

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2017

Registered number: 01674675

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AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JANUARY 2017

The directors present the annual report and financial statements of Automobile Association Underwriting Services Limited ("the Company") for the year ended 31 January 2017.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year ended 31 January 2009, the directors took the decision to cease to write all personal business lines and to cease to write commercial business lines in line with contract expiry. No new contracts have been written since February 2014 and the last of the Company's underwritten policies expired by 31 March 2016. The Company is in run-off and its principal activity is to manage its pre-existing claims to customers.

As at 31 January 2017 and throughout the year, the Company met the minimum capital funding requirements for non-Directive Insurance Firms. The company is not required to comply with Solvency II due to de-minimis limits, reflecting Article 4 ('Exclusion from scope due to size') of the Solvency II Directive, and only non-liability business has been written.

The Company's profit and loss account for the year is set out on pages 6 and 7.

During the year, technical income has decreased from £1,000 to £nil. Profit before tax has decreased from £28,000 to £19,000.

The directors are satisfied with the financial position of the Company and expect the level of solvency to remain in excess of the requirements set by the Prudential Regulation Authority.

KEY PERFORMANCE INDICATORS

The directors use the following key performance indicators to monitor the development, performance and position of the business:

	2017 £'000	2016 £'000
Net assets less intercompany debtors	3,936	3,880
Solvency capital requirement	2,248	1,796
Solvency margin	175%	216%

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is part of the AA plc group and its financial risks are managed centrally by the group treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions with other group entities. The most important components of financial risk impacting the Company are described below.

Due to the inherent unpredictable nature of future claims, the formation of the provision for claims outstanding is subject to uncertainty.

Interest rate risk arises from balances held with financial institutions at variable rates of interest. The directors have reviewed the Company's exposure to interest rates and have concluded that the risk is appropriate in relation to the financial results of the Company. No action has therefore been taken to mitigate the Company's exposure to movements in interest rates.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Areas where the Company is exposed to significant credit risk are:

- **Reinsurer's share of liabilities.** As primary insurer, the Company must discharge its liability even if a reinsurer fails to pay a claim. The Company has one treaty reinsurer, which is another group company and is monitored on a regular basis to ensure its financial stability.
- **Investments.** The Company's principal financial assets are funds invested in collective investment schemes and intercompany debtors. Cash is invested in collective investment schemes with a Moody's rating of Aaa-mf. The fund must be a member of the Institutional Money Market Funds Association (IMMFA). The maximum investment permitted in each fund is £200m. This is in line with the Group Treasury Policy.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 JANUARY 2017

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The Company has in place debt collection policies and procedures to minimise the likelihood of widespread defaults occurring.

Liquidity risk is the risk that cash may not be available to pay obligations when due. The risk is managed centrally with investments made in line with the Group Treasury Policy and ongoing cashflow requirements monitored and reforecast weekly. In addition, the Company's money market fund investments are available at twenty four hours notice. The directors are satisfied that the Company is not subject to significant liquidity risk.

The Company has put in place rigorous procedures and controls designed to prevent significant risks to the business occurring or to mitigate their effects if they should occur. These controls are monitored both by the Compliance and Internal Audit functions to ensure they are working effectively.

BY ORDER OF THE BOARD



B J RYAN
DIRECTOR

28 April 2017

Registered Office:
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

Registered number: 01674675

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2017

DIVIDENDS

The Company has not paid a dividend during the year (2016: £nil).

DIRECTORS

The directors who held office during the year were as follows:

R J H Scott	(Resigned 30 April 2016)
B J Ryan	(Appointed 30 April 2016)
R Warner	(Appointed 30 April 2016)

INDEPENDENT AUDITOR

Ernst and Young LLP
25 Churchill Place
London
E14 5EY

COMPANY SECRETARY

M F Millar

DIRECTOR'S INDEMNITY

The Company maintains director's and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors and officers. The Company has also granted indemnities to its director to the extent permitted by Law. Qualifying third party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 January 2017 and remain in force, in relation to certain losses and liabilities which the director may incur to third parties in the course of acting as director.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and 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 director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101). Under company law the director 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 the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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. The directors 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.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 JANUARY 2017

GOING CONCERN

The Company's business activities, together with the factors likely to affect its performance and position, and its exposure to claims, interest rate, credit and liquidity risk are described in the Strategic Report on pages 1 and 2.

The Company has considerable financial resources to meet its liabilities as they fall due and has made provision for future underwriting claims costs. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In assessing whether the Company is a going concern the directors have taken into account the guidance issued by the Financial Reporting Council in April 2016.

RE-APPOINTMENT OF AUDITOR

In accordance with section 487(2) of the Companies Act 2006, the Auditor Ernst & Young LLP is deemed re-appointed.

DISCLOSURE OF INFORMATION TO AUDITOR

Each current director has made enquiries of their fellow directors and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

BY ORDER OF THE BOARD



B J RYAN
DIRECTOR

28 April 2017

Registered Office:
Fanum House
Rasing View
Basingstoke
Hampshire
RG21 4EA

Registered number: 01674675

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

We have audited the financial statements of Automobile Association Underwriting Services Limited for the year ended 31 January 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 set out on page 3, 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 and Financial Statements 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 January 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework' and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

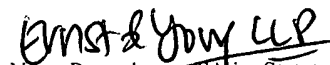
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.



Neeta Ramudaram (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 April 2017

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 JANUARY 2017

	Notes	2017 £'000	2016 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Change in the gross provision for unearned premiums		-	1
TOTAL TECHNICAL INCOME		<u>-</u>	<u>1</u>
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		72	36
Reinsurer's share		<u>(34)</u>	<u>(17)</u>
Net claims paid		38	19
Change in the gross provision for claims		(76)	(46)
Change in the provision for claims, reinsurer's share		<u>34</u>	<u>17</u>
Change in the net provision for claims		(42)	(29)
CLAIMS INCURRED, NET OF REINSURANCE		(4)	(10)
BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS		<u><u>4</u></u>	<u><u>11</u></u>

The accompanying notes are an integral part of this profit and loss account.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 JANUARY 2017

	Notes	2017 £'000	2016 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Change in the gross provision for unearned premiums		-	1
TOTAL TECHNICAL INCOME		<u>-</u>	<u>1</u>
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		72	36
Reinsurer's share		<u>(34)</u>	<u>(17)</u>
Net claims paid		38	19
Change in the gross provision for claims		(76)	(46)
Change in the provision for claims, reinsurer's share		<u>34</u>	<u>17</u>
Change in the net provision for claims		(42)	(29)
CLAIMS INCURRED, NET OF REINSURANCE		(4)	(10)
BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS		<u><u>4</u></u>	<u><u>11</u></u>

The accompanying notes are an integral part of this profit and loss account.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT (continued)

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 JANUARY 2017

	Notes	2017 £'000	2016 £'000
Balance on the technical account – general business		4	11
Investment income	5	15	17
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>19</u>	<u>28</u>
Tax on profit on ordinary activities	7	(4)	(6)
PROFIT AFTER TAX		<u>15</u>	<u>22</u>

All income and expenditure arises from run-off activities.

The accompanying notes are an integral part of this profit and loss account.

The Company has no gains or losses other than the results for the financial years reported above and, therefore, no separate statement of comprehensive income is presented.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

BALANCE SHEET AT 31 JANUARY 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
INVESTMENTS			
Holdings in collective investment schemes		4,015	4,000
REINSURER'S SHARE OF TECHNICAL PROVISIONS			
Claims outstanding	3	79	113
DEBTORS			
Other debtors	9	9,858	9,900
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		-	2
TOTAL ASSETS		<u>13,952</u>	<u>14,015</u>
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	10	2,500	2,500
Profit and loss account	11	<u>11,292</u>	<u>11,277</u>
SHAREHOLDER'S FUNDS		<u>13,792</u>	<u>13,777</u>
TECHNICAL PROVISIONS			
Claims outstanding	3	<u>158</u>	<u>233</u>
		<u>158</u>	<u>233</u>
CREDITORS			
Other creditors	12	2	5
TOTAL LIABILITIES		<u>13,952</u>	<u>14,015</u>

Signed for and on behalf of the board by:



B J RYAN
DIRECTOR

28 April 2017

The accompanying notes are an integral part of this balance sheet.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

	Share Capital £'000	Retained earnings £'000	Total £'000
At 1 February 2015	2,500	11,255	13,755
Profit for the year	-	22	22
At 31 January 2016	2,500	11,277	13,777
Profit for the year	-	15	15
At 31 January 2017	2,500	11,292	13,792

The accompanying notes form an integral part of this statement of changes in equity.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

Automobile Association Underwriting Services Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and are presented in line with The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980). The financial statements are prepared under the historical cost convention.

The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

2 Accounting Policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2017.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 111 (cash flow statement information),
- IFRS 1 paragraphs 6 and 21,
- IAS 7 'Statement of cash flows',
- IAS 8 paragraphs 30 and 31,
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures (key management compensation).

2.2 Critical accounting estimates and judgements

Estimates are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The principal estimates and assumptions that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based, are reviewed on an on going basis and include the assumptions for future claims costs.

Technical Provisions and Reinsurer's Share of the Technical Provisions

Each financial year end, management review and update the underlying assumptions for the calculation of the claims provision, to reflect the latest information available from solicitors. The primary judgement is to estimate the ultimate liability and recoveries arising from claims made.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant Accounting Policies

a) Claims incurred

Claims incurred comprise claims and related expenses paid in the financial year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

b) Claims outstanding provisions

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

A component of these estimation techniques is the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported and information on the cost of settling claims with similar characteristics in previous periods.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

c) Investments

Investment income is the amount receivable for the period. Investments are included in the balance sheet at current market value and represent amounts held in money market funds.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant Accounting Policies (continued)

d) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

e) Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

f) Other debtors

Other debtors are not interest bearing and are recognised initially at fair value. A provision for impairment of other debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtor.

g) Reinsurance recoveries

Amounts relating to claims which the Company is entitled to recover are recognised as losses recoverable from reinsurers. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 MOVEMENTS IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

This is the difference between the expected claim and actual claim settled. A favourable claims run-off variance of £3,824 (2016: favourable variance £10,000) was experienced during the year. The majority of the movement in the claims provision is due to claims paid for personal insurance policies, which are reinsured. This has resulted in a corresponding reduction in the reinsurers share of claims.

4 NET OPERATING INCOME

The audit fees in the current year £8,000 for the audit of the financial statements and £7,000 for other services pursuant to legislation, including the audit of the regulatory return (prior year £8,000 for the audit of the financial statements and £7,000 for other services pursuant to legislation, including the audit of the regulatory return) have been borne by another group company. All other expenses are also borne by another group company.

The Company had no employees (2016: Nil).

The Company's policies were sold through intermediaries and it outsources all its claims management, claims handling and administration to other group companies.

5 INVESTMENT INCOME

	2017 £'000	2016 £'000
Income from collective investment schemes	<u>15</u>	<u>17</u>

6 DIRECTORS EMOLUMENTS

The Directors are remunerated by another Company that is part of the AA plc group. None of these directors received any remuneration during the year in respect of their services as Directors of the Company (2016: £nil). The Company has not been recharged any amount for the emoluments of these directors (2016: £nil).

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is made up as follows:

	2017	2016
	£'000	£'000
Current Tax:		
- Group Relief	3	6
Deferred tax:		
- Origination and reversal of temporary differences	1	-
Total tax charge on ordinary activities	4	6

The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2017	2016
	£'000	£'000
Profit on ordinary activities before tax	19	28
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.00% (2016: 20.16%)	4	6
Total tax charge	4	6

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 DEFERRED TAXATION

Deferred tax assets comprise:

	2017 £'000	2016 £'000
Temporary differences on:		
Deferred capital allowances	<u>2</u>	<u>3</u>
	2017 £'000	2016 £'000
Deferred tax at 1 February 2016	3	3
Profit and loss account	<u>(1)</u>	<u>-</u>
Deferred tax at 31 January 2017	<u>2</u>	<u>3</u>

At the balance sheet date the UK corporation tax rate was set to reduce from 20% to 19% on 1 April 2017 and then to 17% on 1 April 2020. These rates have been enacted at the balance sheet date and used to calculate the deferred tax asset.

9 OTHER DEBTORS

	2017 £'000	2016 £'000
Amounts owed by group undertakings	9,856	9,897
Deferred tax asset (note 8)	<u>2</u>	<u>3</u>
	<u>9,858</u>	<u>9,900</u>

The amounts owed by group undertakings are unsecured, have no repayment terms and bear no interest. The deferred tax asset is due in more than one year.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 CALLED UP SHARE CAPITAL

	2017	2016
	£'000	£'000
Allotted, called up and fully paid		
2,500,000 ordinary shares of £1 each	<u>2,500</u>	<u>2,500</u>

The Company has 100,000,000 authorised ordinary shares of £1 each.

11 PROFIT AND LOSS ACCOUNT

	2017	2016
	£'000	£'000
Opening balance	11,277	11,255
Profit for the financial year	<u>15</u>	<u>22</u>
Closing balance	<u>11,292</u>	<u>11,277</u>

12 OTHER CREDITORS (amounts falling due within one year)

	2017	2016
	£'000	£'000
Amounts owed to group undertakings	<u>2</u>	<u>5</u>
	<u>2</u>	<u>5</u>

The amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liability is the claims provision. The Company's principal financial assets are the collective investments schemes and intercompany debtors.

The Company is exposed to claims, interest rate, credit and liquidity risk. Management oversee these risks with support from the group treasury function, which ensures that the Company financial risks are identified, measured and managed in accordance with the group policies and risk objectives.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company has no in-force insurance policies and there are no outstanding premiums, therefore there is no associated credit risk.

As primary insurer, the Company must discharge its liability even if a reinsurer fails to pay a claim. The Company has one treaty reinsurer, which is another group company and is monitored on a regular basis to ensure its financial stability.

Credit risk could arise from the counterparty of the money market funds or the intercompany debtor balances.

The Company assesses its counterparty exposure in relation to the investment of surplus cash and primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty, in accordance with approved treasury policies.

Credit risk in relation to deposits is managed by the Group's treasury function in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to mitigate financial loss through any potential counterparty failure.

The recoverability of intercompany debtor balances is assessed at each financial reporting period end.

The Company's maximum exposure to credit risk for the components of the balance sheet at each reporting date is the carrying amount.

AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The risk is managed centrally with investments made in line with the Group Treasury Policy and ongoing cashflow requirements monitored and reforecast weekly. In addition, the Company's money market fund investments are available at twenty four hours notice. The directors are satisfied that the Company is not subject to significant liquidity risk.

Capital management

The Company considers its capital to be its regulatory reserves, i.e. the capital resources under non-solvency II reporting. As the Company is in run-off, the capital balance is fairly static, fluctuating only due to investment income from the money market funds and movements in the claims provision. The policies and procedures for managing these are noted above.

14 ULTIMATE CONTROLLING PARTY AND PARENT UNDERTAKING

AA plc is the ultimate controlling party and parent undertaking.

The Company is a wholly owned direct subsidiary of Automobile Association Developments Limited.

The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA. The ultimate parent undertaking, which is also the parent of the largest group to consolidate these financial statements, is AA plc whose registered office is at Fanum House, Basing View, Basingstoke, RG21 4EA.

Copies of the consolidated parent financial statements are available from the Company Secretary at the registered office address.