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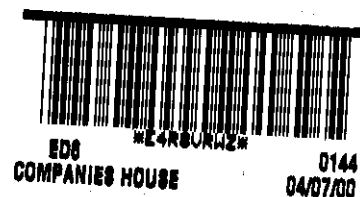
**AA MUTUAL INTERNATIONAL INSURANCE  
COMPANY LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**31st DECEMBER 1999**

THE AA MUTUAL INSURANCE COMPANY  
LIMITED  
INCORPORATED IN THE  
ISLAND OF MAN  
ACT 1982

AC1459



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## **AA Mutual International Insurance Company Limited**

### **Directors' Report**

**For the year ended 31st December 1999**

### **Financial Statements**

The directors present their report and financial statements for the year ended 31st December 1999.

### **Directors' Responsibilities**

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which 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 1985. They 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.

### **Principal Activity**

The company has been in run-off since the 4th December 1987 and Hampden Insurance Management Services Plc are acting as agent for the run-off. The directors continue to negotiate commutations with interested creditors to resolve outstanding liabilities and strengthen the company's capital base.

### **AA Mutual Insurance Association**

AA Mutual Insurance Association Limited (AAMA) was the company's former parent undertaking and major reinsurer. The short-term insurance business of AAMA was placed in liquidation on 24th June 1986, and the company's claims have been settled in full, subject to exchange movements.

The liquidators have confirmed that they hold residual funds, a proportion of which is attributable to the company. Following the lodgement of the liquidators 22nd distribution account in April 1999, the company received a payment equivalent to £238,088. The balance sheet includes a further amount of £248,944 as being the company's attributable share of such funds, but the directors are unable to estimate when this amount might be received as the liquidators have not confirmed their distribution proposals.

### **Year 2000**

The costs incurred in ensuring that the company was not adversely affected by the Year 2000 problem were not material. No significant problems resulting from the Year 2000 have been experienced, and no future problems are envisaged.

**AA Mutual International Insurance Company Limited**

**Directors' Report**

**For the year ended 31st December 1999 (Continued)**

**Results and Dividends**

The results for the year are shown in the profit and loss account on page 6. The directors do not recommend a payment of the dividend.

**Directors**

The names of the directors of the company during the year were:

Mr. E.J. Kok  
Mr. P.J. Elliott

Mr. P.J. Elliott retires at the Annual General Meeting and offers himself for re-election.

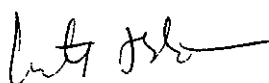
**Directors' Interests**

Neither of the directors had any beneficial interest in the share capital of the company at 1st January 1999 or 31st December 1999.

**Auditors**

Moore Stephens have expressed willingness to continue in office. A resolution confirming their appointment and authorising the directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

This report was approved by the board on 7th June 2000



K.J. SHULMAN  
Secretary

Hampden House  
Great Missenden  
Buckinghamshire  
HP16 9RD

**Report of the Auditors to the Members of  
AA Mutual International Insurance Company Limited**

We have audited the financial statements on pages 5 to 12 which have been prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities, and the accounting policies set out in note 1 on page 9.

**Respective Responsibilities of Directors and Auditors**

As described on page 1 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.

**Fundamental Uncertainties**

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the following matters:

*a) Gross technical provisions and reinsurers' share thereof*

The balance sheet includes provision for claims outstanding of £1,848,156 and reinsurers' share thereof of £699,522. As explained in note 3, the company has completed its 12th year of run-off and the directors believe incurred claims to be effectively fully developed. Nevertheless they acknowledge that unexpected future experience may show adjustments are required to these amounts, particularly in respect of:

- i) Assumptions made in estimating claims provisions and in the potential for new sources or types of claim to emerge; and
- ii) Assumptions made in estimating the reinsurers' share of claims outstanding and the appropriate provision in respect of them.

*b) Reinsurance creditors*

As explained in note 4, the company has written certain reinsurance creditors back to the technical account on the grounds that they are time-barred. The technical account for the year includes a credit of £339,780 in respect of such amounts, making a total of £4,364,980 written back to the technical account over the past three years. Due to the inherent uncertainties in the legal process, it is impossible to confirm whether such treatment is appropriate unless all the creditors involved have their claims subsequently denied by the courts.

.... continued on page 4

**Report of the Auditors to the Members of  
AA Mutual International Insurance Company Limited (Continued)**

**Fundamental Uncertainties (Continued)**

*c) Amount anticipated from the liquidators of AA Mutual Insurance Association Limited ('AAMA')*

As explained in note 5, the short-term insurance business of AAMA, a major reinsurer of the company, was placed in liquidation on 24th June 1986. Notwithstanding the fact that the liquidators have settled the company's claims in full, subject to exchange movements, the balance sheet includes an amount of £248,944 as being the company's attributable share of residual funds held by the liquidators. We are unable to confirm the recoverability of this amount as the liquidators have not confirmed their distribution proposals.

*d) Going concern*

As explained in note 1(b), the financial statements have been prepared on a run-off basis which the directors believe to be appropriate given the company's circumstances. The company reported a profit of £21,537 for the year, which resulted in shareholders' funds of £479,954 at the year end. On the basis of current projections, the company has sufficient resources to enable it to meet its liabilities as they fall due over the next twelve months.

In the event of any significant adverse adjustments becoming necessary in relation to the matters explained in paragraphs a), b) and c) above, the company would, in the absence of other funding, be dependent on the financial support of its parent undertaking in South Africa, which has not been confirmed.

In view of the possible significance of these uncertainties, we consider that they should be brought to your attention. Our opinion is not qualified in these respects.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31st December 1999 and of its profit and cashflows for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

*Moore Stephen*

MOORE STEPHENS

Registered Auditor  
Chartered Accountants

St. Paul's House  
London, EC4P 4BN

*7 June 2000*

**AA Mutual International Insurance Company Limited**

**Profit and Loss Account**

**For the year ended 31st December 1999**

	<u>Note</u>	<u>1999</u>	<u>1998</u>
		£	£
<b>Technical Account - General Business</b>			
<b>Wholly attributable to reinsurance operations</b>			
Adjustments to gross premiums		5,657	(4,529)
Adjustments to outward reinsurance premiums		8,038	464
(Refund of) earned premiums, net of reinsurance		(2,381)	(4,993)
Gross claims paid or processed		504,106	321,193
Reinsurers' share		(338,240)	(130,068)
Net claims paid or processed		165,866	191,125
Gross change in the provisions for claims		(327,795)	(190,083)
Reinsurers' share		24,590	143,896
Net reduction in the provision for claims		(303,205)	(46,187)
Claims incurred net of reinsurance		(137,339)	144,938
Administrative expenses	6	541,654	674,006
Items arising from the run-off of the WF portfolio of business		(11,976)	42,516
Time-barred reinsurance liabilities	4	(339,780)	(476,783)
Provision for future claims handling costs		(50,000)	(300,000)
Increase/(decrease) in provisions for doubtful debts		243,565	(143,252)
Write-down of amount anticipated from AAMA		-	201,558
Total technical charges		246,124	142,983
Loss on the technical account		(248,505)	(147,976)

**AA Mutual International Insurance Company Limited**

**Profit and Loss Account  
For the year ended 31st December 1999 (Continued)**

	<u>Note</u>	<u>1999</u>	<u>1998</u>
		£	£
<b>Non-Technical Account</b>			
Loss on the technical account		(248,505)	(147,976)
Investment income: Bank interest		226,937	284,373
Exchange movements		43,105	(169,086)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		21,537	(32,689)
Tax on ordinary activities		-	-
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation		21,537	(32,689)
Retained loss brought forward		(4,291,583)	(4,258,894)
		<hr/>	<hr/>
<b>Retained loss carried forward</b>	£	<u>(4,270,046)</u>	£ <u>(4,291,583)</u>

All operating income and expenditure is derived from run-off activities (note 2).

There are no recognised gains or losses other than those reported in the profit and loss account.

**AA Mutual International Insurance Company Limited**

**Balance Sheet as at 31st December 1999**

	<u>Note</u>	<u>1999</u>	<u>1998</u>
		£	£
<b>Assets</b>			
<b>Investments</b>			
Other financial investments		4,242,236	4,909,638
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		699,522	724,112
<b>Debtors</b>			
Debtors arising out of reinsurance operations		71,095	200,000
Other debtors		293,221	510,291
		<u>364,316</u>	<u>710,291</u>
<b>Other assets</b>			
Cash at bank and in hand		118,695	59,364
<b>Total Assets</b>		<u>5,424,769</u>	<u>6,403,405</u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	7	4,750,000	4,750,000
Profit and loss account - retained loss		(4,270,046)	(4,291,583)
<b>Shareholders' funds attributable to equity interests</b>	8	<u>479,954</u>	<u>458,417</u>
<b>Technical provisions</b>			
Claims outstanding: Gross amount		1,848,156	2,150,086
Provision for future claims handling costs		850,000	900,000
		<u>2,698,156</u>	<u>3,050,086</u>
<b>Creditors</b>			
Creditors arising out of reinsurance operations		2,185,665	2,717,067
Other creditors including taxation and social security		60,994	177,835
		<u>2,246,659</u>	<u>2,894,902</u>
<b>Total liabilities</b>		<u>5,424,769</u>	<u>6,403,405</u>

The financial statements on pages 5 to 12 were approved by the Board on

7 June 2000

  
P.J. ELLIOTT  
Director



**AA Mutual International Insurance Company Limited**

**Cash Flow Statement  
For the year ended 31st December 1999**

	<u>Note</u>	<u>1999</u>	<u>1998</u>
		£	£
<b>Net cash (outflow) from operating activities</b>	9	(989,974)	(878,292)
<b>Returns on investment and servicing of finance</b>			
Interest received		226,937	284,373
		<u>(763,037)</u>	<u>(593,919)</u>
<b>Taxation</b>			
UK taxation paid		-	-
<b>Management of liquid resources</b>			
Cash withdrawn from deposits		820,030	438,231
<b>Increase/(Decrease) in Cash</b>	10 £	<u>56,993</u>	£ <u>(155,688)</u>

## **AA Mutual International Insurance Company Limited**

### **Notes to the Financial Statements For the year ended 31st December 1999**

#### **1. Accounting Policies**

##### **(a) Basis of preparation**

The financial statements have been prepared on a run-off basis under the historical cost convention and in accordance with the provisions of Section 255 of and Schedule 9A to the Companies Act 1985 and in accordance with the ABI Statement of Recommended Practice on Accounting for Insurance Business and applicable accounting standards.

##### **(b) Going concern**

The financial statements have been prepared on a run-off basis which the directors believe to be appropriate given the company's circumstances. On the basis of current projections, the company has sufficient resources to enable it to meet its liabilities as they fall due over the next twelve months.

In the event of any significant adverse adjustments becoming necessary, the company would, in the absence of other funding, be dependent on the financial support of its parent undertaking in South Africa, which has not been confirmed.

##### **(c) Claims**

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred, but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses. Anticipated reinsurance recoveries are disclosed separately as assets.

##### **(d) Foreign currencies**

Assets and liabilities expressed in currencies other than sterling are translated to sterling at rates of exchange ruling at the year end, whilst revenue transactions are translated to sterling mainly at rates of exchange ruling at the year end. Realised and unrealised currency gains and losses are included in the non-technical profit and loss account.

##### **(e) Interest receivable**

Interest receivable is accounted for on an accruals basis and credited to the non-technical profit and loss account.

#### **2. Run-off**

The company has been in run-off since 4th December 1987 and Hampden Insurance Management Services Plc are acting as agent for the run-off. The directors continue to negotiate commutations with interested creditors to resolve outstanding liabilities and strengthen the company's capital base.

## **AA Mutual International Insurance Company Limited**

### **Notes to the Financial Statements**

**For the year ended 31st December 1999 (Continued)**

#### **3. Technical Provisions**

The company has completed its twelfth year of run-off and accordingly, the directors believe incurred claims to be effectively fully developed and estimates in respect of technical provisions to be fairly stated on the basis of information currently available to them. Nevertheless they acknowledge that unexpected future experience may show adjustments are required to the gross provision for claims outstanding and reinsurers' share thereof, particularly in respect of:

- a) assumptions made in estimating claims provisions and in the potential for new sources or types of claim to emerge; and
- b) assumptions made in estimating the reinsurers' share of claims outstanding and the appropriate provision in respect of them.

In the event of adjustments being required to these amounts, they will be reflected in the financial statements for the period in which they arise.

#### **4. Reinsurance Creditors**

Reinsurance creditors identified as time-barred have been written back to the technical account. At 31st December 1999 the cumulative amount of such items was £4,364,980 of which £339,780 was written back in the current year (1998: £476,783).

The process of identifying time-barred liabilities was performed in compliance with established case law and written legal opinions obtained by Hampden on behalf of the company.

#### **5. AA Mutual Insurance Association Limited (AAMA)**

AAMA was the company's former parent undertaking and major reinsurer. The short-term insurance business of AAMA was placed in liquidation on 24th June 1986 and the company's claims have been settled in full subject to exchange movements.

The liquidators have confirmed that they hold residual funds, a proportion of which is attributable to the company. The balance sheet includes £248,944 as being the company's attributable share of such funds, but the directors are unable to estimate when this amount might be received as the liquidators have not confirmed their distribution proposals.

**AA Mutual International Insurance Company Limited**

**Notes to the Financial Statements**

**For the year ended 31st December 1999 (Continued)**

**6. Administrative Expenses**

	<u>1999</u>	<u>1998</u>
Administrative expenses include the following items, including attributable irrecoverable VAT:	£	£
Auditors' remuneration		
- in respect of audit services	35,250	41,125
- in respect of non audit services	43,400	55,335
Fees charged by run-off agent	<u>439,444</u>	<u>300,803</u>
The emoluments of the directors, were as follows:		
Fees paid in respect of directors' services	<u>-</u>	<u>3,527</u>

**Employees**

The average weekly number of persons (including executive directors) employed by the company during the year was nil (1998: 1). The employment costs were:

	<u>1999</u>	<u>1998</u>
	£	£
Wages and salaries	-	53,999
Social security costs	-	4,882
	<u>-</u>	<u>58,881</u>

**7. Share Capital**

	<u>Authorised 1999 and 1998</u>	<u>Called up 1999 and 1998</u>
	£	£
Ordinary shares of £1 each	<u>5,000,000</u>	<u>4,750,000</u>

**8. Reconciliation of Movements in Shareholders' Funds**

	<u>1999</u>	<u>1998</u>
	£	£
1st January 1999	458,417	491,106
Retained profit/(loss) for the year	<u>21,537</u>	<u>(32,689)</u>
31st December 1999	<u>479,954</u>	<u>458,417</u>

# AA Mutual International Insurance Company Limited

## Notes to the Financial Statements

For the year ended 31st December 1999 (Continued)

### 9. Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	<u>1999</u>	<u>1998</u>
	£	£
Profit/(loss) on ordinary activities before taxation	21,537	(32,689)
Less bank interest	(226,937)	(284,373)
Decrease in net technical provisions	(327,340)	(352,950)
Decrease in creditors	(648,243)	(696,924)
Decrease in debtors	345,975	454,784
Exchange rate adjustments on cash and investments	(154,966)	33,860
Net cash outflow from operating activities	<u>(989,974)</u>	<u>(878,292)</u>

### 10. Movement in Cash, Portfolio Investments and Financing

	<u>At 1st 1st January 1999</u>	<u>Cashflow</u>	<u>Changes to Market Value and Currencies</u>	<u>At 31st December 1999</u>
Cash in hand and at bank	59,364	56,993	2,338	118,695
Cash deposits	4,909,638	(820,030)	152,628	4,242,236
	<u>4,969,002</u>	<u>(763,037)</u>	<u>154,966</u>	<u>4,360,931</u>

### 11. Capital Commitments

There were no capital commitments at 31st December 1999 or 31st December 1998.

### 12. Parent Undertakings

The directors regard AAMI Holdings (Pty) Limited, a company incorporated in the Republic of South Africa, as the company's ultimate parent undertaking.

AAM Holdings Limited, incorporated in England and Wales, is the parent undertaking of the largest and the smallest UK group of which the company is a member and for which group accounts are drawn up in the UK. Copies of the UK group accounts are available from the Registrar of Companies, Companies Registration Office, Crown Way, Maindy, Cardiff, CF4 3UZ.