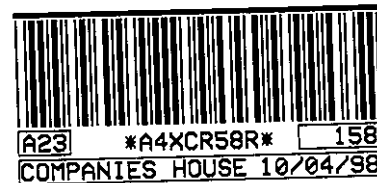


**AUTOMOBILE ASSOCIATION
FINANCIAL SERVICES LIMITED**

ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1997



**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 1997**

The Directors hereby submit their Report and the accounts for the year ended 31 December 1997.

Directors' accounting responsibilities

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 year and of the profit or loss for the year. The Directors consider that in preparing these financial statements the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all Accounting Standards which they consider applicable have been followed.

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. They 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.

Results

The accounts of the company show a profit for the financial year of
A dividend is proposed of

£000

8,149

8,150

(1)

13

12

The balance brought forward at 1 January 1997 was
Leaving a balance to be carried forward of

Activities of the company

The principal activity of the company is the provision of finance and associated services. The company has conducted its activities throughout the year in a satisfactory manner.

No significant change in the company's activities is foreseen at the present time.

Directors

The Directors of the company as at 31 December 1997 were:-

M.J.C.Haszlkiewicz	P.R. Oakes
R. Littler	J.H. Maxwell
R.J. Mee	K.F. Richardson
J.A. Mercer	J. Rossiter-Larkins

None of the Directors had an interest in the share capital of the company during the financial year.

Continued.....

REPORT OF THE DIRECTORS (continued)

Directors (continued)


The Articles of Association do not provide for the retirement of Directors by rotation.

Auditors

The joint auditors, Ernst & Young and Coopers & Lybrand, have expressed their willingness to continue in office as joint auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD

 M. HARRISON

 R. NIXON

Joint Secretaries

NWS House
City Road
Chester
CH88 3AN

27 February 1998

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and on the basis of the stated accounting policies.

Respective responsibilities of directors and auditors

As described in the directors' report the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as 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.

ERNST & YOUNG
LIVERPOOL

)

)

Ernst & Young
.....

COOPERS & LYBRAND
MANCHESTER

)

)

Coopers & Lybrand
.....

Chartered Accountants
Registered Auditors

7 April 1998

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997**

	<u>Notes</u>	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
TURNOVER	2	37,957	32,155
Finance and trading costs		<u>22,027</u>	<u>16,867</u>
GROSS PROFIT		15,930	15,288
Administration expenses		<u>3,761</u>	<u>3,428</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,3	12,169	11,860
Tax on profit on ordinary activities	4	<u>4,020</u>	<u>4,003</u>
PROFIT FOR THE FINANCIAL YEAR		<u>8,149</u>	<u>7,857</u>
Proposed dividend		<u>8,150</u>	<u>7,900</u>
Retained loss for the financial year		(1)	(43)
Balance brought forward		<u>13</u>	<u>56</u>
BALANCE CARRIED FORWARD		<u>12</u>	<u>13</u>

There are no recognised gains and losses other than those shown above.

There is no difference between the results for the year stated above and their historical cost equivalents.

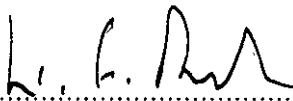
BALANCE SHEET AS AT 31 DECEMBER 1997

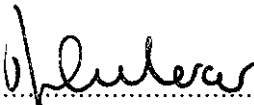
	Notes	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
CURRENT ASSETS			
Debtors : receivable within one year		64,931	44,736
: receivable after one year		<u>142,219</u>	<u>103,469</u>
	5	207,150	148,205
CREDITORS: payable within one year	6	<u>(147,076)</u>	<u>(106,542)</u>
NET CURRENT ASSETS		60,074	41,663
CREDITORS: payable after one year	6	(52,562)	(34,150)
Subordinated loan stock	7	(4,500)	(4,500)
		<u>3,012</u>	<u>3,013</u>
CAPITAL AND RESERVES			
Share capital	10	3,000	3,000
Profit and loss account		<u>12</u>	<u>13</u>
EQUITY SHAREHOLDERS' FUNDS	11	<u>3,012</u>	<u>3,013</u>

Approved by the Board of Directors on

27 February

1998 and signed on its behalf by

 DIRECTOR
K. F. RICHARDSON

 DIRECTOR
J.A. MERCER

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1997**

	<u>1997</u> <u>£000</u>	<u>1996</u> <u>£000</u>
Operating activities		
Net cash inflow from operating activities	8,360	13,515
Returns on investments and servicing of finance	-	-
Taxation		
Consortium relief paid	(2,001)	(4,724)
Capital expenditure and financial investment	-	-
Acquisitions and disposals	<u>-</u> 6,359	<u>-</u> 8,791
Equity dividend paid	<u>(7,900)</u>	<u>(8,300)</u>
Net cash (outflow)/inflow	(1,541)	491
Management of liquid resources	-	-
Financing	-	-
(Decrease)/increase in cash	<u>(1,541)</u>	<u>491</u>

Notes on the cash flow statement are given on page 10.

NOTES ON THE ACCOUNTS**1. ACCOUNTING POLICIES****Accounting convention**

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable Accounting Standards and with S226 of, and schedule 4 to, the Companies Act 1985.

Finance earnings and insurance commission

Credit is taken in each accounting year for the finance charges and credit insurance commission received and receivable using the 'Rule of 78' which apportions charges over the periods during which repayments fall due.

This represents a refinement of the previous method of taking earnings, however the effect on this and prior years' results is not material.

Provision for bad debts

Provision is made:-

- (i) specifically against individual balances considered to be of doubtful recoverability;
- (ii) as a general provision against finance debtors to cover unforeseen contingencies.

Deferred taxation

Deferred taxation is provided on the liability method on those timing differences which are considered likely to reverse in the foreseeable future.

2. TURNOVER

Turnover, all of which arose from activities within the United Kingdom, represents finance charges earned on instalment finance agreements and mortgage loans together with income from associated services.

The turnover and pre-tax profit are attributable to one continuing activity, the provision of finance and associated services.

NOTES ON THE ACCOUNTS (continued)

3. PROFIT ON ORDINARY ACTIVITIES	<u>1997</u>	<u>1996</u>
BEFORE TAXATION	<u>£000</u>	<u>£000</u>

Profit is stated after charging:

Interest payable to related undertakings:

On short term loans and deposits		
- wholly repayable within 5 years	10,323	7,901
On subordinated loans	<u>374</u>	<u>344</u>
	<u>10,697</u>	<u>8,245</u>
Bank interest	44	4
Directors' remuneration	-	-
Auditors' remuneration - audit	24	24
- other	<u>-</u>	<u>-</u>

The company has no employees. All its staff are jointly employed by a related undertaking which charges the company for its share of employee costs; these costs are included in administration expenses.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES	<u>1997</u>	<u>1996</u>
	<u>£000</u>	<u>£000</u>

The tax charge based on the profit for the year is made up as follows:

Consortium relief payable	<u>4,020</u>	<u>4,003</u>
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The consortium relief is payable at 31.49% (1996: 33%) on losses surrendered by Automobile Association Developments Limited of £6,380,690 (1996: £6,065,585) and by certain CAPITAL BANK plc subsidiary undertakings of £6,380,690 (1996: £6,065,585).

5. DEBTORS

	<u>1997</u>			<u>1996</u>		
	<u>Receivable</u>			<u>Receivable</u>		
	<u>within</u>	<u>after</u>	<u>Total</u>	<u>within</u>	<u>after</u>	<u>Total</u>
	<u>one</u>	<u>one</u>		<u>one</u>	<u>one</u>	
	<u>year</u>	<u>year</u>		<u>year</u>	<u>year</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Instalment finance						
debtors	64,886	139,486	204,372	44,643	100,340	144,983
Other loans and						
advances	-	2,733	2,733	-	3,129	3,129
Other debtors	45	-	45	93	-	93
	<u>64,931</u>	<u>142,219</u>	<u>207,150</u>	<u>44,736</u>	<u>103,469</u>	<u>148,205</u>

NOTES ON THE ACCOUNTS (continued)

6. CREDITORS

	<u>1997</u>		<u>1996</u>	
	<u>Payable</u>		<u>Payable</u>	
	<u>within</u>	<u>after</u>	<u>within</u>	<u>after</u>
	<u>one</u>	<u>one</u>	<u>one</u>	<u>one</u>
	<u>year</u>	<u>year</u>	<u>year</u>	<u>year</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts owed to related undertakings:				
Short term loans and deposits				
Bank of Scotland	70,000	-	30,000	-
CAPITAL BANK plc	47,238	52,562	51,920	34,150
	<u>117,238</u>	<u>52,562</u>	<u>81,920</u>	<u>34,150</u>
Current accounts				
Automobile Association Developments Limited	2,917	-	2,027	-
CAPITAL BANK plc	1,284	-	2,269	-
	<u>4,201</u>	<u>-</u>	<u>4,296</u>	<u>-</u>
	<u>121,439</u>	<u>52,562</u>	<u>86,216</u>	<u>34,150</u>
Bank overdraft at Bank of Scotland	1,654	-	113	-
Consortium relief	6,022	-	4,003	-
Proposed dividend	8,150	-	7,900	-
Other creditors	9,811	-	8,310	-
	<u>147,076</u>	<u>52,562</u>	<u>106,542</u>	<u>34,150</u>
Short term loans and deposits are repayable:				
Within one year	117,238	-	81,920	-
Between one and two years	-	32,170	-	27,250
Between two and five years	-	20,392	-	6,900
	<u>117,238</u>	<u>52,562</u>	<u>81,920</u>	<u>34,150</u>

7. SUBORDINATED LOAN STOCK

The loan stock has been issued to the holders of the 'A' and 'B' shares in equal amounts and is conditionally repayable at the company's option at par. The stock bears interest at 1½% per annum over the relevant LIBOR. It has been issued on the basis that it is subordinate to the claims of preferred creditors.

8. DEFERRED TAXATION

Provision has been made as follows:

Short term timing differences

<u>1997</u>	<u>1996</u>
<u>£000</u>	<u>£000</u>
-	-
(646)	(491)

Deferred tax asset not recognised in the accounts in respect of other short term timing differences

NOTES ON THE ACCOUNTS (continued)

9. CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash outflow from operating activities			
	<u>1997</u>		<u>1996</u>
	<u>£000</u>		<u>£000</u>
Operating profit	12,169		11,860
Increase/(decrease) in bad debt provisions	1,319		(26)
Net increase in creditors	2,391		5,566
Net increase in debtors	(60,264)		(27,702)
Net increase in amounts owed to related undertakings	52,745		23,817
Net cash inflow from continuing operating activities	<u>8,360</u>		<u>13,515</u>
(b) Reconciliation of net cash flow to movement in net debt			
	<u>1997</u>		<u>1996</u>
	<u>£000</u>		<u>£000</u>
(Decrease)/increase in cash in the year	(1,541)		491
Cash inflow from increase in debt	<u>(53,635)</u>		<u>(25,844)</u>
Change in net debt arising from cash flows	<u>(55,176)</u>		<u>(25,353)</u>
Movement in net debt in the year	<u>(55,176)</u>		<u>(25,353)</u>
Net debt at 1 January	<u>(124,979)</u>		<u>(99,626)</u>
Net debt at 31 December	<u>(180,155)</u>		<u>(124,979)</u>
(c) Analysis of net debt			
	At 1 January		At 31 December
	<u>1997</u>	<u>Cash flow</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Bank overdraft	(113)	(1,541)	(1,654)
Short term loans and deposits	(116,070)	(53,730)	(169,800)
Current accounts	(4,296)	95	(4,201)
Subordinated loan stock	<u>(4,500)</u>	<u>-</u>	<u>(4,500)</u>
	<u>(124,979)</u>	<u>(55,176)</u>	<u>(180,155)</u>

NOTES ON THE ACCOUNTS (continued)

10. SHARE CAPITAL	1997	1996
Authorised		
'A' Ordinary shares of £1 each	2,500,000	2,500,000
'B' Ordinary shares of £1 each	2,500,000	2,500,000
	<u>5,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid		
'A' Ordinary shares of £1 each	1,500,000	1,500,000
'B' Ordinary shares of £1 each	1,500,000	1,500,000
	<u>3,000,000</u>	<u>3,000,000</u>

The 'A' shares are held by Automobile Association Developments Limited and the 'B' shares are held by CAPITAL BANK plc.

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1997 £000	1996 £000
Shareholders' funds at 1 January	3,013	3,056
Profit for the financial year	8,149	7,857
Dividend	(8,150)	(7,900)
Other recognised gains and losses	-	-
Shareholders' funds at 31 December	<u>3,012</u>	<u>3,013</u>

12. RELATED PARTY TRANSACTIONS

During the year, in addition to those transactions disclosed separately in the accounts, the company had the following transactions with related parties:

Included within turnover is earned commission of £1,735,131 (1996: £nil) in respect of credit insurance underwritten by companies within the CAPITAL BANK Group. The commission receivable in the year was £4,266,795 (1996: £nil) and the amount deferred, and included in creditors, at the end of the year was £2,531,664 (1996: £nil).

Included within finance and trading costs is commission payable of £2,916,675 (1996: £2,027,289) to Automobile Association Developments Limited and included in administration expenses are charges of £3,736,900 (1996: £3,404,344) for services provided by CAPITAL BANK plc. CAPITAL BANK plc is a subsidiary undertaking of Bank of Scotland. At the year end the balance owing in respect of these transactions was £2,916,675 (1996: £2,027,289) accrued payable to Automobile Association Developments Limited.