RAC FINANCIAL SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2009

RAC Financial Services Limited

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RAC Financial Services Limited

Directors and officer

Directors:

C J Abrahams
S Egan
D J R McMillan

Officer - Company Secretary:

R H Spicker

Auditor:

Ernst & Young LLP
Registered Auditor
1 More London Place
London
SE1 2AF

Registered office:

8 Surrey Street
Norwich
NR1 3NG

Company number:

Registered in England and Wales No 5171817

Other information:

RAC Financial Services Limited ("the Company") is regulated by the Financial Services Authority ("FSA")

The Company is a member of the Aviva plc group of companies ("the Group")

RAC Financial Services Limited

Registered in England and Wales: No. 5171817

Directors' report

For the year ended 31 December 2009

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

Directors

The names of the current directors of the Company appear on page 1

Those in office since 1 January 2009 have been as follows

D J R McMillan resigned as a director on 2 January 2009 and was reappointed on 23 February 2010

D K Watson was appointed as a director on 2 January 2009 and resigned on 31 March 2010

I M Mayer resigned as director on 31 December 2009

J R Kitson resigned as a director on 31 March 2010

S Egan was appointed as a director on 1 April 2010

C J Abrahams was appointed as a director on 26 July 2010

Principal activity

The principal activity of the Company is the provision of insurance broking and ancillary financial services

Business review

Basis of preparation

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance during the financial period and position both at the end of the financial period and at the current time In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business

Objectives and future developments

High level strategies are determined by Aviva plc and these are shown in its financial statements The directors consider that the Company's principal activity will continue unchanged into the foreseeable future

Financial key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows

- increase/(decrease) in revenue, and
- operating profit/(loss) as a percentage of revenue

Directors' report (continued)

Business review (continued)

Financial key performance indicators (continued)

A summary of the KPIs is set out below

Measure	2009	2008
Increase/(decrease) in revenue	293%	(13%)
Operating (loss)/profit as a percentage of revenue	(110%)	106%

Financial position and performance

The financial position of the Company at 31 December 2009 is shown in the statement of financial position on page 14, with the trading results shown in the income statement on page 13 and the statement of cash flows on page 16

The loss before tax is £8,995 thousand (2008 profit of £3,166 thousand) Revenue increased to £8,432 thousand (2008 £2,143 thousand) However, administrative charges also increased to £17,686 thousand (2008 income of £138 thousand) The increase in revenue and costs reflects commencement of the RAC branded insurance panel

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 14 to the financial statements

Major events

In January 2009, the Company ratified a five year contract with Budget Insurance Services Limited ("BISL"), under which BISL will operate a panel of insurers to provide private motor insurance under the RAC brand, and the Company will earn commission

In December 2009, the Company replaced an existing revolving loan agreement with its parent, RAC plc, for three years for up to £50 million

Going concern

The Company has a letter of support from RAC plc, the parent company and a wholly owned subsidiary of the ultimate controlling entity, Aviva plc The letter states that, in the event the Company is unable to meet its obligations, RAC plc will ensure those obligations are met as they fall due After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

RAC Financial Services Limited

Directors' report (continued)

Financial instruments

The business of the Company includes use of financial instruments Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 14 to the financial statements

Dividends

No interim dividend for the year was paid (2008 £ nil) The directors do not recommend the payment of a final dividend (2008 £ nil)

Auditor

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of section 487 of the Companies Act 2006

Employees

All employees are employed by a fellow subsidiary company of Aviva plc, Aviva Employment Services Limited Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva plc

Directors' liabilities

Aviva plc, the Company's ultimate parent company, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 This indemnity was granted in 2004 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985 These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of the transitional provisions to the Companies Act 2006

Disclosure of information to the auditor

Each person who was a director of the Company on the date that this report was approved confirms that, so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

RAC Financial Services Limited

Directors' report (continued)

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period A fair presentation of the financial statements in accordance with IFRS requires the directors to

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business,

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and

- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for maintaining adequate accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company at that time They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities

By order of the Board

Richard H. Spicker

R H Spicker
Company Secretary

24 September 2010

RAC Financial Services Limited

Independent auditor's report

To the members of RAC Financial Services Limited

We have audited the financial statements of RAC Financial Services Limited for the year ended 31 December 2009, which comprise the Statement of Financial Position, the Income Statement, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 16 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

RAC Financial Services Limited

Independent auditor's report (continued)

To the members of RAC Financial Services Limited

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Angus Millar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
London

27 September 2010

RAC Financial Services Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in Great Britain Its principal activity is the provision of ancillary financial services

The principal accounting policies adopted in the preparation of these financial statements are set out below

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2009

The following recently issued pronouncements are effective for the 2009 financial statements and had been endorsed by the EU as at the date of authorisation of the financial statements With the exception of IAS 1 Presentation of Financial Statements A Revised Presentation and Amendment to IFRS 7 Improving Disclosures about Financial Instruments (see note 1), none of these pronouncements materially impacts the Company's financial reporting

• IAS 1 Presentation of Financial Statements A Revised Presentation
• Amendment to IAS 23 Borrowing Costs
• Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
• Amendment to IAS 39 Reclassification of Financial Assets Effective Date and Transition
• Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets
• Improvements to IFRSs (issued in May 2008)
• Improvements to IFRSs (issued in April 2009)
• Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
• Amendment to IFRS 2 Share-based Payment Vesting Conditions and Cancellations
• Amendments to IFRS 7 Improving Disclosures about Financial Instruments
• IFRS 8 Operating Segments
• Amendments to IFRIC 9 and IAS 39 Embedded Derivatives
• IFRIC 13 Customer Loyalty Programmes
• IFRIC 15 Agreements for the Construction of Real Estate
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation
• IFRIC 18 Transfers of Assets from Customers

The following pronouncements are effective in future years and had been endorsed by the EU as at the date of authorisation of the financial statements These pronouncements are not expected to have a material impact on the Company's financial reporting

• Amendments to IAS 27 Consolidated and Separate Financial Statements
• Amendment to IAS 32 Classification of Rights Issues
• Amendment to IAS 39 Financial Instruments Recognition and Measurement Eligible Hedged Items
• Improvements to IFRSs (issued in April 2009)
• Revised IFRS 1 First Time Adoption of IFRS
• Amendments to IFRS 1 Additional Exemptions for First-time Adopters
• Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
• Revised IFRS 3 Business Combinations
• IFRIC 17 Distributions of Non-cash Assets to Owners

RAC Financial Services Limited

Accounting policies

(A) Basis of presentation (continued)

IFRS 9 Financial Instruments is effective in future years and awaiting endorsement The Company is currently reviewing the potential impact on the financial statements

The financial statements are stated in pounds sterling, which is the Company's functional and presentation currency Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ("£000")

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the statement of financial position and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly

(C) Revenue recognition

Revenue comprises the fair value derived from the sale of services to customers during the year, net of value added tax, rebates and discounts

Revenue is recognised as follows

(i) Commission

Commission is received for insurance brokerage services for home and motor policies This is recognised on the effective commencement date or renewal date of the policies sold

Commission is also received on referrals of loans which is recognised on completion of the loan

A provision is made in respect of the servicing costs of policies which will still be in force at the year end in order to match against the commission income recognised

(ii) Interest income

Interest income is recognised using the effective interest method

Accounting policies (continued)

(D) Equipment

Depreciation is calculated on the straight-line method to write down the cost of the assets to their residual values over their estimated useful lives as follows

Computer equipment	Three to five years
Fixtures and fittings	Ten years

Gains and losses on disposal of equipment are determined by reference to their carrying amount and are taken into account in determining operating profit

(E) Impairment of non-financial assets

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows

(F) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where

(i) the rights to receive cash flows from the asset have expired,

(ii) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or

(iii) the Company has transferred its rights to receive cash flows from the asset and either

(a) has transferred substantially all the risks and rewards of the asset, or

(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Accounting policies (continued)

(G) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate The movement in the amount of the provision is recognised in the income statement

(H) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values

(I) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant leases

(J) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable yet still possible or the amount cannot be reliably estimated

RAC Financial Services Limited

Accounting policies (continued)

(K) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised

(L) Share capital and dividends

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities Accordingly, a financial instrument is treated as equity if

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid Final dividends on these shares are recognised when they have been approved by shareholders

RAC Financial Services Limited

Income statement

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Revenue		8,432	2,143
Administrative (charges)/income		(17,686)	138
Operating (loss)/profit		(9,254)	2,281
Finance costs		(165)	(569)
Interest receivable		424	1,454
(Loss)/profit before tax	2	(8,995)	3,166
Tax credit/(charge)	5(a)	2,487	(921)
(Loss)/profit for the year		(6,508)	2,245

The Company has no comprehensive income other than that included in the results above and therefore a statement of comprehensive income has not been presented

The accounting policies on pages 8 to 12 and notes on pages 17 to 30 are an integral part of these financial statements

RAC Financial Services Limited

Statement of financial position

As at 31 December 2009

	Note	2009 £000	2008 £000
ASSETS			
Non-current assets			
Equipment	6	48	181
Trade and other receivables	7	10,068	26,310
Current tax assets	8	2,487	-
		12,603	26,491
Current assets			
Trade and other receivables	7	2,230	1,448
Cash and cash equivalents		4,010	-
		6,240	1,448
LIABILITIES			
Current liabilities			
Trade and other payables	9	(1,076)	(2,743)
Net current assets/(liabilities)		5,164	(1,295)
Non-current liabilities			
Trade and other payables	9	(10,000)	(10,000)
Current tax liabilities	8	-	(921)
Net assets		7,767	14,275
EQUITY			
Share capital	10	28,000	28,000
Retained earnings		(20,233)	(13,725)
Total equity		7,767	14,275

The accounting policies on pages 8 to 12 and notes on pages 17 to 30 are an integral part of these financial statements

Approved by the Board on 24 September 2010

C.J.A

C J Abrahams
Director

RAC Financial Services Limited

Statement of changes in equity

For the year ended 31 December 2009

	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	28,000	(15,970)	12,030
Total comprehensive income for the year	-	2,245	2,245
Total movements in the year	-	2,245	2,245
Balance at 31 December 2008	28,000	(13,725)	14,275
Total comprehensive income for the year	-	(6,508)	(6,508)
Total movements in the year	-	(6,508)	(6,508)
Balance at 31 December 2009	28,000	(20,233)	7,767

The accounting policies on pages 8 to 12 and notes on pages 17 to 30 are an integral part of these financial statements

RAC Financial Services Limited

Statement of cash flows

For the year ended 31 December 2009

	Note	2009	2008
		£000	**£000**
Cash flows from operating activities			
Net cash inflow from operating activities	13	4,010	-
Net cash from operating activities		4,010	-
Net increase in cash and cash equivalents		4,010	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		4,010	-

The accounting policies on pages 8 to 12 and notes on pages 17 to 30 are an integral part of these financial statements

Notes to the financial statements

1. Presentation changes

(a) The Company has adopted IAS 1 (Revised) Presentation of Financial Statements as at 1 January 2009 The principal effect of this has been in presentation of the financial statements, in the following areas

(i) The titles of some of the prime statements have changed, so that the statement of recognised gains and losses is now called the statement of comprehensive income, the reconciliation of movements in shareholder's equity is now called the statement of changes in equity, the balance sheet is now called the statement of financial position, and the cash flow statement is now called the statement of cash flows

(ii) The standard requires the income tax effect of each component of comprehensive income to be disclosed

(iii) Changes in the year in each element of equity must now be shown on the face of the statement of changes in equity, rather than in the notes

(iv) The standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements None of these conditions applies

(b) The Company has also adopted Amendments to IFRS 7, Improving Disclosures about Financial Instruments, as of 1 January 2009 The principal impact of these amendments is to require disclosure of an enhanced discussion and analysis of liquidity risk, including a maturity analysis of financial assets held for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk

Comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application

RAC Financial Services Limited

Notes to the financial statements

2. (Loss)/Profit before tax

The followmg (mcome)/expenses have been mcluded m arrivmg at the (loss)/profit before tax

	2009	2008
	£000	£000
Interest receivable		
- Interest mcome on related party receivables	(424)	(1,454)
Depreciation of equipment	112	134
Release of accruals	(305)	(258)

3. Directors

All directors of the Company are remunerated as employees by Aviva Employment Services Limited This remuneration is recharged to all operating divisions of the Aviva Group under management service agreements However, no cost is borne by the Company for the services of the directors in their capacity as directors

4. Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below The Company is exempt from disclosing other fees payable to its auditor, in respect of other work, by virtue of regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (note 16(c))

	2009	2008
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	8	8

Audit fees are paid by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies

Notes to the financial statements (continued)

5. Tax

(a) Tax (credited)/charged to the income statement

The total tax (credit)/charge comprises

	2009	2008
Current tax:	**£000**	**£000**
For this year	(2,487)	921
Total tax (credited)/charged to income statement	(2,487)	921

(b) Tax reconciliation

The tax on the Company's (loss)/profit before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom ("UK") as follows

	2009	2008
	£000	**£000**
Net (loss)/profit before tax	(8,995)	3,166
Tax calculated at standard UK corporation tax rate of 28% (2008 28 5%)	(2,519)	902
Deferred tax assets not recognised	32	19
Tax (credited)/charged to income statement (note 5(a))	(2,487)	921

RAC Financial Services Limited

Notes to the financial statements (continued)

6. Equipment

	Computer equipment	Fixtures and fittings	Total
	£000	**£000**	**£000**
Cost			
At 1 January 2009	503	80	583
Transfer to Group company	(24)	-	(24)
At 31 December 2009	479	80	559
Depreciation			
At 1 January 2009	378	24	402
Charge for the year	104	8	112
Transfer to Group Company	(3)	-	(3)
At 31 December 2009	479	32	511
Carrying amount at 31 December 2009	-	48	48
Cost			
At 1 January 2008	503	80	583
At 31 December 2008	503	80	583
Depreciation			
At 1 January 2008	252	16	268
Charge for the year	126	8	134
At 31 December 2008	378	24	402
Carrying amount at 31 December 2008	125	56	181

In 2009, Computer equipment with a net book value of £21 thousand was transferred to Aviva Central Services UK Limited and settled by intercompany account

Notes to the financial statements (continued)

7. Trade and other receivables

	2009	2008
	£000	£000
Trade receivables	1,069	431
Receivables from related parties (note 16(a)(v))	11,229	27,327
	12,298	27,758
Expected to be recovered within one year	2,230	1,448
Expected to be recovered in more than one year	10,068	26,310
	12,298	27,758

8. Tax assets and liabilities

(a) Current tax

	2009	2008
	£000	£000
Tax asset		
Expected to be recoverable in more than one year	2,487	-
Tax liability		
Expected to be payable in more than one year	-	921

Liabilities for prior years' tax settled by group relief of £921 thousand (2008 £781 thousand) are included within trade and other payables (note 9) and within the related party transactions (note 16) and are payable in less than a year

(b) Deferred taxes

The Company has unrecognised temporary difference of £184 thousand (2008 £71 thousand) to carry forward indefinitely against future taxable income

A gradual reduction in the UK corporation tax rate from 28% to 24% over 4 years was announced in the Emergency Budget of 22 June 2010 The Finance Act published on 29 July 2010 included the first of the 1% rate reductions with effect from April 2011, with subsequent reductions to be dealt with by future legislation No material impact is expected to arise from the 4% reduction

RAC Financial Services Limited

Notes to the financial statements (continued)

9. Trade and other payables

	2009	2008
	£000	£000
Amounts due to related parties (note 16(a)(vii))	10,921	12,290
Accruals	155	453
	11,076	12,743
Expected to be settled within one year	1,076	2,743
Expected to be settled in more than one year	10,000	10,000
	11,076	12,743

10. Share capital

Details of the Company's share capital are as follows

	2009	2008
	£000	£000
Authorised		
28,001,000 (2008 28,001,000) ordinary shares of £1 each	28,001	28,001
6,470,000,000 (2008 6,470,000,000) non-redeemable preference shares of £0 01 each	64,700	64,700
	92,701	92,701
Allotted, called up and fully paid		
28,000,001 (2008 28,000,001) ordinary shares of £1 each	28,000	28,000

11. Commitments

Operating lease commitments

Future aggregate minimum lease payments under operating leases are as follows

	2009	2008
	£000	£000
Within 1 year	27	125
Later than 1 year and not later than 5 years	-	25
	27	150

Lease payments are settled by Aviva Central Services UK Limited and charged against a provision that was transferred from the Company to Aviva Central Services UK Limited in 2007 Accordingly, there is no cost borne by the Company in 2009

Notes to the financial statements (continued)

12. Contingent liabilities and other risk factors

Levy schemes

The Company pays contributions into levy schemes in the UK in which it operates Given the economic environment, there is a heightened risk that the levy contributions will need to be increased if participants in the sector fall into financial difficulties The directors continue to monitor the situation but are not aware of any need to increase provisions at the balance sheet date

13. Statement of cash flows

	2009	2008
	£000	£000
(a) The reconciliation of (loss)/profit before tax to the net cash inflow from operating activities is:		
(Loss)/profit before tax	(8,995)	3,166
Adjustments for		
Depreciation of equipment	112	134
Interest expense on borrowings	165	569
Interest receivable	(424)	(1,454)
Changes in working capital		
(Increase)/decrease in trade and other receivables	15,905	1,780
Increase/(decrease) in trade and other payables	(2,753)	(4,195)
Net cash inflow from operating activities	4,010	-

In 2009, changes in trade and other receivables are stated after eliminating £424 thousand (2008 £1,454 thousand) of loan interest receivable from RAC plc that was settled by intercompany account

In 2009, changes in trade and other payables are stated after eliminating £165 thousand (2008 £569 thousand) of loan interest payable to RAC plc that was settled by intercompany account, £21 thousand (2008 £nil) of fixed assets transferred to a Group company and settled by intercompany account and £921 thousand (2008 £781 thousand) of corporation tax liabilities

	2009	2008
	£000	£000
(b) Cash and cash equivalents in the cash flow statement at 31 December comprise:		
Cash at bank and in hand	4,010	-

14. Risk management

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities This framework is operated by a group of companies, "UKGI" (including the UK general insurance business carried out within Aviva Insurance Limited and Aviva International Insurance Limited), within the Aviva plc group ("the Group"), that are engaged in writing general insurance business and in various non-insurance activities in the UK The risks faced by the Company can be categorised as follows

- financial risks, which cover credit and liquidity risks,
- strategic risks, which include issues such as customers, products and markets as well as any risks to the Company's business model arising from changes in the market and risks arising from mergers and acquisitions, and
- operational risks, which arise from inadequately controlled internal processes or systems, human error or non-compliance as well as from external events Operational risks include taxation, reputation and regulatory risks, such as compliance

The risk management framework provides the means to identify, assess, measure, manage and monitor all of the different types of risk faced by UKGI to provide a single picture of the threats and uncertainties faced and opportunities that exist

UKGI sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UKGI is willing to accept) UKGI assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders Where risks are outside appetite, actions are agreed to mitigate the exposure

UKGI's risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable assurance against material financial misstatement or loss New risks or risks currently deemed as immaterial may also impair the future achievement of business objectives

UKGI recognises the critical importance of maintaining an efficient and effective risk management framework To this end, UKGI has an established governance framework, which has the following key elements

- defined terms of reference for the legal entity Boards and the associated executive management and other committees within UKGI,
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The policies also set out the roles and responsibilities of businesses, regions, policy owners and the risk oversight committees

UKGI has developed economic capital models that support the measurement, comparison and further understanding of its risks The results of the modelling are incorporated into key strategic planning and decision-making processes These models show the relative impact to economic capital from the risks faced In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite

The Financial Services Authority also requires UKGI to assess its economic capital requirements to ensure that it adequately reflects business and control risks

RAC Financial Services Limited

Notes to the financial statements (continued)

14. Risk management (continued)

(a) Financial risk management

(i) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations

UKGI's management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's Exposure levels are reported to, and reviewed by, the UKGI Financial Risk Committee

Financial assets are graded according to current credit ratings issued AAA is the highest possible rating Investment grade financial assets are classified within the range of AAA to BBB ratings Financial assets which fall outside this range are classified as speculative grade Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure concerned

The following table provides information regarding the aggregated credit risk exposure of the Company "Non-rated" assets capture assets not rated by external ratings agencies

	Credit rating						
31 December 2009	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Carrying value in the statement of financial position**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Trade receivables	-	-	-	-	-	1,069	1,069
Cash and cash equivalents	-	-	-	4,010	-	-	4,010

	Credit rating						
31 December 2008	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Carrying value in the statement of financial position**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Trade receivables	-	-	-	-	-	431	431

At 31 December 2009 and 31 December 2008, no financial assets were past due or impaired

The Company's cash and cash equivalents of £4,010 thousand (£2008 £ nil) were placed with one counterparty

Trade and other receivables of £12,298 thousand (2008 £27,758 thousand) include £11,229 thousand (2008 £27,327 thousand) of receivables from related parties

RAC Financial Services Limited

Notes to the financial statements (continued)

14. Risk management (continued)

(a) Fınancıal rısk management (contınued)

(ıı) Lıquıdıty rısk

The Company ıs supported through ıts partıcıpatıon ın UKGI

The followıng table provıdes an analysıs, by maturıty date of the prıncıpal, of the carryıng value of financıal assets, whıch are avaılable to fund the repayment of lıabılıtıes as they crystallıse

31 December 2009	Total	Wıthın 1 year	1 to 5 years
	£000	£000	£000
Trade and other receıvables	12,298	2,230	10,068
Current tax assets	2,487	-	2,487
Cash and cash equıvalents	4,010	4,010	-
	18,795	6,240	12,555

The assets above are analysed ın accordance wıth the earlıest possıble redemptıon date of the ınstrument at the ınıtıatıon of the Company

As explaıned ın note 1(b), comparatıve ınformatıon for the dısclosures requıred by the IFRS 7 amendments ıs not needed ın the first year of applıcatıon and so no table for 2008 ıs presented above

The followıng table shows the Company's financıal lıabılıtıes analysed by duratıon

31 December 2009	Total	Wıthın 1 year	1 to 5 years	Wıth FSA consent
	£000	£000	£000	£000
Trade and other payables	11,076	1,076	-	10,000

31 December 2008	Total	Wıthın 1 year	1 to 5 years	Wıth FSA consent
	£000	£000	£000	£000
Trade and other payables	12,743	2,743	-	10,000
Current tax lıabılıtıes	921	-	921	-
	13,664	2,743	921	10,000

The Company has a letter of support from RAC plc, the parent company and a wholly owned subsıdıary of the ultımate controllıng entıty, Avıva plc The letter states that, ın the event the Company ıs unable to meet ıts oblıgatıons, RAC plc wıll ensure those oblıgatıons are met as they fall due

14. Risk management (continued)

(b) Strategic risk management

(i) Types of strategic risk

UKGI is exposed to a number of strategic risks UKGI's strategy needs to support its vision, purpose and objectives and be responsive to both the external and internal environment, for example, changes in the competitive landscape arising from economic conditions, customer demands and competitor activity, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change, pandemic events and improving longevity)

(ii) Management of strategic risks

Strategic risk is explicitly considered throughout UKGI's strategic review and planning process Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered

UKGI actively engages with external bodies to share the benefit of its expertise in responding to emerging risks, as well as challenging developments that could be damaging to the business and the industry as a whole

(c) Operational risk management

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems or from external events Operational risks include taxation, reputation and regulatory risks, such as compliance Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided

UKGI is responsible for identifying and managing operational risks in line with minimum standards of control set out in Group policies Each operational risk is assessed by considering the potential impact and the probability of the event occurring Impact assessments are considered against financial, operational and reputational criteria

Business management teams must be satisfied that all material risks falling outside the Group's risk appetite are being mitigated, monitored and reported to an appropriate level Any risks with a high potential impact level are monitored locally

The UKGI risk management and governance function is responsible for implementing the Group risk management methodologies and frameworks to assist line management in this work It also provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans

The management of operational risk is overseen by the UKGI Operational Risk Committee

As a consequence of the above, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level

15. Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business This note describes the way the Company manages capital and shows where this is employed

(a) General

IFRS underpins the Company's capital structure and, accordingly, the capital structure is analysed on this basis

(b) Capital management

In managing its capital, the Company seeks to

(i) maintain financial strength to support new business growth and satisfy the requirements of its regulators,
(ii) retain financial flexibility, and
(iii) allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company considers not only the traditional sources of capital funding, but alternative sources as appropriate, when assessing its deployment and usage of capital

(c) Different measures of capital

The Company measures its capital on a number of different bases These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business The measures which the Company uses are

(i) Accounting basis

The Company is required to report its results on an IFRS basis

(ii) Regulatory bases

Relevant capital and solvency regulations are used to measure and report the Company's financial strength These measures are based on the FSA's current regulatory requirements The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is undertaken

The Company fully complied with these regulatory requirements during the year

(d) Capital structure

	IFRS net 2009 £000	IFRS net 2008 £000
Ancillary financial services	7,767	14,275
Total capital employed	7,767	14,275
Financed by		
Equity shareholder's funds	7,767	14,275

16. Related party transactions

(a) The Company had the following transactions with related parties during the year

(i) During 2008, intercompany balances were assigned between Group companies The impact of the assignments on the Company was to reduce the payable and receivable current account balances by £5,571 thousand

(ii) Transactions with Group companies for settlement of corporation tax liabilities by group relief are described in note 8

(iii) In addition to the above the Company received funding from fellow Group companies in the course of its business The net amount in the year was £2,434 thousand net inflow (2008 £2,089 thousand net inflow)

(iv) As explained in note 6, in 2009 Computer equipment with a net book value of £21 thousand was transferred to Aviva Central Services UK Limited, a fellow Group company, and settled by intercompany account

(v) The Company had the following amounts due from related parties

	2009	2008
	£000	£000
Parent - loan account	10,068	26,310
Parent - current account	215	997
Other Group companies - current accounts	946	20
	11,229	27,327

Loans due from parent

The Company has provided a loan facility to RAC plc, the parent company The maximum facility amount is £50,000 thousand and is repayable on demand or by no later than the maturity date of 30 June 2012 Interest was receivable on the facility at 0 4% above Bank of England base rate up to 30 June 2009 From 1 July 2009 interest is receivable on the facility at a fixed rate of 5% The year end balance is £10,068 thousand (2008 £26,310 thousand) receivable During the year, £16,502 thousand was repaid by the parent company and interest of £260 thousand (2008 £885 thousand) was capitalised Further interest receivable for the year of £164 thousand (2008 £569 thousand) was offset against interest payable on the subordinated loan due to RAC plc

(vi) During the year the Company incurred expenses of £16,256 thousand (2008 £nil) that were recharged from other Group companies

RAC Financial Services Limited

Notes to the financial statements (continued)

16. Related party transactions (continued)

(a) (continued)

(vii) The Company had the following amounts due to related parties

	2009	2008
	£000	£000
Parent - loan account	10,000	10,000
Other Group companies - current accounts	921	2,290
	10,921	12,290

Loans due to parent

A £10,000 thousand subordinated loan is in operation between the Company and RAC plc Interest is paid on the facility at 1% above Barclays Bank base rate The year end balance is £10,000 thousand receivable (2008 £10,000 thousand) The principal amount loaned from RAC plc is £10,000 thousand The terms of the loan provide that the Company cannot repay the loan without the prior written consent of the FSA Interest payable for the year is £164 thousand (2008 £569 thousand)

(viii) Key management compensation

The directors and key management of the Company are deemed to be the same as for RAC plc Information on key management compensation may be found in the Related Party Transactions note 26 of the RAC plc financial statements

(b) Immediate parent company

The Company's immediate parent company is RAC plc, registered in England and Wales

(c) Ultimate controlling entity

The ultimate controlling entity is Aviva plc Its Annual Report and Accounts are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ