

AC1459

MOORE STEPHENS

Report of the auditors to the insurer pursuant to rule 9.35 of the Prudential Sourcebook for Insurers made by the FSA under the Financial Services and Markets Act 2000

AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED

Global business

Financial year ended 31st December 2002

18 JUN 2003

We have examined the following documents prepared by the insurer pursuant to the Accounts and Statements Rules set out in part 1 of Chapter 9 to the Interim Prudential Sourcebook for Insurers ("the Rules") made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- the Forms 10, 11, 20 (accounting classes 1 & 3), 24 (accounting class 9), 28 (accounting class 9) and 31 (accounting class 7) which have been amended pursuant to rule 9.6(5) of the Rules ("the amended Forms").

Accordingly the insurer's revised FSA return comprises the original return on which we reported on 14 March 2003 together with the amended Forms which replace the original versions of those forms.

This report is made solely to the insurer in accordance with rule 9.35 of the Rules. Our work has been undertaken so that we might state to the insurer those matters we are required by the Rules to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the insurer for our work, for this report or for the opinions we have formed.

Respective responsibilities of the insurer and its auditors

The insurer is responsible for the preparation of an annual return under the provisions of the Rules. Under rule 9.11 the Forms and statements are required to be prepared in the manner set out in the Rules and to state fairly the information provided on the basis required by the Rules.

It is our responsibility to form an independent opinion as to whether the amended Forms meet these requirements and to report our opinions. Our responsibilities, as independent auditors, are established in the United Kingdom, by statute, the Auditing Practices Board and by our profession's ethical guidance.

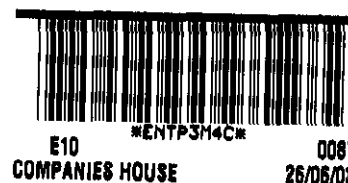
Bases of opinion

We conducted our work in accordance with Practice Note 20 "The audit of insurers in the United Kingdom" issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the amended Forms. The evidence included that obtained by us relating to the audit of the financial statements of the insurer for the financial year. It also included an assessment of the significant estimates and judgements made by the insurer in the preparation of the Forms and statements.

We planned and performed our work 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 amended Forms are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

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ACT 1982



Report of the auditors to the insurer pursuant to rule 9.35 of the Prudential Sourcebook for Insurers made by the FSA under the Financial Services and Markets Act 2000 (continued)

AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED

Global business

Financial year ended 31st December 2002

Fundamental uncertainties

In forming our opinions, we have considered the adequacy of the disclosures made in the returns concerning the following matters:

(a) Technical provisions

Form 15.12.1 includes gross technical provisions for claims outstanding amounting to £1,161,000 and Form 13.61.1 includes the related reinsurers' share of such provisions amounting to £131,000. As explained in Notes 1505 and 1307, the insurer has completed its fifteenth year of run-off and accordingly 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.

Accordingly, technical provisions could be either over-stated or under-stated with a corresponding impact on available assets. In the event of adjustments to these amounts being required, they will be reflected in the returns for the period in which they arise.

(b) Reinsurance creditors

Note 2408 refers to reinsurance creditors identified as time barred, amounting to £179,000, that have been charged to the technical account. At 31 December 2002 the cumulative amount of such items written back to the technical account, after taking the Equitas commutation in to account, amounted to £2,168,000. 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.

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

Note 1306 refers to the short-term insurance business of AA Mutual Insurance Association Limited, the insurer's former parent undertaking and major reinsurer, which was placed in liquidation on 24 June 1986. Notwithstanding the fact that the insurer's claims have been settled in full, subject to exchange movements, Form 13.78.1 includes £21,000 and Form 13.92.1 includes a further £279,000 which the directors anticipate will be received in 2003. We are unable to confirm the recoverability of these amounts as any such distribution by the liquidators requires the prior approval of the Supreme Court in South Africa, which has not yet been sought by the liquidators.

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

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Report of the auditors to the insurer pursuant to rule 9.35 of the Prudential Sourcebook for Insurers made by the FSA under the Financial Services and Markets Act 2000 (continued)

AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED

Global business

Financial year ended 31st December 2002

Opinion

In our opinion the amended Forms fairly state the information provided on the basis required by the Rules and have been properly prepared in accordance with the provisions of those Rules.



MOORE STEPHENS
Registered Auditors
Chartered Accountants

St Paul's House
Warwick Lane
London
EC4P 4BN

16 June 2003

Statement of net assets

Name of company: **AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED**

Global business

Financial year ended: **31 December 2002**

	R10	Company Registration number	GL/UK/CM	Period ended			Units
				Day	month	year	
		1432586	GL	31	12	2002	£'000
		As at the end of this financial year	As at the end of the previous year	Source			
				Form	Line	Column	
		1	2				
Long term business - admissible assets	11			13	89	1	
Long term business - liabilities and margins	12			14	59	1	

Other than long term business - admissible assets	21	2,297	4,135	13	89	1	
Other than long term business - liabilities	22	2,034	3,832	15	69	1	
Net admissible assets (21-22)	23	263	303				
Other assets allowed to be taken into account in covering the required minimum margin	Unpaid amounts (including share premium) on partly paid shares	24					
	Supplementary contributions for a mutual carrying on general business	25					
Liabilities allowed to be left out of account in covering the required minimum margin	Subordinated loan capital	26					
	Cumulative preference share capital	27					
Available assets (23 to 27)	29	263	303				

Represented by:

Paid up share capital (other than cumulative preference share capital)	51	4,750	4,750				
Amounts included in lines 24 to 27 above	52						
Amounts representing the balance of net assets	56	(4,487)	(4,447)				
Total (51 to 56) and equal to line 29 above	59	263	303				

**Movement of balance of net assets for solvency purposes
- as per line 56**

Balance brought forward at the beginning of the financial year	61	(4,447)	(4,433)	10	56	2	
Retained profit/(loss) for the financial year	62	20	8	16	59	1	
Movement in asset valuation differences	63	(60)	(22)	See instruction 2			
Decrease/(increase) in the provision for adverse changes	64			See instruction 3			
Other movements (particulars to be specified by way of supplementary note)	65						
Balance carried forward at the end of the financial year (61 to 65)	69	(4,487)	(4,447)				

General business: Calculation of required margin of solvency - first method

Name of company: **AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED**

Global business

Financial year ended: **31 December 2002**

			Company registration number	GL/UK/ CM	Period ended			Units	
			R11	1432586	GL	31	12	2002	£'000
			This financial Year				Previous year		
			1				2		
Gross premiums receivable			11						
Premium taxes and levies (included in line 11)			12						
Sub-total A (11-12)			13						
Adjusted Sub-total A if financial year is not a 12 month period to produce an annual figure			14						
Division of Sub-total A (or adjusted Sub-total A if appropriate)	Other than health insurance	Up to and including sterling equivalent of 10M ECU x 18/100	15						
		Excess (if any) over 10M ECU x 16/100	16						
	Health insurance	Up to and including sterling equivalent of 10m ECU x 6/100	17						
		Excess (if any) over 10m ECU x 16/300	18						
Sub-total B (15 + 16 + 17 + 18)			19						
Claims paid			21		388			71	
Claims outstanding carried forward at the end of the financial year	For business accounted for on an underwriting year basis		22		623			1,474	
	For business accounted for on an accident year basis		23		88			83	
Claims outstanding brought forward at the beginning of the financial year	For business accounted for on an underwriting year basis		24		1,474			1,437	
	For business accounted for on an accident year basis		25		83			83	
Sub-total C (21 + 22 + 23 - (24 + 25))			29		(458)			108	
Amounts recoverable from reinsurers in respect of claims incurred in Sub-total C			30		1			(1)	
Sub-total D (29 - 30)			39		(459)			109	
First result: Sub-total B x $\frac{\text{Sub-total D}}{\text{Sub total C}}$ (or, if 1/2 is a greater fraction, x 1/2)			41						

General business: Technical account (excluding equalisation provisions)

Name of company: **AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED**

Global business

Financial year ended: **31 December 2002**

Accounting Class: **Accident and Health**

		Company Registration number	GL/UK/CM	Period ended			Units	Accounting class/ summary	
				Day	Month	Year			
		R20	1432586	GL	31	12	2002	£'000	1
Items to be shown net of reinsurance			This financial year		Previous year		Source		
			1		2		Form	Line	Column
This year's underwriting (accident year accounting)	Earned premium	11					21	19	5
	Claims incurred	12					22	17	4
	Claims management costs	13					22	18	4
	Adjustment for discounting	14					22	52	4
	Increase in provision for unexpired risks	15					22	19	4
	Other technical income or charges (particulars to be specified by way of supplementary note)	16							
	Net operating expenses	17					22	42	4
	Balance of year's underwriting (11-12-13+14-15+16-17)	19							
Adjustment for prior years' underwriting (accident year accounting)	Earned premium	21					21	11	5
	Claims incurred	22			4		22	13	4
	Claims management costs	23	(9)				22	14	4
	Adjustment for discounting	24					22	51	4
	Other technical income or charges (particulars to be specified by way of supplementary note)	25							
	Net operating expenses	26					22	41	4
	Balance (21-22-23+24+25-26)	29	9		(4)				
Balance from underwriting year accounting	Per Form 24	31	2		1		24	69	99-99
	Other technical income and charges (particulars to be specified by way of supplementary note)	32							
	Total	39	2		1				
Balance of all years' underwriting (19+29+39)		49	11		(3)				
Allocated investment return		51							
Transfer to non-technical account (49+51)		59	11		(3)				

General business: Technical account (excluding equalisation provisions)

Name of company: **AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED**

Global business

Financial year ended: **31 December 2002**

Accounting class: **Aviation**

Company Registration number	GL/UK/CM	Period ended			Units	Accounting class/ summary
		Day	Month	Year		

R20	1432186	GL	31	12	2002	£'000	3
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Items to be shown net of reinsurance		This financial year 1	Previous year 2	Source		
				Form	Line	Column
This year's underwriting (accident year accounting)	Earned premium	11		21	19	5
	Claims incurred	12		22	17	4
	Claims management costs	13		22	18	4
	Adjustment for discounting	14		22	52	4
	Increase in provision for unexpired risks	15		22	19	4
	Other technical income or charges (particulars to be specified by way of supplementary note)	16				
	Net operating expenses	17		22	42	4
	Balance of year's underwriting (11-12-13+14-15+16-17)	19				
Adjustment for prior years' underwriting (accident year accounting)	Earned premium	21		21	11	5
	Claims incurred	22		22	13	4
	Claims management costs	23		22	14	4
	Adjustment for discounting	24		22	51	4
	Other technical income or charges (particulars to be specified by way of supplementary note)	25				
	Net operating expenses	26		22	41	4
	Balance (21-22-23+24+25-26)	29				
Balance from underwriting year accounting	Per Form 24	31	52	4	24	69 99-99
	Other technical income and charges (particulars to be specified by way of supplementary note)	32				
	Total	39	52	4		
Balance of all years' underwriting (19+29+39)		49	52	4		
Allocated investment return		51				
Transfer to non-technical account (49+51)		59	52	4		

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General business (underwriting year accounting) : Analysis of premiums, claims and expenses by category for treaty reinsurance

Name of Company: **AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED** Accounting class: **Non Proportional Treaty**

Global business Currency: **Sterling**

Financial year ended: **31 December 2002**

Category: **Miscellaneous and Pecuniary Loss**

		Company registration number		GL/UK/CM		Period ended				Monetary Units		Business Category		Accounting Class		Currency									
						day	month	year																	
		R28	1432586	GL	31	12	2002	£'000	H	9	AA														
Underwriting year ended		Prior underwriting years		MM	YY	MM	YY	MM	YY	MM	YY	MM	YY	MM	YY	Total all previous columns									
		29	29	12	93	12	94	12	95	12	96	12	97	12	98	12	99	12	00	12	01	12	02	99	99
Premiums written	Gross amount	11	1																						1
	Reinsurers' share	12	13																						13
	Net (11 - 12)	19	(12)																						(12)
Claims paid	Gross amount	21	319																						319
	Reinsurers' share	22	184																						184
	Net (21-22)	29	135																						135
Claims management costs		39																							
Net operating costs	Commissions	41																							
	Other acquisition expenses	42																							
	Administrative expenses	43	179																			357			536
	Reinsurers' commissions and profit participations	44																							
	Payable net (41 +42 + 43- 44)	49	179																			357			536
Technical provisions	Brought forward	51	1,427																						1,427
	Adjustment for discounting	52																							
	Undiscounted	53	739																						739
	Adjustment for discounting	54																							
Increase (decrease) in the financial year (53-54-51+52)		59	(688)																						(688)
Balance on each financial year (19-29-39-49-59)		69	362																			(357)			5

General business (accident year accounting) : Analysis of gross claims and premiums by risk group for direct insurance and facultative reinsurance

Name of Company:	AA MUTUAL INTERNATIONAL INSURANCE COMPANY LIMITED	Accounting class:	Third party Liability
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Global business

Financial year ended: 31 December 2002

Risk group:

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