

AA COMMERCIAL INSURANCE
BROKERS LIMITED
ACCOUNTS - 31 DECEMBER 1995



REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1995

1. The Directors present herewith the audited financial statements for the year ended 31 December 1995.

2. REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The profit and loss account for the year is set out on page 3.

The main activity of the Company during the year was that of a Lloyd's insurance broker. The Company provided a professional commercial insurance service to clients introduced through the AA Group's retail network.

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 and the Company ceased trading with effect from that date.

3. DIVIDENDS AND TRANSFERS TO RESERVES

The Directors do not recommend a dividend in respect of the year, (1994 £nil). Retained profits of £5,000 (1994, £122,000) have been transferred to reserves.

4. DIRECTORS

The Directors of the Company were as follows:

Mark Wood	- Chairman,
Christopher Cooke	- resigned 13 March 1995
George Lowe	

5. INSURANCE OF DIRECTORS

The AA Group maintains liability insurance for the Directors of AA Commercial Insurance Brokers Limited in respect of their duties as Directors of the Company.

6. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AND CONTRACTS

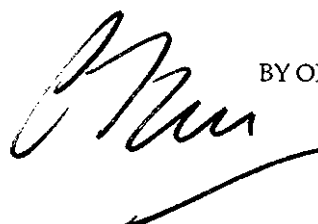
The beneficial interests in shares of a group company for George Lowe are disclosed in the accounts of Automobile Association Insurance Services Holdings Limited.

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

7. FIXED ASSETS

The movements in fixed assets during the year are set out in note 8 to the financial statements.

BASINGSTOKE, 22 MARCH 1996

 BY ORDER OF THE BOARD
COLIN SKEEN
SECRETARY

AA COMMERCIAL INSURANCE BROKERS 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 3 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 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 BROKERS LIMITED

We have audited the financial statements on pages 3 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.

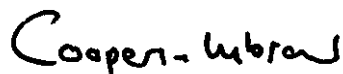
Basis of opinion

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 1995 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, 22 MARCH 1996

AA COMMERCIAL INSURANCE BROKERS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1995

	Note	1995 £'000	1994 £'000
TURNOVER		702	1,464
Operating expenditure		(829)	(1,204)
Exceptional operating expenditure	2	-	(236)
TOTAL OPERATING EXPENDITURE		<u>(829)</u>	<u>(1,440)</u>
Other interest receivable and similar income	3	140	118
Interest payable and similar charges		<u>(2)</u>	<u>(3)</u>
PROFIT BEFORE TAXATION	4	11	139
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	7	<u>(6)</u>	<u>(17)</u>
PROFIT FOR THE FINANCIAL YEAR		5	122
RETAINED PROFIT AT 1 JANUARY 1995		518	396
RETAINED PROFIT AT 31 DECEMBER 1995		<u>523</u>	<u>518</u>

All operating items dealt with in arriving at the profit before taxation for both 1995 and 1994 relate to operations which were discontinued during the year or on the sale of the Company's business in 1996.

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 1995 and 1994, 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 BROKERS LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1995

	1995 £'000	1994 £'000
Profit for the financial year	5	122
Opening shareholders' funds	1,088	966
Closing shareholders' funds	<u>1,093</u>	<u>1,088</u>

AA COMMERCIAL INSURANCE BROKERS LIMITED

BALANCE SHEET - 31 DECEMBER 1995

	Note	1995 £'000	1994 £'000
FIXED ASSETS			
Tangible assets	8	9	72
CURRENT ASSETS			
Debtors	9	807	5,097
Cash at bank and in hand		<u>2,003</u>	<u>4,167</u>
		2,810	9,264
CREDITORS: amounts falling due within one year	10	<u>(1,476)</u>	<u>(8,009)</u>
NET CURRENT ASSETS		1,334	1,255
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,343</u>	<u>1,327</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Pensions and similar obligations	11	<u>(250)</u>	<u>(239)</u>
NET ASSETS		<u><u>1,093</u></u>	<u><u>1,088</u></u>
CAPITAL AND RESERVES			
Called up share capital	13	570	570
Profit and loss account		<u>523</u>	<u>518</u>
EQUITY SHAREHOLDERS' FUNDS		<u><u>1,093</u></u>	<u><u>1,088</u></u>

The financial statements on pages 3 to 11 were approved by the Board of Directors on 22 March 1996 and were signed on its behalf by:



MARK WOOD
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1995

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

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

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 shown as an asset or liability in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1995 - continued

1. ACCOUNTING POLICIES - continued

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.

Insurance Broking assets and liabilities

The Company acts as an agent in broking the insurable risks of its clients and, generally, is 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.

Under FRS5, Reporting the Substance of Transactions, the Company would not be permitted to net off such amounts. However, the Company has used the exemption from netting off, granted to insurance brokers in an amendment to FRS5.

2. EXCEPTIONAL OPERATING EXPENDITURE

The exceptional charge incurred in 1994 represents the cost of redundancies following the closure of the Company's London office. The taxation charge was reduced by £78,000 arising from this charge.

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	1995 £'000	1994 £'000
Other interest receivable	140	118

Other interest receivable arises principally out of an agreement with the Company's bankers whereby the Company's bank balances are aggregated with those of The Automobile Association and other group undertakings for interest allocation purposes only. Interest is calculated using commercial rates of interest.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1995 - continued

4. PROFIT BEFORE TAXATION

The profit before taxation is stated after charging:

	1995 £'000	1994 £'000
Depreciation of tangible fixed assets	29	41
Fees payable to the auditors:		
Audit	12	12
Other	2	1
Operating leases	-	59

5. DIRECTORS' EMOLUMENTS

	1995 £'000	1994 £'000
Emoluments of directors, including pension contributions:		
For management services	31	110

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

	1995	1994
The Chairman		
from 1 January to 31 December 1995	£2,317	-
from 1 January to 28 June 1994	-	£9,981
from 29 June to 31 December 1994	-	£2,303
The highest paid director	£23,930	£74,658

Number of directors whose emoluments were within the ranges:

	No	No
Nil - £5,000	2	3
£20,001 - £25,000	1	1
£70,001 - £75,000	-	1

6. EMPLOYEES

The average number of persons employed by the Company, including executive directors, during the year was 20 (1994, 30).

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

	1995 £'000	1994 £'000
Wages and salaries	342	559
Social security costs	28	46
Other pension costs	43	73
	413	678

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1995 - continued

6. EMPLOYEES - continued

These staff costs represent costs directly incurred by the Company and exclude the cost of redundancies, included in exceptional expenditure; in addition, the following staff costs were allocated to the Company by other group undertakings:

	1995 £'000	1994 £'000
Wages and salaries	74	52
Social security costs	6	4
Other pension costs	6	6
	<u>86</u>	<u>62</u>

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1995 £'000	1994 £'000
United Kingdom corporation tax at 33%(1994, 33%)		
Current	14	51
Over provision in respect of prior years		
Corporation tax	(8)	(34)
	<u>6</u>	<u>17</u>

8. TANGIBLE FIXED ASSETS

	Equipment & motor vehicles £'000
Cost	
At 1 January 1995	200
Additions	1
Intra-group transfers	(65)
Disposals	(41)
At 31 December 1995	<u>95</u>
Depreciation	
At 1 January 1995	128
Charge for the year	29
Intra-group transfers	(38)
Disposals	(33)
At 31 December 1995	<u>86</u>
Net book value	
At 31 December 1995	<u>9</u>
At 31 December 1994	<u>72</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1995 - continued

9. DEBTORS

Amounts falling due within one year

	1995 £'000	1994 £'000
Insurance debtors	807	5,058
Amounts owed by group undertakings	-	35
Prepayments and accrued income	-	4
	<u>807</u>	<u>5,097</u>

Insurance debtors include trading balances with other group undertakings of £259,000 (1994, £4,336,000).

10. CREDITORS

Amounts falling due within one year

	1995 £'000	1994 £'000
Bank loans and overdrafts	327	-
Insurance creditors	931	7,939
Amounts owed to group undertakings	161	21
Corporation tax	14	5
Other creditors	29	7
Accruals and deferred income	14	37
	<u>1,476</u>	<u>8,009</u>

11. PENSIONS AND SIMILAR OBLIGATIONS

	1995 £'000	1994 £'000
At 1 January 1995	239	251
Charge for the year	51	58
Utilised in the year	(40)	(70)
At 31 December 1995	<u>250</u>	<u>239</u>

Pensions

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 R Watson & Sons, Consulting Actuaries, certify 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.

Details relating to the latest actuarial valuation of the schemes are contained in the financial statements of The Automobile Association.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1995 - continued

11. PENSIONS AND SIMILAR OBLIGATIONS - continued

Other retirement benefits

The Company has a commitment to provide post-retirement private medical insurance cover for certain current and past employees. The provision of £23,000 at 31 December 1995 (1994, £14,000) was established on an actuarial basis, assuming a 4% per annum real increase in premiums.

12. LLOYD'S BROKERS SECURITY AND TRUST DEED

As required by Lloyd's By-law (no 5 of 1988), the Company has entered into a trust deed under which all insurance broking account assets are subject to a floating charge held on trust by the Society of Lloyd's for the benefit of the insurance creditors which, at 31 December 1995, amounted to £931,000 (1994, £7,939,000). The charge only becomes enforceable under certain circumstances as set out in the deed. The assets subject to this charge were:

	1995	1994
	£'000	£'000
Bank balance	2,003	4,167
Insurance debtors	807	5,058
	<u>2,810</u>	<u>9,225</u>

13. CALLED UP SHARE CAPITAL

	1995	1994
	£'000	£'000
Ordinary shares of £1 each		
Authorised	<u>1,000</u>	<u>1,000</u>
Issued, called up and fully paid	<u>570</u>	<u>570</u>

14. 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.