RAC INSURANCE LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2005

RAC Insurance Limited

Contents **Page**

RAC Insurance Limited

Directors and officer

Directors:

P C Easter
S C J Machell
J Kitson

Officer:

Company Secretary:

Aviva Company Secretarial Services Limited

Auditors:

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

Registered office:

8 Surrey Street
Norwich
Norfolk
NR1 3NG

Registered in England and Wales: No. 2355834

A member of the Association of British Insurers and the Financial Ombudsman Service, and regulated by the Financial Services Authority.

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

RAC Insurance Limited

Directors' report

For the year ended 31 December 2005

The directors present their annual report and audited financial statements for RAC Insurance Limited (the Company) for the year ended 31 December 2005.

Principal activity and future developments

The principal activity of the Company is the provision of insurances relating to roadside assistance and legal expenses. The directors consider that this will continue unchanged into the foreseeable future.

Results for the year

Full details of the results for the year are set out on page 13.

Financial instruments

The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposure to risk are set out in note 18 to the financial statements.

Dividends

No interim dividend for the year was paid (2004: £11,700,000). The directors do not recommend the payment of a final dividend (2004: £nil).

Major events

On 4 May 2005, the share capital of the Company's ultimate parent undertaking, RAC plc, was acquired by Aviva plc.

Payment policy

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided the suppliers also comply with the relevant terms and conditions.

There were no amounts due to trade creditors at 31 December 2004 and 2005.

Resolutions

On 18 October 2005, the members of the Company passed a resolution to dispense with the holding of Annual General Meetings, the laying of directors' reports, financial statements and auditors' reports before members in general meeting and the obligation to appoint auditors annually.

Directors' interests

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

H M Posner and J K Walden resigned as directors of the Company on 4 February 2005.

P C Easter, S C J Machell and P J R Snowball were appointed as directors of the Company on 30 June 2005 and P M Coles and S A Bowles resigned as directors.

P R Atkinson resigned as a director of the Company on 31 July 2005.

D S Wilkes and D J Hiddleston resigned as directors of the Company on 13 October 2005.

P J R Snowball resigned as a director of the Company on 9 May 2006 and J Kitson was appointed a director.

On 19 June 2006, J Seaton was appointed as an alternate director for J Kitson.

On 9 October 2006, J Seaton resigned as an alternate director for J Kitson.

The table below shows the interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown below.

	At date of appointment Number	At 31 December 2005 Number
P C Easter	6,497	6,628
S C J Machell	12,551	12,677

P J R Snowball is a director of the Company's ultimate parent undertaking, Aviva plc, and details of his interests are given in that company's financial statements.

Incentive plans

Details of the directors who held office at the end of the financial period, and hold or held options to subscribe for ordinary shares of Aviva plc or hold or held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans, are set out below. All the disclosed interests are beneficial.

(i) Share options

	At date of appointment	Options granted during the year	Options cancelled during the year	At 31 December 2005
	Number	Number	Number	Number
P C Easter				
Savings related options	4,096	-	-	4,096
S C J Machell				
Savings related options	4,426	-	-	4,426

RAC Insurance Limited

Directors' report (continued)

Directors' interests (continued)

(i) "Savings related options" are options granted under the Inland Revenue approved SAYE Share Option Scheme. Options granted from 1999 to 2005 are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the relevant savings contract.

(ii) During the year neither director exercised any share options and therefore no gains on such were made.

(ii) Share awards

	At date of appointment	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	At 31 December 2005
	Number	Number	Number	Number	Number
P C Easter					
Aviva Long Term Incentive Plan	123,577	-	-	-	123,577
Aviva Long Term Incentive Plan 2005	46,728	-	-	-	46,728
Aviva Deferred Bonus Plan	126,232	-	-	-	126,232
S C J Machell					
Aviva Long Term Incentive Plan	85,597	-	-	-	85,597
Aviva Long Term Incentive Plan 2005	35,046	-	-	-	35,046
Aviva Deferred Bonus Plan	86,704	-	-	-	86,704

(i) Aviva Long Term Incentive Plan; awards under the Plan are made on an annual basis and the 2005 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.

(ii) Aviva Long Term Incentive Plan 2005; awards under the Plan are made on an annual basis and the 2005 award was made in March. Awards are subject to the attainment of performance conditions over a three year period.

(iii) Aviva Deferred Bonus Plan; awards disclosed include those made in lieu of some or all of the cash bonus earned and deferred under Aviva plc's Annual Bonus in 2005 and also the matching awards granted on a one for one basis. The awards are not subject to performance conditions and vest on the third anniversary of their grant.

RAC Insurance Limited

Directors' report (continued)

Directors' liabilities

Aviva plc, the ultimate parent undertaking, 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 and the provisions in the Companies Articles of Association constitute "qualifying third party indemnities" for the purposes of section 309A to 309C of the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Statement of directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and of the International Financial Reporting Standards (IFRS) as adopted by the European Union, 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 keeping proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary

Authorised signatory
For and on behalf of Aviva Company Secretarial Services Limited

24TH OCTOBER 2006

RAC Insurance Limited

Independent auditors' report

To the shareholders of RAC Insurance Limited

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise the Accounting Policies, the Income Statement, the Balance Sheet, the Statement of Movement in Shareholder's Equity, the Cash Flow Statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

Basis of audit opinion

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

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

RAC Insurance Limited

Independent auditors' report (continued)
To the shareholders of RAC Insurance Limited

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its profit for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

25 October 2006

RAC Insurance Limited

Accounting policies

The Company is a limited liability company incorporated and domiciled in the United Kingdom (UK). The principal activity of the Company is the provision of insurance relating to roadside assistance and legal expenses.

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 International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) as endorsed by the European Union applicable at 31 December 2005.

The IASB issued amendments to IAS 19, Employee Benefits, and IAS 39, The Fair Value Option, in December 2004 and June 2005 respectively. The requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Company has decided to adopt them early and reflect their impact in these financial statements.

In August 2005, the IASB issued IFRS 7, Financial Instruments: Disclosures, and amendments to IAS 1, Capital Disclosures. Their requirements are applicable for accounting periods beginning on or after 1 January 2007. The Company has decided not to adopt any of them early in these financial statements but the impact of adopting these standards is not expected to have a material effect on the results of the Company. IFRS 7 will result in amendments to the disclosure of financial assets and liabilities, whilst the amendments to IAS 1 bring the capital disclosures into line with IFRS 7. In addition, IFRS 6 and IFRIC Interpretations 5 and 6 have been issued during 2005 but are not relevant to the activities of the Company.

In accordance with the standard for Phase I IFRS 4, Insurance Contracts, the Company has applied existing accounting practices for insurance, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in policy C below.

This is the Company's first set of full year results prepared in accordance with IFRS accounting policies and its previously reported 2004 financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004. The principal effects of the adoption of IFRS have been reflected within note 1 on first time adoption of IFRS.

The financial statements are stated in British pounds, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in British pounds (£).

(B) Use of estimates

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

RAC Insurance Limited

Accounting policies (continued)

(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 pay significant additional benefits 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 extinguised 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 4 are classified as investment or service contracts.

As noted in policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the date of transition to IFRS. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005.

(D) Premiums earned

Insurance premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. 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 balance sheet date. Unearned premiums are computed principally on either a daily or monthly pro rata basis.

(E) Net investment income

Investment income consists of interest receivable for the year. Interest income is recognised as it accrues.

(F) Insurance contract liabilities

Claims

Insurance claims incurred include all losses occuring during the year, whether reported or not, related handling costs, 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 claims handling function.

RAC Insurance Limited

Accounting policies (continued)

(F) Insurance contract liabilities (continued)

Outstanding claims provisions

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet 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 balance sheet date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 12c.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

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 taken to 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 and deferred acquisition costs 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 (less related deferred acquisition costs) 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 balance sheet.

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 are not included within insurance liabilities but are included under "other liabilities" in the balance sheet.

(G) Reinsurance

Reinsurance ceded

The Company cedes reinsurance in the normal course of business, with retention limits varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsurance policies.

(G) Reinsurance (continued)

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

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

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

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

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

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

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

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(I) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

RAC Insurance Limited

Accounting policies (continued)

(J) *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 with less than 90 days' maturity from the date of acquisition.

(K) Contingent liabilities

Contingent liabilities are disclosed if the future obligation is probable and the amount cannot be reasonably estimated.

(L) Income taxes

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

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

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

RAC Insurance Limited

Income statement

For year ended 31 December 2005

	Note	2005	2004
		£	£
Income	2		
Gross written premiums		15,727,850	18,234,598
Premiums ceded to reinsurers		(6,623,075)	(6,615,822)
Premiums written net of reinsurance		9,104,775	11,618,776
Net change in provision for unearned premiums		1,295,464	(1,952,883)
Net premiums earned		10,400,239	9,665,893
Fee and commission income		4,751,363	3,308,047
Net investment income		498,208	473,163
		15,649,810	13,447,103
Expenses	3		
Claims and benefits paid net of recoveries from reinsurers		10,645,261	10,003,628
Change in insurance liabilities, net of reinsurance		66,846	(586,098)
Fee and commission expense		660,354	584,868
Other operating expenses		321,177	251,058
		11,693,638	10,253,456
Profit before tax		3,956,172	3,193,647
Tax expense	8	(1,186,852)	(958,094)
Profit for the year		2,769,320	2,235,553

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

The accounting policies on pages 8 to 12 and notes on pages 17 to 32 are an integral part of these financial statements.

RAC Insurance Limited

Balance sheet

As at 31 December 2005

	Note	2005	2004
		£	£
Assets			
Receivables and other financial assets	10	10,931,025	8,759,421
Deferred acquisition costs	11	417,407	359,932
Cash and cash equivalents	16b	11,089,381	10,590,906
Total assets		22,437,813	19,710,259
Liabilities			
Insurance liabilities	12	8,014,157	9,242,775
Liability for current tax	13	1,186,852	-
Total liabilities		9,201,009	9,242,775
Net assets		13,236,804	10,467,484
Shareholder's equity			
Capital			
Ordinary share capital	14	5,500,000	5,500,000
Retained earnings	15	7,736,804	4,967,484
Total equity		13,236,804	10,467,484

The accounting policies on pages 8 to 12 and notes on pages 17 to 32 are an integral part of these financial statements.

Approved by the Board on 24TH OCTOBER 2006

Director

RAC Insurance Limited

Statement of movement in shareholder's equity

For the year ended 31 December 2005

	Note	Ordinary share capital	Retained earnings	Total equity
		£	£	£
Balance at 1 January 2004		5,500,000	14,431,931	19,931,931
Total recognised income and expense for the year		-	2,235,553	2,235,553
Dividends	9	-	(11,700,000)	(11,700,000)
Total movements in the year		-	(9,464,447)	(9,464,447)
Balance at 31 December 2004		5,500,000	4,967,484	10,467,484
Total recognised income and expense for the year		-	2,769,320	2,769,320
Total movements in the year		-	2,769,320	2,769,320
Balance at 31 December 2005		5,500,000	7,736,804	13,236,804

The accounting policies on pages 8 to 12 and notes on pages 17 to 32 are an integral part of these financial statements.

RAC Insurance Limited

Cash flow statement

For the year ended 31 December 2005

	Note	2005	2004
		£	£
Cash flows from operating activities			
Net cash inflow from operating activities	16a	498,475	7,278,143
Net cash from operating activities		498,475	7,278,143
Cash flows used in financing activities			
Ordinary dividends paid		-	(11,700,000)
Net cash used in financing activities		-	(11,700,000)
Net increase/ (decrease) in cash and cash equivalents		498,475	(4,421,857)
Cash and cash equivalents at 1 January		10,590,906	15,012,763
Cash and cash equivalents at 31 December	16b	11,089,381	10,590,906

The accounting policies on pages 8 to 12 and notes on pages 17 to 32 are an integral part of these financial statements.

RAC Insurance Limited

Notes to the financial statements

1 First time adoption of International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards (IFRS) for these financial statements for the year ended 31 December 2005. In order to show comparative balances, the year ended 31 December 2004 is also shown under IFRS. The date of transition to IFRS is 1 January 2004.

In general, a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. However, International Financial Reporting Standard 1, First time adoption of International Financial Reporting Standards, (IFRS 1) allows a number of exemptions to this general principle upon adoption of IFRS. The Company has taken advantage of the following transitional arrangements.

Estimates

Where estimates had previously been made under the former basis, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (i.e. judgements affecting the Company's opening balance sheet have not been revisited for the benefit of hindsight).

Transitional provisions

The Company has not taken advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32, IAS 39 and IFRS 4. It has elected to disclose only five years of data in its loss development tables, as permitted by IFRS 4 in the year of adoption of IFRS. This will be increased in each succeeding additional year, until the full ten years of information is included.

There are no differences between equity and profit for the year ended 31 December 2004 as previously reported and as reported under IFRS.

RAC Insurance Limited

Notes to the financial statements (continued)

2 Details of income

	2005	2004
	£	£
Premiums earned		
Gross written premiums	15,727,850	18,234,598
Less: premiums ceded to reinsurers	(6,623,075)	(6,615,822)
Gross/net change in provision for unearned premiums	1,295,464	(1,952,883)
Net premiums earned	10,400,239	9,665,893
Fee and commission income		
Other commission income	4,751,363	3,308,047
Total revenue	15,151,602	12,973,940
Net investment income		
Interest and similar income	498,208	473,163
Total income	15,649,810	13,447,103

3 Details of expenses

	2005	2004
	£	£
Claims and benefits paid, net of recoveries from reinsurers		
Claims and benefits paid to policyholders	11,560,454	11,690,913
Less: claim recoveries from reinsurers	(915,193)	(1,687,285)
	10,645,261	10,003,628
Change in insurance liabilities		
Change in insurance liabilities - gross/net amount	66,846	(586,098)
	10,712,107	9,417,530
Fee and commission expense		
Acquisition costs		
Commission expenses	717,829	632,208
Change in deferred acquisition costs	(57,475)	(47,340)
	660,354	584,868
Other operating expenses		
Operating expenses	321,177	251,058
Total expenses	11,693,638	10,253,456

RAC Insurance Limited

Notes to the financial statements (continued)

4 Analysis of investment return

Effective interest rates

The table below summarises the average effective interest rate by major currency for monetary financial instruments:

Monetary assets in British pounds	2005	2004
	%	%
Cash and cash equivalents	4.6	3.7

5 Employee information

All employees of the Company are also employees of a fellow Group undertaking, RAC Motoring Services. Their staff costs have been included within that company's financial statements.

6 Directors

The emoluments of the directors have been borne by a fellow subsidiary undertaking RAC plc, in both 2004 and 2005. Since the change in control, certain directors' emoluments have also been met by Aviva Employment Services Limited.

7 Auditors' remuneration

The total remuneration payable excluding VAT, to its auditors, Ernst & Young LLP, in respect of the audit of these financial statements is borne by a parent undertaking, RAC plc and disclosed in its financial statements.

8 Tax

(a) Tax charged to the income statement	2005	2004
	£	£
Current tax:		
For this year	1,186,852	958,094

No deferred taxation has been provided as no material timing differences have arisen.

(b) Tax reconciliation

The tax on the Company's profit before tax is equal to the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

	2005	2004
	£	£
Profit before tax	3,956,172	3,193,647
Tax calculated at standard UK corporation tax rate of 30% (2004: 30%)	1,186,852	958,094
Tax charged for the period (note 8a)	1,186,852	958,094

RAC Insurance Limited

Notes to the financial statements (continued)

9 Dividends

	2005	2004
	£	£
Ordinary dividends declared and charged to equity in the year:		
Interim 2004 – 213p per share, paid in March 2004	-	11,700,000

10 Receivables and other financial assets

	2005	2004
	£	£
Amounts due from reinsurers	94,895	77,537
Receivables from related parties (note 19)	10,836,130	8,681,884
Total	10,931,025	8,759,421
Expected to be recovered within one year	10,931,025	8,759,421

11 Deferred acquisition costs

(a) The carrying amount comprised:

	2005	2004
	£	£
Deferred acquisition costs	417,407	359,932

(b) The movements in deferred acquisition costs during the year were:

	2005	2004
	£	£
Carrying amount at 1 January	359,932	312,592
Acquisition costs written during the year	717,829	632,208
Amortisation	(660,354)	(584,868)
Carrying amount at 31 December	417,407	359,932

Deferred acquisition costs are generally recoverable within one year of the balance sheet date.

RAC Insurance Limited

Notes to the financial statements (continued)

12 Insurance liabilities

(a) Carrying amount

Insurance liabilities at 31 December comprised:	2005	2004
	£	£
Outstanding claims provisions	376,612	309,766
Provision for unearned premiums	7,637,545	8,933,009
Total	8,014,157	9,242,775

(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 balance sheet 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.

Outstanding claims provisions are based on undiscounted estimates of future claim payments.

(c) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques. The main assumption 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.

(d) Movements

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

	2005	2004
	£	£
Carrying amount at 1 January	309,766	895,864
Claims losses and expenses incurred in the current year	11,627,300	11,104,815
Less:		
Payments made on claims incurred in the current year	(11,250,688)	(10,795,049)
Payments made on claims incurred in prior years	(309,766)	(895,864)
Claims payments made in the year	(11,560,454)	(11,690,913)
Carrying amount at 31 December	376,612	309,766

Notes to the financial statements (continued)

12 Insurance liabilities (continued)

(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 2001 to 2005. 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 2001, by the end of 2005 £12,025,035 had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £12,025,035 has remained unchanged at £12,025,035 at 31 December 2005. 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 claim frequency and severity patterns.

In the year of adoption of IFRS, only five years are required to be disclosed. This will be increased in each succeeding additional year, until ten years' information is included.

Accident year	All prior years	2001	2002	2003	2004	2005	Total
	£	£	£	£	£	£	£
Gross cumulative claims payments							
At end of accident year		(10,713,533)	(11,343,009)	(9,759,528)	(10,795,049)	(11,250,688)	
One year later		(12,025,035)	(12,488,208)	(10,655,392)	(11,104,815)		
Two years later		(12,025,035)	(12,488,208)	(10,655,392)			
Three years later		(12,025,035)	(12,488,208)				
Four years later		(12,025,035)					
Estimate of gross ultimate claims							
At end of accident year		12,025,035	12,488,208	10,655,392	11,104,815	11,627,300	
One year later		12,025,035	12,488,208	10,655,392	11,104,815		
Two years later		12,025,035	12,488,208	10,655,392			
Three years later		12,025,035	12,488,208				
Four years later		12,025,035					
Estimate of ultimate claims		12,025,035	12,488,208	10,655,392	11,104,815	11,627,300	
Cumulative payments		(12,025,035)	(12,488,208)	(10,655,392)	(11,104,815)	(11,250,688)	
Outstanding claims provisions recognised in the balance sheet	-	-	-	-	-	376,612	376,612

RAC Insurance Limited

Notes to the financial statements (continued)

12 Insurance liabilities (continued)

(e) Loss development tables (continued)

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

Accident year	All prior years	2001	2002	2003	2004	2005	Total
	£	£	£	£	£	£	£
Net cumulative claims payments							
At end of accident year		(7,849,692)	(8,868,259)	(7,257,461)	(9,107,764)	(10,335,495)	
One year later		(9,196,797)	(9,983,458)	(8,153,325)	(9,417,530)		
Two years later		(9,196,797)	(9,983,458)	(8,153,325)			
Three years later		(9,196,797)	(9,983,458)				
Four years later		(9,196,797)					
Estimate of net ultimate claims							
At end of accident year		9,196,797	9,983,458	8,153,325	9,417,530	10,712,107	
One year later		9,196,797	9,983,458	8,153,325	9,417,530		
Two years later		9,196,797	9,983,458	8,153,325			
Three years later		9,196,797	9,983,458				
Four years later		9,196,797					
Estimate of ultimate claims		9,196,797	9,983,458	8,153,325	9,417,530	10,712,107	
Cumulative payments		(9,196,797)	(9,983,458)	(8,153,325)	(9,417,530)	(10,335,495)	
Net outstanding claims provisions recognised in the balance sheet	-	-	-	-	-	376,612	376,612

Notes to the financial statements (continued)

12 Insurance liabilities (continued)

(f) Provision for unearned premiums

Movements

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

	2005	2004
	£	£
Carrying amount at 1 January	8,933,009	6,980,126
Premiums written during the year	15,727,850	18,234,598
Less: Premiums earned during the year	(17,023,314)	(16,281,715)
Change in year	(1,295,464)	1,952,883
Carrying amount at 31 December	7,637,545	8,933,009

13 *Liability for current tax*

(a) General

Liabilities for current tax of £1,186,852 (2004: £ nil) are payable in more than one year.

(b) Deferred tax

No deferred tax has been provided as no material timing differences have arisen.

14 Ordinary share capital

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

	2005	2004
	£	£
Authorised		
10,000,000 ordinary shares of £1 each	10,000,000	10,000,000
Allotted called up and fully paid		
5,500,000 ordinary shares of £1 each	5,500,000	5,500,000

Notes to the financial statements (continued)

15 Retained earnings

	2005	2004
	£	£
Balance at 1 January	4,967,484	14,431,931
Profit for the year	2,769,320	2,235,553
Dividends	-	(11,700,000)
Balance at 31 December	7,736,804	4,967,484

16 Cash flow statement

	2005	2004
	£	£
(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:		
Profit before tax	3,956,172	3,193,647
Changes in working capital:		
(Increase)/ decrease in deferred acquisition costs	(57,475)	(47,340)
(Increase)/ decrease in receivables and other financial assets	(2,171,604)	3,455,967
Increase/ (decrease) in insurance liabilities	(1,228,618)	1,366,785
Increase/(decrease) in payables and other financial liabilities	-	(690,916)
Net cash inflow from operating activities	498,475	7,278,143

	2005	2004
	£	£
(b) Cash and cash equivalents in the cash flow statement at 31 December comprised		
Cash at bank and in hand	11,089,381	10,590,906

17 Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 12 gives details of the estimation techniques used in determining the outstanding claims provisions which are designed to allow for prudence. 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.

Notes to the financial statements (continued)

18 Risk management policies

(a) The Company's approach to financial risk and capital management

On 4 May 2005, Aviva plc acquired RAC plc and all its subsidiaries, of which RAC Insurance Limited is one. Since then the Company has managed financial risk and capital within an overall risk and financial management framework operated by a group of companies (the NUI Group), within the Aviva plc Group, that are engaged in writing insurance business and non-insurance activities such as supplying motoring services and retail mediation activities in the United Kingdom.

The primary objective of the NUI Group's risk and financial management framework is to protect against events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The NUI Group recognises the critical importance of having efficient and effective risk management systems in place. To this end, the NUI Group has an established governance framework, including:-

> clear terms of reference for the legal entity Boards and the associated executive management and other committees within the NUI Group;

> a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management within the NUI Group; and

> adoption of the Group policy framework which sets out risk appetite, risk management, control and business conduct standards for the Group's worldwide operations. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the NUI Group.

This governance structure and policy set is regularly reviewed to reflect the changing commercial and regulatory requirement. For example, following the regulatory changes brought about by the FSA's Prudential Sourcebook, which came into effect on 1 January 2004, the NUI Group has placed a greater emphasis on assessment and documentation of risks and controls, including the development of an articulation of risk appetite. As a result the NUI Group has clearly articulated its risk appetite for financial risks (insurance, market, credit and liquidity risks) and, where appropriate, non-financial risks (operational, group and strategic risks).

The NUI Group has adopted Aviva plc Group established policies, focusing on the management of financial and non-financial risks. The NUI Group also monitors risks on an ongoing basis and prepares quarterly reports identifying all material risks, along with information on likelihood, severity and mitigating actions taken or planned.

The NUI Group has developed a framework using the Internal Capital Assessment (ICA) principles for identifying the risks to which it is exposed, quantifying their impact on economic capital. The ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business. The ICA works to a 99.5% confidence level of economic solvency over one year, in line with UK FSA regulatory requirements. The ICA combines the results of financial and operating experience tests.

Notes to the financial statements (continued)

18 Risk management policies (continued)

(a) The Company's approach to financial risk and capital management (continued)

In addition, the NUI Group has developed a risk-based capital model for its businesses which provides a more detailed assessment of the economic capital needs of the business.

The NUI Group also provides a Financial Condition Report (FCR) to inform decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of key performance indicators in addition to solvency and capital requirements. The FCR enables the NUI Group to assess the range of risks to which the business is exposed, their evolution over time, and the impact of mitigating actions which might be taken.

(b) Management of financial and non-financial risks

General insurance risk

The NUI Group considers insurance risk within its general insurance activity to be comprised of the following:

> the assessment and pricing of risk,
> the adequacy of exposure management through the use of accumulation management techniques and reinsurance tools,
> the management of claims, and
> the adequacy of reserving.

The majority of the general insurance business underwritten by the Company is of a short-tail nature such as roadside assistance and legal expenses insurances. The Group's underwriting strategy and appetite are agreed by the Executive Committee and communicated via specific policy statements and guidelines.

The vast majority of the Company's general insurance business is managed and priced within the same country as the domicile of the customer.

The ICA framework is used to identify the risks to which the NUI Group is exposed, quantifying their impact and calculating appropriate capital requirements. The NUI Group undertakes a quarterly review of its insurance risks, the output from which is a key input into the ICA and RBC assessments. The NUI Group has implemented Group policies for underwriting, claims, reinsurance and reserving.

Reinsurance purchases are reviewed annually, to verify that the levels of protection being bought are commensurate with any developments in exposure and equate with the risk appetite of the NUI Group.

Actuarial claims reserving is conducted by the NUI Group's actuaries in compliance with the Group General Insurance Reserving Policy and reviewed by the NUI Group's Reserving Committee. There are periodic external reviews by consultant actuaries.

Notes to the financial statements (continued)

18 Risk management policies (continued)

Liquidity risk

The Company's liquidity position is supported through membership of the NUI group of companies.

The following table provides an analysis of financial assets into their relevant maturity groups based on the *remaining period at the balance sheet date to their contractual maturities.*

	Total	Within 1 year	1-5 years	5-15 years	Over 15 years
	£	£	£	£	£
31 December 2005					
Receivables and other financial assets	10,931,025	10,931,025	-	-	-
Cash and cash equivalents	11,089,381	11,089,381	-	-	-
31 December 2004					
Receivables and other financial assets	8,759,421	8,759,421	-	-	-
Cash and cash equivalents	10,590,906	10,590,906	-	-	-

The following table shows the financial liabilities analysed by duration.

	Total	Within 1 year	1-5 years	5-15 years	Over 15 years
	£	£	£	£	£
31 December 2005					
Gross insurance liabilities	8,014,157	7,135,659	878,498	-	-
Liability for current tax	1,186,852	-	1,186,852	-	-
31 December 2004					
Gross insurance liabilities	9,242,775	7,928,699	1,314,076	-	-

RAC Insurance Limited

Notes to the financial statements (continued)

18 Risk management policies (continued)

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 Company's management of credit risk is carried out in accordance with the NUI Group's Credit Risk Policy, which includes the monitoring of exposure levels and setting exposure limits in accordance with rating categories devised by credit rating agencies such as Standards & 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 concerned.

The credit risk rating at 31 December 2005 of cash and cash equivalents is AAA.

At 31 December 2005, receivables are £10,931,025, of which £10,836,130 is in respect of amounts due from related parties. Further details are included in note 19 on related parties.

Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people or systems, or from external events. Operational risks include, for example, IT infrastructure and systems, business interruption, information security, project, outsourcing, legal, fraud and compliance risks. As with other risk categories, line management of business areas have primary responsibility for how risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria. Operational risks are reported, as with other risks, on a quarterly basis to Group.

Notes to the financial statements (continued)

18 Risk management policies (continued)

Sensitivity analysis and capital management

The NUI Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of capital requirements, and to manage capital more efficiently. Primarily, the NUI Group uses financial condition reporting and increasingly ICA. However, sensitivities to economic and operating experience are regularly produced on all of our key financial performance indicators (KPIs) as part of our decision making and planning processes and set the framework for identifying and quantifying the risks to which the NUI Group is exposed.

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made but, instead, the assumptions used are those implicit in the historic claims development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio.

Some results of sensitivity testing for general insurance business 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
Interest rate and investment return	The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate of 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns.
Expenses	The impact of an increase in expenses by 10%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%.

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2005.

Notes to the financial statements (continued)

18 Risk management policies (continued)

General insurance business - impact on profit before tax

	Interest rates + 1%	Interest rates - 1%	Expenses + 10%	Gross loss ratios +5%
	£	£	£	£
Gross of reinsurance	(108,840)	107,963	(98,153)	(851,166)
Net of reinsurance	(108,840)	107,963	(98,153)	(520,012)

General insurance business - impact on shareholder's equity

	Interest rates + 1%	Interest rates - 1%	Expenses + 10%	Gross loss ratios +5%
	£	£	£	£
Gross of reinsurance	(76,188)	75,574	(68,707)	(595,816)
Net of reinsurance	(76,188)	75,574	(68,707)	(364,008)

Due to the importance of reinsurance for general insurance, the impact of the sensitivities on profit and equity are shown both gross and net of reinsurance. The impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

The above table demonstrates the effect of a change in a key assumption whilst other assumptions remain unaffected. In reality, such an occurrence is unlikely, due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impact should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations, including selling investments, changing investment portfolio allocation and taking other protective action, as investment markets move past various trigger levels.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of reasonably possible near-term market changes that cannot be predicted with any certainty and the assumption that all interest rates move in an identical fashion.

RAC Insurance Limited

Notes to the financial statements (continued)

19 Related party transactions

(a) The Company had the following related party transactions in 2005 and 2004.

(i) Services provided to related parties

	2005		2004	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£	£	£	£
Fellow subsidiaries	-	10,836,130	-	8,681,884

(ii) Transfer of income and expenses from RAC Motoring Services

The Company has entered into an agreement with RAC Motoring Services, a fellow subsidiary undertaking, where income, claims costs and other expenses for certain products are initially recorded by RAC Motoring Services and then transferred to the Company through an intercompany account. The net value of these transfers was £2,325,877 of net costs in the year (2004: £4,267,303 net income).

(iii) Transfer of income and expenses from RAC Motoring Services (Ireland) Limited

The Company has entered into an agreement with RAC Motoring Services (Ireland) Limited, a fellow subsidiary undertaking, where income, claims costs and other expenses for certain products are initially recorded by RAC Motoring Services (Ireland) Limited and then transferred to the Company through an intercompany account. The net value of these transfers was £171,299 of net income in the year (2004: £91,914 net income).

(iv) Compensation to those employees classified as key management

The directors and key management of the Company are considered to be the same as for RAC plc, a parent undertaking. Information on key management compensation may be found in note 28 - Related Party Transactions of the RAC plc financial statements.

(b) Immediate parent undertaking

The Company's immediate parent undertaking is RAC Investments Limited, registered in England and Wales.

(c) Ultimate controlling entity

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