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RAC FINANCIAL SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2008

RAC Financial Services Limited

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RAC Financial Services Limited

Directors and officer

Directors:

J R Kitson
I M Mayer
D K Watson

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

Directors' report

For the year ended 31 December 2008

The directors present their annual report and financial statements for the Company for the year ended 31 December 2008.

Directors

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

Those in office since 1 January 2008 have been as follows:

J R Kitson and I M Mayer served as directors throughout the period.

D J R McMillan was appointed as an alternate director to J Hunt on 11 August 2008 and resigned on 1 September 2008.

J Hunt resigned as a director on 4 September 2008.

D J R McMillan was appointed as a director on 4 November 2008 and resigned on 2 January 2009.

D K Watson was appointed as a director on 2 January 2009.

Principal activity

The principal activity of the Company is the provision of 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) margin.

RAC Financial Services Limited

Directors' report (continued)

Business review (continued)

Financial key performance indicators (continued)

A summary of the KPIs is set out below:

Measure	2008	2007
Decrease in revenue	(13%)	(57%)
Operating profit margin	106%	139%

Financial position and performance

The financial position of the Company at 31 December 2008 is shown in the balance sheet on page 14, with the trading results shown in the income statement on page 13 and the cash flow statement on page 16.

Profit before tax is £3,166 thousand (2007: £4,331 thousand). This includes a release of marketing accruals of £258 thousand (2007: £1,065 thousand for integration provisions). In 2008, turnover decreased by £315 thousand reflecting the run-off of commission from loan referral business.

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 15 to the financial statements.

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated include, but are not limited to:

- UK domestic economic business conditions; and
- the impact of competition, inflation and deflation.

Major events

On 19 December 2008, the Company entered into a five year agreement with Budget Insurance Services Limited ("BISL") for the management of the RAC branded insurance panel. BISL will operate a panel of insurers (including the Group company, Aviva Insurance UK Limited) to provide private motor car insurance to customers under the RAC brand.

Going concern

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 15 to the financial statements.

Dividends

No interim dividend for the year was paid (2007: £ nil). The directors do not recommend the payment of a final dividend (2007: £ nil).

Employees

Employees are employed by either the Company or by fellow Group companies.

The Company believes that its employees should be well informed about the Company's plans and performance and have the opportunity to discuss their performance regularly with their managers. The Company is committed to providing all its employees with information on a regular basis and encouraging their participation in schemes where they will benefit from the Company's progress and profitability.

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.

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.

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 1985 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 proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company. 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

R H Spicker
Company Secretary

7 OCTOBER 2009

RAC Financial Services Limited

Independent auditor's report

To the members of RAC Financial Services Limited

We have audited the Company's financial statements for the year ended 31 December 2008, which comprise the Accounting Policies, the Income Statement, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Cash Flow Statement, and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

RAC Financial Services Limited

Independent auditor's report (continued)

To the members of RAC Financial Services Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

9 October 2009

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 2008.

During 2007 and 2008, the IASB issued IFRIC interpretation 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and made amendments to FRS 7, *Financial instruments: Disclosures,* and IAS 39, *Financial instruments: Recognition and measurement* in respect of reclassification of financial instruments. Where relevant the accounting policies have been updated for each of the changes although none has had any material impact on the Company's financial reporting.

During 2007, 2008 and 2009, the IASB has also issued IAS 1, *Presentation of Financial Statements: A Revised Presentation,* a revised version of IFRS 3, *Business Combinations,* and amendments to IFRS 1, *First Time Adoption of IFRS,* IFRS 2, *Share-based Payment,* IAS 1, IAS 23, *Borrowing Costs,* IAS 27, *Consolidated and Separate Financial Statements,* IAS 32, *Financial Instruments: Presentation,* and the results of its annual improvements project. It also issued a revised version of IFRS 1, as well as further amendments to IFRS 7 and IAS 39, none of which has yet been endorsed by the EU. These are not applicable for the current accounting period and, on adoption, they are not expected to have any material impact on the Company's financial reporting.

IFRIC interpretation 13, *Customer Loyalty Programmes,* interpretation 15, *Agreements for the Construction of Real Estate,* and interpretation 16, *Hedges of a Net Investment in a Foreign Operation* were issued during 2007 and 2008 but are not applicable for the current accounting period. In addition, IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners,* and interpretation 18, *Transfers of Assets from Customers,* as well as an amendment to interpretation 9, *Reassessment of Embedded Derivatives,* were issued during 2008 and 2009. They have not yet been endorsed by the EU but none of them is applicable for the current accounting period. On adoption, none of these interpretations is expected to have any material impact on the Company's financial reporting.

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 balance sheet 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.

Accounting policies (continued)

(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.

(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 net selling price 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.

Accounting policies (continued)

(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, cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

(G) Loans

Loans with fixed maturities are recognised when cash is advanced to borrowers. The loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

To the extent that a loan is considered to be uncollectable, it is written off as impaired through the income statement. Any subsequent recoveries are credited to the income statement.

(H) 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.

(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 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 lease.

RAC Financial Services Limited

Accounting policies (continued)

(J) 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 principal temporary differences arise from depreciation of property and equipment and other temporary differences. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

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

(K) Employee benefits

The Company is one of a number of UK companies in the Group being charged for its employees participating in the RAC (2003) Pension Scheme, and its contributions are affected by the financial position of the scheme. In the absence of any contractual arrangements to allocate the net defined benefit cost for the above scheme, measured in accordance with IAS19, to individual businesses, it is the Group policy to allocate this cost fully to RAC plc, a fellow Group company and the major employer of employees in the scheme. The Company therefore recognises a pension expense equal to its contributions payable in the year. Full disclosure of the RAC (2003) Pension Scheme is given in the financial statements of RAC plc, the parent company.

(L) 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 probable 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 for restructuring costs and legal claims, 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 or the amount cannot be reliably estimated.

RAC Financial Services Limited

Accounting policies (continued)

(M) 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 2008

	Note	2008 £000	2007 £000
Revenue		2,143	2,458
Administrative income		138	954
Operating profit		2,281	3,412
Finance costs		(569)	(653)
Interest receivable		1,454	1,572
Profit before tax	1	3,166	4,331
Tax expense	5(a)	(921)	(1,128)
Profit for the year		2,245	3,203

The Company has no recognised income and expense other than those included in the results above and therefore a statement of recognised income and expense has not been presented.

The accounting policies on pages 8 to 12 and notes on pages 17 to 34 are an integral part of these financial statements.

RAC Financial Services Limited

Balance sheet
As at 31 December 2008

	Note	2008 £000	2007 £000
ASSETS			
Non-current assets			
Equipment	6	181	315
Trade and other receivables	7	26,310	23,342
		26,491	23,657
Current assets			
Trade and other receivables	7	1,448	4,742
LIABILITIES			
Current liabilities			
Trade and other payables	9	(2,743)	(5,588)
Net current liabilities		(1,295)	(846)
Non-current liabilities			
Trade and other payables	9	(10,000)	(10,000)
Liability for current tax	8	(921)	(781)
Net assets		14,275	12,030
EQUITY			
Share capital	10	28,000	28,000
Retained earnings		(13,725)	(15,970)
Total equity		14,275	12,030

The accounting policies on pages 8 to 12 and notes on pages 17 to 34 are an integral part of these financial statements.

Approved by the Board on 7 OCTOBER 2009

Ian d Walk

Director

RAC Financial Services Limited

Statement of changes in shareholder's equity

For the year ended 31 December 2008

	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2007	28,000	(19,173)	8,827
Total recognised income and expense for the year	-	3,203	3,203
Total movements in the year	-	3,203	3,203
Balance at 31 December 2007	28,000	(15,970)	12,030
Total recognised income and expense 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

The accounting policies on pages 8 to 12 and notes on pages 17 to 34 are an integral part of these financial statements.

RAC Financial Services Limited

Cash flow statement

For the year ended 31 December 2008

	Note	2008	2007
		£000	£000
Cash flows from operating activities			
Net cash outflow to operating activities	14	-	(83)
Net cash used in operating activities		-	(83)
Cash flows from investing activities			
Interest received		-	83
Net cash from investing activities		-	83
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

The accounting policies on pages 8 to 12 and notes on pages 17 to 34 are an integral part of these financial statements.

RAC Financial Services Limited

Notes to the financial statements

1. Profit before tax

The following (income)/expenses have been included in arriving at the profit before tax:

	2008	2007
	£000	£000
Interest receivable		
- Interest income on related party receivables	(1,454)	(1,489)
- Bank interest	-	(83)
Depreciation of equipment	134	136
Release of integration provisions	-	(1,065)
Release of marketing accruals	(258)	-

2. Employee information

The average number of persons employed during the period was:

	2008	2007
	Number	Number
Operations	-	1

Total staff costs were:

	2008	2007
	£000	£000
Wages and salaries	-	53
Social security costs	-	7
Pension scheme contributions	-	5
	-	65

These costs were charged within:

	2008	2007
	£000	£000
Adminstrative expense	-	65
	-	65

Employees are employed by either the Company or by fellow Group companies.

RAC Financial Services Limited

Notes to the financial statements (continued)

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 4(1)(b) of The Companies (Disclosure of Auditor Remuneration) Regulations 2005, as it is disclosed within the Annual Report and Accounts of Aviva plc, the Company's ultimate controlling entity (note 17(c)).

Auditor's remuneration is borne by Aviva Central Services UK Limited, a fellow Group company.

	2008 £000	2007 £000
Audit services		
Statutory audit of the Company's financial statements	8	8

RAC Financial Services Limited

Notes to the financial statements (continued)

5. Tax

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2008	2007
Current tax:	**£000**	**£000**
For this year	921	781
Prior year adjustments	-	347
Total tax charged to income statement	921	1,128

(ii) Unrecognised temporary differences of previous years were used to reduce current tax expense by £ nil (2007: £518 thousand).

(b) Tax reconciliation

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

	2008	2007
	£000	**£000**
Profit before tax	3,166	4,331
Tax calculated at standard UK corporation tax rate of 28.5% (2007: 30%)	902	1,299
Adjustment to tax charge in respect of prior years	-	347
Deferred tax assets not recognised	19	(518)
Tax charged for the period (note 5(a))	921	1,128

Notes to the financial statements (continued)

6. Equipment

	Computer equipment	Fixtures and fittings	Total
	£000	£000	£000
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
Cost			
At 1 January 2007	503	80	583
At 31 December 2007	503	80	583
Depreciation			
At 1 January 2007	125	7	132
Charge for the year	127	9	136
At 31 December 2007	252	16	268
Carrying amount at 31 December 2007	251	64	315

7. Trade and other receivables

	2008	Restated 2007
	£000	£000
Trade receivables	431	2,579
Receivables from related parties (note 17(a)(iv))	27,327	25,505
	27,758	28,084
Expected to be recovered within one year	1,448	4,742
Expected to be recovered in more than one year	26,310	23,342
	27,758	28,084

Trade receivables for 2007 have been restated to reclassify receivables from related parties of £2,057 thousand.

8. Tax assets and liabilities

General

Liabilities for current year tax of £921 thousand (2007: £781 thousand) are payable in more than one year.

Assets and liabilities for prior years' tax settled by group relief of £ nil and £781 thousand respectively (2007: £85 thousand and £ nil) are included within receivables from related parties (note 7) and within amounts due to related parties (note 9) and within the related party transactions (note 17) and are recoverable or payable in less than a year.

The Company has unrecognised temporary difference of £71 thousand (2007: £4 thousand) to carry forward indefinitely against future taxable income.

9. Trade and other payables

	2008	2007
	£000	£000
Amounts due to related parties (note 17(a)(v))	12,290	14,744
Accruals	453	717
Other creditors	-	127
	12,743	15,588
Expected to be settled within one year	2,743	5,588
Expected to be settled in more than one year	10,000	10,000
	12,743	15,588

RAC Financial Services Limited

Notes to the financial statements (continued)

10. Share capital

Details of the Company's share capital are as follows:

	2008 £000	2007 £000
Authorised		
28,001,000 (2007: 28,001,000) ordinary shares of £1 each	28,001	28,001
6,470,000,000 (2007: 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 (2007: 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:

	2008 £000	2007 £000
Within 1 year	125	125
Later than 1 year and not later than 5 years	25	498
Later than 5 years	-	337
	150	960

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 2008.

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. Pension obligations

RAC (2003) Pension Scheme

(a) Introduction

In the UK, RAC plc, the parent company, operates a pension scheme for its subsidiaries, the RAC (2003) Pension Scheme ("the Scheme"). Under the Scheme members receive benefits on a defined benefit basis (generally related to final salary). The assets of the Scheme are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees.

For funding purposes, an actuarial valuation report has been submitted for the Scheme as at an effective date of 5 April 2007, with the obligations calculated using the Projected Unit Credit Method.

Pension costs for the Scheme are initially borne by RAC plc and are then recharged to the operating divisions of the RAC Group of companies as part of an overall charge for payroll-related items. The recharge is calculated dependent on the employees working in each division.

Currently the employer contributes at a rate of 16.8% of Contribution Salaries for members of the RAC final salary section and 18.6% of Contribution Salaries for other final salary members (these rates include allowance for life insurance premiums paid from the Scheme and administrative expenses). During the year, additional deficit funding payments were made of £4 million.

In the absence of any contractual arrangements to allocate the net defined benefit cost for the Scheme, measured in accordance with IAS 19, to individual businesses, it is the policy to allocate this cost fully to RAC plc. As required by paragraph 34B of the amendment to IAS 19 issued in December 2004, disclosures for the Scheme are provided below and in the following pages.

(b) Charges to the income statement

	2008	2007
	£000	£000
Administrative expenses	-	5

RAC Financial Services Limited

Notes to the financial statements (continued)

13. Pension obligations (continued)

RAC (2003) Pension Scheme (continued)

(c) IAS 19 disclosures

(i) Assumptions on the liabilities of the Scheme

The inherent uncertainties affecting the measurement of the liabilities of the Scheme require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to economic conditions, and changes in these assumptions can materially affect the measurement of the pension obligations.

The valuation used for accounting under IAS 19 has been based on the most recent full actuarial valuation, updated to take account of that standard's requirements in order to assess the liabilities of the Scheme at 31 December 2008. This updating was made by the Scheme actuary. The Scheme's assets are stated at their fair values as at 31 December 2008.

The details for the defined benefit section of the Scheme are shown below. Although the Scheme provides both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

The main financial assumptions used to calculate the Scheme's liabilities under IAS 19 are :

	2008	2007
	%	%
Inflation rate	2.9	3.4
General salary increases	4.7	5.2
Pension increases	3.1	3.4
Deferred pension increases	3.1	3.4
Discount rate	6.2	5.8

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. The discount rate is based on current average yields of high quality debt instruments (AA-rated corporate bonds), taking account of the maturities of the defined benefit obligations. A 1% increase in this rate (and therefore the net discount rate) would reduce the liabilities by £155 million.

RAC Financial Services Limited

Notes to the financial statements (continued)

13. Pension obligations (continued)

RAC (2003) Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(i) Assumptions on the liabilities of the Scheme (continued)

Mortality assumptions are significant in measuring the Group's obligations under the defined benefit section of the Scheme, particularly given the maturity of these obligations in the Scheme. The mortality tables and average life expectancy used at 31 December 2008 for Scheme members are as follows:

Mortality table	Normal retirement age (NRA)	Life expectancy (pension duration) at NRA of a male		Life expectancy (pension duration) at NRA of a female	
		Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
PA92U09MC with a one year age rating deduction and an allowance for future improvements	60	89.3 (29.3)	92.2 (32.2)	91.7 (31.7)	93.8 (33.8)

The assumptions above are based on commonly-used mortality tables, which have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty, and judgement is required in setting this assumption. The assumptions include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table and incorporating underpins to the rate of future improvement equal to 1.5% p.a. for males and 1.0% p.a. for females. The effect on the Schemes of assuming all members were one year younger would increase the Scheme's liabilities by £15 million.

The Scheme's liabilities have an average duration of 20 years.

(ii) Assumptions on the assets of the Scheme

The expected rates of return on the assets of the Scheme are:

	2009 %	2008 %
Equities	7.0	7.6
Bonds	5.2	5.3
Property	5.5	-
Cash	3.2	-
Derivatives	3.4	-
Other	-	6.5

RAC Financial Services Limited

Notes to the financial statements (continued)

13. Pension obligations (continued)

RAC (2003) Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(ii) Assumptions on the assets of the Scheme (continued)

The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns for equities and properties have been aligned with the rates used by Aviva plc, the ultimate controlling entity, for the longer-term investment return assumptions. The expected return on the Scheme assets is calculated after deducting investment expenses.

(iii) Scheme deficit

The assets and liabilities of the Scheme, attributable to defined benefit members, at 31 December 2008 comprise:

	2008 £m	2007 £m
Equities	313	638
Bonds	297	297
Property	64	-
Cash	5	-
Derivatives	42	-
Other	-	2
Total fair value of assets	721	937
Present value of the Scheme liabilities	(895)	(959)
Deficit in the Scheme	(174)	(22)

RAC Financial Services Limited

Notes to the financial statements (continued)

13. Pension obligations (continued)

RAC (2003) Pension Scheme (continued)

(c) IAS 19 disclosures (continued)

(iv) Movements in the Scheme deficit

Movements in the Scheme deficit are as follows:

2008	Scheme assets 2008 £m	Scheme liabilities 2008 £m	Net pension deficit 2008 £m
Balance at 1 January	937	(959)	(22)
Employer contributions	17	-	17
Employee contributions	3	(3)	-
Benefits paid	(32)	32	-
Charge to net operating expenses	-	(12)	(12)
Credit/(charge) to investment income	69	(55)	14
Actuarial (losses)/gains	(273)	102	(171)
Balance at 31 December	721	(895)	(174)

2007	Scheme assets 2007 £m	Scheme liabilities 2007 £m	Net pension deficit 2007 £m
Balance at 1 January	919	(1,001)	(82)
Employer contributions	13	-	13
Employee contributions	4	(4)	-
Benefits paid	(33)	33	-
Charge to net operating expenses	-	(14)	(14)
Credit/(charge) to investment income	62	(51)	11
Actuarial gains/(losses)	(28)	78	50
Balance at 31 December	937	(959)	(22)

The change in the Scheme deficit during 2008 is mainly attributable to the fall in equity investment values, partly offset by favourable changes in assumptions underlying the present value of the Scheme liabilities and further deficit contribution payments made by RAC plc.

RAC Financial Services Limited

Notes to the financial statements (continued)

14. Cash flow statement

	2008	2007
	£000	£000
The reconciliation of profit before tax to the net cash flow from operating activities is:		
Profit before tax	3,166	4,331
Adjustments for:		
Depreciation of equipment	134	136
Interest expense on borrowings	569	653
Interest receivable	(1,454)	(1,572)
Changes in working capital:		
(Increase)/decrease in trade and other receivables	1,780	1,127
Increase/(decrease) in provisions	-	(1,753)
Increase/(decrease) in trade and other payables	(4,195)	(3,005)
Net cash flow from operating activities	-	(83)

In 2008, changes in trade and other receivables are stated after eliminating £1,454 thousand (2007: £1,489 thousand) of loan interest receivable from RAC plc that was settled by intercompany account.

In 2008, changes in trade and other payables are stated after eliminating £569 thousand (2007: £653 thousand) of loan interest payable to RAC plc that was settled by intercompany account and £781 thousand (2007: £85 thousand) of corporation tax liabilities that was settled by group relief.

15. Risk management policies

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, which have not been identified as emerging 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 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 appetite.

RAC Financial Services Limited

Notes to the financial statements (continued)

15. Risk management policies (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.

Trade and other receivables of £27,758 thousand (2007: £28,084 thousand) include £27,327 thousand (2007: £25,505 thousand) of receivables from related parties.

(ii) Liquidity risk

The Company is supported through its participation in UKGI.

(b) Strategic risks

(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.

15. Risk management policies (continued)

(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. As a result, the business unit executive management team satisfies itself that material risks are being mitigated and reported to an acceptable level.

16. Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile 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.

16. Capital structure (continued)

(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 types of business that is undertaken.

The Company fully complied with these regulatory requirements during the year.

(d) Capital structure

	IFRS net assets 2008 £000	IFRS net assets 2007 £000
Ancillary financial services	14,275	12,030
Total capital employed	14,275	12,030
Financed by		
Equity shareholder's funds	14,275	12,030

17. 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 £2,089 thousand net inflow (2007: £166 thousand net outflow).

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

	2008	**Restated 2007**
	£000	**£000**
Parent - loan account	26,310	23,342
Parent - current account	997	-
Other Group companies - current accounts	20	2,163
	27,327	25,505

Receivables at 2007 year end from" Other Group companies - current accounts" have been restated to reclassify £2,057 thousand from "trade receivables".

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 15 February 2013. Interest is receivable on the facility at 0.4% above Bank of England base rate. The year end balance is £16,310 thousand (2007: £13,342 thousand) receivable. During the year, a further advance of £2,083 thousand was drawn down and interest of £885 thousand (2007: £836 thousand) was capitalised.

A £10,000 thousand subordinated loan is in operation between the Company and RAC plc. Interest is received on the facility at 1% above Barclays Bank base rate. The year end balance is £10,000 thousand receivable (2007: £10,000 thousand). The principal amount loaned to RAC plc is £10,000 thousand and is not repayable before 30 September 2008. The terms of the loan provide that RAC plc cannot repay the loan without the prior written consent of the FSA. Interest receivable for the year is £569 thousand (2007: £653 thousand).

Notes to the financial statements (continued)

17. Related party transactions (continued)

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

	2008 £000	2007 £000
Parent - loan account	10,000	10,000
Parent - current account	-	4,574
Other Group companies - current accounts	2,290	170
	12,290	14,744

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 (2007: £10,000 thousand). The principal amount loaned from RAC plc is £10,000 thousand and is not repayable before 30 September 2008. 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 £569 thousand (2007: £653 thousand).

(vi) 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 24 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.