

**AUTOMOBILE ASSOCIATION**  
**UNDERWRITING SERVICES LIMITED**  
**ACCOUNTS - 31 DECEMBER 1997**



*Registered number: 1674675*

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED****REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31 DECEMBER 1997**

- 1 The directors present the audited financial statements for the year ended 31 December 1997.

2 **REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS**

The company's profit and loss account for the year is set out on pages 5 and 6.

The principal activity of the company is to transact classes 16 to 18 of 'General Insurance' as defined by Section 1 of the Insurance Companies Act 1982. An analysis of the results of company's classes of business is shown in Note 2 to the accounts.

Both the level of business and year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

3 **DIVIDENDS**

The directors do not recommend the payment of a dividend in respect of the year, (1996 £nil).

4 **DIRECTORS**

The following are directors of the company, all of whom have been directors for the whole of the year, except where indicated.

John Maxwell	- Chairman
John Dawson	
Pete Johnson	
Kerry Richardson	
Colin Skeen	- appointed 14 January 1998
Frank Thackwray	
Stephen Young	- appointed 2 March 1998

Mark Haszlkiewicz was a director of the company from the beginning of the year until his resignation on 2 March 1998.

5 **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.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED****REPORT OF THE DIRECTORS****FOR THE YEAR ENDED 31 DECEMBER 1997 - continued****6 EMPLOYEE COMMUNICATION AND INVOLVEMENT**

The AA Group uses employee communication and consultation to increase the effectiveness of the group's operations for the mutual benefit of members, customers and employees. All employees attend monthly briefings to receive information and to give their views on financial performance, business developments, service standards or local operational topics. Additionally, within these meetings, employees have the opportunity to raise any other matters relevant to the group's activities. In accordance with practice agreements which exist with AA recognised trade unions, a variety of matters relating to employees' terms and conditions of employment are jointly kept under review. All employees within the AA Group participate in performance-related bonus or incentive schemes. In addition, there is a long-term remuneration scheme for senior management which may result in bonus payments dependent on the success of the group in attaining its long-term strategic aims.

**7 PEOPLE WITH DISABILITIES**

The company is committed to the principle of equal opportunity in employment and undertakes a number of ongoing projects in support of this policy. This has included extensive communication and training of employees in relation to the company's responsibilities under the Disability Discrimination Act 1995. In addition, the AA Group has joined the Employers' Forum on Disability and is seeking to obtain the Employment Service Double Tick standard in all businesses.

Full consideration is given to applications for employment from people with disabilities, whether registered or not, having regard to their particular aptitudes, and abilities. People with disabilities employed by the company participate as appropriate in training and career development schemes. It is the company's policy where an employee becomes disabled while employed, to make arrangements wherever possible for the employee to continue in the same job or to be offered retraining for alternative employment.

**8 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 adhere to them;
- \* not extend or alter payment terms without prior agreement;
- \* provide suppliers with clear guidance on payment procedures; and

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1997 - continued

## 8 PAYMENT POLICY - continued

- \* 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

MAXINE HARRISON

BASINGSTOKE, 23 MARCH 1998

SECRETARY

**AUTOMOBILE ASSOCIATION UNDERWRITING 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 results of the company for the financial year.

The directors consider that, in preparing the financial statements on pages 5 to 16, 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 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 AUTOMOBILE ASSOCIATION  
UNDERWRITING SERVICES LIMITED**

We have audited the financial statements on pages 5 to 16.

**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.

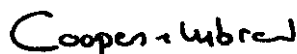
**Basis of opinion**

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND  
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS  
SOUTHAMPTON, 23 MARCH 1998

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## PROFIT AND LOSS ACCOUNT

## TECHNICAL ACCOUNT - GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>			
Gross premiums written	2	39,112	39,135
Outward reinsurance premiums		(6,295)	(5,517)
Net premiums written		<u>32,817</u>	<u>33,618</u>
Change in the gross provision for unearned premiums		(57)	(1,996)
Change in the provision for unearned premiums, reinsurer's share		103	462
Change in the net provision for unearned premiums		<u>46</u>	<u>(1,534)</u>
<b>TOTAL TECHNICAL INCOME</b>		<u>32,863</u>	<u>32,084</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Gross claims paid		17,717	20,233
Reinsurer's share		(1,064)	(1,135)
Net claims paid		<u>16,653</u>	<u>19,098</u>
Change in the gross provision for claims	3	692	(661)
Change in the provision for claims, reinsurer's share		21	(30)
Change in the net provision for claims		<u>713</u>	<u>(691)</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<u>17,366</u>	<u>18,407</u>
Net operating expenses	4	13,758	13,799
Change in the equalisation provision		(30)	30
<b>TOTAL TECHNICAL CHARGES</b>		<u>31,094</u>	<u>32,236</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS</b>		<u>1,769</u>	<u>(152)</u>

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## PROFIT AND LOSS ACCOUNT - continued

## NON-TECHNICAL ACCOUNT

## FOR THE YEAR ENDED 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
Balance on the technical account - general business		1,769	(152)
Investment income	5	2,511	2,200
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	4,280	2,048
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	9	(1,318)	(487)
PROFIT FOR THE FINANCIAL YEAR		2,962	1,561
RETAINED PROFIT AT 1 JANUARY 1997		15,057	13,496
RETAINED PROFIT AT 31 DECEMBER 1997		18,019	15,057

All items dealt with in arriving at the profit before taxation for both 1997 and 1996 relate to continuing operations.

As the financial statements have been drawn up under the historical cost convention, there is no difference between the profit and loss account reported on pages 5 and 6 and its historical cost equivalent.

The company has no recognised gains or losses in 1997 and 1996, other than the profit for the financial year, reported on pages 5 and 6, and, therefore, no separate statement of total recognised gains or losses is presented.

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## BALANCE SHEET - 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Other financial investments - deposits with credit institutions		35,000	35,000
<b>REINSURER'S SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums		3,383	3,280
Claims outstanding		137	158
		<u>3,520</u>	<u>3,438</u>
<b>DEBTORS</b>			
Debtors arising out of direct insurance operations	10	3,298	2,720
Debtors arising out of reinsurance operations - group undertakings		720	583
Other debtors	11	<u>2,979</u>	<u>3,312</u>
		<u>6,997</u>	<u>6,615</u>
<b>OTHER ASSETS</b>			
Tangible assets	12	295	252
Cash at bank and in hand		<u>2,993</u>	<u>1,836</u>
		<u>3,288</u>	<u>2,088</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest and rent		651	781
Deferred acquisition costs		<u>3,084</u>	<u>2,128</u>
		<u>3,735</u>	<u>2,909</u>
<b>TOTAL ASSETS</b>		<u><u>52,540</u></u>	<u><u>50,050</u></u>

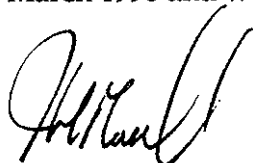


## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## BALANCE SHEET - 31 DECEMBER 1997 - continued

	Note	1997 £'000	1996 £'000
<b>LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	2,500	2,500
Profit and loss account		<u>18,019</u>	<u>15,057</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	14	<u>20,519</u>	<u>17,557</u>
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums		17,654	17,597
Claims outstanding		3,499	2,807
Equalisation provision		-	30
		<u>21,153</u>	<u>20,434</u>
<b>CREDITORS</b>			
Creditors arising out of reinsurance operations - group undertakings		1,266	1,119
Other creditors including taxation and social security	15	<u>8,518</u>	<u>9,893</u>
		<u>9,784</u>	<u>11,012</u>
<b>ACCRUALS AND DEFERRED INCOME</b>		1,084	1,047
<b>TOTAL LIABILITIES</b>		<u>52,540</u>	<u>50,050</u>

The financial statements on pages 5 to 16 were approved by the Board of directors on 23 March 1998 and were signed on its behalf by:



JOHN MAXWELL  
DIRECTOR

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

**1 ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and in accordance with applicable Accounting Standards in the United Kingdom and with the Association of British Insurers Guidance on Accounting for Insurance Business published on 28 January 1998.

A summary of the accounting policies is set out below.

**Premiums**

All premiums written relate to business inception in the year and are shown gross of any commission due to intermediaries and exclusive of insurance premium tax. The amount includes an estimate of premiums due but not yet received.

**Unearned premiums**

The provision for unearned premiums represents that proportion of the premiums written in the year relating to the period of the policy that has not expired at the balance sheet date.

**Claims**

Provision is made for the estimated cost of claims notified but not settled by the balance sheet date and of claims incurred but not reported by that date, together with the expected administrative costs of settlement. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

**Unexpired risks provisions**

A provision is established where claims and administration expenses are expected to exceed the unearned premium provision after the end of the year. The provision is calculated for each separate category of direct business class, but, where, in the opinion of the directors, the business classes concerned are managed together, a provision for unexpired risks is made only where there is an aggregate deficit.

**Acquisition costs**

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability and amortised over the period in which the related premiums are earned.

**Transfer of investment return**

In accordance with the Association of British Insurers Guidance on Accounting for Insurance Business published on 28 January 1998, the company is no longer required to make a transfer of investment return from the non-technical account to the technical account - general business. The comparatives have been restated to reflect this.

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

## 1 ACCOUNTING POLICIES - continued

**Costs incurred by and on behalf of other group companies**

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

**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:

Equipment	20% - 33.33%
Motor vehicles	18% - 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%.

**Retirement benefits**

The cost of providing retirement benefits is charged to the technical account - general business 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.

**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.

**Investments**

Investments are valued individually at the lower of cost and net realisable value.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year or, if hedged forward, at the rate of exchange under the related forward currency contract. Gains and losses arising on the translation of assets and liabilities are taken to the technical account - general business together with other exchange differences.

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

2

## SEGMENTAL INFORMATION

1997	Miscellaneous financial loss £'000	Legal expenses £'000	Assist- ance £'000	Total £'000
Gross premiums written	882	13,170	25,060	39,112
Gross premiums earned	872	12,928	25,255	39,055
Gross claims incurred	622	2,429	15,358	18,409
Operating expenses	418	4,101	9,239	13,758
Reinsurer's share of premiums and claims	-	5,149	-	5,149
Change in the equalisation provision	(30)	-	-	(30)
<b>General business technical result</b>	<b>(138)</b>	<b>1,249</b>	<b>658</b>	<b>1,769</b>

1996	Miscellaneous financial loss £'000	Legal expenses £'000	Assist- ance £'000	Total £'000
Gross premiums written	1,018	11,654	26,463	39,135
Gross premiums earned	950	11,161	25,028	37,139
Gross claims incurred	632	2,808	16,132	19,572
Operating expenses	438	3,436	9,925	13,799
Reinsurer's share of premiums and claims	-	3,890	-	3,890
Change in the equalisation provision	30	-	-	30
<b>General business technical result</b>	<b>(150)</b>	<b>1,027</b>	<b>(1,029)</b>	<b>(152)</b>

All gross premiums written are in respect of direct business and were concluded in the United Kingdom.

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

## 3 MOVEMENTS IN PRIOR YEARS' CLAIMS PROVISIONS

Included in the change in the provision for claims, are the following material movements relating to prior years.

	1997		1996	
	Legal expenses £'000	Assist- ance £'000	Legal expenses £'000	Assist- ance £'000
Net loss provisions brought forward as at 1 January 1997	924	1,394	1,488	1,752
Net payments during the year in respect of these provisions	(374)	(1,417)	(639)	(1,508)
Net loss provisions carried forward in respect of claims provided at 1 January 1997	(322)	(207)	(375)	(369)
<b>Over/(under) provision of prior years' provisions</b>	<b>228</b>	<b>(230)</b>	<b>474</b>	<b>(125)</b>

## 4 NET OPERATING EXPENSES

	1997 £'000	1996 £'000
Policy acquisition costs	7,369	7,321
Change in deferred acquisition costs	(956)	400
Administration costs	7,345	6,078
<b>Net operating expenses</b>	<b>13,758</b>	<b>13,799</b>

The total commission incurred during the year was £6,217,000 (1996, £6,561,000).

Administration costs include general marketing costs, being an allocation of The Automobile Association's total marketing expense.

## 5 INVESTMENT INCOME

	1997 £'000	1996 £'000
Income from investments other than participating interests:		
Income from other financial investments	2,511	2,200

## 6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	1997 £'000	1996 £'000
Depreciation of tangible fixed assets	114	172
Furniture and fittings written off	5	13
Policyholders Protection Act levy	-	33
Fees payable to the auditors:		
Audit	35	32
Other	12	-

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

## 7 DIRECTORS' EMOLUMENTS

	1997	1996
	£'000	£'000
Aggregate emoluments	37	50
Employer pension contributions to money purchase scheme	1	-

Retirement benefits are accruing to one director under a money purchase scheme and to all directors under the AA Group's defined benefit scheme.

## 8 EMPLOYEES

The average number of persons employed by the company, including executive directors, during the year was 243 (1996, 293).

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

	1997	1996
	£'000	£'000
Wages and salaries	2,803	3,703
Social security costs	192	251
Other pension costs	217	277
	<u>3,212</u>	<u>4,231</u>

## 9 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997	1996
	£'000	£'000
United Kingdom corporation tax at 31.5% (1996 33%)		
Current	1,268	517
Under/(over) provision in respect of prior years	50	(30)
	<u>1,318</u>	<u>487</u>

## 10 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1997	1996
	£'000	£'000
Policyholders	986	845
Intermediaries	2,312	1,875
	<u>3,298</u>	<u>2,720</u>

## 11 OTHER DEBTORS

	1997	1996
	£'000	£'000
Amounts owed by group undertakings	293	239
Other debtors	2,686	3,073
	<u>2,979</u>	<u>3,312</u>

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

## 12 TANGIBLE ASSETS

	Equipment and motor vehicles £'000
<b>Cost</b>	
At 1 January 1997	988
Additions	177
Disposals	(43)
At 31 December 1997	<u>1,122</u>
<b>Depreciation</b>	
At 1 January 1997	736
Charge for the year	114
Disposals	(23)
At 31 December 1997	<u>827</u>
<b>Net book value</b>	
At 31 December 1997	<u>295</u>
At 31 December 1996	<u>252</u>

## 13 CALLED UP SHARE CAPITAL

	1997 £'000	1996 £'000
Ordinary shares of £1 each		
Authorised	<u>10,000</u>	<u>10,000</u>
Issued, called up and fully paid	<u>2,500</u>	<u>2,500</u>

## 14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit for the financial year	<u>2,962</u>	<u>1,561</u>
Net addition to shareholders' funds	<u>2,962</u>	<u>1,561</u>
Shareholders' funds at 1 January 1997	17,557	15,996
Shareholders' funds at 31 December 1997	<u>20,519</u>	<u>17,557</u>

## AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued

## 15 OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY

	1997	1996
	£'000	£'000
Amounts owed to group undertakings	6,293	8,515
Corporation tax	1,434	639
Other taxation and social security	341	177
Other creditors	450	562
	<u>8,518</u>	<u>9,893</u>

## 16 PENSIONS AND SIMILAR OBLIGATIONS

Pension schemes for the AA Group's employees are of the defined benefit, final salary type, the assets of which are held in trust funds separate from the AA Group's finances. The schemes are self-administered and funded to cover future pension liabilities (including expected future earnings and pension increases) in respect of service up to the balance sheet date.

They are subject to independent valuations at least every three years, on the basis of which the company's consulting actuary certifies the rates of the employer's contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are sufficient to fund the benefits payable under the schemes.

The company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees.

Details relating to the latest actuarial valuations of these arrangements are contained in the financial statements of The Automobile Association. Provisions for pensions and similar obligations are held centrally by The Automobile Association.

## 17 DEFERRED TAXATION

The deferred taxation provision and full potential asset are set out below:

	1997 Full potential asset £'000	1997 Provision made £'000	1996 Full potential asset £'000	1996 Provision made £'000
Timing differences on				
Fixed assets	31	-	41	-
Provisions for pensions and similar obligations	277	-	305	-
Other items	151	-	176	-
	<u>459</u>	<u>-</u>	<u>522</u>	<u>-</u>



**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED****NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 - continued****18 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 1997, the company's exposure under this guarantee was £140,427,000 (1996, £56,058,000).

**19 RELATED PARTY TRANSACTIONS**

As a wholly owned subsidiary, the company is exempt from the requirement to disclose related party transactions with other AA Group undertakings under Financial Reporting Standard 8 which cancel on consolidation. There are no other related party transactions which require disclosure.

**20 ULTIMATE OWNERSHIP**

The company is a wholly owned subsidiary of Automobile Association Developments Limited. The ultimate ownership of Automobile Association Developments Limited is vested in The Automobile Association, whose principal place of business is situated at Norfolk House, Priestley Road, Basingstoke, Hampshire, RG24 9NY.