

AA UNDERWRITING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2017

Registered number: 03237594



AA UNDERWRITING LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JANUARY 2017

The directors present the Annual Report and Financial Statements of AA Underwriting Limited ("the Company") for the year ended 31 January 2017.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

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

The principal activity of the Company was to carry on Motor and Property classes of general insurance business. The Company has written no new business since 2000 and has no current plans to write further business in the future.

On 1 February 2016, AA Corporation Limited, an intermediate holding company, repaid part of the inter-company debtor balance through an additional £3 million of cash which was subsequently invested into the Collective Investment Schemes. The solvency II regulatory regime came into effect for the Company from 1 February 2016. As at 31 January 2017 and throughout the year, the Company met the solvency capital requirements of Solvency II. Management are in discussion with the PRA with the intention to apply for solvent liquidation of the Company. The Company is therefore not considered to be a going concern and the Annual Report and Financial Statements have been prepared on a break-up basis.

The profit and loss account for the year is set out on page 6.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is part of the AA plc group and its financial risks are managed centrally by the AA 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.

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:

- **Investments.** Cash is invested in money market funds 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.
- **Intercompany.** The recoverability of intercompany debtor balances is assessed at each financial reporting period end.

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 of £3,458k are available at twenty four hours notice. The directors are satisfied that the Company is not subject to significant liquidity risk.

The Company closely manages the risk of failure to maintain sufficient capital to provide appropriate security for past policyholders and meet all regulatory capital requirements mandated by the Solvency II directive and the Prudential Regulation Authority ("PRA").

The Company's performance is measured and monitored by the Board with particular regard paid to the following KPI:

- **Capital resources.** Since 1 February 2016, the Company has monitored its regulatory capital adequacy under the Solvency II regime. Under this regime, the Company is required to retain sufficient capital (termed "Own Funds") at all times to meet the Solvency Capital Requirement ("SCR") as determined by the Company's PRA Standard Formula.

As at 31 January 2017 the Company's ratio of own funds to the Solvency Capital Requirement (SCR) was 114% and the Company's ratio of own funds to the Minimum Capital Requirement (MCR) was 454%.

AA UNDERWRITING LIMITED

STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 JANUARY 2017

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

6 JUNE 2017

Registered Office
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

Registered number: 03237594

AA UNDERWRITING LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JANUARY 2017

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of 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 & Young LLP
25 Churchill Place
London
E14 5EY

COMPANY SECRETARY

M F Millar

DIRECTOR'S INDEMNITY

The Company maintains directors' 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 directors and the Company Secretary 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 directors or Company Secretary may incur to third parties in the course of acting as director or Company Secretary.

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 directors have 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 (FRS 101). Under company law the directors 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 judgments 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.

AA UNDERWRITING LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 JANUARY 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)

For the reasons stated in the Strategic Report and Note 1, the financial statements have not been prepared on a going concern basis.

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.

BASIS OF PREPARATION

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.

At the Board meeting on 24 November 2014, the Board resolved that it is in the Company's interest to apply for solvent liquidation. The application is currently still in progress. The directors consequently do not consider that the Company is a going concern beyond this point and therefore the financial statements have been prepared on a break up basis. This has had no valuation implications on the balances as at 31 January 2017.

DISCLOSURE OF INFORMATION TO AUDITOR

Each director has made enquiries of 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

6 JUNE 2017

Registered Office
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

Registered number: 03237594

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AA UNDERWRITING LIMITED

We have audited the financial statements of AA Underwriting 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 12. 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'. These financial statements have been prepared on a break up basis, as disclosed in Note 1.

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 pages 3 and 4, 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the 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

6 June 2017

AA UNDERWRITING LIMITED

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS and

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 JANUARY 2017

	Notes	2017 £'000	2016 £'000
Investment income	4	13	1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13	1
Tax on Profit on ordinary activities	6	(3)	-
PROFIT AFTER TAX		10	1

All income arises from run off activities.

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.

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

AA UNDERWRITING LIMITED

BALANCE SHEET AT 31 JANUARY 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
INVESTMENTS			
Holdings in collective investment schemes		3,458	443
DEBTORS			
Other debtors	7	24,513	27,516
TOTAL ASSETS		27,971	27,959
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	8	26,000	26,000
Share premium account		20	20
Profit and loss account		1,930	1,920
SHAREHOLDER'S FUNDS		27,950	27,940
CREDITORS			
Other creditors	9	21	19
TOTAL LIABILITIES		27,971	27,959

Signed for and on behalf of the board by:



B J RYAN
DIRECTOR
6 JUNE 2017

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

AA UNDERWRITING LIMITED
STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 February 2015	26,000	20	1,919	27,939
Profit for the year	-	-	1	1
At 31 January 2016	26,000	20	1,920	27,940
Profit for the year	-	-	10	10
At 31 January 2017	26,000	20	1,930	27,950

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

AA UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

AA Underwriting 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 now presented in line with The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980). The financial statements are prepared on a break up basis and under this basis all assets are stated at their recoverable amounts and liabilities are stated at their expected settlement amounts.

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),
- 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

The Company has written no new business since 2000 and has no current plans to write further business in the future. Due to the inactive nature of the Company, there are no critical accounting estimates or judgements to be made by management in respect of these financial statements.

AA UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant Accounting policies

a) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

b) Investments

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

c) 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.

3 NET OPERATING EXPENSES

The Company had no employees throughout the year (2016: nil).

The audit fees in the current year (£7,000 for the audit of the financial statements and £16,500 for other services pursuant to legislation, including the audit of the regulatory return) and prior year (£7,000 for the audit of the financial statements and £3,000 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.

Future expected liquidation fees of c. £20,000 will be borne by another group company.

4 INVESTMENT INCOME

	2017 £'000	2016 £'000
Interest received	<u>13</u>	<u>1</u>

5 DIRECTORS' EMOLUMENTS

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

AA UNDERWRITING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The major components of the income tax expense are:

	2017 £'000	2016 £'000
Current tax		
- Group relief	3	-
Total tax expense	<u>3</u>	<u>-</u>

The difference between the tax assessed on profit on ordinary activities for the year and applying the standard rate of UK corporation tax to the profit before tax is shown below:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	<u>13</u>	<u>1</u>
Profit on ordinary activities multiplied at standard rate of corporation tax in the UK of 20.00% (2016: 20.16%)	<u>3</u>	<u>-</u>

7 DEBTORS (amounts receivable within one year)

	2017 £'000	2016 £'000
Amounts owed by group undertakings	<u>24,513</u>	<u>27,516</u>

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

8 CALLED UP SHARE CAPITAL

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
26,000,000 ordinary shares of £1 each	<u>26,000</u>	<u>26,000</u>

9 CREDITORS (amounts falling due within one year)

	2017 £'000	2016 £'000
Amounts owed to group undertakings	<u>21</u>	<u>19</u>
	<u>21</u>	<u>19</u>

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

AA UNDERWRITING LIMITED

10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Due to the Company being inactive, minimal financial management is required. The Company's principal financial risks are credit risk and liquidity risk.

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:

- **Investments.** Cash is invested in money market funds 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.

Investments are measured at fair value on a recurring basis.

Holdings in collective investment schemes can be classified at the following levels in line with the "Fair Value Hierarchy"

- **Level 1 Investments** - These are investments whose fair value is determined using observable, unadjusted quoted prices in active markets for identical assets. Active markets are markets in which transactions occur for the item to be fair valued with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2 Investments** - These are investments whose fair value is determined using inputs other than quoted prices included within level 1 inputs that are observable, either directly or indirectly through corroboration with market data.
- **Level 3 Investments** - These are investments whose fair value is determined using inputs that are not observable, reflecting assumptions that the market participants may use in pricing an investment.

	2017 £'000	2016 £'000
Level 1	3,458	443
Level 2	-	-
Level 3	-	-
	<u>3,458</u>	<u>443</u>

There were no transfers of the investments between levels of the fair value hierarchy in the current year or the prior year.

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

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 of £3,458k 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 closely manages the risk of failure to maintain sufficient capital to provide appropriate security for past policyholders and meet all regulatory capital requirements mandated by the Solvency II directive and the Prudential Regulation Authority ("PRA").

AA UNDERWRITING LIMITED

10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Company's performance is measured and monitored by the Board with particular regard paid to the following KPI:

- **Capital resources.** Since 1 February 2016, the Company has monitored its regulatory capital adequacy under the Solvency II regime. Under this regime, the Company is required to retain sufficient capital (termed "Own Funds") at all times to meet the Solvency Capital Requirement ("SCR") as determined by the Company's PRA Standard Formula.

As at 31 January 2017 the Company's ratio of own funds to the Solvency Capital Requirement (SCR) was 114% and the Company's ratio of own funds to the Minimum Capital Requirement (MCR) was 454%.

11 ULTIMATE CONTROLLING PARTY

AA plc is the ultimate controlling party and parent undertaking.

12 ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary of Automobile Association Holdings 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 website www.theaapl.com/investors.