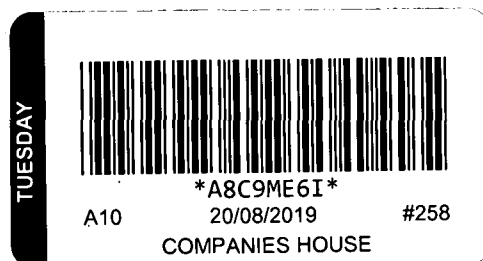


**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JANUARY 2019**

**Registered number: 01674675**



# AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 JANUARY 2019

The directors present the annual report and financial statements of Automobile Association Underwriting Services Limited ("the Company") for the year ended 31 January 2019.

#### 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 2019 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 and does not exercise EEA passporting rights under the Solvency II directive.

The Company's profit and loss account for the year is set out on pages 9 and 10.

Profit before tax has reduced from £59,000 to £37,000, primarily due to a large release in the claims provision in the prior year.

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:

	2019 £'000	2018 £'000
Net assets less intercompany debtors	4,026	3,987
Solvency capital requirement	2,000	2,000
Solvency margin	201%	199%

#### 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 valuation of the provision for claims outstanding is subject to uncertainty.

Investment risk arises from balances held with financial institutions at variable rates of return. The directors have reviewed the Company's exposure to investment risk 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 these movements in the rate of return.

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 credit risk are:

- **Reinsurer's share of technical 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)**

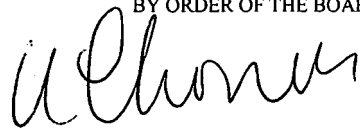
**FOR THE YEAR ENDED 31 JANUARY 2019**

**PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

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 by the Risk, Compliance and Internal Audit functions to ensure they are working effectively.

BY ORDER OF THE BOARD



K THOMAS  
DIRECTOR

29 APRIL 2019

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 2019**

**DIVIDENDS**

The Company has not paid a dividend during the year (2018: £nil).

**DIRECTORS**

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

B J Ryan	(Resigned 4 April 2018)
R Warner	(Resigned 31 March 2019)
K Thomas	(Appointed 4 April 2018)
J Stewart	(Appointed 31 March 2019)

**INDEPENDENT AUDITOR**

PricewaterhouseCoopers LLP  
Savannah House  
3 Ocean Way  
Ocean Village  
Southampton  
SO14 3TJ

**COMPANY SECRETARY**

M Millar	(Resigned 17 April 2018)
C Free	(Appointed 17 April 2018, Resigned 30 January 2019)
N Hoosen	(Appointed 30 January 2019)

**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 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 2019 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 IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 JANUARY 2019**

**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.

**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.

Pursuant to the AA plc Group audit tender process in 2017, Ernst & Young LLP resigned as the Company's auditor following completion of their statutory and regulatory audits for the financial year ended 31 January 2018. PricewaterhouseCoopers LLP were appointed as auditors of the Company for the financial year ending 31 January 2019.

BY ORDER OF THE BOARD



K THOMAS  
DIRECTOR

29 APRIL 2019

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

Registered number: 01674675

# ***Independent auditors' report to the members of Automobile Association Underwriting Services Limited***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, Automobile Association Underwriting Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet at 31 January 2019; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to those charged with governance.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Company in the period 1 February 2018 to 31 January 2019.

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### **Our audit approach**

#### ***Overview***

- Overall materiality: £139,000, based on 1% of total assets.
  - We scope the audit, based on materiality, by financial statement line item. As there are no branches or other locations no scoping by location is required.
  - We have no key audit matters to report.
- 

#### ***The scope of our audit***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

#### ***Capability of the audit in detecting irregularities, including fraud***

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the

Companies Act 2006, the Prudential Regulation Authority's regulations and the UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance claims liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the AA plc Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing correspondence between the Company and the Prudential Regulation Authority (PRA) and Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant Board minutes;
- Reviewing the AA plc Group's register of litigation and claims, internal audit reports, and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations such as a credit to the profit and loss account and a debit to the balance sheet; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

#### *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the company to communicate in our report due to the straightforward nature of the company now it is in run-off.

#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

#### *Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	£139,000
<b>How we determined it</b>	1% of total assets.
<b>Rationale for benchmark applied</b>	The Company is in run-off and therefore we believe that total assets is the most appropriate benchmark as this reflects the primary objective of the Company, being to hold an asset position that provides sufficient solvency and cover over its liabilities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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## Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page [4], the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

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### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

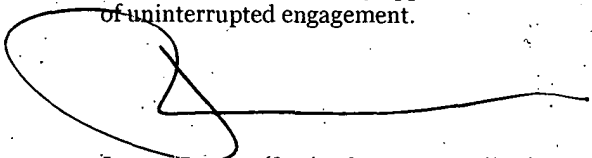
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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### **Appointment**

Following the recommendation of the audit committee, we were appointed by the members on 7 June 2018 to audit the financial statements of the AA plc group for the year ended 31 January 2019 and subsequent financial periods. We were formally appointed as auditors of the company on 26 April 2019. This is therefore our first year of uninterrupted engagement.



Joanne Leeson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
30 April 2019

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**TECHNICAL ACCOUNT – GENERAL BUSINESS**

**FOR THE YEAR ENDED 31 JANUARY**

	Notes	2019 £'000	2018 £'000
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Gross claims paid		-	-
Reinsurer's share		-	-
Net claims paid		-	-
Change in the gross provision for claims	3	(16)	(103)
Change in the provision for claims, reinsurer's share	3	8	52
Change in the net provision for claims		(8)	(51)
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>		<b>(8)</b>	<b>(51)</b>
<b>BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS</b>		<u><u>8</u></u>	<u><u>51</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**

	Notes	2019 £'000	2018 £'000
Balance on the technical account – general business		8	51
Investment income	5	29	8
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>37</u>	<u>59</u>
Tax on profit on ordinary activities	7	(7)	(11)
<b>PROFIT AFTER TAX</b>		<u><u>30</u></u>	<u><u>48</u></u>

All income and expenditure arises from run-off activities.

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

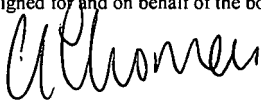
The Company has no gains or losses other than the results for the financial years reported above and, therefore, no separate statement of comprehensive income is presented.

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**BALANCE SHEET AT 31 JANUARY**

	Notes	2019 £'000	2018 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Holdings in collective investment schemes		4,052	4,023
<b>REINSURER'S SHARE OF TECHNICAL PROVISIONS</b>			
Claims outstanding		19	27
<b>DEBTORS</b>			
Other debtors	9	9,844	9,855
Deferred tax assets		2	-
<b>TOTAL ASSETS</b>		<u>13,917</u>	<u>13,905</u>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	2,500	2,500
Profit and loss account	11	<u>11,370</u>	<u>11,340</u>
<b>SHAREHOLDER'S FUNDS</b>		<u>13,870</u>	<u>13,840</u>
<b>TECHNICAL PROVISIONS</b>			
Claims outstanding		<u>38</u>	<u>54</u>
		<u>38</u>	<u>54</u>
<b>CREDITORS</b>			
Other creditors	12	-	11
Corporation tax		<u>9</u>	<u>-</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>13,917</u>	<u>13,905</u>

Signed for and on behalf of the board by:



K THOMAS  
DIRECTOR

29 APRIL 2019

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

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

	<b>Share Capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 February 2017	2,500	11,292	13,792
Profit for the year	-	48	48
At 31 January 2018	2,500	11,340	13,840
Profit for the year	-	30	30
At 31 January 2019	<u>2,500</u>	<u>11,370</u>	<u>13,870</u>

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 Act 2006. 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 2019.

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).
- IFRS 7 financial statements disclosures.

#### 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 reinsurance recovery 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) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Company recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

Other debtors are not interest bearing and are amounts due from intercompany parties. Other debtors are recognised at fair value and are subsequently held at amortised cost. The Company applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all other debtors.

Upon transition to IFRS 9, the Company reviewed the values and classifications of its financial assets and liabilities. It determined that no adjustments were necessary and that classification would remain consistent as the balance for collective investment schemes is held at fair value.

##### f) Reinsurance share of the technical provisions

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 £16,550 (2018: favourable variance £103,400) was experienced during the year. In the current year, all of the movement in the claims provision is due to claims run-off variance. This has resulted in a corresponding reduction in the reinsurers share of claims of £8,275 (2018: £51,700).

**4 NET OPERATING INCOME**

The audit fees in the current year of £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 (2018: 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**

	2019	2018
	£'000	£'000
Income from collective investment schemes	<u>29</u>	<u>8</u>

**6 DIRECTORS EMOLUMENTS**

The Directors are remunerated by another Company that is part of the AA plc group. The directors are also Directors of other group companies and their services as directors of the Company are deemed incidental to their wider role within the AA plc group. As such, the Company has not been recharged any amount for the emoluments of these directors (2018: £nil).

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
The tax charge is made up as follows:		
<b>Current Tax:</b>		
- Group Relief	7	11
<b>Deferred tax:</b>		
- Origination and reversal of temporary differences	<u>-</u>	<u>-</u>
<b>Total tax charge on ordinary activities</b>	<u><u>7</u></u>	<u><u>11</u></u>

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:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before tax	<u>37</u>	<u>59</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.16%)	7	11
<b>Total tax charge</b>	<u><u>7</u></u>	<u><u>11</u></u>

**AUTOMOBILE ASSOCIATION UNDERWRITING SERVICES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8 DEFERRED TAXATION**

Deferred tax assets comprise:

	2019 £'000	2018 £'000
Temporary differences on:		
Deferred capital allowances	<u>2</u>	<u>2</u>
	2019 £'000	2018 £'000
Deferred tax at 1 February	<u>2</u>	<u>2</u>
<b>Deferred tax at 31 January</b>	<b><u>2</u></b>	<b><u>2</u></b>

At the balance sheet date the UK corporation tax rate was set to reduce from 19% 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**

	2019 £'000	2018 £'000
Amounts owed by group undertakings	9,844	9,853
Deferred tax asset (note 8)	<u>2</u>	<u>2</u>
	<b><u>9,846</u></b>	<b><u>9,855</u></b>

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**

	2019	2018
	£'000	£'000
<b>Allotted, called up and fully paid</b>		
2,500,000 ordinary shares of £1 each	<u>2,500</u>	<u>2,500</u>

**11 PROFIT AND LOSS ACCOUNT**

	2019	2018
	£'000	£'000
<b>Opening balance</b>	11,340	11,292
Profit for the financial year	<u>30</u>	<u>48</u>
<b>Closing balance</b>	<u>11,370</u>	<u>11,340</u>

**12 OTHER CREDITORS (amounts falling due within one year)**

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	-	9
Current tax	<u>9</u>	<u>2</u>
	<u>9</u>	<u>11</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.

**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.

	2019		2018	
	Carrying value	Quoted prices in active markets	Carrying value	Quoted prices in active markets
	£'000	£'000	£'000	£'000
Level 1	4,052	4,052	4,023	4,023
Level 2	-	-	-	-
Level 3	-	-	-	-
	<u>4,052</u>	<u>4,052</u>	<u>4,023</u>	<u>4,023</u>

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

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. 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 and does not exercise EEA passporting rights under the Solvency II directive. 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 website [www.theaapl.com/investors](http://www.theaapl.com/investors).