Registered in England and Wales: No. 02355834

RAC INSURANCE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

RAC Insurance Limited

Contents

RAC Insurance Limited

Company information

Directors:

J Baker
P Gale
D Hobday
R Templeman
G M Wood
T Mohindra

Company Secretary:

L Griffiths

Auditor:

Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham
United Kingdom
B1 2HZ

Registered office:

RAC House
Brockhurst Crescent
Walsall
West Midlands
United Kingdom
WS5 4AW

Company number:

Registered in England and Wales: No. 02355834

Other information:

RAC Insurance Limited is authorised and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). FRN: 202737.

For the year ended 31 December 2022 and 2021, the Company was a member of the RAC Group of Companies ("the Group"), which includes RAC Group (Holdings) Limited and its subsidiaries, RAC Midco Limited, RAC Midco II Limited, RAC Bidco Limited, RAC Bond Co plc, RAC Limited, RAC Group Limited, RAC Motoring Services (Holdings) Limited, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited, RAC Insurance Limited, RAC Brand Enterprises LLP, RAC Cars Limited and Risk Telematics UK Limited.

These Financial Statements are presented for the year ended 31 December 2022. Comparatives are presented for the year ended 31 December 2021.

RAC Insurance Limited

Strategic report

For the year ended 31 December 2022

The Directors present their Strategic report for the year ended 31 December 2022.

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 business development and performance during the financial year and position at the end of the financial year. 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.

Principal activity

The principal activity of the Company is the provision of insurance relating to roadside assistance and legal expenses products sold by other Group companies.

Review of the business including major events

During 2021 Silver Lake entered into a transaction to become a co-shareholder in the Group, which completed in March 2022. The company also paid a dividend during 2022 (see note 7 in the financial statements).

Objectives and future developments

The strategy for the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Annual Report and Financial Statements of that Company. The directors expect the general level of activity for the Company to increase in the future due to new business wins in 2022.

Key Performance Indicators ("KPIs")

The financial KPIs set out in the table below are fundamental to the Company's business and reflect focus on the drivers of value that will enable and inform the management team to achieve the Company's business plans, strategic aims and objectives.

	2022	2021
Gross written premiums (£000's)	19,519	15,159
Increase in net written premiums	29%	8%
Combined operating ratio	99%	88%
Net incurred claims ratio	84%	71%
Net written expenses ratio	15%	17%

The Company also uses a range of other financial and non-financial performance indicators to monitor performance.

The KPIs presented provide management with analysis of the underwriting profitability of the products underwritten by the Company.

The net incurred claims ratio compares the claims paid and the movement in the claims provision, net of reinsurance, against net earned premiums. The net written expenses ratio compares other operating expenses to net written premiums. The combined operating ratio compares the total of the net incurred claims ratio and the net written expenses ratio.

Financial review

The financial position of the Company as at 31 December 2022 is shown in the Statement of financial position on page 18, with the trading results shown in the Income statement on page 17 and the Statement of cash flows on page 20.

Profit before tax decreased by £2,372 thousand to £59 thousand (2021: decrease of £2,817 thousand to £2,431 thousand). This was primarily driven by an increase in claims and benefits paid net of recoveries from reinsurers of £4,129 thousand and other associated operating expenses of £381 thousand following an increase in claims volume compared to 2021.

Financial review (continued)

It is the Company's intention to maintain its operating ratio, whilst adhering to strict underwriting disciplines. In 2022, there was an increase in claims costs which lead to a negative impact on operating ratio during the year, however this was considered an outlier due to changes in the methodology for calculating outstanding claims provisions with operating ratio expected to normalise in 2023.

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 below with further details in note 17, contingent liabilities and other risk factors are set out in note 15 to the Financial Statements.

Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates. The Company has limited exposure to fluctuations in foreign exchange rates. However, RAC continues to monitor its exposure and will take steps to mitigate its exposure should the value and volume of foreign currency transactions increase in the future. Interest is generated on cash balances, however as this is not a cost to the business, there is limited risk as a result of adverse movements.

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.

Management of credit risk is carried out in accordance with the Group's 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.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements. The Company does not have any obligations for which liquidity risk would be significant.

Regulatory risk

As a regulated entity, the Company is required to hold sufficient capital to meet acceptable solvency levels based on applicable PRA regulations. The Company's ability to transfer retained earnings to its shareholders is therefore restricted to the extent that these earnings form part of UK regulatory capital.

Relevant capital and solvency regulations ("Solvency II") continue to be used to measure and report the financial strength of regulated companies within the Company. The Company is also subject to regulatory requirements, as set out by the FCA, in relation to product design, marketing materials, sales processes and data protection. To mitigate these risks the Company employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are fully understood and adhered to.

General insurance risk

The Company considers insurance risk within its general insurance activity to comprise the following:

- inaccurate pricing and selection of risks when underwritten;
- fluctuations in the timing, frequency and severity of claims and claims
- unexpected claims arising from a single source;
- inadequate reinsurance protection or other risk transfer techniques; and
- inadequate reserves.

More details on how this risk is managed is provided within note 17 on page 37.

Principal risks and uncertainties (continued)

Climate and environmental risk

The Group defines climate risk as the potential adverse impact of 'Transitional' and 'Physical' climate change risks on RAC's strategy, financial targets, business model and/or, operations/sites. Environmental risk is defined as the risk of RAC damaging the environment in which it operates.

The Group mitigates climate risk through the regular assessment of the material risks to the business presented by climate change. The Group continues to develop its ESG Strategy which is overseen by the Group ESG committee and plans to put in place a decarbonisation plan with associated strategy, targets and timelines during 2023. The Group also continues to implement and embed regulatory requirements in relation to climate change risk management, namely the Taskforce for Climate Related Financial Disclosures ("TCFD") requirements and the PRA 'Financial risks from climate change' requirements.

As a motoring organisation we are also aware of our environmental impact, with roadside operations being our highest contributor to carbon emissions. We have attained ISO14001 accreditation across the whole of our operation and use a risk management process to identify and address environmental issues resulting from our business.

Capital management

In managing its capital, the Company seeks to:

i. Match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
ii. Maintain financial strength to support new business growth and to satisfy the requirements of its members and regulators;
iii. Retain financial flexibility by maintaining strong liquidity; and
iv. Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

General

The Company is a regulated company which holds sufficient capital to meet acceptable solvency levels based on applicable PRA regulations. The Company has been fully compliant with the requirements of Solvency II since 1 January 2016 with Minimum Capital Requirement cover and Solvency Capital Requirement cover of over 1.5 times throughout the year. The average MCR cover in 2022 was 9.4 (2021: 9.9), and the average SCR cover in 2022 was 3.6 (2021: 3.9).

Regulatory bases
Relevant capital and solvency regulations are used to measure and report on the financial strength of the Company. These measures are based on the PRA's current regulatory requirements. Regulatory capital tests verify adequate excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten. There have not been any breaches of capital and solvency regulations in the reported periods.

Section 172(1) Statement
In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, RAC Insurance Limited (the "Company") is required to include a statement in its Strategic Report describing how the directors have had regard to the matters set out in Section.172 (1) (a)-(f) of the Companies Act 2006 for the 2022 financial year.

In discharging their duties under Section.172 the directors give consideration to the factors under (a) to (f) in addition to other factors which they consider relevant to the decisions being made. During the year the directors have made decisions which they believe best support the Company's strategic priorities and promote long term success and sustainability for the future. The directors are aware that some decisions may not always align to all of the Company's stakeholder interests and in such circumstances endeavour to balance interests whilst best supporting the strategic priorities.

The Company is an indirect, wholly, owned subsidiary of RAC Group (Holdings) Limited. As is usual with large Groups, day to day management of the Company is delegated to the Executive Committee, led by the Chief Executive Officer, who have responsibility for the execution of the Group's strategy and the day to day management of the business. The Group operates a risk management framework, ensuring that the key risks to the delivery and implementation of the strategy are identified, monitored and managed and the directors discharge their responsibility in this respect through membership of the Board Risk, Audit and Compliance Committee. Further details of the Group's strategy, Risk management framework, and ESG strategy can be found in the RAC Group (Holdings) Limited, Annual Report and Accounts for the 2022 financial year.

This statement sets out how the directors have discharged their Section.172 duties during 2022.

(a) The likely consequences of any decision in the long term
The directors play an active role in the development of the Group's strategy. Delivery of the strategy will enable the RAC to take advantage of the changing automotive and mobility markets, providing new products and services that meet customers changing needs allowing the Company to build closer relationships with customers and suppliers, all of which will drive sustainable long term growth at the same time as providing opportunities for colleagues.

(b) Interests of the Company's employees
The Directors recognise that long term sustainable growth will only be achieved through strong colleague engagement. The directors recognise the importance of and ensure that interests of colleagues are taken into consideration when making decisions. Various Group forums allow colleagues to meet with and provide feedback to the CEO, the Executive team and the Senior Leadership Team. The annual Colleague Engagement survey allows for direct feedback, the results of which help identify key areas for improvement, learning and development activities, and colleague wellbeing initiatives; which, underpin the wider Group's People Strategy. More details of the annual survey results which can be found in the RAC Group (Holdings) Annual Report.

Section 172(1) Statement (continued)

(c) the need to foster the Company's business relationships with suppliers, customers, and others

The Company is also aware of the contribution that other stakeholders, in addition to colleagues, make to the long-term success of the Company. The directors recognises the importance of developing strong relationships with the Company's customers and suppliers, and the directors regularly consider material outsourcing arrangements which best support the Company's long term strategy. The directors also take into consideration, where relevant to decision making, the interests and view of its regulators, community and environmental groups, the Group's investors, and Unions in respect of material employee matters.

(d) the impact of the Company's operations on the community and the environment

Managing the impact of the Company's operations on the community and the environment is a strategic imperative. This helps to preserve the environment in which the Company operates at the same time as helping to control costs and supporting efficient business performance. A number of Group initiatives have been implemented that have had a significant impact on carbon emissions and the Company along with the wider Group continues on it decarbonisation and ESG journey, more details of which can be found in the RAC Group (Holdings) Limited 2022 annual report. The Group also has in place a number of community priorities, which seek to create long term benefits for local communities.

(e) the desirability of the Company maintaining a reputation for high standards of business conduct

The directors considers that maintaining a reputation for the highest standard of business conduct is a key priority. The directors ensure that an appropriate framework, including relevant policies and codes of conduct, are in place to support this and the directors are made aware of and involved in the management of all issues that might have a material impact on the RAC Brand and the RAC's reputation for high standards.

As approved by the Board on 26 April 2023

J Baker
Chief Financial Officer

RAC Insurance Limited

Directors' report
For the year ended 31 December 2022

The Directors present their Annual Report on the affairs of RAC Insurance Limited, together with the audited Financial Statements for the year ended 31 December 2022.

Directors

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

Those in office during the year and up to the date of signing have been as follows:

J Baker
P Gale
D Hobday
R Templeman
G M Wood
T Mohindra (Appointed 1st September 2022)

None of the Directors had any interest in the shares of the Company during the year.

Objectives and future developments

The Company's strategy is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and is disclosed in the Annual Report and Financial Statements of that Company (see note 19(f)).

Dividends

An interim dividend of £8,000 thousand was paid during the year (2021: £nil) and the Directors do not recommend payment of a final dividend (2021: £nil).

Employees

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a fellow Group company.

Directors' indemnities

RAC Group (Holdings) Limited, 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 2006. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and was novated to the Directors of this Company in December 2014. The provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 236 of the Companies Act 2006. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report by virtue of the transitional provisions of the Companies Act 2006.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit after tax of £633 thousand for the year ended 31 December 2022 (2021: £1,929 thousand) and at 31 December 2022 had net assets of £11,679 thousand (2021: £19,046 thousand). The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 2 to 6. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 17 to the Financial Statements.

The accounts have been prepared on a going concern basis. The Directors have reviewed the Company's business activities, financial position, principal risks and uncertainties, financial commentary as set out in the Strategic Report on page 1 and its liquidity and operational resilience. Further details are shown in the Group Annual Report. The Company's Own Risk & Solvency Assessment (ORSA) demonstrates an integrated approach to strategic planning, risk management and capital management and has the support of the Group. The Directors consider that the Company has adequate resources and continues to have a strong solvency ratio which remains within the Company's risk appetite to continue in operation and are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The Directors have considered the financial position and future prospects of the Company along with the current and future regulatory requirements. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2022 Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

Auditor

The appointment of the auditor for the year ending 31 December 2023, will be proposed to the Board at the July 2023 Board meeting.

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 their report, of which the auditor is unaware. Each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Strategic Report

The Companies Act 2006 requires the Company to prepare a Strategic Report, set out on pages 2 to 6. The Strategic Report includes information about the Company's operations and business model, financial performance throughout the year, likely future developments, key performance indicators, and principal risks.

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Directors' report (continued)

For the year ended 31 December 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom adopted international accounting standards. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- 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 of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board on 26 April 2023

J Baker
Chief Financial Officer

RAC Insurance Limited

Independent auditor's report to the members of RAC Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion the Financial Statements of RAC Insurance Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Income statement;
- the Statement of financial position;
- the Statement of changes in equity;
- the Statement of cash flows;
- the Accounting policies; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinioı

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the valuation of insurance liabilities. Within this report, key audit matters is identified as follows: Increased level of risk
Materiality	The materiality that we used in the current year was £350k which we determined based on 3% of net assets.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	The provision for outstanding claims increased by more than five times compared to prior year. We have continued to identify the valuation of insurance liablities as a key audit matter, and adapted our response to the increased size and subjectivity of the key assumptions.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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Independent auditor's report to the members of RAC Insurance Limited (continued)

Conclusions relating to going concern (continued)

The company is a subsidiary of the group headed by RAC Group (Holdings) Limited (the 'group') and the going concern of the company is closely linked to the group. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting has therefore been performed at th group level, supplemented with procedures specific to the company, and included:

- Challenging management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of underlying assumptions on liquidity and solvency. This included considering their consistency with our understanding of the company's business, other available information and expectation of future economic outlook;
- Challenging group management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows, considering their consistenc with other available information, historical performance of the group against previous forecasts and our understanding of the group businesses;
- Assessing group management's stress and scenario testing including reverse stress testing;
- Assessing compliance with the group's financial covenants on the listed debt and the senior term facility;
- Evaluating the appropriateness of disclosures in the financial statements relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description	The total gross provision for outstanding claims is included in insurance liabilities and amounted to £3.5m at 31 December 2022 (2021: £0.7m). This balance comprises estimates for claims that have been reported to the company. As a result of the significant judgement required in estimating the future costs of claims, this was identified as a key area of focus in our audit. The valuation of the provision for outstanding claims is a subjective exercise requiring significant judgement to determine an appropriate methodology to best reflect the nature of the claims payable where there is limited or no actual claims experience. The provision for outstanding claims is determined based on an expected ultimate claims number and an inflation adjusted average claim cost. Inappropriate use of these assumptions either due to fraud or error could give rise to a material misstatement. Management's accounting policies in relation to this matter are detailed in accounting policy G to the financial statements while the key sources of estimation are outlined in accounting policy N. Note 13 discloses the outstanding balance at the year end.

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Independent auditor's report to the members of RAC Insurance Limited (continued)

Key audit matters (continued)

How the scope of our audit responded to the key audit matter	*We performed the following procedures:* • We obtained an understanding over the valuation of insurance liabilities and relevant controls in place to mitigate the risk of inappropriate assumptions being used in valuing the • With the involvement of our actuarial specialists, we challenged the appropriateness of the key assumptions used in the provision against recognised actuarial practices and by applying our industry knowledge; • We benchmarked the key assumptions to those used by peer companies and external sources where possible; and We also tested the mechanical accuracy of the model used to estimate the provision for outstanding claims and agreed a sample of key data inputs back to underlying source data.
Key observations	We found management's key assumptions for determining the provision for outstanding claims to be reasonable. We concluded that the valuation of insurance liabilities and related disclosures are reasonable.

Our application of materiality

Materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£350k (2021: £570k)
Basis for determining materiality	When determining materiality, as the company is part of RAC Group (Holdings) Limited group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into the group's results. Our determined materiality equates to 3% (2021: 3%) of the net asset balance held by the company.
Rationale for the benchmark applied	The overall capital base is a key focus area for the company and its key regulators; Prudential Risk Authority (PRA) and Financial Conduct Authority (FCA). The company's strategy is therefore centred on maintaining a stable capital base rather than driving profitability.

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Independent auditor's report to the members of RAC Insurance Limited (continued)

Our application of materiality

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%).

We determined performance materiality with reference to factors such as our understanding of the entity, the entity's complexity and purpose within the group, the centralised finance function, the quality of the control environment, whether we were able to rely on controls and the low extent of material misstatements identified in prior year.

Error reporting threshold

We agreed with the Board Risk, Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £18k (2021: £29k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Risk, Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including group-wide controls, and assessing the risks of material misstatement relevant for the company. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Our consideration of the control environment

We have not taken reliance over automated IT controls in the current year which is consistent with the prior year. With the involvement of our IT specialist, we have obtained an understanding of the IT control environment and relevant general IT controls (GITCs). We also obtained an understanding of relevant revenue business process and controls that address the risk of material misstaement in financial reporting. We did not take a controls reliance approach.

Our consideration of climate-related risks

As part of our audit, we have considered the impact of climate change on the group's operations and its impact on their financial statements. The group continues to implement and embed regulatory requirements in relation to climate change risk management, namely the Taskforce for Climate Related Financial Disclosures ('TCFD') and BEIS requirements including the Prudential Risk Authority (PRA) 'Financial risks from climate change' requirements. The group has voluntarily adopted many of the recommendations as detailed on page 4 of the strategic report.

Our audit work involved assessing the risks identified and considered in the group climate risk assessment. We have read the disclosures in relation to climate change made in the other information within the annual report to consider whether the disclosures are materially consistent with the financial statements and our knowledge obtained from our audit.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the group Board Risk, Audit and Compliance Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;

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Independent auditor's report to the members of RAC Insurance Limited (continued)

Identifying and assessing potential risks related to irregularities (continued)

- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, actuarial IT and conduct risk regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of insurance liabilities. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence and regulatory solvency requirements imposed by the Prudential Risk Authority (PRA) and the Financial Conduct Authority (FCA).

Audit response to risks identified

As a result of performing the above, we identified the valuation of insurance liabilities as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the group Board Risk, Audit and Compliance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

RAC Insurance Limited

Independent auditor's report to the members of RAC Insurance Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Board Risk, Audit and Compliance Committee, we were appointed by the Board of Directors in May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 31 December 2014 to 31 December 2022.

Consistency of the audit report with the additional report to the Board Risk, Audit and Compliance Committ

Our audit opinion is consistent with the additional report to the Board Risk, Audit and Compliance Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Kieren Cooper
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
26 April 2023

RAC Insurance Limited
Financial Statements 2022
Income statement

For the year ended 31 December 2022

	Note	2022	2021
		£000	**£000**
Income	1		
Gross written premiums		19,519	15,159
Premiums written		19,519	15,159
Net change in provision for unearned premiums		(2,504)	(811)
Net earned premiums		17,015	14,348
Rental income		562	562
Net investment income		55	4
Other income, including value adjustments		-	230
		17,632	**15,144**
Expenses	2		
Claims paid		(11,410)	(10,227)
Change in claims provisions		(2,851)	95
Other operating expenses		(2,962)	(2,581)
Other charges, including value adjustments		(350)	-
		(17,573)	**(12,713)**
Profit before tax		**59**	**2,431**
Tax credit/(charge)	7	6	(502)
Profit for the year		**65**	**1,929**

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

All activities relate to continuing operations.

The accounting policies and notes on pages 21 to 44 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2022 (continued)
Registered in England and Wales: No. 02355834

Statement of financial position

As at 31 December 2022

	Note	2022	2021
		£000	**£000**
ASSETS			
Investment property	8	3,000	3,350
Receivables	9	20,706	16,819
Cash and cash equivalents	10	4,045	8,011
		27,751	**28,180**
LIABILITIES			
Insurance liabilities	12(a)	(13,874)	(8,519)
Other payables	11	(2,766)	(615)
		(16,640)	**(9,134)**
Net assets		**11,111**	**19,046**
EQUITY			
Ordinary share capital	14	7,250	7,250
Retained earnings		3,861	11,796
Total equity		**11,111**	**19,046**

The accounting policies and notes on pages 21 to 44 are an integral part of these Financial Statements.

Approved by the Board on 26 April 2023

J Baker
Chief Financial Officer

RAC Insurance Limited
Financial Statements 2022 (continued)
Statement of changes in equity

For the year ended 31 December 2022

	Note	Ordinary share capital	Retained earnings	Total equity
		£000	**£000**	**£000**
Balance at 1 January 2021		**7,250**	**9,867**	**17,117**
Profit for the year		-	1,929	1,929
Total comprehensive income		-	1,929	1,929
Balance at 31 December 2021		**7,250**	**11,796**	**19,046**
Profit for the year		-	65	65
Total comprehensive income		-	65	65
Dividend paid		-	(8,000)	(8,000)
Balance at 31 December 2022		**7,250**	**3,861**	**11,111**

The accounting policies and notes on pages 21 to 44 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2022 (continued)
Statement of cash flows

For the year ended 31 December 2022

	Note	2022	2021
		£000	**£000**
Operating activities			
Profit before tax		59	2,431
Adjustments to reconcile profit before tax to net cash flows:			
Loss/(Gain) from fair value adjustment of investment property (non-cash)	8	350	(230)
Increase in receivables (non-cash)	9	(3,887)	(2,017)
Increase in insurance liabilities (non-cash)	12(a)	5,355	716
Increase/(Decrease) in payables and other financial liabilities	11	2,157	(896)
Net cash inflow from operating activities		**4,034**	**4**
Investing activities			
Dividend paid	4	(8,000)	-
Net cash outflow from investing activities		**(8,000)**	**-**
Net increase in cash and cash equivalents		**(3,966)**	**4**
Cash and cash equivalents at 1 January		8,011	8,007
Cash and cash equivalents at 31 December	**10**	**4,045**	**8,011**

The accounting policies and notes on pages 21 to 44 are an integral part of these Financial Statements.

RAC Insurance Limited

Accounting policies

(A) Corporate information

The Company is a private limited liability company, limited by shares, incorporated and domiciled in the United Kingdom, registered in England & Wales. The principal activity of the Company is the provision of insurance relating to roadside assistance and legal expenses insurance. The registered office is located at RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW.

Information on other related party relationships of the Company is provided in note 18.

The Financial Statements of RAC Insurance Limited for the year ended 31 December 2022 were approved for issue by the Board on 26 April 2023.

(B) Basis of preparation

The Financial Statements of the Company have been prepared on the historical cost basis, except for certain properties that are measured at fair value, as explained in the accounting policies. Historical cost is generally based on the fair value of consideration given in exchange for assets.

The Financial Statements of the Company have been prepared in accordance with UK-adopted international accounting standards.

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

The Financial Statements are presented in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these Financial Statements are in thousands of pounds sterling ("£000").

Adoption of new International Financial Reporting Standards

The following new and amended IFRSs are effective and relevant for these Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Company's Financial Statements.

- Amendments to IAS 16, IFRS 3, IAS 37 and Annual Improvements to IFRS Standards 2018-2020

At 31 December 2022, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the UK:

- IFRS 17 and Amendments to IFRS 17 [1]
- Amendments to IAS 1 and IFRS Practice Statement 2 [1]
- Amendment to IAS 12 and 8 [1]
- Amendment to IFRS 16 [2].

1 Effective for annual periods commencing on or after 1 January 2023

2 Effective for annual periods commencing on or after 1 January 2024

IFRS 17 Insurance Contracts comes into force for accounting periods commencing on or after 1 January 2023. The Group has conducted a review of each of the customer contracts across its operating segments to identify those which will be impacted by the new accounting standard on insurance contracts. Following this review, the Group expects to utilise the Fixed Fee Service Exemption and Premium Allocation Approach simplification. Work to assess the full impact of the adoption of IFRS 17 Insurance Contracts on the Group's financial statements is being finalised with the Group's external independent actuary, notably the area of claims provisioning for non-breakdown related insurance products, the value of which is £4 million at 31 December 2022 under IFRS 4. Whilst the Directors do not believe the adoption of IFRS 17 will have a material impact on the Group's results for the year ended 31 December 2023, this conclusion will be validated through the course of 2023.

Accounting policies (continued)

(B) Basis of preparation (continued)

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company made a profit after tax of £633 thousand for the year ended 31 December 2022 (2021: £1,929 thousand) and at 31 December 2022 had net assets of £11,679 thousand (2021: £19,046 thousand). The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic report on pages 2 to 6. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 17 to the Financial Statements.

The accounts have been prepared on a going concern basis. The Directors have reviewed the Company's business activities, financial position, principal risks and uncertainties, financial commentary as set out in the Strategic Report on page 1 and its liquidity and operational resilience. Further details are shown in the Group Annual Report. The Company's Own Risk & Solvency Assessment (ORSA) demonstrates an integrated approach to strategic planning, risk management and capital management and has the support of the Group. The Directors consider that the Company has adequate resources and continues to have a strong solvency ratio which remains within the Company's risk appetite to continue in operation and are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Company's Financial Statements.

(C) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment or service contracts.

Accounting for insurance contracts, as allowed by IFRS 4, was previously determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006. The Statement of Recommended Practice has since been withdrawn, but there have been no changes to the methodology followed.

(D) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the Statement of financial position date. Unearned premiums are computed on a monthly pro rata basis.

(E) Other operating income

Rental income

Lease payments received under operating leases are recognised as income on a straight-line basis over the lease term as part of 'other operating income'. The lease payments are a fixed cost and not subject to changes in any index or rate.

(F) Net investment income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(G) Insurance contract liabilities

Claims

Insurance claims incurred includes an estimate of all losses occurring during the year, whether reported or not, loss adjustment expenses, a reduction for the value of salvage and other recoveries, and any adjustments to claims incurred in previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims handling department and any part of the general administrative costs directly attributable to the loss adjustment function.

Outstanding claims provisions
Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of financial position date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 12(c).

Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is recognised in the Income statement in order that revenue is recognised over the period of risk.

Liability adequacy
At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the Income statement by setting up a provision in the Statement of financial position.

Other assessments and levies
The Company is subject to various periodic insurance related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts would not be included within insurance liabilities but would be included under "other payables" in the Statement of financial position.

(H) Investment property

Investment properties are measured at fair value, being the fair value at the date of revaluation on a vacant possession basis, which are supported by market evidence. A gain or loss arising from movement in the fair value of the investment property is recognised in the Income statement in the period in which it occurs. Third party valuations are obtained every three years to support management's internal valuations, carried out on an annual basis.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are recorded in the Income statement.

Fair value measurements and valuation process

The Company measures non-financial assets including investment properties, at fair value at each reporting date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(I) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand and deposits held at call with banks. 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. For the purposes of the Statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities in the Statement of financial position.

(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, up to the amount of the provision, but only when the reimbursement is virtually certain.

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 Insurance Limited

Accounting policies (continued)

(K) Financial assets

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, up to the amount of the provision, but only when the reimbursement is virtually certain.

(i) Impairment of financial assets

An impairment is recognised on financial assets if there is considered to be expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Losses arising from impairment are recognised in the Income statement in finance costs for loans and in other operating expenses for other receivables.

(ii) 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.

(L) Income taxes

Income taxes are charged/credited to the Income statement except where they relate to items charged/credited directly to other comprehensive income or equity. In this instance, the income taxes are also charged/credited directly to other comprehensive income or equity respectively.

Current tax is the expected tax payable or receivable on the Company's taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of financial position date, and any adjustment to tax payable in respect of previous years.

(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 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 year in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

Accounting policies (continued)

(N) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Financial Statements in conformity with IFRS requires the Company to make estimates and judgements using assumptions that affect items reported in the Statement of financial position and Income statement and the disclosure of contingent assets and liabilities at the reporting date. Estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future periods. Set out below are items where management have taken a judgement or which management consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

(i) Critical judgements in applying the Company's accounting policies

There are no critical judgements apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies on the amounts recognised in the Financial Statements.

(ii) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of financial position date are discussed below:

Insurance liabilities

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of financial position date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the Statement of financial position date and therefore a best estimate is used. Refer to note 12 for details of the outstanding claims provision and page 41 for sensivity analysis.

RAC Insurance Limited

Notes to the Financial Statements

1 Income

	2022	2021
	£000	£000
Premiums earned		
Gross written premiums	19,519	15,159
Gross change in provision for unearned premiums	(2,504)	(811)
Net change in provision for unearned premiums	(2,504)	(811)
Net earned premiums	17,015	14,348
Investment property revaluation	-	230
Rental income from UK investment property	562	562
Total revenue	17,577	15,140
Net investment income	55	4
Total income	**17,632**	**15,144**

2 Expenses

	2022	2022
	£000	£000
Claims paid		
Claims paid to policyholders	11,410	10,227
Change in claims provisions		
Change in net claims provisions (see note 13(d))	2,851	(95)
	14,261	10,132
Fee and commission expenses		
Other operating expenses	2,962	2,581
Investment property revaluation	350	
Total expenses	**17,573**	**12,713**

3 Employee information

The Company has no employees. All employees of the Group are employed and remunerated by RAC Motoring Services, a fellow Group Company. Disclosures relating to employees may be found in the Consolidated Annual Report and Financial Statements of RAC Bidco Limited.

4 Dividends

The Company paid interim dividends of £8 million during the year, amounting to 110.34 pence per share (2021: £nil). No final dividend was paid or was proposed for the year ended 31 December 2022 (31 December 2021: £nil).

5 Directors

Executive Directors of the Company are remunerated as employees of RAC Motoring Services, a fellow Group Company. Management recharges for the wider executive group, which includes the executive Directors of the Company, have been charged to the main trading subsidiaries of the Group, which includes RAC Insurance Limited. It is not deemed practical to separate the remuneration of the executive Directors from the wider management recharges.

Disclosures relating to Directors' remuneration can be found in the Annual Report and Audited Financial Statements of RAC Group (Holdings) Limited.

6 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Deloitte LLP, is shown below.

	2022 £000	2021 £000
Audit services		
Statutory audit of the Company's Financial Statements	62	54
Other services		
Audit related assurance services	-	-
Total remuneration payable to Deloitte LLP	**62**	**54**

Audit fees are borne and paid by RAC Motoring Services, a fellow Group Company.

7 Tax

(a) Tax charged to the income statement	2022	2021
	£000	£000
Current tax:		
For the year	(6)	502
Total current tax	(6)	502
Total tax (credited) / charged to the income statement	**(6)**	**502**

(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 UK as follows:

	2022	2021
	£000	£000
Profit before tax	59	2,431
Tax calculated at standard UK corporation tax rate of 19.00% (2021: 19.00%)	11	462
Non deductible expenses	67	40
Adjustment to tax charge in respect of previous years - corporation tax	(84)	-
Total tax (credited)/charged to the income statement (note 7(a))	**(6)**	**502**

The headline rate of UK corporation tax is currently 19%. In accordance with the Spring Budget 2021 the main rate of corporation tax will remain at 19% for the accounting periods up to and including the years ending 31 March 2023. For accounting periods ending on or after 1 April 2023 the main rate of corporation tax will increase to 25%.

Under IAS 12, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the Consolidated Statement of financial position date.

Therefore, deferred tax balances from the substantively enacted date of 24 May 2021 have been reflected at the increased 25% corporation tax rate they are expected to be realised or settled.

The Company has unrecognised unrealised capital losses of £7,668 thousand (2021: £7,318 thousand) to carry forward indefinitely. On realisation these could be set against future capital gains.

8 Investment property

	Investment property
	£000
Fair value:	
At 1 January 2021	3,120
Gain from fair value adjustment recognised in income statement	230
At 31 December 2021	3,350
Loss from fair value adjustment recognised in income statement	(350)
At 31 December 2022	**3,000**

The property is held at fair value, level 2 in the hierarchy in accordance with IFRS 13 and in line with the Company's accounting policy, management considered whether there were any indicators of a significant change in the value of the owner-occupied property. As at 31 December 2022 management consider there to have been a £350 thousand change in the value of the property. If the investment occupied property was measured using the cost model, the carrying amount would be £300 thousand.

RAC Insurance Limited

Notes to the Financial Statements (continued)

9 Receivables

	2022	2021
	£000	£000
Amounts due from reinsurers	15	12
Amounts due from intermediaries - related parties (note 18 (a)(ii))	20,683	16,807
Other receivables	8	-
Total	**20,706**	**16,819**
Expected to be recovered in less than one year	**20,706**	**16,819**

Receivables are measured at amortised cost net of any impairment losses which are based on a loss allowance for expected credit losses. No material impairment losses have been recognised in 2022 (2021: £nil).

10 Cash and cash equivalents

Cash and cash equivalents as at 31 December 2022 comprises of £4,045 thousand of cash at bank and in hand (2021: £8,011 thousand).

11 Other payables

	2022	2021
	£000	£000
Amounts due to intermediaries - related parties (note 18 (a)(iii))	2,749	607
Other payables	17	8
Total expected to be payable within one year	**2,766**	**615**

All payables are financial liabilities and carried at amortised cost which is considered to be a reasonable approximation of the fair value.

Within the cash flow statement, "Increase in payables and other financial liabilities" is stated after adjusting for £6 thousand (2021: £502 thousand) of corporation tax liability settled by group relief.

12 Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise:	2022	2021
	£000	£000
Provisions for outstanding claims (see note 12(d))	3,542	691
Provision for unearned premiums (see note 12(f))	10,332	7,828
Total	**13,874**	**8,519**

(b) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the Statement of financial position date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

The Company is permitted to undertake various types of general insurance business, including Assistance and Legal Expenses insurance.

(c) Judgements

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections.

No adjustments are made to the case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard claims projection techniques. The main judgement underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claims numbers based on the observed development of earlier years and expected loss ratios.

12 Insurance liabilities (continued)

(d) Movements

The following changes have occurred in the claims provisions during the year:

	2022	2021
	£000	£000
Carrying amount at 1 January	**691**	**786**
Claims losses and expenses incurred in the current year	13,640	10,075
Claims losses and expenses incurred in prior years	621	57
Incurred claims losses and expenses	14,261	10,132
Less:		
Payments made on claims incurred in the current year	(11,147)	(9,660)
Payments made on claims incurred in prior years	(263)	(567)
Claims payments made in the year	(11,410)	(10,227)
Carrying amount at 31 December	**3,542**	**691**

(e) Loss development tables

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the accident years 2013 to 2022. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2013, by the end of 2022, £7,212 thousand had actually been paid in settlement of gross claims (2021: £7,536 thousand).

Any change from the original estimate could generally be a combination of a number of factors, including claims being settled for larger or smaller amounts than originally estimated. The original estimates may also be increased or decreased, as more information becomes known about the individual claims and overall claims frequency and severity patterns.

RAC Insurance Limited

Notes to the Financial Statements (continued)

12 Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident year	All Prior Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross cumulative claims payments												
At end of accident year		(7,157)	(6,830)	(7,336)	(8,435)	(8,873)	(9,518)	(8,737)	(7,250)	(9,660)	(11,147)	
One year later		(7,212)	(6,888)	(7,337)	(8,492)	(8,931)	(9,627)	(8,982)	(7,817)	(9,919)		
Two years later		(7,212)	(6,888)	(7,337)	(8,492)	(8,931)	(9,627)	(8,982)	(7,821)			
Three years later		(7,212)	(6,888)	(7,337)	(8,492)	(8,931)	(9,627)	(8,982)				
Four years later		(7,212)	(6,888)	(7,337)	(8,492)	(8,931)	(9,627)					
Five years later		(7,212)	(6,888)	(7,337)	(8,492)	(8,931)						
Six years later		(7,212)	(6,888)	(7,337)	(8,492)							
Seven years later		(7,212)	(6,888)	(7,337)								
Eight years later		(7,212)	(6,888)									
Nine years later		(7,212)										
Estimate of gross ultimate claims												
At end of accident year		7,212	7,031	7,451	8,676	8,966	9,655	9,098	8,032	10,075	13,640	
One year later		7,214	7,028	7,341	8,478	8,931	9,637	8,985	8,093	10,934		
Two years later		7,214	7,036	7,337	8,492	8,931	9,627	8,982	7,855			
Three years later		7,212	6,938	7,337	8,492	8,931	9,627	8,982				
Four years later		7,212	6,888	7,337	8,492	8,931	9,627					
Five years later		7,212	6,888	7,337	8,492	8,931						
Six years later		7,212	6,888	7,337	8,492							
Seven years later		7,212	6,888	7,337								
Eight years later		7,212	6,888									
Nine years later		7,212										
Estimate of ultimate claims		7,212	6,888	7,337	8,492	8,931	9,627	8,982	7,855	10,934	13,640	
Cumulative payments		(7,212)	(6,888)	(7,337)	(8,492)	(8,931)	(9,627)	(8,982)	(7,821)	(9,919)	(11,147)	
Outstanding claims provisions recognised in the Statement of financial position	-	-	-	-	-	-	-	-	34	1,015	2,493	3,542

12 Insurance liabilities (continued)

(e) Loss development tables (continued)

After the effect of reinsurance, the loss development table is:

Accident year	All prior years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net cumulative claims payments												
At end of accident year		(7,043)	(6,713)	(6,949)	(8,019)	(8,547)	(9,308)	(8,736)	(7,148)	(9,660)	(11,147)	
One year later		(7,098)	(6,771)	(6,950)	(8,076)	(8,629)	(9,417)	(8,981)	(7,715)	(9,919)		
Two years later		(7,098)	(6,771)	(6,950)	(8,076)	(8,629)	(9,417)	(8,981)	(7,715)			
Three years later		(7,098)	(6,771)	(6,950)	(8,076)	(8,629)	(9,417)	(8,981)				
Four years later		(7,098)	(6,771)	(6,950)	(8,076)	(8,629)	(9,417)					
Five years later		(7,098)	(6,771)	(6,950)	(8,076)	(8,629)						
Six years later		(7,098)	(6,771)	(6,950)	(8,076)							
Seven years later		(7,098)	(6,771)	(6,950)								
Eight years later		(7,098)	(6,771)									
Nine years later		(7,098)										
Estimate of net ultimate claims												
At end of accident year		7,098	6,914	7,064	8,260	8,640	9,445	9,097	7,931	10,075	13,640	
One year later		7,100	6,911	6,954	8,062	8,629	9,427	8,984	7,991	10,934		
Two years later		7,100	6,919	6,950	8,076	8,629	9,417	8,981	7,753			
Three years later		7,098	6,821	6,950	8,076	8,629	9,417	8,981				
Four years later		7,098	6,771	6,950	8,076	8,629	9,417					
Five years later		7,098	6,771	6,950	8,076	8,629						
Six years later		7,098	6,771	6,950	8,076							
Seven years later		7,098	6,771	6,950								
Eight years later		7,098	6,771									
Nine years later		7,098										
Estimate of ultimate claims		7,098	6,771	6,950	8,076	8,629	9,417	8,981	7,753	10,934	13,640	
Cumulative payments		(7,098)	(6,771)	(6,950)	(8,076)	(8,629)	(9,417)	(8,981)	(7,719)	(9,919)	(11,147)	
Net outstanding claims provisions recognised in the Statement of financial position	-	-	-	-	-	-	-	-	34	1,015	2,493	3,542

Notes to the Financial Statements (continued)

12 Insurance liabilities (continued)

(f) Provision for unearned premiums

The following changes have occurred in the provision for unearned premiums during the year:

	2022	2021
	£000	**£000**
Carrying amount at 1 January	**7,828**	**7,017**
Premiums written during the year	19,519	15,159
Less: premiums earned during the year	(17,015)	(14,348)
Change in year	2,504	811
Carrying amount at 31 December	**10,332**	**7,828**

13 Tax liabilities

All current tax liabilities have been settled via group relief as at 31 December 2022 (£6 thousand) and 31 December 2021 (£502 thousand). See the statement of cash flows and related party transactions (note 19(a)(iv)).

14 Ordinary share capital

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

	2022	2021
	£000	**£000**
Allotted, called up and fully paid		
7,250,000 (2021: 7,250,000) ordinary shares of £1 each	7,250	7,250

15 Other risk factors

Uncertainty over claims provisions

Note 12(c) gives details of the estimation techniques used in determining the outstanding claims provisions. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where future claims inflation differs from that expected, there is uncertainty in respect of this liability, that is not able to be calculated.

Levy schemes

The Company pays contributions into various levy schemes in the UK including a pension levy scheme and a FSCS levy scheme, in respect of the Group's regulatory activities. The Directors continue to monitor the situation but are not aware of any need to increase provisions at the Statement of financial position date.

16 Lease arrangements

The contractual maturity dates of lease payments receivable under IFRS 16 are:

	2022	2021
	£000	£000
Within 1 year	422	562
Later than 1 year and not later than 5 years	-	422
Later than 5 years	-	-
	422	984

Lease arrangements arise in respect of a property lease. The Company acts as a lessor for one investment property and the lessee is RAC Motoring Services, a fellow Group Company, the risks associated with the property are mitigated on a group basis due to the nature of the lease.

17 Risk management

The Group operates a risk management framework, which is the collection of processes and tools that have been put in place to ensure that the risks to which the Group is exposed are identified, measured, managed, monitored and reported on a regular basis. The key instruments of the framework include the risk management policies, risk reports and the governance and oversight infrastructure.

17 Risk management (continued)

Risks are usually grouped by risk type: market, credit, liquidity, strategic, operational and regulatory risk. Risks falling within these types may affect a number of key metrics including those relating to Statement of financial position strength, liquidity and profit. They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation. The key risks faced by the Group are set out in this note.

The Group's measurement of risk is used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions. The Group carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to the potential conditions.

The Company has an established governance framework, which has the following key elements:

- a formal Investment Agreement which sets out the Board terms of reference and delegated authorities and which sets out certain limited matters which require the consent of major shareholders.
- defined terms of reference for the Board and the associated executive management and other committees across the Group;
- a clear organisational structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior management;
- allocation of Senior Management Functions, Prescribed Responsibilities, Overall Responsibilities and Key Functions for each of our regulated subsidiaries under the Senior Managers and Certification Regime, documented in the Management Responsibilities Map; and
- adoption of the risk policy framework that defines risk appetite measures and sets out risk management and control standards.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

(a) Treasury policy

The Group Treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt; and
- Ensure that the Group's banking and card transmissions operate effectively.

The Group's debt management policy is to provide an appropriate level of funding to finance the Group's medium term plans at a competitive cost and ensure flexibility to meet the changing needs of the Group.

(i) *Market risk*

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates.

The Company has no borrowings based on market interest rates. Therefore there would be no impact in any reported year on profit before tax or shareholders' equity as a result of changes in market interest rates.

Interest rate movements on trade payables, trade receivables and other financial instruments do not present a material exposure to the Company's Statement of financial position.

The Company undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. The level of foreign currency transactions is relatively low and so is not considered to present a material exposure to the Company's Statement of financial position.

17 Risk management (continued)

(a) Treasury policy (continued)

(ii) 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.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below:

	2022	2021
	£000	£000
Trade and other receivables (note 10)	20,706	16,819
Cash and cash equivalents (note 11)	4,045	8,011
	24,751	24,830

Management of credit risk is carried out in accordance with the Group's 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.

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 Company has not been exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances. All trade and other receivables are non-rated (2021: non-rated).

The Company is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the years reported on were held with institutions who are A rated. The Company's largest cash and cash equivalent counterparty is Santander (2021: Morgan Stanley). At 31 December 2022 the balance held at this counterparty was £1,513 thousand (2021: £2,211 thousand).

17 Risk management (continued)

(a) Treasury policy (continued)

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements. The Company does not have any obligations for which liquidity risk would be significant.

(iv) General insurance risk

The Company considers insurance risk within its general insurance activity to comprise the following:

- inaccurate pricing and selection of risks when underwritten;
- fluctuations in the timing, frequency and severity of claims and claims settlements, relative to expectations;
- unexpected claims arising from a single source;
- inadequate reinsurance protection or other risk transfer techniques; and
- inadequate reserves.

The majority of the insurance business underwritten by the Company is of a short-tail nature such as roadside assistance, and is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Risk based capital models are being used to support the quantification of risk under the Individual Capital Assessment ("ICA") framework. RAC undertakes regular reviews of insurance risks, the output from which is a key input into the ICA and risk based capital assessments.

General insurance claims liabilities are estimated by extrapolating the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. Due to the short tail nature of the majority of the insurance business underwritten, the risk of significant variances due to claims development is reduced.

(b) Strategic and operational risk

The strategy (including operational risks) for the Group and the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Financial Statements of that company.

17 Risk Management (continued)

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In managing its capital, the Group seeks to:
(i) match the expected cash inflows from its assets with the expected cash outflows from its liabilities as they fall due;
(ii) maintain financial strength to support new business growth and satisfy the requirements of its members and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

(d) Regulatory risk

As a regulated entity, the Company is required to hold sufficient capital to meet acceptable solvency levels based on applicable PRA regulations. The Company's ability to transfer retained earnings to its shareholders is therefore restricted to the extent that these earnings form part of UK regulatory capital.

Relevant capital and solvency regulations ("Solvency II") continue to be used to measure and report the financial strength of the Company. The regulatory capital tests verify that an adequate excess of solvency capital above the required minimum level calculated is maintained using a series of prudent assumptions about the type of business that is underwritten. Regulatory requirements have been complied with throughout all years reported. RAC Insurance Limited transitioned to comply with the Solvency II requirements from 1 January 2016.

The Company is also subject to regulatory requirements, as set out by the FCA, in relation to product design, marketing materials, sales processes and data protection. Failure to comply with these requirements could result in the Company having to suspend, either temporarily or permanently, certain activities. To mitigate these risks the Company employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are fully understood and adhered to.

(e) Sensitivity testing

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

Sensitivity factor	Description of sensitivity factor applied
Gross loss ratios	The impact of an increase in gross loss ratios by 5%.
Expenses	The impact of an increase in expenses by 10%.
Interest rate and investment return	The impact of a 5% increase or decrease in market interest rates (e.g. if a current interest rate is 5%, the impact of an immediate change to 10% or 0%). The test allows consistency for similar changes to investment returns and movements in the market value of fixed interest securities.

17 Risk management (continued)

(e) Sensitivity testing (continued)

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. The impact of the expense sensitivity on profit also includes any increase in ongoing administration expenses in addition to the increase in the loss adjustment expense provision.

The sensitivity factors are applied, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2022 and 31 December 2021.

	(Decrease)/increase in shareholder's equity	**(Decrease)/increase in profit before tax**
	2022 £000	**2022 £000**
Gross loss ratios + 5%	(689)	(851)
Expenses +10%	(240)	(296)
Interest rates +5%	244	301
Interest rates -5%	(45)	(55)

	(Decrease)/increase in shareholder's equity	**(Decrease)/increase in profit before tax**
	2021 £000	**2021 £000**
Gross loss ratios + 5%	(581)	(717)
Expenses +10%	(209)	(258)
Interest rates +5%	324	400
Interest rates -5%	(3)	(4)

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

18 Related party transactions

(a) The Company had the following transactions with related parties in 2022 and 2021:

(i) The Company has entered into agreements with RAC Motoring Services, a fellow Group company, where income, claims costs and other expenses for certain products are initially recorded by RAC Motoring Services on behalf of the Company, and then transferred to the Company through intercompany accounts. The net value of these transfers was £3,590 thousand of net costs in the year (2021: £4,341 thousand).

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

	2022	2021
	£000	£000
Other Group companies- current accounts	20,683	16,807

The related party receivables are not secured and no guarantees were received in respect thereof. The receivables are interest free and will be settled in accordance with normal credit terms.

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

	2022	2021
	£000	£000
Other Group companies- current accounts	2,749	607

(iv) Auditor's remuneration of £62 thousand (2021: £54 thousand) is borne by RAC Motoring Services, a fellow Group company.

(v) Taxation of £127 thousand (2021: £502 thousand) has been settled by group relief with other Group companies.

(b) Key management compensation

The Directors and key management that are compensated by the Company are considered to be the same as for RAC Bidco Limited. Information on key management compensation may be found in the Consolidated Annual Report and Financial Statements of RAC Bidco Limited.

(c) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2022 or 31 December 2021.

At no time during the reported years did any Director hold a material interest in any contract of significance with any Group company other than an indemnity provision between each Director and a Group company and a service contract between each Director and a Group company.

(d) Property transaction

During 2013, the Company acquired a property with a market value of £3,000 thousand from RAC Motoring Services for cash consideration of £3,000 thousand. Following acquisition, the Company leased the property back to RAC Motoring Services. The value of rent was £562 thousand in 2022 (2021: £562 thousand). The property is classified as an investment property at fair value in its Statement of financial position. In accordance with IFRS 16 the property has also been recognised as a Right of use asset within RAC Motoring Services.

18 Related party transactions (continued)

(e) Immediate Parent Company

The Company's immediate Parent Company is RAC Group Limited, registered in England and Wales.

(f) Ultimate controlling entity

The Company's ultimate controlling entity and largest level at which consolidated United Kingdom Adopted International Accounting Standards Financial Statements are prepared is RAC Group (Holdings) Limited. The lowest level at which consolidated United Kingdom Adopted International Accounting Standards Financial Statements are prepared is RAC Bidco Limited. The Consolidated Annual Report and Financial Statements of both companies are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW which is the registered address.