Registered in England and Wales: No. 5171817

RAC FINANCIAL SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2011

RAC Financial Services Limited

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RAC Financial Services Limited

Directors and officer

Directors:

D Cougill
R Templeman
M Wood

Officer - Company Secretary:

S Morrison
RAC House
Brockhurst Crescent
Walsall
WS5 4AW

Auditor:

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

Registered office:

RAC House
Brockhurst Crescent
Walsall
WS5 4AW

Company number:

Registered in England and Wales No 5171817

Other information:

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

The Company is a member of the RAC group of companies ("the Group"), which includes RAC Finance Group (Holdings) Limited (formerly Stag Topco Limited) and its subsidiaries

RAC Financial Services Limited

Registered in England and Wales. No. 5171817

Directors' report

For the year ended 31 December 2011

The directors present their annual report and financial statements for the Company for the year ended 31 December 2011

Directors

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

Those in office since 1 January 2011 have been as follows

D Cougill was appointed as director on 1 March 2011

A C Seymour-Jackson was appointed as director on 1 March 2011

D McMillan resigned as director on 30 September 2011

C J Abrahams resigned as director on 30 September 2011

R Templeman was appointed as director on 29 November 2011

M Wood was appointed as director on 29 November 2011

A C Seymour-Jackson resigned as director on 31 January 2012

Principal activity

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

Business review

Basis of preparation

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

Objectives and future developments

The strategy for the Group and the company is determined by the directors of RAC Finance Group (Holdings) Limited as disclosed in the financial statements of that company

Financial key performance indicators

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

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

Business review (continued)

Financial key performance indicators (continued)

A summary of the KPIs is set out below

Measure	2011	2010
Increase in revenue	62%	154%
Operating profit/(loss) as a percentage of revenue	9%	(13%)

Financial position and performance

The financial position of the Company at 31 December 2011 is shown in the statement of financial position on page 12, with the trading results shown in the income statement on page 11 and the statement of cash flows on page 14

The profit before tax is £3,471 thousand (2010 loss £2,851 thousand) Revenue increased to £34,641 thousand (2010 £21,437 thousand) However, administrative charges also increased to £31,383 thousand (2010 £24,303 thousand) The increase in revenue and costs mainly reflects the increased volumes through the RAC branded insurance panel

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in notes 11 and 13 to the financial statements

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

Major events

On 23 June 2011, Aviva announced the sale to the Carlyle Group of RAC Limited and its trading subsidiaries, RAC Motoring Services, RACMS (Ireland) Limited, RAC Financial Services Limited and RAC Insurance Limited, with an anticipated completion date of 30 September 2011

On 30 September 2011, the sale completed and RAC Finance (Holdings) Limited acquired the entire share capital of RAC Limited, the Company's immediate parent

Directors' report (continued)

Financial instruments

The business of the Company includes use of financial instruments Details of the Company's risk management objectives, policies and exposures to risk relating to financial instruments are set out in note 13 to the financial statements

Dividends

No interim dividend for the year was paid (2010 £ nil) The directors do not recommend the payment of a final dividend (2010 £ nil)

Employees

All employees are employed by a fellow Group company, RAC Motoring Services, as at 31 December 2011 Disclosures relating to employees may be found in the Annual Report and Accounts of RAC Finance Group (Holdings) Limited

Up to 30 September 2011, some employees were employed by Aviva Employment Services Limited These employees transferred to RAC Motoring Services with effect from 1 October 2011

Auditor

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

Directors' liabilities

RAC Finance Group (Holdings) Limited, the Company's controlling entity, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 This indemnity was granted in 2011 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985 These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report by virtue of the transitional provisions to the Companies Act 2006

Disclosure of information to the auditor

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

RAC Financial Services Limited

Directors' report (continued)

Statement of directors' responsibilities

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

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

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

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

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

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

By order of the Board

S Morrison
Company Secretary

RAC Financial Services Limited

Independent auditor's report

To the members of RAC Financial Services Limited

We have audited the financial statements of RAC Financial Services Limited for the year ended 31 December 2011, which comprise the Accounting Policies, the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 15 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

RAC Financial Services Limited

Independent auditor's report (continued)

To the members of RAC Financial Services Limited

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

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

Date 15 May 2012

RAC Financial Services Limited

Accounting policies

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

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

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS and International Accounting Standards ("IAS") as endorsed by the EU, applicable at 31 December 2011

The following new and amended IFRS and IFRIC interpretations are effective for the 2011 financial statements but do not materially impact the Company's financial reporting

- IFRS 1 *Limited exemption from comparative IFRS 7 disclosures for first-time adopters*
- IAS 24 *Related Party Disclosures*
- IAS 32 *Classification of Rights Issues*
- IFRIC 14 *Prepayment of a Minimum Funding Requirement*
- IFRIC 19 *Extinguishing financial liabilities with equity instruments*
- *Improvements to IFRSs (May 2010)*

External reporting developments effective in future years continue to be proactively monitored IFRS 9 *Financial Instruments Classification and Measurement* is effective for periods beginning on or after 1 January 2015 and applies to classification and measurement of financial assets and financial liabilities IFRS 9 is not expected to materially impact the Company's financial reporting

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

(B) Use of estimates

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

(C) Revenue recognition

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

Revenue is recognised as follows

(i) Commission

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

(ii) Interest income

Interest income is recognised using the effective interest method

RAC Financial Services Limited

Accounting policies (continued)

(D) Equipment

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

Computer equipment	Three to five years
Fixtures and fittings	Ten years

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

(E) Impairment of non-financial assets

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

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

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

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

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

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

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

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

(G) Trade receivables

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

RAC Financial Services Limited

Accounting policies (continued)

(H) Cash and cash equivalents

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

(I) Leases

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

(J) Contingent liabilities

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

(K) Income taxes

Income taxes include both current and deferred taxes Income taxes are charged/(credited) to the Income Statement except where they relate to items charged/(credited) directly to shareholders' equity In this instance the income taxes are also charged/(credited) directly to shareholders' equity

Deferred taxes are calculated based on the temporary differences that arise between the tax base of the asset or liability and its carrying value in the statement of financial position

The recognition of a deferred tax asset is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted Recognition, therefore, involves judgement regarding the future financial performance of the Company or the tax group in which the deferred tax asset exists Deferred tax assets are reviewed at each reporting date

Current and deferred income tax assets and liabilities are offset where taxes are levied by the same taxation authority, there is a legal right of offset between the assets and liabilities and the Company intends to settle on a net basis

(L) Ordinary share capital and dividends

Equity instruments

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

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

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

Dividends

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

RAC Financial Services Limited

Income statement

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Revenue		34,641	21,437
Administrative charges		(31,383)	(24,303)
Operating profit/(loss)		3,258	(2,866)
Finance costs		(150)	(150)
Interest receivable		363	165
Profit/(loss) before tax	1	3,471	(2,851)
Income tax (charge)/credit	5(a)	(895)	820
Profit/(loss) for the year		2,576	(2,031)

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

The accounting policies on pages 8 to 10 and notes on pages 15 to 27 are an integral part of these financial statements

RAC Financial Services Limited

Registered in England and Wales No 5171817

Statement of financial position

As at 31 December 2011

	Note	2011 £000	2010 £000
ASSETS			
Non-current assets			
Equipment	6	32	40
Deferred tax assets	8	21	-
Loans to related parties	15	-	11,383
		53	11,423
Current assets			
Loans to related parties	15	26,066	-
Trade and other receivables	7	3,992	5 763
Current tax	8	-	807
Cash and cash equivalents	12(b)	70	1,673
		30,128	8,243
LIABILITIES			
Current liabilities			
Trade and other payables	9	(11,869)	(3 930)
Net current assets		18,259	4,313
Non-current liabilities			
Loans from related parties	15	(10,000)	(10,000)
Net assets		8,312	5,736
EQUITY			
Ordinary share capital	10	28,000	28,000
Retained earnings		(19,688)	(22,264)
Total equity		8,312	5,736

The accounting policies on pages 8 to 10 and notes on pages 15 to 27 are an integral part of these financial statements

Approved by the Board on 14 May 2012

D Cougill
Director

RAC Financial Services Limited

Registered in England and Wales No. 5171817

Statement of changes in equity

For the year ended 31 December 2011

	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010	28,000	(20,233)	7,767
Total comprehensive income for the year	-	(2,031)	(2,031)
Total movements in the year	-	(2,031)	(2,031)
Balance at 31 December 2010	28,000	(22,264)	5,736
Total comprehensive income for the year	-	2,576	2,576
Total movements in the year	-	2,576	2,576
Balance at 31 December 2011	28,000	(19,688)	8,312

The accounting policies on pages 8 to 10 and notes on pages 15 to 27 are an integral part of these financial statements

RAC Financial Services Limited

Statement of cash flows

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Cash flows from operating activities			
Net cash inflow/(outflow to) from operating activities	12	12,867	(2,337)
Net cash from/(used in) operating activities		12,867	(2,337)
Cash flows from investing activities			
Issue of loans		(14,470)	-
Net cash used in investing activities		(14,470)	-
Net decrease in cash and cash equivalents		(1,603)	(2,337)
Cash and cash equivalents at 1 January		1,673	4,010
Cash and cash equivalents at 31 December		70	1,673

The accounting policies on pages 8 to 10 and notes on pages 15 to 27 are an integral part of these financial statements

RAC Financial Services Limited

Notes to the financial statements

1. Profit/(loss) before tax

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

	2011	2010
	£000	£000
Interest receivable		
- Interest income on related party receivables	363	165
Finance costs		
- Finance costs on related party payables	(150)	(150)
Depreciation of equipment	(8)	(8)
Prepayment fully written down the during year	(2,415)	-

2. Employee information

The Company has no employees RAC Motoring Services, a fellow Group company, is the employing company for staff of the Group in the UK Disclosures relating to employees may be found in the Annual Report and Accounts of RAC Finance Group (Holdings) Limited

Until 30 September 2011 some staff for the Group were employed by Aviva Employment Services Limited

3. Directors

Executive directors of the Company are remunerated as employees by RAC Motoring Services It is not deemed practicable to recharge this remuneration across the operating divisions of the Group

Disclosures relating to directors' remuneration can be found in the Annual Report and Accounts of RAC Finance Group (Holdings) Limited

4. Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below The Company is exempt from disclosing other fees payable to its auditor in respect of other work, by virtue of regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, as it is disclosed within the Annual Report and Accounts of RAC Finance Group (Holdings) Limited, the Company's parent entity (see note 15(c))

	2011	2010
	£000	£000
Audit services		
Statutory audit of the Company's financial statements	8	8

Audit fees are paid by RAC Motoring Services, a fellow Group company

RAC Financial Services Limited

Notes to the financial statements (continued)

5. Tax

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

The total tax charge/(credit) comprises

	2011	2010
Current tax	**£000**	**£000**
For this year	916	(807)
Adjustment in respect of prior years	-	(13)
Total current tax	916	(820)
Deferred tax		
Origination and reversal of temporary differences	(21)	-
Total deferred tax	(21)	-
Total tax charged/(credited) to income statement	895	(820)

(b) Tax reconciliation

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

	2011	2010
	£000	**£000**
Profit/(loss) before tax	3,471	(2,851)
Tax calculated at standard UK corporation tax rate of 26 5% (2010 28%)	920	(798)
Adjustment to tax charge/(credit) in respect of prior years		
Current tax	-	(13)
Recognition of deferred tax assets previously unprovided	(30)	-
Disallowable expenses	2	-
Effect of changes in tax rates	3	-
Deferred tax assets not recognised	-	(9)
Total tax charged/(credited) to income statement	895	(820)

On 23rd March 2011, the UK Government announced a reduction in the standard UK corporation tax rate from 28% to 26% effective from 1st April 2011 On 21st March 2012, the UK Government announced a further reduction to the standard UK corporation tax rate from the already announced 25% to 24% effective from 1st April 2012 The UK Government also confirmed its intention to reduce the standard UK corporation tax rate further by 1% per annum falling to 23% from 1st April 2013 and 22% from 1st April 2014 The 23% rate is expected to be substantively enacted in July 2012

The closing deferred tax assets and liabilities have been calculated at a rate of 25%, being the substantively enacted and enacted rate at 31st December 2011

The aggregate impact on the deferred tax balances of the proposed reductions to 22% is not expected to be material

RAC Financial Services Limited

Notes to the financial statements (continued)

6. Equipment

	Computer equipment	Fixtures and fittings	Total
	£000	£000	£000
Cost			
At 1 January 2011	479	80	559
At 31 December 2011	479	80	559
Depreciation			
At 1 January 2011	479	40	519
Charge for the year	-	8	8
At 31 December 2011	479	48	527
Carrying amount at 31 December 2011	-	32	32
Cost			
At 1 January 2010	479	80	559
At 31 December 2010	479	80	559
At 1 January 2010	479	32	511
Charge for the year	-	8	8
At 31 December 2010	479	40	519
Carrying amount at 31 December 2010	-	40	40

7. Trade and other receivables

	2011	2010
	£000	£000
Trade receivables	3,992	1,510
Receivables from related parties (note 15(a)(iii))	-	4,253
	3,992	5,763
Expected to be recovered within one year	3,992	5,763
Expected to be recovered in more than one year	-	-
	3,992	5,763

8. Tax assets and liabilities

(a) Current tax

	2011	2010
	£000	£000
Tax asset expected to be recoverable within one year	-	807
Tax liability expected to be paid within one year	-	-

Liabilities of £109 thousand settled by group relief are included within trade and other payables (note 7) and within the related party transactions (note 15(a)(v)) and are payable within one year

(b) Deferred tax

	2011	2010
	£000	£000
Net deferred tax asset at 1st January	-	-
Amounts credited to income statement	21	-
Net deferred tax asset at 31 December	21	-

The net deferred tax asset arises on accelerated capital allowances and is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised

The Company has an unrecognised temporary difference of £nil (2010 £108 thousand) to carry forward indefinitely against future taxable income

RAC Financial Services Limited

Notes to the financial statements (continued)

9. Trade and other payables

	2011 £000	2010 £000
Trade payables	405	-
Amounts due to related parties (note 15(a)(v))	6,052	3,822
Accruals and other creditors	5,412	108
	11,869	3,930
Expected to be settled within one year	11,869	3,930
Expected to be settled in more than one year	-	-
	11,869	3,930

All trade and other payables are carried at amortised cost, which approximates to fair value

10. Ordinary share capital

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

	2011 £000	2010 £000
Authorised		
28,001,000 (2010 28,001,000) ordinary shares of £1 each	28,001	28,001
6,470,000,000 (2010 6,470,000,000) non-redeemable preference shares of £0 01 each	64,700	64,700
	92,701	92,701
Allotted, called up and fully paid		
28,000,001 (2010 28,000,001) ordinary shares of £1 each	28,000	28,000

11. Contingent liabilities and other risk factors

Levy schemes

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

RAC Financial Services Limited

Notes to the financial statements (continued)

12. Statement of cash flows

	2011 £000	2010 £000
(a) The reconciliation of loss before tax to the net cash (outflow to)/inflow from operating activities is		
Profit/(Loss) before tax	3,471	(2,851)
Adjustments for		
Depreciation of equipment	8	8
Interest expense on borrowings	150	150
Interest receivable	(363)	(165)
Changes in working capital		
decrease/(Increase) in trade and other receivables	1,773	(2,333)
Increase in trade and other payables	7 828	2,854
Net cash inflow/(outflow) from operating activities	12,867	(2,337)

In 2011, changes in trade and other receivables are stated after eliminating £363 thousand (2010 £165 thousand) of loan interest receivable from RAC Limited that was settled by intercompany account

In 2011, changes in trade and other payables are stated after eliminating £150 thousand (2010 £150 thousand) of loan interest payable to RAC Limited that was settled by intercompany account and £109 thousand (2010 £2,500 thousand) of corporation tax assets settled, or to be settled by group relief

	2011 £000	2010 £000
(b) Cash and cash equivalents in the cash flow statement at 31 December comprise		
Cash at bank and in hand	70	1,673
	70	1,673

RAC Financial Services Limited

Notes to the financial statements (continued)

13. Risk management

RAC 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 they are 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

Risks are usually grouped by risk type regulatory, market, credit, liquidity, strategic and operational risk Risks falling within these types may affect a number of key metrics including those relating to balance sheet 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 Company'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 Company carries out a range of stress and scenario tests to evaluate their impact on the business and the management actions available to respond to potential conditions

RAC has an established governance framework, which has the following key elements

- defined terms of reference for the legal entity Boards and the associated executive management and other committees across RAC,
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and
- adoption of the risk policy framework that sets out risk management and control standards

Primary responsibility for risk identification and management lies with business management Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions

(a) Financial risk management

(i) Credit risk

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

13. Risk management (continued)

(a) Financial risk management (continued)

(i) Credit risk (continued)

RAC's management of credit risk is carried out in accordance with Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's

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

31 December 2011	AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the statement of financial position
	Credit rating						
	£000	£000	£000	£000	£000	£000	£000
Trade receivables	-	-	-	-	-	3,992	3 992
Cash and cash equivalents	-	-	70	-	-	-	70

31 December 2010	AAA	AA	A	BBB	Speculative grade	Non-rated	Carrying value in the statement of financial position
	Credit rating						
	£000	£000	£000	£000	£000	£000	£000
Trade receivables	-	-	-	-	-	1 510	1 510
Cash and cash equivalents	-	-	-	1,673	-	-	1,673

At 31 December 2011 and 31 December 2010, no financial assets were past due or impaired

The Company's cash and cash equivalents of £70 thousand (2010 £1,673 thousand) were placed with one counterparty

13. Risk management (continued)

(a) Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities RAC has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due The Group maintains significant committed borrowing facilities from a range of highly rated banks to mitigate this risk further

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets, which are available to fund the repayment of liabilities as they crystallise

31 December 2011	Within 1 year	1 to 5 years	Total
	£000	£000	£000
Loans	26,066	-	26,066
Trade and other receivables	3,992		3,992
Cash and cash equivalents	70	-	70
	30,128	-	30,128

31 December 2010	Within 1 year	1 to 5 years	Total
	£000	£000	£000
Trade and other receivables	5,763	11,383	17,146
Current tax assets	-	807	807
Cash and cash equivalents	1,673	-	1,673
	7,436	12,190	19,626

The following table shows the Company's financial liabilities analysed by duration

31 December 2011	Within 1 year	1 to 5 years	With FSA consent	Total
	£000	£000	£000	£000
Trade and other payables	11,869	-	-	11,869
	11,869	-	-	11,869

31 December 2010	Within 1 year	1 to 5 years	With FSA consent	Total
	£000	£000	£000	£000
Trade and other payables	3,930	-	10,000	13,930

13. Risk management (continued)

(b) Strategic risks

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

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

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

(c) Operational risk management

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

Operational risk is managed in accordance with control standards set out in the risk policy framework

RAC Financial Services Limited

Notes to the financial statements (continued)

14. Capital structure

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

(a) General

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

(b) Capital management

In managing its capital, the Company seeks to

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

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

(c) Different measures of capital

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

(i) Accounting basis

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

(ii) Regulatory basis

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

The Company fully complied with these regulatory requirements during the year

(d) Capital structure

	IFRS net assets 2011 £000	IFRS net assets 2010 £000
Ancillary financial services	8,312	5,736
Total capital employed	8,312	5,736
Financed by		
Equity shareholder's funds	8,312	5,736

Notes to the financial statements (continued)

15. Related party transactions

(a) The Company had the following transactions with related parties in 2011 and 2010

(i) Transactions with Group companies for settlement of corporation tax liabilities by group relief are described in note 12

(ii) In addition to the above, the Company received funding from fellow Group companies in the course of its business The net amount in the year was £8,389 thousand net outflow (2010 £3,230 thousand net outflow)

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

	2011	2010
	£000	£000
Parent - loan account	26,066	11,383
Other Group companies - current accounts	-	4,253
	26,066	15,636

Loans due from parent

The Company has provided a loan facility to RAC Limited, the parent company The maximum facility amount is £50,000 thousand and is repayable on demand or by no later than the maturity date of 30 June 2012 Interest is receivable on the facility at a fixed rate of 5% The year end balance is £26,066 thousand (2010 £11,383 thousand) receivable During the year, a further £14,470 thousand was paid to the parent company and interest of £213 thousand (2010 £15 thousand) was capitalised Further interest receivable for the year of £150 thousand (2010 £150 thousand) was offset against interest payable on the subordinated loan due to RAC Limited

(iv) During the year the Company incurred expenses of £15,290 thousand (2010 £15,528) that were recharged from other Group companies Of this amount, £8,417 thousand related to expenses that were recharged from Aviva, a related party up until 30 September 2011

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

	2011	2010
	£000	£000
Parent - loan account	10,000	10,000
Parent - current account	677	706
Other Group companies - current accounts	5,327	3,116
	16,004	13,822

15. Related party transactions (continued)

(a) (v) (continued)

Loans due to parent

A £10,000 thousand subordinated loan is in operation between the Company and RAC Limited Interest is paid on the facility at 1% above Barclays Bank base rate The year end balance is £10,000 thousand receivable (2010 £10,000 thousand) The principal amount loaned from RAC Limited is £10,000 thousand The terms of the loan provide that the Company cannot repay the loan without the prior written consent of the FSA Interest payable for the year is £150 thousand (2010 £150 thousand)

(vi) Key management compensation

The directors and key management of the Company are deemed to be the same as for RAC Finance Group (Holdings) Limited Information on key management compensation may be found in the Related party transactions note of the RAC Finance Group (Holdings) Limited financial statements

(b) Immediate parent company

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

(c) Ultimate controlling entity

The controlling entity is RAC Finance Group (Holdings) Limited Its consolidated Report and Accounts are available on application to the Company Secretary, RAC Finance Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, WS5 4AW

The controlling shareholder of RAC Finance Group (Holdings) Limited, and therefore the ultimate controlling entity, is Carlyle European Partners III Investment 16 S à r l The lowest level at which consolidated IFRS financial statements are prepared is RAC Finance Group (Holdings) Limited

Up to 30 September 2011, the ultimate controlling entity of the Company was Aviva plc