Registered in England and Wales: No. 2355834

RAC INSURANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

RAC Insurance Limited

Contents

RAC Insurance Limited

Company information

Directors:

R Fairman
P Gale
R Templeman
M Wood
D Hobday

Company Secretary:

S Morrison

Auditor:

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

Registered office:

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

Company number:

Registered in England and Wales: No. 2355834

Other information:

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

RAC Insurance Limited ("the Company") is a member of the RAC Group of Companies ("the Group"), which includes RAC Group (Holdings) Limited and its subsidiaries.

These Financial Statements are presented for the year ended 31 December 2016. Comparatives are presented for the year ended 31 December 2015.

RAC Insurance Limited

Strategic report
For the year ended 31 December 2016

Basis of preparation

This business review is addressed to, and written for, the Members of the Company with the aim of providing a fair review of business development and performance during the financial year and position both at the end of the financial year 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.

Principal activity

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

Review of the business including major events

Following a detailed programme of preparatory work in 2015, the Company has transitioned to comply with the requirements of Solvency II from 1 January 2016. There were no other major events during the current or prior year.

Objectives and future developments

The strategy for the Company is determined by the Directors of the Company's ultimate Parent Company, RAC Group (Holdings) Limited and disclosed in the Annual Report and Financial Statements of that Company (see note 17(f)).

Key Performance Indicators ("KPIs")

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

	2016	**2015**
Increase in net written premiums	8%	10%
Combined operating ratio	85%	83%
Net incurred claims ratio	(66%)	(69%)
Net written expenses ratio	(19%)	(15%)

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

Strategic report (continued)
For the year ended 31 December 2016

Financial review

The financial position of the Company at 31 December 2016 is shown in the Statement of financial position on page 12, with the trading results shown in the Income statement on page 10 and the Statement of cash flows on page 14.

Profit before tax decreased by £38 thousand to £1,956 thousand (2015: £1,994 thousand). This reflected primarily a £1,719 thousand increase in net earned premiums offset by growth in claims paid net of reinsurance of £1,008 thousand, an increase of £689 thousand in other operating expenses, and other charges of £190 thousand.

The increase in net earned premiums was due to strong volume growth and a similar percentage increase was seen in claims paid net of reinsurance. The increase in other operating expenses is due primarily to an increase in recharges from other Group companies in relation to the Management Services Agreement and Brand licencing, following an increase in gross written premiums during the year.

It is the Company's intention to maintain its operating margin, whilst adhering to strict underwriting disciplines.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 16 to the Financial Statements.

Capital management

In managing its capital, the Company seeks to:

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

General

The Company is a regulated company which holds sufficient capital to meet acceptable solvency levels based on applicable PRA regulations. The Company has been fully compliant with the requirements of Solvency II since 1 January 2016.

RAC Insurance Limited

Strategic report (continued)
For the year ended 31 December 2016

Regulatory bases

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

By order of the Board on 14 August 2017

S Morrison
Company Secretary

RAC Insurance Limited

Directors' report
For the year ended 31 December 2016

The Directors present their Annual Report on the affairs of RAC Insurance Limited, together with the Audited Financial Statements and Independent Auditor's Report for the year ended 31 December 2016.

Directors

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

Those in office during the year have been as follows:

D Cougill (resigned 5 September 2016)

R Fairman (appointed 5 September 2016)

P Gale

D Hobday (appointed 2 March 2017)

K Michael (resigned 23 May 2016)

R Templeman

M Wood

C Woodhouse (resigned 2 March 2017)

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

Objectives and future developments

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

Dividends

No interim dividends were paid during the year (2015: £nil) and the Directors do not recommend payment of a final dividend (2015: £nil). The PRA has recently communicated that any future dividends payable by the Company will require a non-objection statement from the PRA following assessment of the impact that the proposed dividend would have on the capital of the Company.

Employees

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

Directors' indemnities

RAC Group (Holdings) Limited, the Company's ultimate Parent Company, has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. The indemnity was first granted in 2011 to the Directors of the then RAC Group holding company and was novated to the Directors of this Company in December 2014. The provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of section 236 of the Companies Act 2006. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of the transitional provisions of the Companies Act 2006.

RAC Insurance Limited

Directors' report (continued)

For the year ended 31 December 2016

Going concern

The Directors have assessed the financial position and the future funding requirements of the Company and compared them to the level of available committed borrowing facilities. Details of cash facilities are set out in note 10 to the Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 16 to the Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts and financial instruments for the 15 month period from the Statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its bank debt.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on page 2. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

The Company has net assets of £13,777 thousand (2015: £12,451 thousand). The Directors have considered the financial position and future prospects of the Company. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2016 Annual Report and Financial Statements.

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the Company's Financial Statements to be prepared on a going concern basis.

Auditor

Deloitte LLP has expressed their willingness to continue in office as auditor of the Company and their reappointment will be put to shareholders at the AGM.

Disclosure of information to the auditor

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

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

RAC Insurance Limited

Directors' report (continued)

For the year ended 31 December 2016

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements 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
- make an assessment of the Company's ability to continue as a going concern.

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

Events since the statement of financial position date

There have been no events since the statement of financial position date which have a material impact on the Company's financial position as at 31 December 2016.

By order of the Board on 14 August 2017

S Morrison
Company Secretary

RAC Insurance Limited

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

We have audited the Financial Statements of RAC Insurance Limited for the year ended 31 December 2016, which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows, the accounting policies and the related notes 1 to 17. 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 auditor

As explained more fully in the Statement of Directors' responsibilities, 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 Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 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.

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

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in [the Strategic Report and] the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

Andrew Halls FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham
United Kingdom
Date: 15/8/17

RAC Insurance Limited
Financial Statements 2016
Income statement

For the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Income	1		
Gross written premiums		12,732	11,713
Premiums ceded to reinsurers		(475)	(346)
Premiums written, net of reinsurance		12,257	11,367
Net change in provision for unearned premiums		(232)	(1,061)
Net earned premiums		12,025	10,306
Other operating income		393	393
Net investment income		42	46
		12,460	10,745
Expenses	2		
Claims paid, net of reinsurance		(8,021)	(7,013)
Change in claims provisions, net of reinsurance		86	(48)
Other operating expenses		(2,379)	(1,690)
Other charges, including value adjustments	7	(190)	-
		(10,504)	(8,751)
Profit before tax		**1,956**	**1,994**
Tax charge	6	(430)	(404)
Profit for the year		**1,526**	**1,590**

The accounting policies and notes on pages 15 to 39 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2016 (continued)
Statement of comprehensive income
For the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Profit for the year		1,526	1,590
Other comprehensive expense/(income) not to be reclassified to profit or loss in subsequent years:			
(Loss)/gain on property revaluation	7	(200)	200
Net other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent years		(200)	200
Other comprehensive (expense)/income, net of tax		(200)	200
Total comprehensive income for the year		**1,326**	**1,790**

The accounting policies and notes on pages 15 to 39 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2016 (continued)
Registered in England and Wales: No. 2355834
Statement of financial position
As at 31 December 2016

	Note	2016	2015
		£000	£000
ASSETS			
Property	7	2,810	3,200
Reinsurance assets	8	238	190
Receivables	9	6,179	4,358
Cash and cash equivalents	10	12,108	12,067
		21,335	19,815
LIABILITIES			
Insurance liabilities	11(a)	(7,558)	(7,364)
Net assets		**13,777**	**12,451**
EQUITY			
Ordinary share capital	13	7,250	7,250
Revaluation reserve		-	200
Retained earnings		6,527	5,001
Total equity		**13,777**	**12,451**

The accounting policies and notes on pages 15 to 39 are an integral part of these Financial Statements.

Approved by the Board on 14 August 2017

R Fairman
Chief Financial Officer

RAC Insurance Limited
Financial Statements 2016 (continued)
Statement of changes in equity

For the year ended 31 December 2016

	Note	Ordinary share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2015		**7,250**	**-**	**3,411**	**10,661**
Profit for the year		-	-	1,590	1,590
Other comprehensive income for the year		-	200	-	200
Total comprehensive income		-	200	1,590	1,790
Balance at 31 December 2015		**7,250**	**200**	**5,001**	**12,451**
Profit for the year		-	-	1,526	1,526
Other comprehensive expense for the year	7	-	(200)	-	(200)
Total comprehensive (expense)/income		-	(200)	1,526	1,326
Balance at 31 December 2016		**7,250**	**-**	**6,527**	**13,777**

The accounting policies and notes on pages 15 to 39 are an integral part of these Financial Statements.

RAC Insurance Limited
Financial Statements 2016 (continued)
Statement of cash flows

For the year ended 31 December 2016

	Note	2016	2015
		£000	**£000**
Operating activities			
Profit before tax		1,956	1,994
Adjustments to reconcile profit before tax to net cash flows:			
Impairment of tangible assets	7	190	-
Increase in reinsurance assets	8	(48)	(78)
Increase in receivables	9	(1,821)	(2,650)
Increase in insurance liabilities	11(a)	194	1,187
Decrease in payables and other financial liabilities		(430)	(404)
Net cash inflow from operating activities		41	49
Net increase in cash and cash equivalents		**41**	**49**
Cash and cash equivalents at 1 January		**12,067**	**12,018**
Cash and cash equivalents at 31 December	10	**12,108**	**12,067**

The accounting policies and notes on pages 15 to 39 are an integral part of these Financial Statements.

RAC Insurance Limited

Accounting policies

(A) Corporate information

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

Information on other related party relationships of the Company is provided in note 17.

The Financial Statements of RAC Insurance Limited for the year ended 31 December 2016 were approved for issue by the Board on 14 August 2017.

(B) Basis of preparation

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

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

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

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

Going concern

The Directors have assessed the financial position and the future funding requirements of the Company and compared them to the level of available committed borrowing facilities. Details of cash and cash equivalents are set out in note 10 to the Financial Statements. The Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 16 to the Financial Statements.

The Directors' assessment included a review of the Group's financial forecasts, financial instruments and hedging arrangements for the 15 month period from the Statement of financial position date. The Directors considered a range of potential scenarios and how these may impact on cash flow, facility headroom and the Group's ability to comply with the terms of its bank debt.

The Group's and Company's business activities, together with the factors likely to affect their future development, performance and position are set out in the Strategic Report on page 2. The Directors also consider what mitigating actions the Group could take to limit any adverse consequences.

The Company has net assets of £13,777 thousand (2015: £12,451 thousand). The Directors have considered the financial position and future prospects of the Company. Accordingly, the Directors continue to adopt the going concern basis in preparing the 2016 Annual Report and Financial Statements.

Accounting policies (continued)

(B) Basis of preparation (continued)

Going concern (continued)

Having undertaken this assessment, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and so determine that it is appropriate for the 2016 Company Financial Statements to be prepared on a going concern basis.

(C) Product classification

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

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

(D) Premiums earned

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

(E) Other operating income

Other operating income consists of rental income from operating leases and is recognised on a straight-line basis over the term of the relevant lease.

(F) Net investment income

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

(G) Insurance contract liabilities

Claims

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

RAC Insurance Limited

Accounting policies (continued)

(G) Insurance contract liabilities (continued)

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

Outstanding claims provisions
Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of financial position date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 11(c).

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

Liability adequacy
At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims 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 statement of financial position.

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

(H) Reinsurance

The Company cedes reinsurance in the normal course of business. The cost of reinsurance is accounted for over the life of the underlying reinsurance policies.

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.

Accounting policies (continued)

(H) Reinsurance (continued)

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 an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

(I) Property

Owner-occupied properties are carried at their revalued amounts, being the fair value at the date of revaluation, which are supported by market evidence, and movements are taken to a separate reserve within equity. A revaluation deficit is recognised in the Income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Third party valuations are obtained every three years to support management's internal valuations, carried out on an annual basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are recorded in the Income statement.

(J) Cash and cash equivalents

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

(K) Provisions and contingent liabilities

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

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

Accounting policies (continued)

(L) 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 other comprehensive income or equity. In this instance, the income taxes are also (charged)/credited directly to other comprehensive income or equity respectively.

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

Deferred tax is provided using the Statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not provided for the initial recognition of goodwill, nor the initial recognition of assets or liabilities that affect neither the accounting profit nor taxable profit or loss other than in a business combination.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which assets can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the 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 there is an intention to settle on a net basis.

(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.

(N) Application of new and revised International Financial Reporting Standards ("IFRSs")

The following new and amended IFRS's are effective for the 2016 Financial Statements. The adoption of these Standards has not had any material impact on the disclosures or on the amounts reported in the Company's Financial Statements.

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11 Accounting for Acquisitions of Interest and in Joint Operations
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012 - 2014 Cycle

At the date of authorisation of these Financial Statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- Amendments to IAS 7 Disclosure Initiative [1]
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses [1]
- IFRS 9 Financial Instruments [2]
- IFRS 15 Revenue from contracts with customers [2]
- Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions [2]
- IFRS 16 Leases [3]

The Company is currently in the process of evaluating the impact of the adoption of the above new and revised standards on the Company's financial reporting. It is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

1 Effective for annual periods commencing on or after 1 January 2017
2 Effective for annual periods commencing on or after 1 January 2018
3 Effective for annual periods commencing on or after 1 January 2019

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

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

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

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

RAC Insurance Limited

Accounting policies (continued)

(O) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Key sources of estimation uncertainty

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

Fair value measurements and valuation process

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of financial position date, whether reported or not, together with related loss adjustment expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, the ultimate cost of which cannot be known with certainty at the Statement of financial position date. Refer to note 11 for details out of the outstanding claims provision.

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

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

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

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

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

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

RAC Insurance Limited

Notes to the Financial Statements

1 Income

	2016	2015
	£000	£000
Premiums earned		
Gross written premiums	12,732	11,713
Less: Premiums ceded to reinsurers	(475)	(346)
Gross change in provision for unearned premiums	(280)	(1,139)
Reinsurers' share of change in provision for unearned premiums	48	78
Net change in provision for unearned premiums	(232)	(1,061)
Net earned premiums	12,025	10,306
Other operating income	393	393
Total revenue	12,418	10,699
Net investment income	42	46
Total income	**12,460**	**10,745**

2 Expenses

	2016	2015
	£000	£000
Claims paid, net of reinsurance		
Claims paid to policyholders	8,437	7,400
Less: Claims recoveries from reinsurers	(416)	(387)
	8,021	7,013
Change in claims provisions, net of reinsurance		
Change in net claims provisions	(86)	48
	7,935	7,061
Fee and commission expenses		
Other operating expenses	2,379	1,690
Value adjustments		
Other charges	190	-
Total expenses	**10,504**	**8,751**

RAC Insurance Limited

Notes to the Financial Statements (continued)

3 Employee information

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

4 Directors

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

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

5 Auditors' remuneration

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

	2016	2015
	£000	£000
Audit services		
Statutory audit of the Company's Financial Statements	7	7
Other services		
Audit related assurance services	20	3
Total remuneration payable to Deloitte LLP	**27**	**10**

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

6 Tax

(a) Tax charged to the income statement	2016	2015
	£000	£000
Current tax:		
For the year	430	404
Total current tax	430	404
Total tax charged to the income statement	**430**	**404**

6 Tax charge (continued)

(b) Tax reconciliation

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

	2016	2015
	£000	£000
Profit before tax	1,956	1,994
Tax calculated at standard UK corporation tax rate of 20.00% (2015: 20.25%)	391	404
Non deductible expenses	39	-
Total tax charged to the income statement (note 6(a))	**430**	**404**

The headline rate of UK corporation tax will be reduced from 20% to 19% on 1 April 2017, and will reduce further to 17% from 1 April 2020.

The Company has unrecognised unrealised capital losses of £7,858 thousand (2015: £7,468 thousand) to carry forward indefinitely. On realisation these could be set against future capital gains.

Notes to the Financial Statements (continued)

7 Property

	Property
	£000
Cost and valuation:	
At 1 January 2015	3,000
Revaluation increase	200
At 31 December 2015	**3,200**
Downward revaluation recognised in other comprehensive income	(200)
Impairment recognised in income statement	(190)
At 31 December 2016	**2,810**

In line with the Company's accounting policy, the owner-occupied property was revalued during 2015 by Colliers International, an accredited independent valuer. On 31 December 2016, Commercial Real Estate Services performed a high level valuation of the property following a tenant vacating. A decision was taken by management to reduce the value of the property in line with this valuation. If the owner-occupied property was measured using the cost model, the carrying amount would be £3,000 thousand.

8 Reinsurance assets

(a) Carrying amount

Gross reinsurance assets at 31 December comprise:

	2016	2015
	£000	**£000**
Provision for unearned premiums	238	190

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 11(c).

Reinsurance assets are valued net of any provisions for their recoverability.

Notes to the Financial Statements (continued)

8 Reinsurance assets (continued)

(c) Movements

Reinsurers' share of the provision for unearned premiums:

	2016	2015
	£000	£000
Carrying amount at 1 January	190	112
Premiums ceded to reinsurers in the year	475	346
Less: reinsurers' share of premiums earned during the year	(427)	(268)
Change in reinsurance asset	48	78
Carrying amount at 31 December	238	190

9 Receivables

	2016	2015
	£000	£000
Amounts due from reinsurers	13	12
Amounts due from intermediaries - related parties (note 17 (a)(i))	6,152	4,217
Other debtors	14	129
Total	**6,179**	**4,358**
Expected to be recovered in less than one year	**6,179**	**4,358**

All receivables and other financial assets are carried at amortised cost. The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

10 Cash and cash equivalents

Cash and cash equivalents at 31 December 2016 comprises of £12,108 thousand of cash at bank and in hand (2015: £12,067 thousand).

RAC Insurance Limited

Notes to the Financial Statements (continued)

11 Insurance liabilities

(a) Carrying amount

Gross insurance liabilities at 31 December comprise:	2016	2015
	£000	£000
Provisions for outstanding claims (see note 11(b))	1,037	1,123
Provision for unearned premiums (see note 11(f))	6,521	6,241
Total	**7,558**	**7,364**

(b) Provisions for outstanding claims

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

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

Outstanding claims includes a provision of £60 thousand (2015: £222 thousand) for "After The Event" insurance cover. The Company stopped writing new "After The Event" business in 2008.

(c) Assumptions

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

No adjustments are made to the case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard claims projection techniques. The main 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.

RAC Insurance Limited

Notes to the Financial Statements (continued)

11 Insurance liabilities (continued)

(d) Movements

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

	2016	2015
	£000	£000
Carrying amount at 1 January	**1,123**	**1,075**
Claims losses and expenses incurred in the current year	8,676	7,451
Claims losses and expenses incurred in prior years	(325)	(3)
Incurred claims losses and expenses	8,351	7,448
Less:		
Payments made on claims incurred in the current year	(8,435)	(7,336)
Payments made on claims incurred in prior years	(2)	(64)
Claims payments made in the year	(8,437)	(7,400)
Carrying amount at 31 December	**1,037**	**1,123**

(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 2007 to 2016. 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 2008, by the end of 2016, £12,317 thousand had actually been paid in settlement of gross claims.

In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £12,734 thousand had decreased to £12,377 thousand by 31 December 2016. Any change from the original estimate could generally be a combination of a number of factors, including claims being settled for larger or smaller amounts than originally estimated. The original estimates may also be increased or decreased, as more information becomes known about the individual claims and overall claims frequency and severity patterns.

RAC Insurance Limited

Notes to the Financial Statements (continued)

11 Insurance liabilities (continued)

(e) Loss development tables (continued)

Accident year	All Prior Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross cumulative claims payments												
At end of accident year		(11,291)	(11,246)	(9,624)	(8,446)	(7,580)	(7,372)	(7,157)	(6,830)	(7,336)	(8,435)	
One year later		(11,762)	(12,234)	(9,889)	(8,622)	(7,688)	(7,536)	(7,212)	(6,888)	(7,337)		
Two years later		(12,149)	(12,293)	(9,889)	(8,622)	(7,774)	(7,536)	(7,212)	(6,888)			
Three years later		(12,241)	(12,317)	(9,889)	(8,656)	(7,797)	(7,536)	(7,212)				
Four years later		(12,294)	(12,317)	(9,889)	(8,656)	(7,797)	(7,536)					
Five years later		(12,294)	(12,317)	(9,889)	(8,656)	(7,797)						
Six years later		(12,294)	(12,317)	(9,889)	(8,656)							
Seven years later		(12,416)	(12,317)	(9,889)								
Eight years later		(12,422)	(12,317)									
Nine years later		(12,422)										
Estimate of gross ultimate claims												
At end of accident year		11,762	12,734	9,889	8,622	7,853	7,978	7,212	7,031	7,451	8,676	
One year later		12,256	12,828	9,889	8,788	7,944	7,978	7,214	7,028	7,341		
Two years later		12,536	12,612	10,054	8,722	7,944	7,963	7,214	7,036			
Three years later		12,631	12,691	9,889	8,722	7,948	7,963	7,212				
Four years later		12,544	12,476	9,889	8,722	7,948	7,930					
Five years later		12,485	12,476	9,889	8,722	7,921						
Six years later		12,485	12,476	9,889	8,722							
Seven years later		12,485	12,476	9,889								
Eight years later		12,485	12,377									
Nine years later		12,422										
Estimate of ultimate claims		12,422	12,377	9,889	8,722	7,921	7,930	7,212	7,036	7,341	8,676	
Cumulative payments		(12,422)	(12,317)	(9,889)	(8,656)	(7,797)	(7,536)	(7,212)	(6,888)	(7,337)	(8,435)	
Outstanding claims provisions recognised in the statement of financial position	-	-	60	-	66	124	394	-	148	4	241	1,037

RAC Insurance Limited

Notes to the Financial Statements (continued)

11 Insurance liabilities (continued)

(e) Loss development tables (continued)

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

Accident year	All prior years £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Net cumulative claims payments												
At end of accident year		(9,655)	(10,015)	(8,778)	(7,672)	(7,024)	(6,815)	(7,043)	(6,713)	(6,949)	(8,019)	
One year later		(10,126)	(11,003)	(9,043)	(7,848)	(7,132)	(6,979)	(7,098)	(6,771)	(6,950)		
Two years later		(10,513)	(11,062)	(9,043)	(7,848)	(7,218)	(6,979)	(7,098)	(6,771)			
Three years later		(10,605)	(11,086)	(9,043)	(7,882)	(7,241)	(6,979)	(7,098)				
Four years later		(10,658)	(11,086)	(9,043)	(7,882)	(7,241)	(6,979)					
Five years later		(10,658)	(11,086)	(9,043)	(7,882)	(7,241)						
Six years later		(10,658)	(11,086)	(9,043)	(7,882)							
Seven years later		(10,780)	(11,086)	(9,043)								
Eight years later		(10,786)	(11,086)									
Nine years later		(10,786)										
Estimate of net ultimate claims												
At end of accident year		10,126	11,503	9,043	7,848	7,297	7,421	7,098	6,914	7,064	8,260	
One year later		10,620	11,597	9,043	8,014	7,388	7,421	7,100	6,911	6,954		
Two years later		10,900	11,381	9,208	7,948	7,388	7,406	7,100	6,919			
Three years later		10,995	11,460	9,043	7,948	7,392	7,406	7,098				
Four years later		10,908	11,245	9,043	7,948	7,392	7,373					
Five years later		10,849	11,245	9,043	7,948	7,365						
Six years later		10,849	11,245	9,043	7,948							
Seven years later		10,849	11,245	9,043								
Eight years later		10,849	11,146									
Nine years later		10,786										
Estimate of ultimate claims		10,786	11,146	9,043	7,948	7,365	7,373	7,098	6,919	6,954	8,260	
Cumulative payments		(10,786)	(11,086)	(9,043)	(7,882)	(7,241)	(6,979)	(7,098)	(6,771)	(6,950)	(8,019)	
Net outstanding claims provisions recognised in the statement of financial position	-	-	60	-	66	124	394	-	148	4	241	1,037

Notes to the Financial Statements (continued)

11 Insurance liabilities (continued)

(f) Provision for unearned premiums

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

	2016	2015
	£000	£000
Carrying amount at 1 January	**6,241**	**5,102**
Premiums written during the year	12,732	11,713
Less: premiums earned during the year	(12,452)	(10,574)
Change in year	280	1,139
Carrying amount at 31 December	**6,521**	**6,241**

12 Tax liabilities

All current tax liabilities have been settled via group relief as at 31 December 2016 and 31 December 2015. See the statement of cash flows and related party transactions (note 17(a)(ii)).

13 Ordinary share capital

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

	2016	2015
	£000	£000
Allotted, called up and fully paid		
7,250,000 (2015: 7,250,000) ordinary shares of £1 each	7,250	7,250

Notes to the Financial Statements (continued)

14 Contingent liabilities and other risk factors

Uncertainty over claims provisions

Note 11(c) 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.

Levy schemes

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

15 Operating lease arrangements

Future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2016	2015
	£000	£000
Within 1 year	562	562
Later than 1 year and not later than 5 years	422	984
Later than 5 years	-	-
	984	1,546

Operating lease arrangements arise in respect of a property lease. The Company acts as a lessor for one property and the lessee is RAC Motoring Services, a fellow Group Company.

16 Risk management

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

16 Risk management (continued)

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

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

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

- defined terms of reference for the Board and the associated executive management and other committees across the Group;
- a clear organisational structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior management; and
- adoption of the risk policy framework that defines risk appetite measures and sets out risk management and control standards.

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

(a) Treasury policy

The Group Treasury department's main responsibilities are to:

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

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

(i) Market risk

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

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

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

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

16 Risk management (continued)

(a) Treasury policy (continued)

(ii) Credit risk

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

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

	2016	2015
	£000	£000
Trade and other receivables	6,179	4,358
Cash and cash equivalents	12,108	12,067
	18,287	16,425

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

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

The Company has not been generally exposed to significant concentrations of credit risk to third parties due to the nature of trading activity undertaken and the size of individual balances. All trade and other receivables are non-rated (2015: non-rated).

The Company is exposed to concentrations of risk with individual banks which are within approved counterparty exposure limits. Cash and cash equivalents throughout the periods reported on were held with institutions who are A rated. The Company's largest cash and cash equivalent counterparty is Morgan Stanley (2015: Mizuho). At 31 December 2016 the balance held at this counter-party was £2,165 thousand (2015: Mizuho: £2,150 thousand).

16 Risk management (continued)

(a) Treasury policy (continued)

(iii) Liquidity risk

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

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

Liquidity risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements.

(iv) General insurance risk

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

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

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

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

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

(b) Strategic and operational risk

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

16 Risk Management (continued)

(c) Capital risk management

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

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

In managing its capital, the Group seeks to:

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

(d) Regulatory risk

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

Relevant capital and solvency regulations ("Solvency II") continue to be used to measure and report the financial strength of regulated companies within the Company. The regulatory capital tests verify that an adequate excess of solvency capital above the required minimum level calculated is maintained using a series of prudent assumptions about the type of business that is underwritten. Regulatory requirements have been complied with throughout all periods reported.

The Company is also subject to regulatory requirements, as set out by the FCA, in relation to product design, marketing materials, sales processes and data protection. Failure to comply with these requirements could result in the Company having to suspend, either temporarily or permanently, certain activities. To mitigate these risks the Company employs regulatory and compliance specialists to ensure the regulatory and legislative requirements are fully understood and adhered to. Following a detailed programme of preparatory work in 2015, RAC Insurance Limited has transitioned to comply with the requirements Solvency II from 1 January 2016..

16 Risk management (continued)

(e) Sensitivity testing

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

Sensitivity factor	Description of sensitivity factor applied
Gross loss ratios	The impact of an increase in gross loss ratios by 5%.
Expenses	The impact of an increase in expenses by 10%.
Interest rate and investment return	The impact of a 1% increase or decrease in market interest rates (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% or 6%). The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities.

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

The above sensitivity factors are applied, with the following pre-tax impacts on profit and shareholder's equity at 31 December 2016.

	Increase/(decrease) in shareholder's equity (£000)		Increase/(decrease) in profit before tax (£000)	
	Gross of reinsurance	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	£000	£000	£000	£000
Gross loss ratios + 5%	(423)	(423)	(529)	(529)
Expenses +10%	(190)	(190)	(238)	(238)
Interest rates +1%	97	97	121	121
Interest rates -1%	(26)	(26)	(33)	(33)

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

17 Related party transactions

(a) The Company had the following transactions with related parties in 2016 and 2015:

(i) The Company has entered into agreements with RAC Motoring Services and RACMS (Ireland) Limited, fellow Group companies, where income, claims costs and other expenses for certain products are initially recorded by RAC Motoring Services and RACMS (Ireland) Limited, on behalf of the Company, and then transferred to the Company through intercompany accounts. The net value of these transfers was £3,782 thousand of net costs in the year (2015: £3,443 thousand).

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

	2016	2015
	£000	£000
Other Group companies- current accounts	6,152	4,217

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

(iii) The Company had £nil due to related parties (2015: £nil).

(b) Key management compensation

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

(c) Key management interests

No key management personnel held equity stakes in the Company at 31 December 2016 or 31 December 2015.

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

(d) Property transaction

During 2013, the Company acquired a property with a market value of £3 million from RAC Motoring Services for cash consideration of £3 million. Following acquisition, the Company leased the property back to RAC Motoring Services. The value of rent was £393 thousand in 2016 (2015: £393 thousand). The risks and rewards of ownership lie with the Company and therefore it has recognised the asset at fair value in its statement of financial position in accordance with IAS 17 Leases.

(e) Immediate Parent Company

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

Notes to the Financial Statements (continued)

17 Related party transactions (continued)

(f) Ultimate controlling entity

The ultimate controlling entity is RAC Group (Holdings) Limited. Its Annual Report and Financial Statements are available on application to the Company Secretary, RAC Group (Holdings) Limited, RAC House, Brockhurst Crescent, Walsall, West Midlands, United Kingdom, WS5 4AW. The lowest level at which consolidated Financial Statements are prepared is RAC Group Limited. The highest level at which consolidated Financial Statements are prepared is RAC Group (Holdings) Limited.