impose renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

Until 6th July 2011, the Group underwrote long term insurance falling within business classes I and IV of Annex 11.1 of chapter 11 in volume 1 of the FSA Interim Prudential Sourcebook: Insurers. The products provided were mortgage life cover, fixed term life cover with critical illness, over-50's life cover and the life cover associated with the creditor business underwritten by the Group's general insurance business. Contracts were issued typically on a long-term basis, which means that the Group's liability can extend for a period ranging from five years up to fifty-two years. For creditor insurance, contracts are issued either on a monthly renewable basis (regular premium) and can be amended or cancelled by the customer at any point during the contract or cover the period of a loan (single premium). In the former case, the Group can cancel or amend the policy following a 90 day written notice period. In the latter case (these policies were withdrawn from sale in April 2009), the customer has the option to cancel the contract at any point but generally the Group is obligated for the full term of up to a maximum of 10 years but typically 3 to 5 years.

3.5.1 Reserving risk

Reserving risk relates to both premiums and claims. It is the risk that reserves are assessed incorrectly such that insufficient funds have been retained to pay or handle claims as the amounts fall due, both in relation to those claims which have already been incurred (in relation to claims reserves) or will be incurred in future periods of insurance (in relation to premium reserves).

Due to the uncertain nature and timing of the risks which the Group is exposed to by underwriting insurance products, it cannot precisely determine the amounts that it will ultimately pay to meet the liabilities covered by the insurance policies written or when those liabilities will be paid. As such, the Group's reserves may prove to be inadequate to cover the actual claims costs which are experienced, particularly when the settlement of liability or payments of claims may not occur until well into the future, for example, and in particular, for bodily injury claims.

The Group maintains technical provisions or reserves to cover the estimated cost of future claims payments and related administrative expenses with respect to losses or injuries which have been incurred but have not been fully settled at the balance sheet date or which may occur in the future against insurance policies which have already been written prior to the balance sheet date. This includes losses or injuries that have been reported to the Group and those that have not yet been reported. The claims reserves represent estimates of all expected future payments, including related expenses, to bring every claim which has occurred prior to the balance sheet date whether reported or not, to final settlement, and the premium provisions represent the higher of the unexpired premiums or the estimated ultimate cost of the Group's exposure to claims and associated administration expenses which occur after the balance sheet date against business which was written prior to such date.

The Group estimates reserves using a range of actuarial and statistical projections and assumptions across a range of variables such as the time required to learn of and settle claims, facts and circumstances known at a given time, estimates of trends in the number of claims or claims of certain types, estimated inflation in claims severity and expected future claims payment patterns. Estimates are also made in respect of other variable factors including changes in the legal, social, economic and regulatory environments, results of litigation, changes in rehabilitation and mortality trends, inflation in medical care costs, future earnings inflation, the cost of repairs and replacement, general economic conditions and estimated future receipts from third parties such as salvage, subrogation and reinsurance recoveries as well as changes in internal claims handling processes.

For claims which will take several years to settle, mainly bodily injury, illness and liability (both public and employer's liability), the Group estimates such provisions based on past experience as well as consideration of known or potential future changes. Unexpected events, such as changes in regulation, legislation or new court cases, may increase the frequency and/or severity of insurance claims substantially more than anticipated at the time the insurance policies were priced or provisions were set. The Group's employer's liability business is also exposed to the risk of disease related claims in respect of currently unknown exposures being identified at a (much later) future date.

While most of the Group's technical reserves are held on an undiscounted basis and, therefore, do not allow for the investment income which will be earned on the reserves after the balance sheet date up until the claims are fully settled, the reserves held in respect of periodical payment orders ("PPOs") are held on a discounted basis. As such, the size and nature of the PPO reserves are exposed to the risk of changes in the timing of future cash flows or assumed discount rate / level of investment income. The Group subjects its reserves to independent external actuarial peer review on a periodic basis.

The Group's technical reserves are particularly susceptible to potential retrospective changes in legislation and new court decisions. For example, a change in the 'Ogden discount rate', which is the discount rate set by the UK government to be used (among other things) to calculate lump sum awards in bodily injury cases, would impact all relevant claims settled after that date, regardless of whether the insurance to which the claim relates was priced on that basis or not.

The recent increase in the utilisation of PPOs to settle bodily injury claims makes the estimation of technical reserves increasingly complex and uncertain due to the increased range of assumptions required, such as the future propensity of such settlement methods, estimated mortality trends for impaired lives, payment patterns, investment income and the impact of reinsurance recoveries which will occur many years into the future with a resultant increase in the associated credit or other non-payment risk. The fact that these claims take many years to ultimately settle increases the uncertainty around their estimation.

Reserving risk is controlled through a range of processes, the most significant ones being:

- regular periodic reviews of the claims and premium / liability adequacy reserves for the main classes of business by the internal actuarial team;

- the use of external actuaries to periodically peer review the actuarial best estimate reserves on classes reviewed internally, and to complete external actuarial reviews on the vast majority of the remaining reserves;

- oversight of the reserving process by relevant senior management and the Group Board; and

- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews.

3.5.2 Claims management risk

Claims management risk is the risk that claims are paid or handled inappropriately.

Claims are managed utilising a range of IT system-driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner.

Each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside of their authorities, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures.

Loss adjustors are used in certain circumstances to handle claims to conclusion. This involves liaison with the policyholder, third parties, suppliers and management.

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

Specialist bodily injury claims teams in the UK are responsible for handling these types of losses with the nature of handling dependent on the level and type of claim. Where applicable they are referred to the Technical and Large Loss teams who also deal with all other claim types above defined limits or within specific criteria.

3.5.3 Underwriting and pricing risk: General Insurance

Underwriting and pricing risk is the risk that inappropriate business will be written and/or inappropriate prices charged. The classes and sectors of business written, the underwriting criteria, and relevant limits, define underwriting risk appetite.

The Group manages this risk through a wide range of processes and fora, some of which include:

- underwriting guidelines which exist for all business transacted restricting the types and classes of business that may be accepted;
- exception reports and other underwriting monitoring tools;
- comprehensive internal quality assurance programmes;
- pricing policies which are set by management and implemented through pricing committees by product line and by brand;
- central control, within pricing and underwriting teams, of policy wordings and any subsequent changes;
- the insurance risk framework that involves, among other things, regular minuted meetings where all aspects of insurance risk are discussed, and additional meetings where detailed pricing, claims and reserving data and information are examined and discussed;
- weekly monitoring within the business of key performance indicators by product and brand;
- formal monthly monitoring and reporting to the Executive, by product and brand; and
- annual budgeting and quarterly re-forecasting, signed off by the ExCo.

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

a) Motor insurance contracts

The causes of motor claims are primarily theft of, or from, the vehicle, accidental damage to the vehicle, third-party property damage and third-party bodily injury. To meet statutory requirements, policies of insurance written in the UK provide unlimited exposure for policyholders' liability at law for third- party bodily injury and reinsurance is purchased for the unlimited element over a suitable deductible. Motor liability insurance policies underwritten by the international businesses are governed by local laws and liability limits are capped (except for green card business where liability is unlimited). Reinsurance is purchased to reduce the retention to substantially below the prescribed limits.

Claims experience is subject to variation based on a significant number of factors, such as the ages and experience of the drivers, the type of vehicle, the area and weather events. Contracts are typically issued on an annual basis, which means that liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can impose renewal terms by amending the premium or terms and conditions including the excess or both.

b) Residential property insurance contracts

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

All contracts are typically written on an annual basis which means the Group's commitment is usually for a 12-month period, after which the Group can decline to renew or can impose special renewal terms through increased premiums or amending the terms and conditions including the excess or both.

c) Commercial motor insurance contracts

Commercial motor insurance contracts can include individual commercial vehicles, fleets of vehicles for businesses or motor trade risks. The causes of commercial motor claims are primarily theft of, or from, the vehicle, personal accident, accidental damage to the vehicle, third-party property damage and third-party bodily injury. To meet statutory requirements, policies of insurance in the UK provide unlimited exposure for policyholders' liability at law for third-party bodily injury and reinsurance is purchased for the unlimited element over a suitable deductible. Motor liability insurance policies underwritten by the international businesses are governed by local laws and liability limits are capped. Reinsurance is purchased to reduce the retention to substantially below the prescribed limits.

Claims experience is subject to variation based on a wide number of factors, the principal ones are the ages and experience of the drivers, type of vehicles and use. Contracts are typically issued on an annual basis, which means that the Group's liability extends to a 12-month period, after which the Group is entitled to decline to renew or can impose renewal terms by amending the premium, terms, excesses or a combination.

d) Commercial other insurance contracts

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

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

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

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

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

e) Creditor insurance contracts

Creditor insurance contracts are designed to cover payments on secured or unsecured lending, whether for individuals or, in certain circumstances, for sole traders and nominated individuals in small commercial companies.

The causes of creditor insurance claims are loss of income through accident, sickness, unemployment or, for some coverages/policies, death.

The largest influences on claims experience are the economic environment and the risk of a pandemic. Contracts are issued either on a monthly renewable basis (regular premium) and can be amended or cancelled by the customer at any point during the contract, or by the Group following a 90-day written notice period or are issued for the full term of the loan (single premium policies were withdrawn from sale in April 2009). In the latter case, the customer has the option to cancel the contract at any point but generally the Group is obligated for the full term of up to a maximum of 10 years but typically 3 to 5 years.

f) Special Risks contracts

Loss reserve movements in the discontinued special risks portfolio are largely covered by an indemnity from Axa Winterthur.

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

g) Travel insurance contracts

The main causes of travel insurance claims are medical expenses incurred as a result of the illness of or accident to the insured while on a trip, loss or theft of their personal possessions and cancellation of the trip before departure or curtailment during it due to illness or accident of the insured or a close relative.

Policies can either be on a single trip, or on an annual basis where all trips taken in a 12-month period are covered. Either way the risk factors are the age and state of health of the insured, the destinations of trips, the activities to be undertaken on the trips, and the durations.

h) Pet insurance contracts

The main cause of claim is the incurring of vet's fees to treat a sick dog or cat. Vet fee inflation is an issue that the Group deals with by rate and excess increases. Liability to third parties for accidents caused by dogs is also covered. Policies are renewable either annually or monthly. The species (cat or dog), age and breed of the animal are prime risk factors, as well as the postcode of its owner.

i) Assistance contracts

Assistance contracts comprise motor vehicle rescue and home response 24 ("HR24"). The major causes of assistance claims are vehicle breakdown or failure to start (rescue) or the need for emergency repairs of heating, drainage and plumbing ("HR24"). Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a period of 12 months.

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

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

There are various sources of uncertainty which will impact the Group's experience under motor insurance, including operational risk, reserving risk, premium rates not matching claims inflation rates, (particularly for bodily injury claims where frequency and severity are carefully monitored), the social, economic and legislative environment and reinsurance failure risks. Legislative risks for example in the UK, periodical payment orders (PPOs) under the Courts Act and the associated longevity and discounting risks, and reviews of the Ogden tables used when setting lump sum bodily injury claim awards, including the associated discount rate, are all carefully monitored. The Group has documented risk policies, coupled with governance frameworks to oversee and control these risks and hence minimise the losses.

b) Property insurance contracts

The major source of uncertainty in the performance of the Group's property account is the volatility of the weather. Weather in the UK can affect the following causes of claims: flood, storm, escape of water following freezing (burst pipes) and subsidence. The Group maintains detailed, documented and active flood and subsidence strategies in order to control these exposures. Long term exposure to potential climate change and associated risks is also closely monitored.

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

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

c) Commercial other insurance contracts

There are a number of uncertainties which will impact the Group's general liability account. These include changes in the social, economic and legislative environment and, in particular, court judgments and legislation (for example, periodical payment orders under the Courts Act, a review of the Ogden tables used by courts when setting bodily injury claim values), significant events (for example, terrorist attacks), and any emerging new heads of damage or types of claim that are not envisaged when the policy is written. This includes exposure to disease claims not realised / anticipated at the inception of the policy where exposure occurs during the policy period but symptoms and hence claims do not occur for many years into the future.

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

d) Creditor insurance contracts

The main source of uncertainty is the economic environment. A recession could lead to an increased number and cost of unemployment, accident and sickness claims. The policies are also exposed to increased death claims under the life cover element in the light of a severe pandemic.

e) Special Risks contracts

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

f) Travel insurance contracts

The main sources of variability are large individual claims or events such as motor accidents or coach crashes, natural catastrophes or acts of terrorism. The Group has documented risk policies, coupled with governance frameworks to oversee and control these risks and hence minimise the losses.

g) Pet insurance contracts

Large liability claims are few and far between, but there are many other sources of uncertainty which include operational, reserving, pricing and social and economic issues including vet fees inflation. The Group has documented risk policies and relevant frameworks to oversee and control these risks and hence to mitigate the losses.

h) Assistance contracts

There are various sources of uncertainty which impact the Group's experience under assistance contracts. Adverse weather increases the number of both vehicle breakdown claims and home response claims due to the increased strain on heating and plumbing systems. The strength of the economy is also a factor. During times of economic difficulties, vehicle and property maintenance tends to decline, increasing the risk of breakdown and failure. The Group's documented risk policies and governance frameworks oversee these risks.

The Group's ability to successfully quantify risk exposure, and as a result, price insurance products successfully, is subject to risks and uncertainties, including uncertainties in claims inflation estimation (including its progression), from bodily injury claims in particular; unanticipated legal and regulatory changes and costs; changes in social, market or consumer trends and behaviours, including claimant behaviour; potential inaccuracies in the data collected from internal and external parties and/or used within the modelling and pricing processes; incorrect or incomplete analysis of data; potentially inaccurate or inappropriate policy terms and conditions; inappropriate or incomplete purchase of reinsurance; changes in the internal operating environment within the Group; the selection of inappropriate pricing methodologies; and the uncertainties inherent in estimates and assumptions, including those used throughout the pricing and underwriting processes.

3.5.4 Underwriting and pricing risk: Life insurance

The life business was closed to new business in July 2011.

For contracts where death or critical illness is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For contracts with fixed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted.

For contracts with reviewable premiums a mitigating factor is the reviewable nature of the premium. Under the terms of the policy the retail premium can be adjusted to reflect claims experience, developments in medical technology and diagnosis and other related expenses.

The table below presents total benefits insured figures, gross and net of re-insurance.

Benefits assured for life assured business at 31 December:

	Total benefits insured	
	Before reinsurance £ Million	After reinsurance £ Million
2011	16.1	2.1
2010	17.3	2.2
2009	18.3	2.3

Uncertainty in the estimation of future benefits and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and morbidity, and lapse rates.

The Group uses appropriate base tables of standard mortality and morbidity according to the type of contract being written and the territory in which the insured person resides. Investigations into the Group's recent experience, in conjunction with reviews of the continuous mortality and morbidity investigations performed by independent actuarial bodies, are carried out and a best estimate of the expected mortality and morbidity for the future is derived.

Assumptions

The Group writes only non-profit long-term business where the equity owners are entitled to 100% of the profits. The gross premium method of actuarial valuation is used. This makes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. Assumptions are reviewed annually against actual experience and industry and economic trends.

The key assumptions used for the life insurance contracts, other than creditor insurance business, disclosed in this note are as follows:

Mortality and morbidity

Appropriate base tables of standard mortality and morbidity are chosen depending on the type of contract. An investigation into the Group's recent experience, in conjunction with a review of the continuous mortality and morbidity investigations performed by independent actuarial bodies, is carried out and an appropriate level of the base table is derived.

Investment returns

A valuation discount rate of 1.2% net of tax has been used (2010 and 2009: 2.5%).

Renewal expense level and inflation

The Group's current level of expenses, together with a margin for prudence, is taken as an appropriate expense base and an expense inflation rate of 5.5% (2010 and 2009: 4.0%) is applied. This was adjusted in 2011 to allow for the inherent expense risk associated with books of business in run-off.

For regular premium creditor insurance business the Group holds a multiple of premium as the reserve. For single premium creditor insurance business the reserve is taken as a proportion of the single premium, where the proportion reflects the outstanding term remaining on the contract.

Lapses

For critical illness policies the Group has used a lapse rate of 4.5% per annum (2010 and 2009: 4.5%), when net cash flows are negative and a low lapse rate is prudent. Otherwise a lapse rate of 15.5% per annum (2010 and 2009: 15.5%) is used. For all other policies, excluding over 50's polices and creditor, the Group has used a lapse rate of 1.5% per annum (2010 and 2009: 1.5%), when net cash flows are negative and a low lapse rate is prudent. Otherwise a lapse rate of 12.5% per annum (2010 and 2009: 12.5%) is used.

Change in assumptions during the year

The following estimates and assumptions used in determining assets and liabilities for insurance contracts were changed, and had the following effect on profit recognised for the year ended 31 December 2011:

	Effect on profit 2011 £ Million	Effect on profit 2010 £ Million	Effect on profit 2009 £ Million
Change in valuation interest rate	(1.4)	—	—
Mortality/Morbidity for insurance contracts	—	(0.4)	0.8
Expenses	(1.1)	(0.1)	(0.1)
Lapse rate	—	—	(0.5)
	(2.5)	(0.5)	0.2

Life insurance results are inherently uncertain, driven by actual experience being different to modelled assumptions, exacerbated by the long term nature of the underlying exposure.

3.5.5 Reinsurance risk

The Group uses reinsurance:

- to protect the insurance results against low frequency, high severity losses through the transfer of catastrophe claims volatility to reinsurers;
- to protect the insurance results against unforeseen volumes of, or adverse trends in, large individual claims, in order to reduce volatility and to improve stability of earnings;
- to reduce the Group's capital requirements; and
- to transfer risk that is not within the Group's current risk retention strategy.

Reinsurance is essentially a swap whereby the Group will cede away insurance risk to reinsurers but in return assume back credit risk against which a reinsurance bad debt provision is assessed. The financial security of the Group's panel of reinsurers is therefore extremely important and both the quality and quantum of the assumed credit risk are subject to a Credit Risk Approval Process. The Group's leading counterparty exposures are analysed on a monthly basis where utilisation is monitored against agreed individual reinsurer limits. These limits represent the accumulated credit risk for all group underwriting entities. The Group aims to contract with a diverse range of reinsurers on its contracts to mitigate the credit and/or non payment risks associated with its reinsurance exposures.

Reinsurance risk arises from a failure of reinsurance to control exposure to losses, to reduce volatility or to protect capital.

3.5.6 Insurance concentration risk

The Group is subject to concentration risk in a variety of forms, including:

- Geographic concentration risk: the Group purchases a UK catastrophe reinsurance programme to protect against a modelled 1 in 243 year combined windstorm and coastal inundation loss. This cover protects the UK companies underwriting property insurance. The combined retained loss at 31 December 2011 is £125 million which has been modelled as a 1 in 11 year return period loss. There are also relevant covers to protect the Group's international businesses;
- Product concentration risk: the Group's business is heavily concentrated in the UK general insurance market. However the Group offers a diversified portfolio of products and a variety of brands to its customers;
- Sector concentration risk: the concentration of the Group to any given industry sector is monitored and analysed in respect of Commercial customers; and
- Reinsurance concentration risk: reinsurance is purchased from a number of providers to ensure that a diverse range of counterparties are contracted with, within the desired credit rating range.

3.6 Financial risk

The Group is exposed to financial risk through its financial assets and financial liabilities. The Group's financial risk is concentrated within its investment portfolio and reinsurance. Further details on financial risk in respect of reinsurance can be found in note 3.5.5 on reinsurance risk.

The strategic asset allocation within the investment portfolio is agreed by the UK and international Investment Committees. The Investment Committees determine high level policy and controls, covering such areas as safety, liquidity and performance. They meet at least half-yearly to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it. Oversight of the implementation of decisions taken by the Investment Committees are effected through the Funds Management Committee ("FMC").

The objectives set out in the Investment Policy are:

- to maintain safety of the portfolio's principal both in economic terms and from an accounting and reporting perspective;
- to maintain sufficient liquidity to provide cash requirements for operations; and
- to maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the Investment Guidelines.

3.6.1 Market risk

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

The Group is exposed to market risk in both the value of its liabilities and the value of assets held. The Group does not hold investments for trading purposes. Exposure to market risk in the investment portfolio is managed in accordance with the guidelines set out in the Group's Investment Policy as detailed above.

In the UK, the Group assesses the financial impact from changes in market risk through value at risk modelling and stress testing adopted as part of the Individual Capital Assessment (ICA) process. These tests are designed to consider the impact on capital arising from various scenarios based on changes in the financial circumstances and budget assumptions.

Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates.

For claims reserves, the Group has exposure to interest rate risk due to the PPO reserves that are discounted.

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

Spread risk

Spread risk results from the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.

The main exposure to spread risk is generated by the investment portfolio.

Currency risk

The principal currency risk exposure arises from the Group's foreign subsidiary investment. The currency risk is hedged through forward foreign exchange contracts and are normally for a duration of 90 days. The derivatives are reviewed to ensure they continue to be effective on a monthly basis. Within the UK business investment portfolio an investment fund includes Euro and US Dollar denominated bonds, hedged back to sterling. As at 31 December 2011 the value of this holding was £382.8 million (2010: £370.9 million; 2009: £367.3 million). The Group has other financial risk exposures which are minimal.

For claims and premium reserves there is very little foreign exchange risk as the majority of claims are denominated in the domiciled currency of operation of the Group's companies except some foreign travel risks (motor and travel policies).

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

Property price risk

The Group is subject to property price risk due to its holdings of investment properties. These properties are all based in the UK and are subject to the asset admissibility rules laid down by the FSA.

A table showing the sensitivity of profits to changes in property prices is included below.

Equity risk

The Group holds no equities within its investment portfolios.

Sensitivity analysis

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

Sensitivity factor	Description of sensitivity analysis
Market prices	The impact of a change in market prices on financial investments by +/− 20%.
Interest rate and investment return	The impact of a change in market interest rates by +/− 1% (e.g. if a current interest rate is 2%, the impact of an immediate change to 1% or 3%).
Periodical payment order liabilities	The impact of a change in the rate of interest used for the calculation of present values is assumed to change by +/− 1%.
Investment funds and property market values	The impact of a change in other investment funds and property market values by +/− 15%.
Expenses	The impact of an increase in ongoing administrative expenses and the loss adjustment expenses provision by 10%. This is calculated on the basis of the business of the Group for the full year.
Loss ratios	The impact of an increase in loss ratios by 5%, which assumes no large losses triggering reinsurance recoveries. This is calculated on the basis of the business of the Group for the full year.

Sensitivity at 31 December 2011

Increase/(decrease) in income statement before tax (£ Million)

	Market prices		Interest rate and investment return		Periodical payment order liabilities		Investment funds and property market values		Expenses	Loss ratio
	+20%	−20%	+1%	−1%	+1%	−1%	+15%	−15%	+10%	+5%
Gross of reinsurance	—	—	9.2	(9.2)	174.8	(252.2)	67.8	(67.8)	(81.9)	(213.2)
Net of reinsurance	—	—	9.2	(9.2)	106.5	(152.2)	67.8	(67.8)	(81.9)	(213.2)

Impact before tax on total equity (£ Million)

	Market prices		Interest rate and investment return		Periodical payment order liabilities		Investment funds and property market values		Expenses	Loss ratio
	+20%	−20%	+1%	−1%	+1%	−1%	+15%	−15%	+10%	+5%
Gross of reinsurance	1,521.6	(1,521.6)	(233.2)	233.2	174.8	(252.2)	67.8	(67.8)	(81.9)	(213.2)
Net of reinsurance	1,521.6	(1,521.6)	(233.2)	233.2	106.5	(152.2)	67.8	(67.8)	(81.9)	(213.2)

Sensitivity at 31 December 2010

Increase/(decrease) in income statement before tax (£ Million)

	Market prices		Interest rate and investment return		Periodical payment order liabilities		Investment funds and property market values		Expenses	Loss ratio
	+20%	−20%	+1%	−1%	+1%	−1%	+15%	−15%	+10%	+5%
Gross of reinsurance	—	—	12.7	(13.0)	160.9	(234.8)	68.2	(68.2)	(73.7)	(248.7)
Net of reinsurance	—	—	12.7	(13.0)	101.4	(143.8)	68.2	(68.2)	(73.7)	(248.7)

Impact before tax on total equity (£ Million)

	Market prices		Interest rate and investment return		Periodical payment order liabilities		Investment funds and property market values		Expenses	Loss ratio
	+20%	−20%	+1%	−1%	+1%	−1%	+15%	−15%	+10%	+5%
Gross of reinsurance	1,499.2	(1,499.2)	(159.1)	158.9	160.9	(234.8)	68.2	(68.2)	(73.7)	(248.7)
Net of reinsurance	1,499.2	(1,499.2)	(159.1)	158.9	101.4	(143.8)	68.2	(68.2)	(73.7)	(248.7)

Sensitivity at 31 December 2009

Increase/(decrease) in income statement before tax (£ Million)

	Market prices		Interest rate and investment return		Periodical payment order liabilities		Investment funds and property market values		Expenses	Loss ratio
	+20%	−20%	+1%	−1%	+1%	−1%	+15%	−15%	+10%	+5%
Gross of reinsurance	—	—	22.4	(22.9)	N/A*	N/A*	66.8	(66.8)	(74.0)	(256.4)
Net of reinsurance	—	—	22.4	(22.9)	N/A*	N/A*	66.8	(66.8)	(74.0)	(256.4)

Impact before tax on total equity (£ Million)

	Market prices		Interest rate and investment return		Periodical payment order liabilities		Investment funds and property market values		Expenses	Loss ratio
	+20%	−20%	+1%	−1%	+1%	−1%	+15%	−15%	+10%	+5%
Gross of reinsurance	1,395.9	(1,395.9)	(207.7)	232.4	N/A*	N/A*	66.8	(66.8)	(74.0)	(256.4)
Net of reinsurance	1,395.9	(1,395.9)	(207.7)	232.4	N/A*	N/A*	66.8	(66.8)	(74.0)	(256.4)

* The sensitivity analysis data for periodical payment order liabilities in 2009 is not available.

Limitations of sensitivity analysis

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

3.6.2 Credit risk

Credit risk arises from the potential that losses are incurred from the failure of a counterparty to meet its credit obligations, either due to their failure and/or their inability to pay, or their unwillingness to pay amounts due.

The objective of the Credit Risk Policy and supporting Minimum Standards is to document the control processes by which the Group is able to identify, monitor, measure, manage, control and mitigate the level of credit risk effectively. The credit risk control environment is summarised below:

Credit risk forum

The primary responsibility of this forum is to ensure that all aspects of credit risk within the Group are identified, monitored and measured.

Credit risk sanctioning committee

The primary responsibility of this committee is to approve new and increased credit risk limits in excess of business area credit authorities but within the committee's credit authority.

Monitoring and reporting

Relevant business units monitor the level of their actual credit exposure and measure this against approved credit terms and limits.

The main sources of credit risk for the Group are as follows:

- Investment counterparty—this arises from the investment of monies in the range of investment vehicles permitted by the Investment Policy.

- Reinsurance Recoveries—credit exposure to reinsurance counterparties arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. The Courts Act 2003, implemented in April 2005, gave the Courts the power to award PPOs in place of lump sum awards to cover the future costs element of claims (i.e. loss of future earnings and/or cost of future care). PPOs have the potential to increase the ultimate value of a claim and by their very nature, significantly increase the length of time to reach final settlement. Consequently any assumed (reinsurance) credit risk could be increased both in terms of quantum and longevity.

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

At 31 December 2011

	Neither past due nor impaired £ Million	Past due 1 - 30 days £ Million	Past due 31 - 60 days £ Million	Past due 61 - 90 days £ Million	Past due more than 91 days £ Million	Carrying value in the balance sheet £ Million	Financial assets that have been impaired £ Million
Debt securities (note 24)	7,607.2	—	—	—	0.7	**7,607.9**	3.5
Deposits with credit institutions (note 24 & 26)	3,050.3	—	—	—	—	**3,050.3**	—
Insurance liabilities—reinsurance asset (note 22)	741.6	—	—	—	—	**741.6**	53.9
Cash at bank and in hand (note 26)	201.9	—	—	—	—	**201.9**	—
Insurance and other loans and receivables (note 25)	1,223.1	22.4	3.5	2.1	1.8	**1,252.9**	0.5
Total assets bearing credit risk	**12,824.1**	**22.4**	**3.5**	**2.1**	**2.5**	**12,854.6**	**57.9**

At 31 December 2010

	Neither past due nor impaired £ Million	Past due 1 - 30 days £ Million	Past due 31 - 60 days £ Million	Past due 61 - 90 days £ Million	Past due more than 91 days £ Million	Carrying value in the balance sheet £ Million	Financial assets that have been impaired £ Million
Debt securities (note 24)	7,496.2	—	—	—	—	**7,496.2**	3.5
Deposits with credit institutions (note 24 & 26)	2,941.4	—	—	—	—	**2,941.4**	—
Insurance liabilities—reinsurance asset (note 22)	660.9	—	—	—	—	**660.9**	9.2
Cash at bank and in hand (note 26)	234.3	—	—	—	—	**234.3**	—
Insurance and other loans and receivables (note 25)	1,551.8	32.4	4.8	3.7	13.5	**1,606.2**	1.6
Total assets bearing credit risk	**12,884.6**	**32.4**	**4.8**	**3.7**	**13.5**	**12,939.0**	**14.3**

At 31 December 2009

	Neither past due nor impaired £ Million	Past due 1 - 30 days £ Million	Past due 31 - 60 days £ Million	Past due 61 - 90 days £ Million	Past due more than 91 days £ Million	Carrying value in the balance sheet £ Million	Financial assets that have been impaired £ Million
Debt securities (note 24)	6,979.3	—	—	—	—	**6,979.3**	—
Deposits with credit institutions (note 24 & 26)	2,905.3	—	—	—	—	**2,905.3**	—
Insurance liabilities—reinsurance asset (note 22)	517.6	—	—	—	—	**517.6**	1.8
Cash at bank and in hand (note 26)	123.5	—	—	—	—	**123.5**	—
Insurance and other loans and receivables (note 25)	1,671.5	46.3	6.1	4.1	4.8	**1,732.8**	3.5
Total assets bearing credit risk	**12,197.2**	**46.3**	**6.1**	**4.1**	**4.8**	**12,258.5**	**5.3**

The Group 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 debt securities (note 24) that are neither past due nor impaired by type of asset.

At 31 December 2011

	AFS—Sovereign and Local Govt debt securities	AFS—Corporate debt securities	AFS—Banks—debt securities	AFS—Other Financial Institutions—debt securities	Total AFS debt securities	AFS—Mortgage Backed Securities	AFS—Non MBS—debt securities
AAA rated	3,414.9	96.4	637.0	27.4	4,175.7	206.8	3,968.9
AA and above	57.0	279.9	434.0	—	770.9	67.2	703.7
A and above	9.2	1,377.3	858.1	11.3	2,255.9	9.5	2,246.4
BBB− and above	—	287.7	82.4	4.7	374.8	—	374.8
BB+ and below	—	—	23.3	—	23.3	—	23.3
Unrated	—	—	7.3	—	7.3	—	7.3
Total by debt security type	**3,481.1**	**2,041.3**	**2,042.1**	**43.4**	**7,607.9**	**283.5**	**7,324.4**

At 31 December 2010

	AFS—Sovereign and Local Govt debt securities	AFS—Corporate debt securities	AFS—Banks—debt securities	AFS—Other Financial Institutions—debt securities	Total AFS debt securities	AFS—Mortgage Backed Securities	AFS—Non MBS—debt securities
AAA rated	3,011.4	62.9	1,148.2	—	4,222.5	476.2	3,746.3
AA and above	15.8	227.3	855.6	24.2	1,122.9	9.3	1,113.6
A and above	4.3	855.4	1.053.9	11.3	1,924.9	10.5	1,914.4
BBB− and above	—	107.6	95.8	9.3	212.7	—	212.7
BB+ and below	—	—	11.9	—	11.9	—	11.9
Unrated	—	—	1.3	—	1.3	—	1.3
Total by debt security type	**3,031.5**	**1,253.3**	**3,166.8**	**44.8**	**7,496.2**	**496.0**	**7,000.2**

At 31 December 2009

	AFS—Sovereign and Local Govt debt securities	AFS—Corporate debt securities	AFS—Banks—debt securities	AFS—Other Financial Institutions—debt securities	Total AFS debt securities	AFS—Mortgage Backed Securities	AFS—Non MBS—debt securities
AAA rated	1,665.6	625.5	3,192.8	23.2	5,507.1	684.1	4,823.0
AA and above	12.0	132.8	539.9	—	684.7	—	684.7
A and above	8.4	312.7	390.2	—	711.3	2.2	709.1
BBB− and above	—	—	53.1	—	53.1	—	53.1
BB+ and below	—	—	23.1	—	23.1	—	23.1
Unrated	—	—	—	—	—	—	—
Total by debt security type	**1,686.0**	**1,071.0**	**4,199.1**	**23.2**	**6,979.3**	**686.3**	**6,293.0**

Bank debt securities for 31 December 2011 can be further analysed as Secured (£418.8 million), Unsecured (£1,357.1 million), Subordinate (£193.9 million) and Certificates of Deposit (£72.3 million).

The following table analyses the credit quality of financial and insurance assets that are neither past due nor impaired by type of asset, excluding debt securities. The table includes reinsurance exposure, after provision. Note 3.6.2 details the Group's approach to reinsurance credit risk management.

At 31 December 2011

	AAA £ Million	AA+ to AA− £ Million	A+ to A− £ Million	BBB £ Million	Not rated £ Million	Total £ Million
Deposits with credit institutions (note 24 & 26)	637.1	398.0	1,622.4	10.0	—	2,667.5
Insurance liabilities—reinsurance asset (note 22)	73.5	484.9	189.1	—	(5.9)	741.6
Cash at bank and in hand (note 26)	—	—	201.9	—	—	201.9
Insurance and other loans and receivables (note 25)	1.2	23.7	143.9	—	1,084.1	1,252.9
Total	**711.8**	**906.6**	**2,157.3**	**10.0**	**1,078.2**	**4,863.9**

At 31 December 2010

	AAA £ Million	AA+ to AA− £ Million	A+ to A− £ Million	BBB £ Million	Not rated £ Million	Total £ Million
Deposits with credit institutions (note 24 & 26)	631.3	1,220.3	718.9	—	—	2,570.5
Insurance liabilities—reinsurance asset (note 22)	28.9	337.1	256.3	—	38.6	660.9
Cash at bank and in hand (note 26)	—	—	234.2	—	0.1	234.3
Insurance and other loans and receivables (note 25)	2.3	28.2	220.3	—	1,355.4	1,606.2
Total	**662.5**	**1,585.6**	**1,429.7**	**—**	**1,394.1**	**5,071.9**

At 31 December 2009

	AAA £ Million	AA+ to AA− £ Million	A+ to A− £ Million	BBB £ Million	Not rated £ Million	Total £ Million
Deposits with credit institutions (note 24 & 26)	604.7	511.8	1,421.6	—	—	2,538.1
Insurance liabilities—reinsurance asset (note 22)	25.5	238.8	203.4	—	49.9	517.6
Cash at bank and in hand (note 26)	—	0.1	123.3	—	0.1	123.5
Insurance and other loans and receivables (note 25)	1.6	26.4	113.1	1.6	1,590.1	1,732.8
Total	**631.8**	**777.1**	**1,861.4**	**1.6**	**1,640.1**	**4,912.0**

An investment in other investment funds which have a value of £382.8 million as at 31 December 2011 (2010: £370.9 million; 2009: £367.3 million) is not included in the "Deposits with credit institutions" above, as the disclosure of the funds held by credit is considered to be impractical.

Other loans and receivables due from policyholders, agents, brokers and intermediaries generally do not have a credit rating.

3.6.3 Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch and/or an inability to raise sufficient liquid assets/cash without suffering a substantial loss on realisation.

The measurement and management of liquidity risk within the Group is undertaken within the limits and other policy parameters of the Group's liquidity risk appetite. Compliance is monitored both in respect of the internal policy and the regulatory requirements of local regulators.

The Group performs liquidity risk stress testing as part of its ICA process in the UK. These tests are designed to assess the Group's liquidity requirements in order to meet claims and other liabilities in a number of different extreme event scenarios and compare this requirement against the liquidity available from its investment portfolio and other assets. In all of the events considered the Group is comfortably able to meet its liabilities as they fall due.

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

Analysis of maturity of debt securities

	2011 £ Million	2010 £ Million	2009 £ Million
Within 1 year	818.8	1,876.1	1,230.4
1 - 3 years	2,808.3	1,753.7	2,428.5
3 - 5 years	2,140.0	2,109.7	1,325.9
5 - 10 years	1,576.4	1,256.4	1,321.2
Over 10 years	264.4	500.3	673.3
Total	**7,607.9**	**7,496.2**	**6,979.3**

Analysis of maturity of liabilities

For each category of insurance and financial liabilities, the following table shows the gross liability analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period.

At 31 December 2011

	Total £ Million	Within 1 year £ Million	1 - 3 years £ Million	3 - 5 years £ Million	5 - 10 years £ Million	Over 10 years £ Million
Insurance liabilities (note 29)	6,509.0	2,182.0	1,934.6	887.5	834.5	670.4
Borrowings (note 31)	317.9	71.5	205.0	—	11.3	30.1
Trade and other payables including insurance payables (note 34)	910.2	910.2	—	—	—	—
Total	**7,737.1**	**3,163.7**	**2,139.6**	**887.5**	**845.8**	**700.5**

At 31 December 2010

	Total £ Million	Within 1 year £ Million	1 - 3 years £ Million	3 - 5 years £ Million	5 - 10 years £ Million	Over 10 years £ Million
Insurance liabilities (note 29)	6,941.4	2,400.0	2,001.7	939.2	680.3	920.2
Borrowings (note 31)	327.1	296.0	—	—	—	31.1
Trade and other payables including insurance payables (note 34)	698.0	698.0	—	—	—	—
Total	**7,966.5**	**3,394.0**	**2,001.7**	**939.2**	**680.3**	**951.3**

At 31 December 2009

	Total £ Million	Within 1 year £ Million	1 - 3 years £ Million	3 - 5 years £ Million	5 - 10 years £ Million	Over 10 years £ Million
Insurance liabilities (note 29)	5,928.5	2,190.5	1,937.7	947.2	659.1	194.0
Borrowings (note 31)	285.2	253.2	—	—	—	32.0
Trade and other payables including insurance payables (note 34)	801.0	801.0	—	—	—	—
Total	**7,014.7**	**3,244.7**	**1,937.7**	**947.2**	**659.1**	**226.0**

The above tables exclude unearned premium reserves as there are no liquidity risks inherent in them.

3.6.4 Investment concentration risk

Investment concentration risk arises through excessive exposure to particular industry sectors, groups of business undertakings or similar activities. The Group may suffer significant losses in its investment portfolio as a result of over exposure to particular sectors engaged in similar activities or similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The distribution of the debt securities held by geographical area in 2011, were as follows:

	AFS—Sovereign and Local Govt debt securities	AFS—Corporate debt securities	AFS—Banks—debt securities	Other Financial Institutions—debt securities	Total AFS debt securities	AFS—Mortgage Backed Securities	AFS—Non MBS—debt securities
Australia	—	74.6	164.9	38.3	277.8	—	277.8
Austria	2.8	—	10.0	—	12.8	—	12.8
Belgium	6.9	2.7	4.4	—	14.0	—	14.0
Canada	68.1	16.6	1.8	—	86.5	—	86.5
Cayman Islands	—	2.8	—	—	2.8	—	2.8
Denmark	—	8.4	23.0	—	31.4	—	31.4
Finland	—	3.6	4.3	—	7.9	—	7.9
France	77.4	249.3	108.5	—	435.2	9.7	425.5
Germany	—	108.7	275.7	—	384.4	29.0	355.4
Ireland	—	13.4	28.9	—	42.3	3.7	38.6
Italy	—	13.8	—	—	13.8	—	13.8
Japan	—	16.3	—	—	16.3	—	16.3
Luxembourg	—	5.2	—	—	5.2	—	5.2
Mexico	—	7.5	—	—	7.5	—	7.5
Netherlands	4.4	183.9	111.1	—	299.4	—	299.4
New Zealand	—	18.0	8.5	—	26.5	—	26.5
Norway	43.0	—	18.1	—	61.1	—	61.1
Spain	—	8.7	16.0	—	24.7	—	24.7
Sweden	9.2	25.6	123.7	—	158.5	—	158.5
Switzerland	—	7.1	36.8	—	43.9	—	43.9
UK	2,780.9	1,144.3	921.1	4.7	4,851.0	241.1	4,609.9
United Arab Emirates	—	2.6	0.4	—	3.0	—	3.0
USA	—	128.3	185.0	—	313.3	—	313.3
Multilateral/Supranational	488.6	—	—	—	488.6	—	488.6
Total	3,481.3	2,041.4	2,042.2	43.0	7,607.9	283.5	7,324.4

The distribution of the debt securities held by geographical area in 2010, were as follows:

	AFS—Sovereign and Local Govt debt securities	AFS—Corporate debt securities	AFS—Banks—debt securities	AFS—Other Financial Institutions—debt securities	Total AFS debt securities	AFS—Mortgage Backed Securities	AFS—Non MBS—debt securities
Australia	—	32.0	267.5	35.3	334.8	—	334.8
Austria	2.8	—	9.8	—	12.6	—	12.6
Belgium	7.0	0.9	4.6	—	12.5	—	12.5
Canada	21.5	15.9	57.0	—	94.4	—	94.4
Denmark	—	—	84.9	—	84.9	—	84.9
Finland	—	—	4.4	—	4.4	—	4.4
France	—	133.4	170.3	—	303.7	10.1	293.6
Germany	—	98.1	245.1	9.3	352.5	40.2	312.3
Ireland	4.3	119.5	26.9	—	150.7	3.6	147.1
Italy	8.7	14.5	9.6	—	32.8	—	32.8
Japan	—	2.2	—	—	2.2	—	2.2
Luxembourg	—	5.1	—	—	5.1	—	5.1
Netherlands	4.5	136.6	136.4	—	277.5	—	277.5
New Zealand	—	17.7	14.4	—	32.1	—	32.1
Norway	—	—	0.8	—	0.8	—	0.8
Spain	—	—	120.3		120.3	—	120.3
Sweden	—	14.5	107.4	—	121.9	—	121.9
Switzerland	—	7.3	33.1	—	40.4	—	40.4
UK	2,728.7	590.0	1,574.4	—	4,893.1	442.2	4,450.9
United Arab Emirates	—	—	0.8	—	0.8	—	0.8
USA	—	65.4	299.4	—	364.8	—	364.8
Multilateral/Supranational	253.9	—	—	—	253.9	—	253.9
Total	3,031.4	1,253.1	3,167.1	44.6	7,496.2	496.1	7,000.1

The distribution of the debt securities held by geographical area in 2009, were as follows:

	AFS—Sovereign and Local Govt debt securities	AFS—Corporate debt securities	AFS—Banks—debt securities	Other Financial Institutions—debt securities	Total AFS debt securities	AFS—Mortgage Backed Securities	AFS—Non MBS—debt securities
Australia	—	22.1	329.3	23.5	374.9	—	374.9
Austria	—	—	9.7	—	9.7	—	9.7
Belgium	2.8	11.1	13.9	—	27.8	9.2	18.6
Canada	21.2	16.2	88.1	—	125.5	—	125.5
Cayman Islands	—	—	7.1	—	7.1	—	7.1
Denmark	—	—	63.5	—	63.5	—	63.5
Finland	—	—	—	—	—	—	—
France	9.0	27.5	236.9	—	273.4	8.8	264.6
Germany	—	41.8	287.9	—	329.7	32.4	297.3
Ireland	4.6	120.5	66.9	—	192.0	3.6	188.4
Italy	4.6	2.6	60.5	—	67.7	—	67.7
Japan	—	—	—	—	—	—	—
Luxembourg	—	5.1	—	—	5.1	—	5.1
Netherlands	4.5	116.0	172.0	—	292.5	—	292.5
New Zealand	—	8.4	24.6	—	33.0	—	33.0
Norway	32.6	—	6.0	—	38.6	—	38.6
Spain	29.4	—	260.3	—	289.7	—	289.7
Sweden	—	10.4	83.9	—	94.3	4.5	89.8
Switzerland	—	—	27.7	—	27.7	—	27.7
UK	1,212.8	611.6	2,074.6	—	3,899.0	627.8	3,271.2
United Arab Emirates	—	—	1.5	—	1.5	—	1.5
USA	—	77.6	384.6	—	462.2	—	462.2
Multilateral/Supranational	364.4	—	—	—	364.4	—	364.4
Total	1,685.9	1,070.9	4,199.0	23.5	6,979.3	686.3	6,293.0

The distribution of the debt securities held across industry sectors using Bloomberg classifications were as follows:

	2011		2010		2009	
	£ Million		£ Million		£ Million	
Asset Backed Securities	—	0%	—	0%	42.6	1%
Basic Materials	117.9	2%	70.0	1%	49.3	1%
Communications	196.7	3%	57.0	1%	22.1	0%
Consumer, Cyclical	56.1	1%	33.2	0%	26.8	0%
Consumer, Non-cyclical	291.4	4%	135.9	2%	75.8	1%
Diversified	148.5	2%	63.9	1%	41.3	1%
Energy	210.2	3%	116.7	2%	164.1	2%
Financial	1,917.4	25%	2,841.4	38%	3,692.8	53%
Government	3,481.2	44%	3,031.5	40%	1,686.0	24%
Industrial	100.9	1%	34.4	0%	1.4	0%
Mortgage	283.5	4%	496.1	7%	686.3	10%
Technology	—	0%	—	0%	4.4	0%
Utilities	804.1	11%	616.1	8%	486.4	7%
Total	7,607.9	100%	7,496.2	100%	6,979.3	100%

An investment in other investment funds which have a value of £382.8 million as at 31 December 2011 (2010: £370.9 million; 2009: £367.3 million) is not included in the above, as the disclosure of the funds held by industry sector is considered to be impractical.

3.7 Operational risk

Effective operational risk management requires the Group to identify, assess, manage, monitor, report and mitigate operational risk. Operational risk is inherent in all of the Group's business processes, systems and products, and from external events, with the Group's risk management framework detailing the minimum standards, tools, techniques and other processes used to ensure that operational risks are identified and managed to an acceptable level and that contingency plans are in place.

There are a number of key factors that cause operational risk across the Group:

- the Group's operations support complex transactions and are highly dependent on the proper functioning of IT and communication systems;
- a dependency on the use of third party information technology, software, data and service providers;
- a need to adequately maintain and protect customer and employee information;
- a reliance on certain services provided by RBS Group, including certain IT, business continuity, HR functions, finance functions, legal and company secretarial, property services and web services; and
- the ability of the Group to attract and retain key qualified personnel.

Effective operational risk management helps the Group 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;
- better informed risk-taking, which creates greater rewards;
- increased management attention on the risks and issues that really matter; and
- lower risk based capital due to lower expected losses.

3.8 Emerging risk

There are a range of regulatory and legal changes which may impact the Group's reserves, pricing or financial performance in future years in relation to business already written. These include:

- on 14 December 2011, the Office of Fair Trading launched a market study into private motor insurance, with a focus on the provision of third party vehicle repairs and credit hire replacement vehicles to claimants;
- a ruling from the Court of Justice of the European Union in March 2011 prohibiting new contracts issued after 20 December 2012 from using gender- based factors in the calculation of individuals' premiums and benefits; and
- the European Union is in the process of developing and implementing a new regime in relation to solvency requirements and other matters affecting the financial strength of insurers ("Solvency 2") within each member state.

3.9 Capital risk

The Group defines capital in accordance with regulations prescribed by the FSA and other regulatory bodies and manages it in accordance with the Group's capital management policy. 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 Group, including the procedures to be followed during periods of general financial distress, either due to internal or external events; and
- to safeguard the Group's ability to continue as a going concern.

Under the rules prescribed by the FSA, the Group must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance and that there is a suitable matching of assets and liabilities.

The FSA rules require the UK underwriting subsidiaries to maintain a surplus of admissible assets over their liabilities which is at all times at least equal to the higher of their EU minimum or their Individual Capital Guidance ("ICG"). Additionally, the Group must maintain a surplus of admissible assets over liabilities which is at all times at least equal its capital requirement under the Insurance Groups Directive ("IGD").

The MCR is calculated using the method prescribed by the EU, based on premium income and claims reserves; whereas the ICG is specified by the FSA following the submission of a risk based capital assessment (in accordance with the Individual Capital Adequacy Standards) by the UK Group to the FSA.

The international businesses are assessed under European Solvency I rules.

As at 31 December 2011, the Group held a surplus of at least £2,363.6 million (2010: £1,563.9 million; 2009: £1,952.2 million) above its IGD requirement of £1,079.1 million (2010: £1,227.3 million; 2009: £1,049.5 million).

Management information to monitor the Group's capital requirements and solvency position is produced and presented to the Group's Capital Management Committee on a regular basis.

DIRECT LINE INSURANCE GROUP PLC

NOTES TO THE FINANCIAL INFORMATION

4. SEGMENTAL ANALYSIS

The Group is a general insurer with leading direct market positions in the UK, Italy and Germany. The Group utilises a multi-brand, multi-product, multi- distribution channel business model that covers most major customer segments in the UK for personal lines general insurance and a more limited presence in the commercial market.

The directors manage the Group primarily by product type and present the segmental analysis on that basis. The segments reflect the management structure whereby a member of the Executive management team is accountable to the Group Chief Executive Officer for each of the following operating segments:

Motor

This segment consists of personal car insurance cover together with the associated legal expenses business. The Group sells motor insurance through its own brands—Direct Line, Churchill and Privilege—and through partnerships or aggregators. As a result, the Group has a brand and product offering that covers most major retail customer segments for motor insurance in the UK.

Home

This segment consists of the underwriting of home insurance cover. The Group sells home insurance through its own brands—Direct Line, Churchill, and Privilege—and through partnerships or aggregators. The Group's brand and product offering covers most major retail customer segments for home insurance in the UK.

Rescue and other personal lines

This segment consists of the underwriting of rescue and recovery insurance products and other personal lines business (including travel, pet, life business (closed for new business), creditor, income insurance and private insurance).

The Group sells rescue and recovery insurance as a stand-alone product through the Green Flag brand or as an insurance add-on to all Group own-brand and certain partner motor policies, or as part of packaged bank accounts. Rescue insurance policies range from basic roadside rescue to a full Europe-wide breakdown recovery service.

The Group sells its other personal lines insurance through its own brands—Direct Line, Churchill and Privilege—and through partnerships.

Commercial

This segment consists of the underwriting of commercial insurance for micro and Small Medium Enterprise businesses in the UK. The Group sells commercial products through its own brands—NIG and Direct Line for Business—and through its partnership with RBS and Natwest.

International

This segment consists primarily of motor insurance, sold to private customers in Germany and Italy using a multi-channel strategy through the Direct Line brand and through partnerships and aggregators.

4. SEGMENTAL ANALYSIS (Continued)

Notes to the segmental analysis

Certain charges are not allocated to the specific operating segments above as they are considered by management to be outside of underlying business activities by virtue of their one-off incidence, size or nature. Such charges are categorised as run-off and restructuring and other one-off items, as described below:

Run-off

The businesses included in the run-off column consists of two principal business lines business, being policies written through partnership arrangements with Tesco Personal Finance ("TPF") and NIG personal lines business sold via brokers, both of which are now in run-off. TPF was entered into as a 50:50 joint venture with Tesco in 1999, whereby the Group underwrote a range of general and life insurance products under the Tesco brand to Tesco customers. The personal lines products were sold via brokers and the TPF business.

Restructuring and other one-off costs

Costs included within restructuring and other one-off costs include items that are exceptional in nature, including additional expenses as a result of separation from RBS Group and impairment of goodwill.

No inter segment transactions occurred in 2011, 2010 and 2009. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

For each operating segment, there is no individual policyholder or customer that represents 10% or more of the Group's total revenue.

The following is an analysis of the Group's revenue and results by reportable segment for year ended 31 December 2011:

All operations are in the UK except for International which operates in Germany and Italy; and run-off, which includes the operations of the Group's Spanish joint venture, until its disposal in April 2009.

4. SEGMENTAL ANALYSIS (Continued)

The following is an analysis of the Group's revenue and results by reportable segment for year ended 31 December 2011:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Total Ongoing £ Million	Run-off £ Million	Restructuring and other one-off costs £ Million	Total Group £ Million
Gross written premium	1,734.8	1,031.3	350.2	438.6	570.0	4,124.9	43.4	—	4,168.3
Gross earned premium	1,797.4	1,031.1	410.3	420.5	482.8	4,142.1	380.8	—	4,522.9
Reinsurance premium ceded	(25.8)	(57.0)	(19.5)	(27.8)	(121.1)	(251.2)	(18.7)	—	(269.9)
Net earned premium	**1,771.6**	**974.1**	**390.8**	**392.7**	**361.7**	**3,890.9**	**362.1**	**—**	**4,253.0**
Investment return	145.2	28.5	9.5	30.5	25.0	238.7	43.2	—	281.9
Instalment income and other operating income	208.2	35.1	—	5.0	7.2	255.5	(15.4)	—	240.1
Total income	**2,125.0**	**1,037.7**	**400.3**	**428.2**	**393.9**	**4,385.1**	**389.9**	**—**	**4,775.0**
Insurance claims	(1,501.6)	(579.2)	(195.7)	(268.6)	(391.4)	(2,936.5)	(224.1)	—	(3,160.6)
Insurance claims recoverable from reinsurers	54.8	19.9	22.1	11.9	96.8	205.5	(12.4)	—	193.1
Net insurance claims	**(1,446.8)**	**(559.3)**	**(173.6)**	**(256.7)**	**(294.6)**	**(2,731.0)**	**(236.5)**	**—**	**(2,967.5)**
Commission expenses	(25.9)	(170.0)	(87.8)	(82.3)	(28.6)	(394.6)	(124.3)	—	(518.9)
Other operating expenses	(397.5)	(196.5)	(75.6)	(101.6)	(66.4)	(837.6)	(53.0)	(54.0)	(944.6)
Total expenses	**(423.4)**	**(366.5)**	**(163.4)**	**(183.9)**	**(95.0)**	**(1,232.2)**	**(177.3)**	**(54.0)**	**(1,463.5)**
Operating profit / (loss)	**254.8**	**111.9**	**63.3**	**(12.4)**	**4.3**	**421.9**	**(23.9)**	**(54.0)**	**344.0**
Finance costs									(2.7)
Gain recognised on disposal of subsidiary and joint venture									1.6
Profit before tax									**342.9**
Loss ratio	81.7%	57.4%	44.4%	65.4%	81.4%	70.2%			
Commission ratio	1.5%	17.5%	22.5%	21.0%	7.9%	10.1%			
Expense ratio	22.4%	20.2%	19.4%	25.9%	18.3%	21.5%			
Combined operating ratio	105.6%	95.1%	86.3%	112.3%	107.6%	101.8%			

4. SEGMENTAL ANALYSIS (Continued)

The following is an analysis of the Group's revenue and results by reportable segment for year ended 31 December 2010:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Total Ongoing £ Million	Run-off £ Million	Restructuring and other one-off costs £ Million	Total Group £ Million
Gross written premium	1,902.2	1,034.4	335.5	397.7	425.5	4,095.3	875.7	—	4,971.0
Gross earned premium	1,932.4	1,018.7	413.9	393.1	361.1	4,119.2	1,033.2	—	5,152.4
Reinsurance premium ceded	(9.9)	(48.6)	(20.9)	(21.0)	(42.0)	(142.4)	(36.5)	—	(178.9)
Net earned premium	**1,922.5**	**970.1**	**393.0**	**372.1**	**319.1**	**3,976.8**	**996.7**	**—**	**4,973.5**
Investment return	176.3	39.8	20.2	20.4	24.7	281.4	40.3	—	321.7
Instalment income and other operating income	255.7	36.1	11.8	18.9	6.6	329.1	(33.9)	—	295.2
Total income	**2,354.5**	**1,046.0**	**425.0**	**411.4**	**350.4**	**4,587.3**	**1,003.1**	**—**	**5,590.4**
Insurance claims	(2,404.8)	(585.0)	(236.1)	(282.3)	(289.9)	(3,798.1)	(1,086.6)	—	(4,884.7)
Insurance claims recoverable from reinsurers	96.4	41.7	32.9	20.9	17.9	209.8	46.9	—	256.7
Net insurance claims	**(2,308.4)**	**(543.3)**	**(203.2)**	**(261.4)**	**(272.0)**	**(3,588.3)**	**(1,039.7)**	**—**	**(4,628.0)**
Commission expenses	(37.3)	(156.1)	(68.5)	(81.7)	(9.3)	(352.9)	(25.8)	—	(378.7)
Other operating expenses	(425.7)	(183.5)	(70.3)	(109.1)	(63.2)	(851.8)	(78.3)	(29.0)	(959.1)
Total expenses	**(463.0)**	**(339.6)**	**(138.8)**	**(190.8)**	**(72.5)**	**(1,204.7)**	**(104.1)**	**(29.0)**	**(1,337.8)**
Operating profit / (loss)	**(416.9)**	**163.1**	**83.0**	**(40.8)**	**5.9**	**(205.7)**	**(140.7)**	**(29.0)**	**(375.4)**
Finance costs									(2.7)
Loss before tax									**(378.1)**
Loss ratio	120.1%	56.0%	51.7%	70.3%	85.2%	90.2%			
Commission ratio	1.9%	16.1%	17.4%	22.0%	2.9%	8.9%			
Expense ratio	22.1%	18.9%	17.9%	29.3%	19.8%	21.4%			
Combined operating ratio	144.1%	91.0%	87.0%	121.6%	107.9%	120.5%			

4. SEGMENTAL ANALYSIS (Continued)

The following is an analysis of the Group's revenue and results by reportable segment for year ended 31 December 2009:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Total Ongoing £ Million	Run-off £ Million	Restructuring and other one-off costs £ Million	Total Group £ Million
Gross written premium	2,067.2	1,030.9	320.9	398.9	353.7	4,171.6	1,119.5	—	5,291.1
Gross earned premium	2,012.2	1,009.0	436.6	401.1	340.2	4,199.1	1,131.3	—	5,330.4
Reinsurance premium ceded	(23.9)	(54.3)	(22.0)	(20.0)	(49.1)	(169.3)	(32.8)	—	(202.1)
Net earned premium	**1,988.3**	**954.7**	**414.6**	**381.1**	**291.1**	**4,029.8**	**1,098.5**	**—**	**5,128.3**
Investment return	166.6	51.4	28.0	35.4	24.9	306.3	59.3	—	365.6
Instalment income and other operating income	211.7	32.8	12.2	1.7	8.1	266.5	(32.0)	—	234.5
Total income	**2,366.6**	**1,038.9**	**454.8**	**418.2**	**324.1**	**4,602.6**	**1,125.8**	**—**	**5,728.4**
Insurance claims	(2,013.6)	(526.9)	(264.6)	(250.9)	(263.8)	(3,319.8)	(981.9)	—	(4,301.7)
Insurance claims recoverable from reinsurers	25.9	7.1	13.4	11.7	21.4	79.5	39.9	—	119.4
Net insurance claims	**(1,987.7)**	**(519.8)**	**(251.2)**	**(239.2)**	**(242.4)**	**(3,240.3)**	**(942.0)**	**—**	**(4,182.3)**
Commission expenses	(31.0)	(161.8)	(17.4)	(79.8)	(10.9)	(300.9)	(259.9)	—	(560.8)
Other operating expenses	(479.9)	(186.5)	(71.0)	(93.9)	(64.5)	(895.8)	(89.0)	(80.0)	(1,064.8)
Total expenses	**(510.9)**	**(348.3)**	**(88.4)**	**(173.7)**	**(75.4)**	**(1,196.7)**	**(348.9)**	**(80.0)**	**(1,625.6)**
Operating profit / (loss)	**(132.0)**	**170.8**	**115.2**	**5.3**	**6.3**	**165.6**	**(165.1)**	**(80.0)**	**(79.5)**
Finance costs									(4.4)
Gain recognised on disposal of subsidiary and joint venture									216.1
Profit before tax									**132.2**
Loss ratio	100.0%	54.4%	60.6%	62.8%	83.3%	80.4%			
Commission ratio	1.6%	16.9%	4.2%	20.9%	3.8%	7.5%			
Expense ratio	24.1%	19.5%	17.1%	24.6%	22.1%	22.2%			
Combined operating ratio	125.7%	90.8%	81.9%	108.3%	109.2%	110.1%			

4. SEGMENTAL ANALYSIS

Segmental assets and liabilities

The identifiable segment assets and liabilities for the year ended 31 December 2011 are as follows:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Run-off £ Million	Total Group £ Million
Goodwill	126.4	45.8	28.7	10.1	—	—	211.0
Other segment assets	7,241.2	1,565.9	316.7	1,486.4	1,070.8	1,878.1	13,559.1
Segment liabilities	(5,204.5)	(1,138.5)	(244.0)	(1,057.1)	(871.3)	(1,383.4)	(9,898.8)
Reportable segment net assets	**2,163.1**	**473.2**	**101.4**	**439.4**	**199.5**	**494.7**	**3,871.3**

The identifiable segment assets and liabilities for the year ended 31 December 2010 are as follows:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Run-off £ Million	Total Group £ Million
Goodwill	136.6	45.8	28.7	10.1	—	—	221.2
Other segment assets	6,695.7	1,522.3	419.3	1,334.0	933.0	2,691.4	13,595.7
Segment liabilities	(4,981.6)	(1,143.3)	(326.7)	(980.0)	(742.8)	(2,160.4)	(10,334.8)
Reportable segment net assets	**1,850.7**	**424.8**	**121.3**	**364.1**	**190.2**	**531.0**	**3,482.1**

The identifiable segment assets and liabilities for the year ended 31 December 2009 are as follows:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	International £ Million	Run-off £ Million	Total Group £ Million
Goodwill	144.1	45.8	30.5	10.1	—	—	230.5
Other segment assets	5,885.1	1,569.2	615.5	1,281.9	905.5	2,698.1	12,955.3
Segment liabilities	(4,274.9)	(1,145.1)	(458.0)	(916.0)	(707.0)	(2,104.2)	(9,605.2)
Reportable segment net assets	**1,754.3**	**469.9**	**188.0**	**376.0**	**198.5**	**593.9**	**3,580.6**

All operations are in the UK except for International which operates in Germany and Italy; and run-off, which includes the operation of the Group's Spanish Joint Venture, until its disposal in April 2009.

The reportable segment net assets do not represent the Group's view of the capital requirements for its operating segments.

5. NET EARNED PREMIUM

	2011 £ Million	2010 £ Million	2009 £ Million
Premium income from insurance contracts issued:			
Premium receivables	4,168.3	4,971.0	5,291.1
Change in unearned premium reserve	354.6	181.4	39.3
	4,522.9	5,152.4	5,330.4
Premium revenue ceded to reinsurers on insurance contracts issued:			
Premium payables	(257.1)	(183.5)	(199.6)
Change in unearned premium reserve	(12.8)	4.6	(2.5)
	(269.9)	(178.9)	(202.1)
Net earned premium	**4,253.0**	**4,973.5**	**5,128.3**

6. INVESTMENT RETURN

	2011 £ Million	2010 £ Million	2009 £ Million
Investment income			
Interest income on debt securities	208.1	229.0	228.7
Dividend income from equities	—	—	3.9
Other investment fund income	8.5	10.2	13.8
Cash and cash equivalent interest income	20.4	22.8	60.8
Property	6.6	7.1	7.1
Total	**243.6**	**269.1**	**314.3**
Net realised gains			
Debt	54.3	68.2	22.0
Equity	—	—	48.4
Other	—	0.1	—
Impairments to available-for-sale financial assets	(2.0)	(21.4)	(8.3)
Net unrealised (losses)/gains			
Property (note 19)	(14.0)	5.7	(10.8)
	281.9	**321.7**	**365.6**

Impairments to available-for-sale financial assets during 2011 and 2010 relate to debt securities and in 2009 to equity securities.

7. OTHER OPERATING INCOME

	2011 £ Million	2010 £ Million	2009 £ Million
Instalment income	145.0	187.7	155.9
Referral fee income	27.9	39.4	31.0
Revenue from vehicle recovery and repair services	39.3	32.9	33.5
Fee income from insurance intermediary services	3.4	10.2	13.3
Other income	24.5	25.0	0.8
	95.1	**107.5**	**78.6**

8. INSURANCE CLAIMS

	2011		
	Gross £ Million	Reinsurance £ Million	Net £ Million
Current accident year claims paid	1,646.5	(113.2)	1,533.3
Prior accident years' claims paid	1,976.4	(37.4)	1,939.0
Movement in claims provision	(462.3)	(42.5)	(504.8)
	3,160.6	**(193.1)**	**2,967.5**

	2010		
	Gross £ Million	Reinsurance £ Million	Net £ Million
Current accident year claims paid	2,026.4	(37.5)	1,988.9
Prior accident years' claims paid	1,800.5	(28.3)	1,772.2
Movement in claims provision	1,057.8	(190.9)	866.9
	4,884.7	**(256.7)**	**4,628.0**

	2009		
	Gross £ Million	Reinsurance £ Million	Net £ Million
Current accident year claims paid	2,106.9	(34.5)	2,072.4
Prior accident years' claims paid	1,721.6	(52.3)	1,669.3
Movement in claims provision	473.2	(32.6)	440.6
	4,301.7	**(119.4)**	**4,182.3**

Loss adjustment expenses for the year of £296.4 million (2010: £237.9 million; 2009: £226.6 million) have been included in the accident year claims figures above.

A reduction in the liability adequacy provision of £21.7 million (2010: £3.6 million charge; 2009: £24.1 million charge) has been included in the movement in the current accident year claims provision.

9. COMMISSION EXPENSES

	2011 £ Million	2010 £ Million	2009 £ Million
Commission expenses	324.5	395.6	411.7
Expenses incurred/(recovered) under profit participations	194.4	(16.9)	149.1
	518.9	**378.7**	**560.8**

10. OTHER OPERATING EXPENSES

	2011 £ Million	2010 £ Million	2009 £ Million
Staff costs	321.6	312.6	289.3
Marketing	203.5	202.5	218.5
Management fees	282.0	326.6	336.6
Depreciation (note 18)	10.4	11.1	11.9
Amortisation and impairment of intangible assets (note 20)	29.8	21.0	21.8
Impairment of goodwill (note 20)	10.2	9.3	66.8
Other operating expenses	87.1	76.0	119.9
	944.6	**959.1**	**1,064.8**

Included in other operating expenses are run-off, restructuring and other one off costs as follows:

	2011	2010	2009
Staff costs	33.0	31.2	21.8
Management fees	42.0	59.2	68.2
Depreciation	—	—	1.2
Impairment of goodwill	10.2	9.3	66.8
Other operating expenses	21.8	7.6	11.0
	107.0	**107.3**	**169.0**

Staff costs attributable to claims handling activities are allocated to claims and loss adjustment expenses.

Management fees are in respect of expenses recharged from RBS Group plc. Such fees are charged on an arms length basis.

Number of employees	2011 Number	2010 Number	2009 Number
Operations	13,255	14,021	15,494
Support	2,054	1,962	1,295
	15,309	**15,983**	**16,789**

Their aggregate remuneration comprised:

	2011 £ Million	2010 £ Million	2009 £ Million
Wages and salaries	425.3	415.2	418.9
Social security costs	47.6	44.6	45.4
Other pension costs	41.6	40.2	39.5
	514.5	**500.0**	**503.8**

11. FINANCE COSTS

	2011 £ Million	2010 £ Million	2009 £ Million
Interest expense:			
Payable to RBS Group plc	2.3	2.2	3.8
Other	0.4	0.5	0.6
	2.7	**2.7**	**4.4**

12. TAX CHARGE/(CREDIT)

	2011 £ Million	2010 £ Million	2009 £ Million
Current taxation:			
Charge/(credit) for the year	157.2	(104.7)	(6.0)
Under-provision in respect of prior year	10.8	4.0	5.7
	168.0	(100.7)	(0.3)
Deferred taxation (note 13):			
(Credit)/charge for the year	(56.1)	(0.5)	8.5
Over-provision in respect of prior year	(18.0)	(5.0)	(9.1)
	(74.1)	(5.5)	(0.6)
Current taxation	168.0	(100.7)	(0.3)
Deferred taxation (note 13)	(74.1)	(5.5)	(0.6)
Tax charge/(credit) for the year	**93.9**	**(106.2)**	**(0.9)**

The actual income tax charge differs from the expected income tax charge computed by applying the standard rate of UK corporation tax of 26.5% (2010 and 2009: 28.0%) as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
Expected tax charge/(credit)	90.9	(105.9)	37.0
Effects of:			
Net movement in impairment of goodwill	2.9	1.6	19.1
Realised gains on disposal of subsidiary and joint venture	0.4	—	(60.5)
Disallowable expenses	7.1	4.6	10.9
Non-taxable items	—	(3.9)	(4.0)
Effect on deferred tax balances due to the change in income tax rate	(0.2)	(1.6)	—
Over provision in respect of prior year	(7.2)	(1.0)	(3.4)
Tax charge/(credit)	**93.9**	**(106.2)**	**(0.9)**
Effective income tax rate	**27.4%**	**28.1%**	**(0.7)%**

The aggregate current and deferred tax relating to items that are charged or credited to other comprehensive income is £36.8 million (2010: £27.4 million; 2009: £41.5 million).

	2011 £ Million	2010 £ Million	2009 £ Million
Per balance sheet:			
Current tax assets	—	25.9	50.8
Current tax liabilities	(218.0)	(2.6)	(0.3)

13. DEFERRED TAXATION

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

	Other timing differences £ Million	Retirement benefit obligation £ Million	Depreciation in excess of capital allowances £ Million	Non distributable reserves £ Million	Total £ Million
At 1 January 2009	22.9	(2.2)	(1.4)	44.1	**63.4**
(Credit)/charge to income statement	(8.7)	0.9	(0.1)	7.3	**(0.6)**
Credit to equity directly	(0.6)	(2.5)	—	—	**(3.1)**
At 31 December 2009	**13.6**	**(3.8)**	**(1.5)**	**51.4**	**59.7**
(Credit)/charge to income statement	(10.0)	0.9	0.1	3.5	**(5.5)**
Charge to equity directly	2.2	2.9	—	—	**5.1**
At 31 December 2010	**5.8**	**—**	**(1.4)**	**54.9**	**59.3**
(Credit)/charge to income statement	(28.3)	0.6	0.5	(46.9)	(74.1)
At 31 December 2011	**(22.5)**	**0.6**	**(0.9)**	**8.0**	**(14.8)**

	2011 £ Million	2010 £ Million	2009 £ Million
Per balance sheet			
Deferred tax assets	(26.9)	(17.0)	(17.1)
Deferred tax liabilities	12.1	76.3	76.8
	(14.8)	**59.3**	**59.7**

14. EARNINGS/(LOSS) PER SHARE

	2011 £ Million	2010 £ Million	2009 £ Million
Earnings/(loss) attributable to ordinary shareholders of the parent	249.0	(271.9)	133.1

	2011 Million	2010 Million	2009 Million
Weighted average number of shares:			
Average shares in issue	1,500.0	1,500.0	1,500.0
For basic and diluted earnings per share	**1,500.0**	**1,500.0**	**1,500.0**

	2011 Pence	2010 Pence	2009 Pence
Basic and diluted earnings/(loss) per share	16.6	(18.1)	8.9

Basic and diluted earnings per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

15. PROFIT/(LOSS) FOR THE YEAR

	2011 £ Million	2010 £ Million	2009 £ Million
Profit/(loss) for the year is stated after charging			
Net foreign exchange losses	2.3	2.4	15.8
Depreciation of property, plant and equipment (note 18)	10.4	11.1	11.9
Impairment of goodwill (note 20)	10.2	9.3	66.8
Amortisation of software development costs (note 20)	21.1	18.5	20.6

Auditor's remuneration

Fees for audit and non-audit services are included within other operating expenses.

Fees paid to the auditor with respect to the statutory audit of the Group amount to £1.3 million (2010: £1.4 million; 2009: £1.4 million).

Fees in respect of the audit of the FSA Returns amount to £0.2 million in 2011 (2010: £0.1 million; 2009: £0.1 million) and fees for other services amount to £1.3 million in 2011 (2010: £1.5 million; 2009: nil). Other services relate to a review of the implementation of new claims systems and the divestment of the Group from RBS Group.

Directors' emoluments

	2011 £ Million	2010 £ Million	2009 £ Million
Fees as directors	0.1	0.1	0.1
Other emoluments	3.0	1.4	1.3
Company pension contributions	0.2	0.1	0.2
	3.3	**1.6**	**1.6**

Included in the above are emoluments, excluding pension contributions, paid to the highest paid director amounting to £1,497,310 (2010: £919,275; 2009: £438,132). A contribution of nil (2010: £100,000; 2009: £76,584) was made to a final salary scheme on behalf of the highest paid director. Three directors (2010: 1; 2009: nil) had retirement benefits accruing under money purchase pension schemes in respect of qualifying service.

During the year no directors exercised options (2010 and 2009: none).

16. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the Group's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately. Other than those financial assets and liabilities stated at fair value below, the carrying value of all other financial assets and liabilities equals their fair value.

At 31 December 2011

	Assets/ liabilities at fair value £ Million	Available for sale £ Million	Loans and receivables £ Million	Other (amortised costs) £ Million	Non-financial assets £ Million	Total £ Million
Assets						
Goodwill and other intangible assets	—	—	—	—	365.8	365.8
Property, plant and equipment	—	—	—	—	46.9	46.9
Investment property	—	—	—	—	69.5	69.5
Reinsurance assets	—	—	—	—	741.6	741.6
Deferred acquisition costs	—	—	—	—	310.5	310.5
Prepayments, accrued income and other assets	—	—	—	—	92.2	92.2
Insurance and other receivables	—	—	1,252.9	—	—	1,252.9
Deferred tax assets	—	—	—	—	26.9	26.9
Derivative financial instruments	0.1	—	—	—	—	0.1
Retirement benefit asset	—	—	—	—	2.6	2.6
Financial investments	—	7,990.7	1,489.6	—	—	9,480.3
Cash and cash equivalents	—	—	1,379.8	—	—	1,379.8
Assets held for sale	—	1.0	—	—	—	1.0
	0.1	7,991.7	4,122.3	—	1,656.0	**13,770.1**
Liabilities						
Insurance liabilities	—	—	—	—	6,509.0	6,509.0
Unearned premium reserve	—	—	—	—	1,931.6	1,931.6
Borrowings	—	—	—	317.9	—	317.9
Trade and other payables including insurance payables	—	—	—	832.6	77.6	910.2
Deferred tax liabilities	—	—	—	—	12.1	12.1
Current tax liabilities	—	—	—	—	218.0	218.0
	—	—	—	1,150.5	8,748.3	**9,898.8**
Total Equity						3,871.3
						13,770.1

At 31 December 2010

	Assets/ liabilities at fair value £ Million	Available for sale £ Million	Loans and receivables £ Million	Other (amortised costs) £ Million	Non-financial assets £ Million	Total £ Million
Assets						
Goodwill and other intangible assets	—	—	—	—	286.1	286.1
Property, plant and equipment	—	—	—	—	52.6	52.6
Investment property	—	—	—	—	83.5	83.5
Reinsurance assets	—	—	—	—	660.9	660.9
Deferred acquisition costs	—	—	—	—	299.5	299.5
Prepayments, accrued income and other assets	—	—	—	—	113.3	113.3
Insurance and other receivables	—	—	1,606.2	—	—	1,606.2
Current tax assets	—	—	—	—	25.9	25.9
Deferred tax assets	—	—	—	—	17.0	17.0
Financial investments	—	7,867.1	963.4	—	—	8,830.5
Cash and cash equivalents	—	—	1,841.4	—	—	1,841.4
	—	7,867.1	4,411.0	—	1,538.8	**13,816.9**
Liabilities						
Insurance liabilities	—	—	—	—	6,941.4	6,941.4
Unearned premium reserve	—	—	—	—	2,288.6	2,288.6
Borrowings	—	—	—	327.1	—	327.1
Derivative financial instruments	0.7	—	—	—	—	0.7
Retirement benefit obligations	—	—	—	—	0.1	0.1
Trade and other payables including insurance payables	—	—	—	598.5	99.5	698.0
Deferred tax liabilities	—	—	—	—	76.3	76.3
Current tax liabilities	—	—	—	—	2.6	2.6
	0.7	—	—	925.6	9,408.5	**10,334.8**
Total Equity						3,482.1
						13,816.9

At 31 December 2009

	Assets/ liabilities at fair value £ Million	Available for sale £ Million	Loans and receivables £ Million	Other (amortised costs) £ Million	Non-financial assets £ Million	Total £ Million
Assets						
Goodwill and other intangible assets	—	—	—	—	290.3	290.3
Property, plant and equipment	—	—	—	—	59.2	59.2
Investment property	—	—	—	—	77.8	77.8
Reinsurance assets	—	—	—	—	517.6	517.6
Deferred acquisition costs	—	—	—	—	338.5	338.5
Prepayments, accrued income and other assets	—	—	—	—	92.2	92.2
Insurance and other receivables	—	—	1,732.8	—	—	1,732.8
Current tax assets	—	—	—	—	50.8	50.8
Deferred tax assets	—	—	—	—	17.1	17.1
Derivative financial instruments	1.3	—	—	—	—	1.3
Financial investments	—	7,346.6	1,401.3	—	—	8,747.9
Cash and cash equivalents	—	—	1,260.3	—	—	1,260.3
	1.3	7,346.6	4,394.4	—	1,443.5	**13,185.8**
Liabilities						
Insurance liabilities	—	—	—	—	5,928.5	5,928.5
Unearned premium reserve	—	—	—	—	2,499.8	2,499.8
Borrowings	—	—	—	285.2	—	285.2
Retirement benefit obligations	—	—	—	—	13.6	13.6
Trade and other payables including insurance payables	—	—	—	689.1	111.9	801.0
Deferred tax liabilities	—	—	—	—	76.8	76.8
Current tax liabilities	—	—	—	—	0.3	0.3
	—	—	—	974.3	8,630.9	**9,605.2**
Total Equity						3,580.6
						13,185.8

17. ASSETS CLASSIFIED AS HELD FOR SALE

	2011 £ Million	2010 £ Million	2009 £ Million
Freehold property held for sale	**1.0**	**—**	**—**

The company intends to dispose of freehold property it no longer utilises at Lumbry Park, Alton. As at 31 December 2011 the property is actively being marketed, with no further impairment losses recognised on reclassification of the property as held for sale.

18. PROPERTY, PLANT AND EQUIPMENT

	Property, Plant and Equipment £ Million
Cost	
At 1 January 2009	183.6
Additions	8.4
Disposals	(96.2)
Effect of foreign currency exchange adjustment	(3.6)
At 31 December 2009	92.2
Additions	5.2
Disposals	(5.3)
Effect of foreign currency exchange adjustment	(0.5)
At 31 December 2010	91.6
Additions	7.5
Disposals	(7.9)
Classified as held for sale	(1.5)
Effect of foreign currency exchange adjustment	(0.6)
At 31 December 2011	89.1

	Property, Plant and Equipment £ Million
Depreciation	
At 1 January 2009	97.0
Depreciation charge for the year	11.9
Disposals	(74.2)
Effect of foreign currency exchange adjustment	(1.7)
At 31 December 2009	33.0
Depreciation charge for the year	11.1
Disposals	(4.7)
Effect of foreign currency exchange adjustment	(0.4)
At 31 December 2010	39.0
Depreciation charge for the year	10.4
Disposals	(6.4)
Classified as held for sale	(0.5)
Effect of foreign currency exchange adjustment	(0.3)
At 31 December 2011	42.2
Net book amount	
At 31 December 2011	**46.9**
At 31 December 2010	**52.6**
At 31 December 2009	**59.2**

19. INVESTMENT PROPERTIES

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	83.5	77.8	88.6
(Decrease)/increase in fair value	(14.0)	5.7	(10.8)
At 31 December	**69.5**	**83.5**	**77.8**

Investment properties comprise freehold property occupied by subsidiaries of The Royal Bank of Scotland Group plc under operating leases on an arms length basis. Valuations were carried out at 31 December 2011 by an independent valuer.

20. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £ Million	Other intangible assets £ Million	Total £ Million
Cost			
At 1 January 2009	347.2	472.0	819.2
Exchange differences	(0.1)	(3.0)	(3.1)
Additions	—	8.1	8.1
Impairment and write off of intangible assets	—	(2.4)	(2.4)
Disposal of joint venture	—	(15.9)	(15.9)
At 31 December 2009	347.1	458.8	805.9
Exchange differences	(0.9)	(0.6)	(1.5)
Additions	—	26.2	26.2
Impairment and write off of intangible assets	—	(57.6)	(57.6)
At 31 December 2010	346.2	426.8	773.0
Exchange differences	(1.0)	(0.8)	(1.8)
Additions	—	119.8	119.8
Impairment and write off of intangible assets	—	(8.8)	(8.8)
At 31 December 2011	345.2	537.0	882.2

	Goodwill £ Million	Other intangible assets £ Million	Total £ Million
Amortisation/accumulated impairment losses			
At 1 January 2009	42.1	394.6	436.7
Charge for the year	—	20.6	20.6
Exchange differences	7.7	(2.1)	5.6
Impaired and write off of intangible assets	66.8	(1.2)	65.6
Disposal of joint venture	—	(12.9)	(12.9)
At 31 December 2009	116.6	399.0	515.6
Charge for the year	—	18.5	18.5
Exchange differences	(0.9)	(0.5)	(1.4)
Impaired and write off of intangible assets	9.3	(55.1)	(45.8)
At 31 December 2010	125.0	361.9	486.9
Charge for the year	—	21.1	21.1
Exchange differences	(1.0)	(0.7)	(1.7)
Impaired and write off of intangible assets	10.2	(0.1)	10.1
At 31 December 2011	134.2	382.2	516.4
Net book amount			
At 31 December 2011	**211.0**	**154.8**	**365.8**
At 31 December 2010	**221.2**	**64.9**	**286.1**
At 31 December 2009	**230.5**	**59.8**	**290.3**

Other intangible assets primarily comprises software development costs and additions within other intangible assets were comprised of software development costs of £119.8 million (2010: £26.2 million; 2009: £8.1 million).

Goodwill has arisen primarily on the acquisition of U K Insurance Limited (£141 million) and Churchill Insurance Company Limited (£70 million) which is allocated across motor, home, rescue, and other personal lines and commercial on a relative value basis.

The Group's goodwill is reviewed annually at 30 September for impairment by comparing the recoverable amount of each cash generating unit ("CGU") to which goodwill has been allocated with its carrying value.

The CGUs of the Group are as follows:

	Motor £ Million	Home £ Million	Rescue and other personal lines £ Million	Commercial £ Million	Direct Line Insurance S.p.A £ Million	Direct Line Life Insurance Company Limited	Tracker Network (UK) Limited	Total £ Million
As at 1 January 2009	126.4	45.8	28.7	10.1	23.6	1.8	60.9	297.3
Impairment of goodwill	—	—	—	—	(23.6)	—	(43.2)	(66.8)
As at 31 December 2009	126.4	45.8	28.7	10.1	—	1.8	17.7	230.5
Impairment of goodwill	—	—	—	—	—	(1.8)	(7.5)	(9.3)
As at 31 December 2010	126.4	45.8	28.7	10.1	—	—	10.2	221.2
Impairment of goodwill	—	—	—	—	—	—	(10.2)	(10.2)
As at 31 December 2011	**126.4**	**45.8**	**28.7**	**10.1**	—	—	—	**211.0**

The recoverable amount is the higher of the unit's fair value less the costs to sell and its value in use. Value in use is the present value of expected future cash flows from the CGU. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable and willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of CGUs; and the valuation of the separable assets of each business whose goodwill is being reviewed.

The recoverable amounts of all CGUs at 30 September were based on the value in use test, using management's latest five-year forecasts. The long-term growth rates have been based on GDP rates adjusted for inflation. The risk discount rates are based on observable market long-term government bond yields and average industry betas adjusted for an appropriate risk premium based on independent analysis.

The recoverable amount of the Motor business, based on a 3% terminal growth rate and a 10% post tax discount rate, exceeded the carrying amount by £1,441.5 million. A 1% change in the discount rate or the terminal growth rate would change the recoverable amount by approximately £468.1 million and £456.1 million respectively. In addition, a 1% change in the forecast post tax earnings would change the recoverable amount by approximately £36.0 million.

The recoverable amount of the Home business, based on a 3% terminal growth rate and a 10% post tax discount rate, exceeded the carrying amount by £745.0 million. A 1% change in the discount rate or the terminal growth rate would change the recoverable amount by approximately £157.8 million and £153.6 million respectively. In addition, a 1% change in the forecast post tax earnings would change the recoverable amount by approximately £12.2 million.

The recoverable amount of the Rescue and other personal lines business, based on a 3% terminal growth rate and a 10% post tax discount rate, exceeded the carrying amount by £745.7 million. A 1% change in the discount rate or the terminal growth rate would change the recoverable amount by approximately £111.8 million and £108.6 million respectively. In addition, a 1% change in the forecast post tax earnings would change the recoverable amount by approximately £8.5 million.

The recoverable amount of the Commercial business, based on a 3% terminal growth rate and a 10% post tax discount rate, exceeded the carrying amount by £104.2 million. A 1% change in the discount rate or the terminal growth rate would change the recoverable amount by approximately £78.9 million and £75.9 million respectively. In addition, a 1% change in the forecast post tax earnings would change the recoverable amount by approximately £5.4 million.

Tracker Network UK limited ("Tracker") provides stolen vehicle recovery systems and vehicle asset management systems. Goodwill in respect of Tracker has been impaired in 2011 by £10.2 million (2010: £7.5 million; 2009: £43.2 million) as performance has not been in line with that anticipated at the date of purchase. The recoverable amount has been calculated in each period using a value in use methodology, with the key assumptions underlying the calculation being a terminal growth rate of 3% (2010 and 2009: 3%) and a post tax discount rate of 10% (2010 10%: 2009: 12%).

For all other CGUs, key assumptions used in impairment testing in 2010 and 2009 were;

- terminal growth rate: 3% (2010 and 2009); and
- post tax discount rate: 10% (2010); 12% (2009)

21. SUBSIDIARIES

The principal subsidiary undertakings of the Group are shown on the following page. Their capital consists of ordinary shares which are unlisted.

U K Insurance Limited and RBS Insurance Services Limited are owned directly by Direct Line Insurance Group plc, and Direct Line S.p.A is owned indirectly through intermediary holding companies. All subsidiaries are included in the Group's combined financial statements and have an accounting reference date of 31 December.

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest (ordinary shares)	Proportion of voting power held	Principal activity
Direct Line Insurance S.p.A	Italy	Ordinary	100%	General insurance
RBS Insurance Services Limited	Great Britain	Ordinary	100%	Management services
U K Insurance Limited	Great Britain	Ordinary	100%	General insurance

The above information is provided in relation to principal related undertakings as permitted by Section 410(2) of the Companies Act 2006. Full information on all related undertakings is included in the Annual Return available from Companies House.

For details of the ownership of Direct Line Versicherung AG please see note 1 and note 1.1 in accounting policies.

The Group realised a profit on sale on disposal of a subsidiary in the year ended 31 December 2011 of £1.6 million (2010: nil; 2009: £216.1 million).

The disposal in 2011 was in respect of Devitt Insurance Services Limited which was sold to CKH Limited for a consideration of £2.3 million. Cash and cash equivalents included in the disposal were £2.4 million along with other assets of £7.3 million and other liabilities of £9.0 million.

The disposal in 2009 was in respect of the Group's 50% shareholding in Linea Directa Aseguradora S.A which was sold to Bankinter S.A for a consideration of £380.9 million. Cash and cash equivalents included in the disposal were £50.0 million along with debt securities of £321.7 million, fixed assets of £19.7 million, other assets of £61.3 million, insurance liabilities of £263.2 million and other liabilities of £24.7 million.

22. REINSURANCE ASSETS

	2011 £ Million	2010 £ Million	2009 £ Million
Reinsurers' share of general insurance liabilities	712.8	611.8	457.2
General insurance impairment provision	(53.9)	(9.2)	(1.8)
Reinsurers' share of life insurance liabilities	82.7	58.3	62.2
Total assets arising from reinsurance contracts	**741.6**	**660.9**	**517.6**

	2011 £ Million	2010 £ Million	2009 £ Million
Analysis of movement in impairment provision			
At 1 January	(9.2)	(1.9)	(2.4)
Impairment loss recognised on reinsurance contracts	(44.8)	(8.0)	—
Impairment losses reversed	0.1	0.7	0.6
At 31 December	**(53.9)**	**(9.2)**	**(1.8)**

23. DEFERRED ACQUISITION COSTS

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	299.5	338.5	364.0
Net credit/(charge) to the income statement	11.0	(39.0)	(13.9)
Disposal of joint venture	—	—	(11.6)
At 31 December	**310.5**	**299.5**	**338.5**

24. FINANCIAL INVESTMENTS

	2011 £ Million	2010 £ Million	2009 £ Million
Available-for-sale investments			
Government bonds	3,481.2	3,031.5	1,686.0
Corporate bonds	3,843.2	3,968.6	4,607.0
Mortgage-backed securities	283.5	496.1	686.3
Available-for-sale investments	7,607.9	7,496.2	6,979.3

	2011 £ Million	2010 £ Million	2009 £ Million
Debt securities:			
Listed—fixed interest rate	6,747.8	6,451.4	5,219.2
Listed—floating interest rate	860.1	1,044.8	1,760.1
	7,607.9	7,496.2	6,979.3
Other investment funds:			
Other investment funds	382.8	370.9	367.3
	382.8	370.9	367.3
Total available-for-sale investments	**7,990.7**	**7,867.1**	**7,346.6**

	2011 £ Million	2010 £ Million	2009 £ Million
Loans and receivables			
Deposits with credit institutions with maturities in excess of three months			
—third parties	1,342.6	821.4	981.3
—related parties (note 38)	147.0	142.0	420.0
Total loans and receivable deposits	**1,489.6**	**963.4**	**1,401.3**
Total financial investments	**9,480.3**	**8,830.5**	**8,747.9**

Included within the debt securities balance above is £304.6 million (2010: £562.0 million; 2009: £824.0 million) placed with members of The Royal Bank of Scotland group.

Other investment funds are an investment fund which include Euro and US Dollar denominated bonds, hedged back to sterling.

The following table shows an analysis of financial instruments recorded at fair value, which equates to its carrying value, by level of the fair value hierarchy:

At 31 December 2011

	Level 1 (note i) £ Million	Level 2 (note ii) £ Million	Total £ Million
Financial assets			
Available-for-sale financial assets			
Debt securities	2,862.6	4,745.3	7,607.9
Other investment funds	—	382.8	382.8
	2,862.6	**5,128.1**	**7,990.7**

At 31 December 2010

	Level 1 (note i) £ Million	Level 2 (note ii) £ Million	Total £ Million
Financial assets			
Available-for-sale financial assets			
Debt securities	2,793.4	4,702.8	7,496.2
Other investment funds	—	370.9	370.9
	2,793.4	**5,073.7**	**7,867.1**

At 31 December 2009

	Level 1 (note i) £ Million	Level 2 (note ii) £ Million	Total £ Million
Financial assets			
Available-for-sale financial assets			
Debt securities	1,270.2	5,709.1	6,979.3
Other investment funds	—	367.3	367.3
	1,270.2	**6,076.4**	**7,346.6**

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

i) Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

The Group held no Level 3 securities at 31 December 2011, 2010 and 2009.

25. INSURANCE AND OTHER RECEIVABLES

	2011 £ Million	2010 £ Million	2009 £ Million
Receivables arising from insurance and reinsurance contracts:			
Due from policyholders	988.9	1,212.3	1,413.5
Less provision for impairment of receivables from policyholders	(8.8)	(15.6)	(7.9)
Due from agents, brokers and intermediaries	176.9	281.9	197.6
Less provision for impairment of receivables from agents, brokers and intermediaries	(0.4)	(0.9)	(3.0)
Due from reinsurers:			
—third-party reinsurers	46.0	49.0	52.8
Other loans and receivables:			
Accrued interest	3.3	3.3	7.5
Receivables from related parties (note 38)	7.7	7.6	13.9
Other debtors	39.3	68.6	58.4
Total receivables including insurance receivables	**1,252.9**	**1,606.2**	**1,732.8**

26. CASH AND CASH EQUIVALENTS

	2011 £ Million	2010 £ Million	2009 £ Million
Cash at bank and in hand:			
—third parties	153.5	102.9	94.2
—related party (note 38)	48.4	131.4	29.3
	201.9	234.3	123.5
Short-term deposits with credit institutions:			
—third parties*	1,029.5	1,526.5	978.1
—members of RBS Group plc (note 38)	148.4	80.6	158.7
	1,177.9	1,607.1	1,136.8
Total cash and cash equivalents	**1,379.8**	**1,841.4**	**1,260.3**

* Included in the above are investments held by the Group in Global Treasury Funds PLC, (as open-ended umbrella investment company with variable capital incorporated with limited liability in Ireland) as at 31 December 2011 of £612.0 million (31 December 2010: £602.6 million; 31 December 2009: £545.7 million). RBS Asset Management (Dublin) Limited is the appointed manager to the fund.

The effective interest rate on short-term deposits with credit institutions was 0.78% (2010: 0.61%; 2009: 1.2%) and has an average maturity of 85 days (2010: 78 days; 2009: 57 days).

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

	2011 £ Million	2010 £ Million	2009 £ Million
Cash and cash equivalents	1,379.8	1,841.4	1,260.3
Bank overdrafts (note 31)	(70.2)	(77.9)	(34.4)
	1,309.6	**1,763.5**	**1,225.9**

27. INVESTED CAPITAL

	2011 £ Million	2010 £ Million	2009 £ Million
Authorised:			
Equity shares			
Ordinary shares of £1 each	**1,500.0**	**1,500.0**	**1,500.0**
Issued and fully paid:			
Equity shares			
Ordinary shares of £1 each			
At 1 January and 31 December	**1,500.0**	**1,500.0**	**1,500.0**

28. OTHER RESERVES AND RETAINED EARNINGS

	2011 £ Million	2010 £ Million	2009 £ Million
Capital contribution reserve	100.0	100.0	100.0
Reserve for revaluation of available-for-sale investments	137.1	41.9	(20.8)
Non distributable reserve	30.3	197.6	183.6
Foreign exchange translation reserve	6.4	5.4	5.3
Demerger reserve	301.4	245.5	143.3
Other reserves at 31 December	**575.2**	**590.4**	**411.4**
Retained earnings at 31 December	**1,537.6**	**1,133.2**	**1,410.7**
Non-controlling interest			
Undated loan capital	**258.5**	**258.5**	**258.5**

The non-controlling interest of £258.5 million was provided by Tesco Personal Finance Limited (TPF) in 2006. This is shown in the Group's capital as a perpetual subordinated loan and qualifies as tier two capital. There is no interest on this instrument.

Movements in the capital contribution reserve were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
Capital contribution reserve at 1 January and 31 December	**100.0**	**100.0**	**100.0**

28. OTHER RESERVES AND RETAINED EARNINGS

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

	Equity shares £ Million	Other investment funds £ Million	Debt securities £ Million	Total £ Million
At 1 January 2009	(43.7)	—	(120.4)	**(164.1)**
Revaluation during the period—gross	101.3	2.2	144.4	**247.9**
Revaluation during the period—tax	(28.9)	(0.6)	(33.9)	**(63.4)**
Recycled to profit or loss on disposal of subsidiaries	—	—	3.3	**3.3**
Realised gains—gross	(40.1)	—	(22.0)	**(62.1)**
Tax on realised gains	11.4	—	6.2	**17.6**
At 31 December 2009	—	1.6	(22.4)	**(20.8)**
Revaluation during the period—gross	—	3.3	130.3	**133.6**
Revaluation during the period—tax	—	(0.9)	(36.3)	**(37.2)**
Realised gains—gross	—	—	(46.8)	**(46.8)**
Tax on realised gains	—	—	13.1	**13.1**
At 31 December 2010	**—**	**4.0**	**37.9**	**41.9**
Revaluation during the period—gross	—	11.8	172.0	**183.8**
Revaluation during the period—tax	—	(3.1)	(47.3)	**(50.4)**
Realised gains—gross	—	—	(52.3)	**(52.3)**
Tax on realised gains	—	—	14.1	**14.1**
At 31 December 2011	**—**	**12.7**	**124.4**	**137.1**

Movements in the non distributable reserves were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	197.6	183.6	158.3
Transfer (to)/from retained earnings for movement in year	(167.3)	14.0	25.3
At 31 December	**30.3**	**197.6**	**183.6**

The non distributable reserve relates to a UK statutory claims equalisation reserve that is calculated in accordance with the rules of the FSA.

Movements in the foreign translation exchange reserve were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	5.4	5.3	24.7
Disposal of subsidiary	—	—	(20.8)
Movement foreign currency translation adjustment	1.0	0.1	1.4
At 31 December	**6.4**	**5.4**	**5.3**

Movements in the demerger reserve were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	245.5	143.3	—
Costs recharged from RBS Group	55.9	102.2	143.3
At 31 December	**301.4**	**245.5**	**143.3**

For an explanation of the nature of the demerger reserve, please refer to note 1.

29. INSURANCE LIABILITIES, UNEARNED PREMIUM RESERVE AND REINSURANCE ASSETS

	2011 £ Million	2010 £ Million	2009 £ Million
Insurance liabilities			
Life insurance business (note 30)	97.8	74.2	86.7
General insurance business	6,411.2	6,867.2	5,841.8
Total insurance liabilities excluding unearned premiums	**6,509.0**	**6,941.4**	**5,928.5**
Gross (general insurance business)			
Claims reported	4,036.9	4,220.4	4,032.9
Claims incurred but not reported	2,217.5	2,514.2	1,675.4
Loss adjustment expenses	153.2	107.2	104.5
Liability adequacy provision	3.6	25.4	29.0
Total insurance liabilities, gross excluding unearned premiums	6,411.2	6,867.2	5,841.8
Unearned premiums	1,931.6	2,288.6	2,499.8
Total insurance liabilities, gross	**8,342.8**	**9,155.8**	**8,341.6**
Recoverable from reinsurers (general insurance business)			
Claims reported	(318.1)	(310.0)	(326.6)
Claims incurred but not reported	(281.8)	(220.8)	(52.1)
Total recoverable from reinsurers, excluding unearned premiums	(599.9)	(530.8)	(378.7)
Unearned premiums	(59.0)	(71.8)	(76.7)
Total reinsurers' share of insurance liabilities	**(658.9)**	**(602.6)**	**(455.4)**
Net (general insurance business)			
Claims reported	3,718.8	3,910.4	3,706.3
Claims incurred but not reported	1,935.7	2,293.4	1,623.3
Loss adjustment expenses	153.2	107.2	104.5
Liability adequacy provision	3.6	25.4	29.0
Total insurance liabilities, net excluding unearned premiums	5,811.3	6,336.4	5,463.1
Unearned premiums	1,872.6	2,216.8	2,423.1
Total insurance liabilities, net	**7,683.9**	**8,553.2**	**7,886.2**

General insurance claims—gross
Accident year

	2002 £ Million	2003 £ Million	2004 £ Million	2005 £ Million	2006 £ Million	2007 £ Million	2008 £ Million	2009 £ Million	2010 £ Million	2011 £ Million	Total £ Million
Estimate of ultimate claims costs:											
At end of accident year	3,012.0	3,648.5	3,679.1	4,007.5	4,091.6	4,390.5	3,878.1	4,148.0	4,261.9	3,080.5	**38,197.7**
One year later	90.7	(135.6)	(187.2)	(175.8)	(266.1)	(62.0)	23.2	120.0	(98.1)	—	**(690.9)**
Two years later	4.4	(105.5)	(89.8)	(141.7)	(42.0)	(1.1)	43.9	(42.5)	—	—	**(374.3)**
Three years later	(2.3)	(62.1)	(61.3)	(57.9)	(17.6)	49.4	(38.3)	—	—	—	**(190.1)**
Four years later	(17.1)	(42.9)	(41.9)	(59.5)	10.1	(7.0)	—	—	—	—	**(158.3)**
Five years later	(6.1)	(19.7)	(15.2)	15.3	(21.6)	—	—	—	—	—	**(47.3)**
Six years later	(24.4)	(25.3)	70.5	7.8	—	—	—	—	—	—	**28.6**
Seven years later	(10.0)	19.5	12.8	—	—	—	—	—	—	—	**22.3**
Eight years later	19.5	7.7	—	—	—	—	—	—	—	—	**27.2**
Nine years later	(6.8)	—	—	—	—	—	—	—	—	—	**(6.8)**
Current estimate of cumulative claims	3,059.9	3,284.6	3,367.0	3,595.7	3,754.4	4,369.8	3,906.9	4,225.5	4,163.8	3,080.5	**36,808.1**
Cumulative payments to date	(3,007.6)	(3,146.1)	(3,150.9)	(3,404.7)	(3,435.1)	(3,861.4)	(3,277.8)	(3,211.2)	(2,853.9)	(1,326.0)	**(30,674.7)**
Liability recognised in balance sheet	52.3	138.5	216.1	191.0	319.3	508.4	629.1	1,014.3	1,309.9	1,754.5	**6,133.4**
Liability in respect of prior years before 2002											121.0
Loss adjustment expenses											153.2
Total gross liability included in the balance sheet											**6,407.6**

General insurance claims—net of reinsurance
Accident year

	2002 £ Million	2003 £ Million	2004 £ Million	2005 £ Million	2006 £ Million	2007 £ Million	2008 £ Million	2009 £ Million	2010 £ Million	2011 £ Million	Total £ Million
Estimate of ultimate claims costs:											
At end of accident year	2,583.0	3,207.4	3,486.1	3,869.6	4,030.8	4,341.3	3,816.0	4,113.0	4,219.3	2,946.1	**36,612.6**
One year later	58.0	(103.3)	(169.2)	(159.3)	(249.7)	(81.7)	24.1	70.0	(109.7)	—	**(720.8)**
Two years later	(7.5)	(101.8)	(94.1)	(159.4)	(52.7)	(23.3)	8.2	(23.0)	—	—	**(453.6)**
Three years later	(26.7)	(71.0)	(68.3)	(62.0)	(28.2)	17.7	(24.5)	—	—	—	**(263.0)**
Four years later	(19.5)	(42.4)	(53.3)	(61.6)	9.9	(10.4)	—	—	—	—	**(177.3)**
Five years later	(24.3)	(36.0)	(13.5)	7.2	(43.5)	—	—	—	—	—	**(110.1)**
Six years later	(39.7)	(20.5)	60.7	(0.4)	—	—	—	—	—	—	**0.1**
Seven years later	(9.9)	5.5	(4.1)	—	—	—	—	—	—	—	**(8.5)**
Eight years later	10.0	6.2	—	—	—	—	—	—	—	—	**16.2**
Nine years later	(15.5)	—	—	—	—	—	—	—	—	—	**(15.5)**
Current estimate of cumulative claims	2,507.9	2,844.1	3,144.3	3,434.1	3,666.6	4,243.6	3,823.8	4,160.0	4,109.6	2,946.1	**34,880.1**
Cumulative payments to date	(2,484.2)	(2,771.0)	(2,998.3)	(3,279.0)	(3,388.0)	(3,801.6)	(3,247.8)	(3,181.1)	(2,837.4)	(1,298.4)	**(29,286.8)**
Liability recognised in balance sheet	23.7	73.1	146.0	155.1	278.6	442.0	576.0	978.9	1,272.2	1,647.7	**5,593.3**
Liability in respect of prior years before 2002											61.2
Loss adjustment expenses											153.2
Total net liability											**5,807.7**

Movements in insurance liabilities and reinsurance assets

(i) Claims and loss adjustment expenses

	Gross £ Million	Reinsurance £ Million	Net £ Million
Notified claims	4,092.7	(314.4)	3,778.3
Incurred but not reported	1,426.8	(43.7)	1,383.1
At 1 January 2009	**5,519.5**	**(358.1)**	**5,161.4**
Cash paid for claims settled in the year	(3,810.0)	77.1	(3,732.9)
Increase/(decrease) in liabilities			
—arising from current-year claims	4,331.9	(44.3)	4,287.6
—arising from prior-year claims	(63.3)	(61.8)	(125.1)
Net exchange differences	(29.2)	1.5	(27.7)
Disposals	(136.1)	6.9	(129.2)
At 31 December 2009	**5,812.8**	**(378.7)**	**5,434.1**
Notified claims	4,137.4	(326.6)	3,810.8
Incurred but not reported	1,675.4	(52.1)	1,623.3
At 31 December 2009	**5,812.8**	**(378.7)**	**5,434.1**
Cash paid for claims settled in the year	(3,907.0)	153.4	(3,753.6)
Increase/(decrease) in liabilities			
—arising from current-year claims	4,453.4	(105.1)	4,348.3
—arising from prior-year claims	486.4	(201.4)	285.0
Net exchange differences	(3.8)	1.0	(2.8)
At 31 December 2010	**6,841.8**	**(530.8)**	**6,311.0**
Notified claims	4,327.6	(310.0)	4,017.6
Incurred but not reported	2,514.2	(220.8)	2,293.4
At 31 December 2010	**6,841.8**	**(530.8)**	**6,311.0**
Cash paid for claims settled in the year	(3,547.7)	81.7	(3,466.0)
Increase/(decrease) in liabilities			
—arising from current-year claims	3,345.3	(134.4)	3,210.9
—arising from prior-year claims	(209.9)	(17.2)	(227.1)
Net exchange differences	(21.9)	0.8	(21.1)
At 31 December 2011	**6,407.6**	**(599.9)**	**5,807.7**
Notified claims	4,190.1	(318.1)	3,872.0
Incurred but not reported	2,217.5	(281.8)	1,935.7
At 31 December 2011	**6,407.6**	**(599.9)**	**5,807.7**

(ii) Provisions for unearned premiums

	Gross £ Million	Reinsurance £ Million	Net £ Million
Unearned premium reserve			
At 1 January 2009	**2,710.9**	**(79.2)**	**2,631.7**
Net decrease in the year	(39.3)	2.5	(36.8)
Exchange movement	(14.3)	—	(14.3)
Disposal of joint venture	(157.5)	—	(157.5)
At 31 December 2009	**2,499.8**	**(76.7)**	**2,423.1**
Net decrease in the year	(181.4)	(4.6)	(186.0)
Exchange movement	(19.9)	(0.4)	(20.3)
Reclassification	(9.9)	9.9	—
At 31 December 2010	**2,288.6**	**(71.8)**	**2,216.8**
Net decrease in the year	(354.6)	12.8	(341.8)
Exchange movement	(2.4)	—	(2.4)
At 31 December 2011	**1,931.6**	**(59.0)**	**1,872.6**

(iii) Provisions for liability adequacy provision

	£ Million
Liability adequacy provision	
At 1 January 2009	**4.9**
Increase in the year	24.1
At 31 December 2009	**29.0**
Decrease in the year	(3.6)
At 31 December 2010	**25.4**
Decrease in the year	(21.8)
At 31 December 2011	**3.6**

30. LIFE INSURANCE CONTRACTS AND REINSURANCE ASSETS

	2011 £ Million	2010 £ Million	2009 £ Million
Gross			
Long-term insurance contracts:			
—with fixed and guaranteed terms	93.0	68.4	82.2
—benefits outstanding	4.8	5.8	4.5
Total insurance liabilities, gross	**97.8**	**74.2**	**86.7**
Recoverable from reinsurers			
Long-term insurance contracts			
—with fixed and guaranteed terms	(78.6)	(53.3)	(58.3)
—benefits outstanding	(4.1)	(5.0)	(3.9)
Total reinsurers' share of insurance liabilities	**(82.7)**	**(58.3)**	**(62.2)**
Net			
Long-term insurance contracts			
—with fixed and guaranteed terms	14.4	15.1	23.9
—benefits outstanding	0.7	0.8	0.6
Total insurance liabilities, net	**15.1**	**15.9**	**24.5**

	2011 £ Million	2010 £ Million	2009 £ Million
Current	5.8	6.4	10.2
Non-current	9.3	9.5	14.3
	15.1	**15.9**	**24.5**

Movements in life insurance liabilities and reinsurance assets

	Gross £ Million	Reinsurance £ Million	Net £ Million
At 1 January 2009	**95.4**	**(58.3)**	**37.1**
Provisions in respect of new and existing business	51.2	(24.9)	26.3
Expected change in existing business provisions	(9.0)	13.3	4.3
Variance between actual and expected experience	(40.6)	11.6	(29.0)
Other movements	(14.8)	—	(14.8)
At 31 December 2009	**82.2**	**(58.3)**	**23.9**

	Gross £ Million	Reinsurance £ Million	Net £ Million
At 1 January 2010	**82.2**	**(58.3)**	**23.9**
Provisions in respect of new and existing business	49.7	(26.3)	23.4
Expected change in existing business provisions	(15.2)	16.9	1.7
Variance between actual and expected experience	(35.7)	14.4	(21.3)
Other movements	(12.6)	—	(12.6)
At 31 December 2010	**68.4**	**(53.3)**	**15.1**

	Gross £ Million	Reinsurance £ Million	Net £ Million
At 1 January 2011	**68.4**	**(53.3)**	**15.1**
Provisions in respect of new and existing business	45.9	(25.4)	20.5
Expected change in existing business provisions	(21.7)	16.2	(5.5)
Variance between actual and expected experience	8.7	(16.1)	(7.4)
Other movements	(8.3)	—	(8.3)
At 31 December 2011	**93.0**	**(78.6)**	**14.4**

31. BORROWINGS

	2011 £ Million	2010 £ Million	2009 £ Million
Loans from related parties (note 38)	247.7	249.2	250.8
Bank overdrafts with related parties (note 38)	64.2	77.9	34.4
Bank overdrafts with third parties	6.0	—	—
	317.9	**327.1**	**285.2**
On demand or within one year	71.5	296.0	253.2
One to five years	205.0	—	—
Six to ten years	11.3	—	—
After ten years	30.1	31.1	32.0
	317.9	**327.1**	**285.2**

The carrying value of borrowings approximates to their fair value.

32. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instruments (derivatives) to manage balance sheet foreign exchange risk as per note 3.6.1.

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

	2011		2010		2009	
	Notional amounts £ Million	Assets £ Million	Notional amounts £ Million	Liabilities £ Million	Notional amounts £ Million	Assets £ Million
Forward foreign exchange contracts	53.5	0.1	57.8	(0.7)	70.0	1.3

Derivative financial instruments as shown above are all classified as level 2 under the fair value hierarchy in all three periods. These are measured at fair value, which equates to carrying value.

33. RETIREMENT BENEFITS OBLIGATIONS

Defined contribution scheme

RBS Insurance Services Limited ("RBSISL") operates the Direct Line Group Pension Scheme which was established in 1988. The contributions paid by RBSISL are charged to the income statement, as incurred.

The pension charge in respect of the defined contribution scheme for the year was £28.0 million (2010: £35.8 million; 2009: £36.9 million).

33. RETIREMENT BENEFITS OBLIGATIONS

Defined benefit scheme

The Group's defined benefit pension scheme was closed in 2003 although RBSISL remains the sponsoring employer for obligations to current and deferred pensioners.

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

	2011 %	2010 %	2009 %
Rate of increase in pension payment	2.1	2.7	3.5
Rates of increase of deferred pensions	2.1	2.7	3.5
Discount rate	5.0	5.5	5.9
Inflation rate	3.0	3.3	3.5

No assumption has been made for salary growth as there are no liabilities in the scheme that are linked to future increases in salaries.

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

	Expected return 2011 %	Value at 2011 £ Million	Expected return 2010 %	Value at 2010 £ Million	Expected return 2009 %	Value at 2009 £ Million
Equities	7.7	34.5	7.7	35.7	8.0	32.9
Index linked bonds	3.1	7.2	4.2	6.0	4.5	4.6
Government bonds	3.1	7.2	4.2	6.0	4.5	4.6
Corporate bonds	4.7	7.2	5.5	6.0	5.9	4.4
Other	5.0	0.6	5.5	0.7	6.4	0.7
Total market value of assets		**56.7**		**54.4**		**47.2**
Present value of fund obligations		54.1		54.5		60.8
Surplus/(deficit) in the Scheme		2.6		(0.1)		(13.6)
Deferred tax asset at 25% (2010 and 2009: 28%)		**0.7**		**0.0**		**3.8**

The expected return on scheme assets reflects the average rate of earnings expected on the investments made to provide the pension benefit obligations that are secured by the pension scheme. The starting point for setting the expected return was the nominal gross redemption yield on UK gilt-edged securities at the balance sheet date. As at 31 December 2011 the relevant yield was 3.1% (2010: 4.2%; 2009: 4.5%) a year. This assumption was used for the expected return on government bonds. The expected return on corporate bonds was set equal to the discount rate which implies a risk premium over government bonds of 1.6% (2010: 1.3%; 2009: 1.4%) a year. For equities it has been assumed that they will outperform government bonds by 4.6% (2010: 3.5%; 2009: 3.5%) a year.

The deferred tax asset has been netted off against the net pension liability and has been accounted for as a liability (note 13).

Amounts credited/(charged) to the income statement

	2011 £ Million	2010 £ Million	2009 £ Million
Interest on obligation	(3.0)	(3.5)	(2.9)
Expected return on plan assets	3.7	3.4	2.8
	0.7	**(0.1)**	**(0.1)**

The credit/(charge) to the income statement has been included under other operating expenses.

Amounts charged/(credited) to the statement of comprehensive income

	2011 £ Million	2010 £ Million	2009 £ Million
Actual return on scheme assets	(1.1)	(6.4)	(8.2)
less: expected return on scheme assets	3.7	3.4	2.8
Experience loss/(gain) on scheme assets	**2.6**	**(3.0)**	**(5.4)**
Experience gain on scheme liabilities	(0.4)	(0.4)	(2.6)
Changes in assumptions underlying the present value of scheme liabilities	(1.6)	(7.5)	16.6
Actuarial gain/(loss)	**0.6**	**(10.9)**	**8.6**

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

	2011 £ Million	2010 £ Million	2009 £ Million
Opening defined benefit obligation	54.5	60.8	45.3
Interest cost	3.0	3.5	2.9
Actuarial (losses)/gains	(2.1)	(7.8)	14.0
Benefits paid	(1.3)	(2.0)	(1.4)
Closing defined benefit obligation	**54.1**	**54.5**	**60.8**

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

	2011 £ Million	2010 £ Million	2009 £ Million
Opening fair value of plan assets	54.4	47.2	37.5
Expected return	3.7	3.3	2.8
Actuarial (losses)/gains	(2.6)	3.1	5.4
Contributions by RBSISL	2.5	2.8	2.9
Benefits paid	(1.3)	(2.0)	(1.4)
Closing fair value of plan assets	**56.7**	**54.4**	**47.2**
Net pension surplus/(deficit) before deferred tax:			
brought forward	(0.1)	(13.6)	(7.8)
carried forward	**2.6**	**(0.1)**	**(13.6)**

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

	2011 £ Million	2010 £ Million	2009 £ Million	2008 £ Million	2007 £ Million
Present value of defined benefit obligation	(54.1)	(54.5)	(60.8)	(45.3)	(53.6)
Fair value of plan assets	56.7	54.4	47.2	37.5	43.3
Surplus/(deficit)	**2.6**	**(0.1)**	**(13.6)**	**(7.8)**	**(10.3)**
Experience adjustments on plan liabilities	(0.4)	(0.5)	(2.6)	(0.7)	1.0
Experience adjustments on plan assets	2.6	(3.1)	(5.4)	(10.7)	(0.3)

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

Discount rate	The impact of a change in the principal actuarial assumptions on the discount rate for the present value of pension scheme obligations. This sensitivity analysis has been selected to reflect the changes to cash flows as a result of changes to the discount rate. The methodology adopted would involve actuarial techniques.
Inflation rate	The impact of a change in the principal actuarial assumptions on the inflation rate for the present value of pension scheme obligations. This sensitivity analysis has been selected to reflect the changes to the general level of prices of goods and services over time. The methodology adopted would involve actuarial techniques.

Sensitivity at 31 December 2011

	Discount rate +0.25%	Discount rate −0.25%	Inflation rate +0.25%	Inflation rate −0.25%
Impact on profit before tax (£ Million)	—	—	—	—
Impact before tax on total equity (£ Million)	(2.6)	2.6	2.5	(2.4)

Sensitivity at 31 December 2010

	Discount rate +0.25%	Discount rate −0.25%	Inflation rate +0.25%	Inflation rate −0.25%
Impact on profit before tax (£ Million)	—	—	—	—
Impact before tax on total equity (£ Million)	(2.6)	2.6	2.6	(2.5)

Sensitivity at 31 December 2009

	Discount rate +0.25%	Discount rate −0.25%	Inflation rate +0.25%	Inflation rate −0.25%
Impact on profit before tax (£ Million)	—	—	—	—
Impact before tax on total equity (£ Million)	(3.1)	3.2	3.2	(3.0)

A funding valuation of the defined benefit scheme as at 1 October 2011 is currently in progress. The scheme trustees and the Group are in discussion on this valuation and the level of contributions to be paid by the Group and expect to reach agreement in due course. The Group currently makes contributions of £2.5 million per annum for the future accrual of benefits, and does not anticipate any material change to the level of funding.

34. TRADE AND OTHER PAYABLES INCLUDING INSURANCE PAYABLES

	2011 £ Million	2010 £ Million	2009 £ Million
Provisions:			
Regulatory levies			
At 1 January	99.5	111.9	102.7
Charged to the income statement:			
—additional provisions	39.0	72.9	102.7
Disposal of subsidiary	—	—	(4.7)
Used during year	(60.9)	(85.3)	(88.8)
At 31 December	**77.6**	**99.5**	**111.9**

Trade and other payables, including insurance payables:

	2011 £ Million	2010 £ Million	2009 £ Million
Due to agents, brokers and intermediaries	4.8	10.9	25.8
Due to reinsurers	66.1	69.4	86.6
Due to insurance companies	—	6.0	11.4
Due to insurance partners	5.4	5.4	32.5
Due to related parties (note 38)	158.7	44.7	27.9
Trade creditors and accruals	212.2	140.8	165.8
Other creditors	287.6	239.4	246.4
Other taxes	86.5	69.7	71.2
Deferred income	11.3	12.2	21.5
	832.6	**598.5**	**689.1**
Total trade and other payables and provisions	**910.2**	**698.0**	**801.0**

The Company and RBS Group have agreed that the Company will pay an amount to RBS Group as payment for the transfer of ownership and control of Direct Line Versicherung AG to the Company. In the preparation of these combined financial statements a liability for this payment has been recognised. This liability is being re-measured at each period end with changes recognised in the combined statement of changes in equity. Included within other creditors is an amount of £110.9 million (2010: £101.3 million; 2009: £108.4 million) in respect of an inter company creditor with RBS Group in respect of this.

35. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Group did not have any contingent liabilities.

A Group company has guaranteed the performance of certain contracts with partners. The guarantees total £70.5 million as at 31 December 2011.

36. NOTES TO THE COMBINED CASH FLOW STATEMENT

	2011 £ Million	2010 £ Million	2009 £ Million
Profit/(loss) for the year	249.0	(271.9)	133.1
Adjustments for:			
Investment revenues	(394.0)	(453.9)	(470.2)
Other (losses)/gains—derivatives	2.0	2.1	(8.8)
Net fair value gains/(losses) on assets at fair value through income	14.0	(5.7)	14.4
Other operating (loss)/income	(11.8)	(7.6)	3.5
Finance costs	2.7	2.5	4.4
Tax charge/(credit)	93.9	(106.2)	(0.9)
Depreciation of property, plant and equipment (note 10)	10.4	11.1	11.9
Amortisation of intangible assets	21.1	18.5	20.6
Non cash movement in demerger reserve	55.9	102.2	143.3
Derecognition of intangible assets	—	—	1.4
Impairment loss on property, plant and equipment	—	0.2	0.1
Impairment of goodwill and intangible assets	18.9	11.8	68.0
Impairment losses on equity shares	—	—	8.3
Impairment losses on debt securities	2.0	21.4	—
Impairment losses on reinsurance contracts	44.7	7.4	(0.6)
Loss on sale of available-for-sale equity investments	—	—	(48.3)
Profit on sale of available-for-sale debt securities	(52.9)	(37.1)	(25.6)
Loss on sale of property, plant and equipment	0.2	—	0.6
Profit on disposal of subsidiary and joint venture	(1.6)	—	(216.1)
Unrealised loss on foreign exchange translations on investments	—	2.3	8.7
Other income/(loss)	22.2	43.0	(1.8)
Operating cash flows before movements in working capital	**76.7**	**(659.9)**	**(354.0)**
Movements in working capital			
Net (increase)/decrease in insurance net assets	(727.2)	712.8	351.5
Net (increase)/decrease in reinsurance assets	(158.2)	(166.8)	10.4
Net decrease in inventories	—	1.6	0.4
Net decrease in prepayments and accrued income	0.1	1.6	0.4
Net decrease/(increase) in trade and other receivables	4.0	149.8	(4.4)
Net (increase)/decrease in derivative financial instruments	(0.4)	0.4	(0.2)
Net increase/(decrease) in trade and other payables	26.0	2.7	(11.5)
Net decrease in loans and receivables	233.9	51.2	1.0
Net decrease/(increase) in other assets	34.3	(37.5)	(12.7)
Net decrease/(increase) in related party balances	114.5	401.4	(156.2)
Net increase/(decrease) in other liabilities	132.3	(58.4)	17.1
Cash (used by)/generated from operations	**(264.0)**	**398.9**	**(158.2)**
Taxes received/(paid)	20.7	63.4	(209.4)
Interest paid	(2.5)	(2.5)	(2.9)
Net cash flow (used by)/generated from operating activities before investment of insurance assets	**(245.8)**	**459.8**	**(370.5)**
Interest received	440.8	467.7	506.0
Rental income received from investment properties	7.1	7.3	8.4
Dividends received from equity shares	—	—	13.8
Distributions received from other investment funds	8.5	10.2	3.9
Proceeds on disposal of available-for-sale equity investments	—	—	738.7
Proceeds on disposal/maturity of available-for-sale debt securities	6,403.4	3,448.3	1,579.9
Net (increase)/decrease in investment balances held with credit institutions	(422.9)	438.0	2,284.5
Purchases of equity investments	—	—	(27.5)
Purchases of debt securities	(6,398.1)	(3,885.5)	(3,867.0)
Purchases of other investment funds	—	—	(365.0)
Cash generated from investment of insurance assets	**38.8**	**486.0**	**875.7**

37. COMMITMENTS

Operating lease commitments

The Group leases vehicles under non-cancellable operating lease agreements.

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

	2011 £ Million	2010 £ Million	2009 £ Million
Minimum lease payments under operating leases recognised as an expense in the year	7.4	7.5	8.8

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

	2011 £ Million	2010 £ Million	2009 £ Million
Within one year	8.7	9.2	9.8
In the second to fifth years inclusive	19.0	18.7	21.3
After five years	9.3	10.6	12.1
	37.0	**38.5**	**43.2**

38. RELATED PARTIES

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government. The nature of transactions consist of tax balances with Her Majesty's Revenue and Customs ("HMRC") and debt security investments with the UK Government.

The Group's ultimate and immediate holding company is The Royal Bank of Scotland Group plc which is incorporated in the United Kingdom and registered in Scotland.

As at 31 December 2011, The Royal Bank of Scotland Group plc heads the largest group in which the group 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 following transactions were carried out with related parties, who are all members of The Royal Bank of Scotland Group.

i. Sales of insurance contracts and other services

	2011 £ Million	2010 £ Million	2009 £ Million
Sales of services:			
Fellow subsidiaries	17.6	14.6	45.9

ii. Purchases of services

	2011 £ Million	2010 £ Million	2009 £ Million
Parent	211.8	187.3	181.8
Fellow subsidiaries	63.9	87.7	41.4
	275.7	275.0	223.2

Purchases of services are charged on an arm's length basis.

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

iii. Compensation of key management

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

	2011 £ Million	2010 £ Million	2009 £ Million
Fees as directors	0.1	0.1	0.1
Other emoluments	6.2	3.3	2.1
Company pension contributions	0.6	0.4	0.3
	6.9	3.8	2.5

iv. Year-end balances arising from cash and investment transactions with members of the Royal Bank of Scotland Group

	2011 £ Million	2010 £ Million	2009 £ Million
Cash at bank held with related parties (note 26)	48.4	131.4	29.3
Short-term bank deposits held with related parties (note 26)	148.4	80.6	158.7
Bank overdrafts held with related parties (note 31)	(64.2)	(77.9)	(34.4)
Term deposits held with related parties (note 24)	147.0	142.0	420.0
	279.6	276.1	573.6

Debt securities held with related parties (note 24)

	2011 £ Million	2010 £ Million	2009 £ Million
RBS Group plc issuers	304.6	562.0	824.0
	304.6	562.0	824.0

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

Receivables from fellow subsidiaries of RBS Group plc (note 25)

	2011 £ Million	2010 £ Million	2009 £ Million
Parent	0.1	—	—
Fellow Subsidiaries	7.6	7.6	13.9
	7.7	7.6	13.9

Movements in receivables from related parties were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	7.6	13.9	51.9
Transactions in the year	7.3	9.3	45.1
Settled in the year	(7.2)	(15.6)	(83.1)
At 31 December	7.7	7.6	13.9

Due to related parties (note 34)

	2011 £ Million	2010 £ Million	2009 £ Million
Parent	75.1	10.7	24.4
Fellow Subsidiaries	83.6	34.0	3.5
	158.7	44.7	27.9

Movements due to related parties were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	44.7	27.9	29.4
Transactions in the year	261.0	266.8	232.7
Settled in the year	(147.0)	(250.0)	(234.2)
At 31 December	158.7	44.7	27.9

Included in the above is an amount of £47.3 million invoiced by and paid to the Royal Bank of Scotland plc for the acquisition of software assets.

vi. Loans from related parties (note 31)

	2011 £ Million	2010 £ Million	2009 £ Million
Parent	12.5	13.0	13.9
Fellow Subsidiary	235.2	236.2	236.9
	247.7	249.2	250.8

Movements in loans from related parties were as follows:

	2011 £ Million	2010 £ Million	2009 £ Million
At 1 January	249.2	250.8	254.0
Loan repayments made	(0.5)	(0.9)	(0.8)
Interest charged (note 11)	2.3	2.2	3.8
Interest settled	(2.3)	(2.2)	(3.8)
Exchange movements	(1.0)	(0.7)	(2.4)
At 31 December	247.7	249.2	250.8

39. POST BALANCE SHEET EVENTS

On 27 March 2012, Direct Line Insurance Group plc paid a dividend to its parent company, the Royal Bank of Scotland Group plc, of £300.0 million.