

**AA COMMERCIAL INSURANCE**

**SERVICES LIMITED**

***(formerly AA Commercial Insurance Brokers Limited)***

**ACCOUNTS - 31 DECEMBER 1996**



***Registered number: 912211***

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1996

1 The directors present the audited financial statements for the year ended 31 December 1996.

2 CHANGE OF NAME

On 10 April 1996 the company changed its name from AA Commercial Insurance Brokers Limited to AA Commercial Insurance Services Limited.

3 REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The profit and loss account for the year is set out on page 4.

Following an AA Group decision in 1995 to concentrate on personal lines insurance business, the company's Extended Warranty broking activities were transferred to another group company and the remainder of the client portfolio was sold to Rollins Hudig Hall Limited on 10 January 1996. The company ceased trading during the year but will continue to receive deferred consideration in relation to certain policy renewals in 1997 and 1998 under the terms of the sale agreement.

4 DIVIDENDS

The directors do not recommend a dividend in respect of the year, (1995 £nil).

5 DIRECTORS

The directors of the company are as follows:

|                  |                                       |
|------------------|---------------------------------------|
| Kerry Richardson | - Chairman, appointed 31 October 1996 |
| George Lowe      |                                       |

Mark Wood was a director and Chairman until his resignation on 31 October 1996. Kerry Richardson was appointed a director and Chairman on that date.

6 DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND CONTRACTS

None of the directors had any beneficial interest in shares of any group undertaking during the year and in any contract of significance to which the company was a party during the year.

7 PAYMENT POLICY

The company's policy complies with the CBI's Prompt Payment Code of Good Practice which states that responsible companies should:

- \* have a clear and consistent policy that they pay bills in accordance with contract;
- \* ensure that the finance and purchasing departments are both aware of this policy and adhere to it;
- \* agree payment terms at the outset of a deal and stick to them;

## AA COMMERCIAL INSURANCE SERVICES LIMITED

## REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1996 - continued

## 7 PAYMENT POLICY - continued

- \* not extend or alter payment terms without prior agreement;
- \* provide suppliers with clear guidance on payment procedures; and
- \* ensure that there is a system for dealing quickly with complaints and disputes and advise suppliers without delay when invoices, or parts of invoices, are contested.



BY ORDER OF THE BOARD

C J SKEEN

BASINGSTOKE, 14 MARCH 1997

SECRETARY

**AA COMMERCIAL INSURANCE SERVICES LIMITED****DIRECTORS' STATEMENT OF RESPONSIBILITY****IN RELATION TO FINANCIAL STATEMENTS**

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for the financial year.

The directors consider that, in preparing the financial statements on pages 4 to 11, appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that all applicable accounting standards have been followed. The financial statements have been prepared on a break up basis, which has no impact when compared to a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, the directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities. The directors confirm that they have complied with these requirements.

**REPORT OF THE AUDITORS TO THE MEMBERS OF  
AA COMMERCIAL INSURANCE SERVICES LIMITED**

We have audited the financial statements on pages 4 to 11.

**Respective responsibilities of directors and auditors**

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Coopers & Lybrand*

COOPERS & LYBRAND  
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS  
SOUTHAMPTON, 14 MARCH 1997

## AA COMMERCIAL INSURANCE SERVICES LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1996

|   | Note | 1996<br>£'000 | 1995<br>£'000 |
|---|------|---------------|---------------|
| TURNOVER                                      |      | -             | 702           |
| Operating expenditure                         |      | (66)          | (829)         |
| Profit on disposal of discontinued operations | 2    | 542           | -             |
| Other interest receivable and similar income  | 3    | 118           | 140           |
| Interest payable and similar charges          |      | -             | (2)           |
| PROFIT BEFORE TAXATION                        | 4    | 594           | 11            |
| TAXATION ON PROFIT ON ORDINARY ACTIVITIES     | 7    | (69)          | (6)           |
| PROFIT FOR THE FINANCIAL YEAR                 |      | 525           | 5             |
| RETAINED PROFIT AT 1 JANUARY 1996             |      | 523           | 518           |
| RETAINED PROFIT AT 31 DECEMBER 1996           |      | <u>1,048</u>  | <u>523</u>    |

All operating items dealt with in arriving at the profit before taxation for both 1996 and 1995 relate to operations which were discontinued during the year.

As the financial statements have been drawn up under the historical cost convention, there is no difference between the profit and loss account, reported above, and its historical cost equivalent.


The company has no recognised gains or losses in 1996 and 1995, other than the profit for the financial years reported above and, therefore, no separate statement of total recognised gains or losses is presented.

## AA COMMERCIAL INSURANCE SERVICES LIMITED

## BALANCE SHEET - 31 DECEMBER 1996

|  | Note | 1996<br>£'000       | 1995<br>£'000       |
|--|------|---------------------|---------------------|
| <b>FIXED ASSETS</b>  |      |                     |                     |
| Tangible assets  | 8    | -                   | 9                   |
| <b>CURRENT ASSETS</b>  |      |                     |                     |
| Debtors  | 9    | 155                 | 807                 |
| Cash at bank and in hand                                       |      | <u>1,812</u>        | <u>2,003</u>        |
|  |      | <u>1,967</u>        | <u>2,810</u>        |
| <b>CREDITORS: amounts falling due within one year</b>          | 10   | <u>(184)</u>        | <u>(1,476)</u>      |
| <b>NET CURRENT ASSETS</b>                                      |      | <u>1,783</u>        | <u>1,334</u>        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |      | <u>1,783</u>        | <u>1,343</u>        |
| <b>CREDITORS: amounts falling due after more than one year</b> | 11   | (165)               | -                   |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>                  |      |                     |                     |
| Pensions and similar obligations                               | 12   | <u>-</u>            | <u>(250)</u>        |
| <b>NET ASSETS</b>  |      | <u><u>1,618</u></u> | <u><u>1,093</u></u> |
| <b>CAPITAL AND RESERVES</b>                                    |      |                     |                     |
| Called up share capital  | 14   | 570                 | 570                 |
| Profit and loss account  |      | <u>1,048</u>        | <u>523</u>          |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>                              | 15   | <u><u>1,618</u></u> | <u><u>1,093</u></u> |

The financial statements on pages 4 to 11 were approved by the Board of directors on 14 March 1997 and were signed on its behalf by:



KERRY RICHARDSON

DIRECTOR

## AA COMMERCIAL INSURANCE SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996

## 1 ACCOUNTING POLICIES

The financial statements have been prepared on a consistent basis under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

A summary of accounting policies is set out below.

**Turnover**

Turnover represents brokerage, fees and commission, and is recognised on an accruals basis taking into account the inception date of each risk. Generally, this is the date when the Insured is debited. Turnover excludes value added tax, insurance premium tax and other interest receivable and similar income.

**Depreciation**

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

|                    |              |
|--------------------|--------------|
| Computer Equipment | 20% - 33.33% |
| Motor Vehicles     | 22%          |

The cost of furniture and fittings is written off in the year of purchase, except in the case of major projects, where the costs are capitalised and depreciated, using an annual rate of 20%.

**Deferred taxation**

Provision is made for all material timing differences to the extent that it is probable that a liability or asset will crystallise, at the rate which is then expected to apply.

**Retirement benefits**

The cost of providing retirement benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The difference between the charge to the profit and loss account and the contributions and premiums paid is included as an asset or liability in the balance sheet.

**Costs incurred by other group companies**

The Automobile Association and other group companies allocate to the company costs, which they have incurred on the company's behalf.

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

## 1 ACCOUNTING POLICIES - continued

**Insurance Broking assets and liabilities**

The company acted as an agent in broking the insurable risks of its clients and, generally, was not liable as a principal for premiums due to underwriters nor for claims payable to clients. Notwithstanding the company's legal relationship with clients and underwriters and since, in practice, premiums and claims monies are actually accounted for by insurance brokers, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the company itself.

In the ordinary course of insurance broking business, settlement is required to be made with certain markets, market settlement bureaux or insurance brokers on the basis of the net balance due to or from the market, bureau or broker in question, rather than the amounts due to or from the individual third parties which it represents. This basis of settlement is reflected in the amounts included in insurance broking debtors and creditors.

## 2 PROFIT ON DISPOSAL OF DISCONTINUED OPERATIONS

The profit includes goodwill of £400,000 on the sale of the company's client portfolio, and deferred consideration earned in the year from certain policy renewals less attributable expenses. The company will continue to receive deferred consideration on specified policy renewals in 1997 and 1998 under the terms of the sale agreement.

## 3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

|                           | 1996       | 1995       |
|---------------------------|------------|------------|
|                           | £'000      | £'000      |
| Other interest receivable | <u>118</u> | <u>140</u> |

The company's bank balances are pooled with those of The Automobile Association and other group undertakings for AA Group treasury management purposes, in agreement with the company's bankers. The company receives interest on its balances from other group undertakings at a commercial rate.

## 4 PROFIT BEFORE TAXATION

The profit before taxation is stated after charging:

|                                       | 1996  | 1995  |
|---------------------------------------|-------|-------|
|                                       | £'000 | £'000 |
| Depreciation of tangible fixed assets | -     | 29    |
| Fees payable to the auditors:         |       |       |
| Audit                                 | 3     | 12    |
| Other                                 | -     | 2     |



## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

## 5 DIRECTORS' EMOLUMENTS

|   | 1996<br>£'000 | 1995<br>£'000 |
|---|---------------|---------------|
| Emoluments of directors, including pension contributions: |               |               |
| For management services                                   | <u>9</u>      | <u>31</u>     |

The emoluments disclosed above (excluding pension contributions) include amounts paid to:

|                                     | 1996          | 1995           |
|-------------------------------------|---------------|----------------|
| The Chairmen                        |               |                |
| from 1 January to 31 October 1996   | <u>£2,076</u> | <u>-</u>       |
| from 1 November to 31 December 1996 | <u>-</u>      | <u>-</u>       |
| from 1 January to 31 December 1995  | <u>-</u>      | <u>£2,317</u>  |
| The highest paid director           | <u>£5,651</u> | <u>£23,930</u> |

Number of directors whose emoluments were within the ranges:

|                   | No | No |
|-------------------|----|----|
| £nil - £5,000     | 2  | 2  |
| £5,001 - £10,000  | 1  | -  |
| £20,001 - £25,000 | -  | 1  |

## 6 EMPLOYEES

The average number of persons employed by the company, including executive directors, during the year was 1 (1995, 20).

Staff costs, including remuneration to executive directors, during the year amounted to:

|                       | 1996<br>£'000 | 1995<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 16            | 342           |
| Social security costs | -             | 28            |
| Other pension costs   | <u>2</u>      | <u>43</u>     |
|                       | <u>18</u>     | <u>413</u>    |

## 7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

|  | 1996<br>£'000 | 1995<br>£'000 |
|--|---------------|---------------|
| United Kingdom corporation tax at 33%(1995, 33%) |               |               |
| Current  | 69            | 14            |
| Over provision in respect of prior years         |               |               |
| Corporation tax                                  | <u>-</u>      | <u>(8)</u>    |
|  | <u>69</u>     | <u>6</u>      |

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

## 8 TANGIBLE FIXED ASSETS

|                       | Equipment<br>& motor<br>vehicles<br>£'000 |
|-----------------------|---|
| <b>Cost</b>           |   |
| At 1 January 1996     | 95  |
| Intra-group transfers | (12)                                      |
| Disposals             | (83)                                      |
| At 31 December 1996   | -   |
| <b>Depreciation</b>   |   |
| At 1 January 1996     | 86  |
| Intra-group transfers | (8)                                       |
| Disposals             | (78)                                      |
| At 31 December 1996   | -   |
| <b>Net book value</b> |   |
| At 31 December 1996   | -   |
| At 31 December 1995   | 9   |

## 9 DEBTORS

## Amounts falling due within one year

|                                | 1996<br>£'000 | 1995<br>£'000 |
|--------------------------------|---------------|---------------|
| Insurance debtors              | 141           | 807           |
| Prepayments and accrued income | 14            | -             |
|                                | <u>155</u>    | <u>807</u>    |

Insurance debtors include trading balances with other group undertakings of £nil (1995, £259,000).

## 10 CREDITORS

## Amounts falling due within one year

|                                    | 1996<br>£'000 | 1995<br>£'000 |
|------------------------------------|---------------|---------------|
| Bank loans and overdrafts          | -             | 327           |
| Insurance creditors                | -             | 931           |
| Amounts owed to group undertakings | 83            | 161           |
| Corporation tax                    | 69            | 14            |
| Other creditors                    | 29            | 29            |
| Accruals and deferred income       | 3             | 14            |
|                                    | <u>184</u>    | <u>1,476</u>  |

## AA COMMERCIAL INSURANCE SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

## 11 CREDITORS

## Amounts falling due after more than one year

|                                    | 1996<br>£'000 | 1995<br>£'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | <u>165</u>    | <u>-</u>      |

## 12 PENSIONS AND SIMILAR OBLIGATIONS

|   | 1996<br>£'000 |
|---|---------------|
| At 1 January 1996                         | 250           |
| Transferred to The Automobile Association | <u>(250)</u>  |
| At 31 December 1996                       | <u>-</u>      |

Provisions for pensions and similar obligations are now held centrally by The Automobile Association on behalf of all group undertakings.

## 13 LLOYD'S BROKERS SECURITY AND TRUST DEED

The company ceased trading and de-registered as a Lloyds broker with effect from 1 January 1996.

## 14 CALLED UP SHARE CAPITAL

|  | 1996<br>£'000 | 1995<br>£'000 |
|--|---------------|---------------|
| Ordinary shares of £1 each<br>Authorised | <u>1,000</u>  | <u>1,000</u>  |
| Issued, called up and fully paid         | <u>570</u>    | <u>570</u>    |

## 15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

|   | 1996<br>£'000 | 1995<br>£'000 |
|---|---------------|---------------|
| Profit for the financial year           | 525           | 5             |
| Shareholders' funds at 1 January 1996   | 1,093         | 1,088         |
| Shareholders' funds at 31 December 1996 | <u>1,618</u>  | <u>1,093</u>  |

## 16 COMMITMENTS

The company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings. At 31 December 1996, the company's exposure under this guarantee was £20,934,000 (1995, £10,496,000).

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 - continued

## 17 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of the AAISH Group, the company is exempt from disclosing related party transactions with other group undertakings which are eliminated on consolidation. Transactions with other related parties are disclosed in the AAISH Group accounts which are publicly available.

## 18 ULTIMATE OWNERSHIP

The company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited, a company registered in England and Wales. The principal ultimate ownership of Automobile Association Insurance Services Holdings Limited is vested in The Automobile Association. Their principal places of business are both situated at Norfolk House, Priestley Road, Basingstoke, Hampshire, RG24 9NY.