

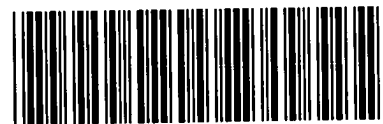
**AA UNDERWRITING LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 JANUARY 2020**

**Registered number: 03237594**

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COMPANIES HOUSE

# AA UNDERWRITING LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 JANUARY 2020

The directors present the Annual Report and Financial Statements of AA Underwriting Limited ("the Company") for the year ended 31 January 2020.

#### 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.

The Solvency II regulatory regime came into effect for the Company from 1 February 2016. As at 31 January 2020 and throughout the year (with the exception stated below), the Company met the solvency capital requirements of Solvency II.

On 17 July 2019, the money market fund account holding the Company's solvency capital was closed at short notice by Deutsche Bank and the funds returned to an ordinary savings account held in the name of the Company. This account was then swept to another subsidiary of the AA plc group and meant that the Company was technically insolvent for 12 days whilst the situation was rectified. After 12 days the funds were moved to a current account held in the name of the Company. A new money market fund account was meanwhile set up and the solvency capital was transferred to this new account on 16 August 2019.

On 19 December 2019, the owner of the Company, Automobile Association Holdings Limited, signed a sale and purchase agreement for the sale of the Company to a third party as a going concern. This is expected to take place during the next financial year. The Annual Report and Financial statements have been prepared on a going concern basis.

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets as a result of COVID-19 and the impact on asset and liability values is being monitored by management and has currently been assessed as having no material impact on the Company primarily because it has no active claims. The Company remains in a robust position and we expect solvency to be maintained above requirements under current laws and regulations. The impact of COVID-19 is continuing to evolve at a fast pace but we do not expect there to be any material financial impact on the Company at the time of writing.

The profit and loss account for the year is set out on page 10.

#### 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 credit risk are:

- **Investments.** Cash is invested in money market funds with an S&P 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 cash flow requirements monitored and reforecast weekly. In addition, the Company's money market fund investments of £3,516k 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").

# AA UNDERWRITING LIMITED

## STRATEGIC REPORT (continued)

### FOR THE YEAR ENDED 31 JANUARY 2020

#### PRINCIPAL RISKS AND UNCERTAINTIES (continued)

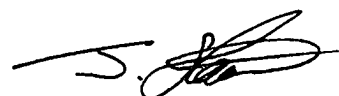
The Company's performance is measured and monitored by the Board with particular regard paid to the following KPI:

- **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 Company's Solvency Capital Requirement ("SCR") calculated using a Standard Formula approach.

As at 31 January 2020 the Company's ratio of own funds to the Solvency Capital Requirement (SCR) was 114% (2019: 114%) and the Company's ratio of own funds to the Minimum Capital Requirement (MCR) was 455% (2019:455%).

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. Following the solvency capital incident noted above, additional controls have been implemented to mitigate the risk of such an event occurring going forwards.

ON BEHALF OF THE BOARD



J STEWART

DIRECTOR  
29 April 2020

Registered Office  
Fanum House  
Basing View  
Basingstoke  
Hampshire  
RG21 4EA

Registered number: 03237594

# AA UNDERWRITING LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 JANUARY 2020

As permitted by section 414C(11) of the Companies Act 2006, certain information is not included in the Directors' Report because it has instead been shown in the Strategic Report. The information is:

- Principal activity
- Review of the business and future developments
- Principal risks and uncertainties

#### DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year (2019: £nil).

#### DIRECTORS

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

R Warner	(Resigned 31 March 2019)
J Stewart	
K Thomas	(Appointed 31 March 2019)

#### INDEPENDENT AUDITORS

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

#### COMPANY SECRETARY

N Hoosen

#### 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 2020 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.

# AA UNDERWRITING LIMITED

## DIRECTORS' REPORT (continued)

### FOR THE YEAR ENDED 31 JANUARY 2020

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 judgments 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.

#### Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### 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.

On 19 December 2019, the owner of the Company, Automobile Association Holdings Limited signed a sale and purchase agreement for the sale of the Company to a third party as a going concern. This is expected to take place during the next financial year. The Annual Report and Financial statements have been prepared on a going concern basis.

**AA UNDERWRITING LIMITED**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 JANUARY 2020**

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each director has made enquiries of the Company's auditors 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 auditors are aware of that information.

Relevant audit information is that information needed by the auditors 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 auditors are unaware.

ON BEHALF OF THE BOARD



J STEWART  
DIRECTOR  
29 April 2020  
Registered Office  
Fanum House  
Basing View  
Basingstoke  
Hampshire  
RG21 4EA

Registered number: 03237594

# ***Independent auditors' report to the members of AA Underwriting Limited***

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

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### **Opinion**

In our opinion, AA Underwriting Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2020 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 2020; 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 the directors.

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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.

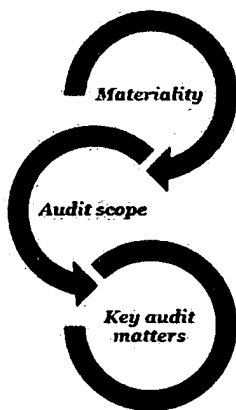
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 February 2019 to 31 January 2020.

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### **Our audit approach**

#### *Overview*



- Overall materiality: £280,000 (2019: £280,000), based on 1% of total assets.

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  - 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.

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  - Our risk assessment identified the impact of the Coronavirus outbreak ("COVID-19") subsequent event as an area of focus.
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#### *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.

## AA UNDERWRITING LIMITED

# ***Independent auditors' report to the members of AA Underwriting Limited (continued)***

### *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. 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 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; 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. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



## ***Independent auditors' report to the members of AA Underwriting Limited (continued)***

<b><i>Key audit matter</i></b>	<b><i>How our audit addressed the key audit matter</i></b>
<p><i>Impact of COVID-19 subsequent event</i></p> <p>As disclosed in note 12 to these financial statements, 2020 has begun with the outbreak of a new strain of Coronavirus ("COVID-19") in China, resulting in a global pandemic causing significant economic disruption. The situation as at 31 January 2020 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 January 2020 and it is, therefore management has determined that this is a non-adjusting event.</p> <p>Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date.</p> <p>Management have concluded the Company will maintain its solvency above requirements under current laws and regulations and the Company continues to be a going concern. Although the situation is evolving at a fast pace, at the time of writing, management do not expect there to be any material financial impact on the Company.</p>	<p>We assessed management's approach to the impact of COVID-19 on the Company and the financial statements by performing the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained management's assessment that COVID-19 is a non-adjusting event and their going concern assessment prepared in light of COVID-19;</li> <li>• We inspected the impact assessment provided to evaluate its consistency with our understanding of the operations of the Company and the investment portfolio; and</li> <li>• Examined the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Company based on our audit and the other procedures.</li> </ul> <p>Based on the work performed and the evidence obtained, we have not identified any facts that would suggest that the financial statements should not be prepared on a going concern basis and that the disclosure of the impact of COVID-19 in the financial statements is not appropriate.</p>

### ***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><i>Overall materiality</i></b>	£280,000 (2019: £280,000).
<b><i>How we determined it</i></b>	1% of total assets.
<b><i>Rationale for benchmark applied</i></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 directors that we would report to them misstatements identified during our audit above £14,000 (2019: £14,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### ***Conclusions relating to going concern***

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

## ***Independent auditors' report to the members of AA Underwriting Limited (continued)***

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.

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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 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 2020 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.

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### **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.

## ***Independent auditors' report to the members of AA Underwriting Limited (continued)***

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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**

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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 January 2019 to 31 January 2020.



Joanne Leeson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
29 April 2020

**AA UNDERWRITING LIMITED**

**PROFIT AND LOSS ACCOUNT**

**TECHNICAL ACCOUNT – GENERAL BUSINESS and**

**NON-TECHNICAL ACCOUNT**

**FOR THE YEAR ENDED 31 JANUARY**

	<b>Note</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Investment income	<b>4</b>	<b>27</b>	<b>25</b>
Administrative expenses		<b>(8)</b>	<b>-</b>
<b>PROFIT BEFORE TAXATION</b>		<b>19</b>	<b>25</b>
Tax on Profit on ordinary activities	<b>6</b>	<b>(4)</b>	<b>(5)</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>15</b>	<b>20</b>

All amounts above relate to discontinued operations.

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 or technical account are presented.

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

**AA UNDERWRITING LIMITED**

**BALANCE SHEET AT 31 JANUARY**

	Note	2020 £'000	2019 £'000
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Holdings in collective investment schemes		3,516	3,490
<b>DEBTORS</b>			
Other debtors	7	24,497	24,509
<b>TOTAL ASSETS</b>		<u>28,013</u>	<u>27,999</u>
<b>CAPITAL RESERVES AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8	26,000	26,000
Share premium account		20	20
Profit and loss account		1,971	1,956
<b>TOTAL SHAREHOLDER'S FUNDS</b>		<u>27,991</u>	<u>27,976</u>
<b>CREDITORS: Amounts falling due within one year</b>			
Other creditors	9	18	18
Corporation Tax		4	5
		<u>22</u>	<u>23</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>28,013</u>	<u>27,999</u>

These financial statements were approved by the board of directors and signed on its behalf by:



J STEWART  
DIRECTOR  
29 April 2020

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

**AA UNDERWRITING LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

	<b>Share capital £'000</b>	<b>Share premium £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
At 1 February 2018	26,000	20	1,936	<b>27,956</b>
Profit for the year	-	-	20	<b>20</b>
At 31 January 2019	26,000	20	1,956	<b>27,976</b>
Profit for the year	-	-	15	<b>15</b>
<b>At 31 January 2020</b>	<b>26,000</b>	<b>20</b>	<b>1,971</b>	<b>27,991</b>

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 a private company limited by shares and incorporated and domiciled in England and Wales, United Kingdom.

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 Act 2006.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value.

The Company has adequate financial resources due to the Company's own net current asset position. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

On 19 December 2019, the owner of the Company, Automobile Association Holdings Limited signed a sale and purchase agreement for the sale of the Company to a third party as a going concern. This is expected to take place during the next financial year. The Annual Report and Financial statements have been prepared on a going concern basis.

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 2020. The accounting policies have been applied consistently.

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)

### Accounting Policies (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) 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.

#### 3 NET OPERATING EXPENSES

The Company had no employees throughout the year (2019: nil).

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2020 amounted to £7,000 (2019: £7,000 and which were borne by another group company). The Company's auditors provided no services to the Company other than the annual audit during either the current or prior year.

#### 4 INVESTMENT INCOME

	2020 £'000	2019 £'000
Interest received	<u>27</u>	<u>25</u>

#### 5 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 (2019: £nil).



## AA UNDERWRITING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 6 TAX ON PROFIT

The major components of the income tax expense are:

	2020 £'000	2019 £'000
<b>Current tax</b>		
- Group relief	4	5
<b>Total tax expense</b>	4	5

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:

	2020 £'000	2019 £'000
Profit before tax	19	25
Profit multiplied at standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	4	5

#### 7 OTHER DEBTORS (amounts receivable within one year)

	2020 £'000	2019 £'000
Amounts owed by group undertakings	24,497	24,509

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

#### 8 CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
<b>Allotted, called up and fully paid</b>		
26,000,000 ordinary shares of £1 each (2019: 26,000,000)	26,000	26,000

#### 9 OTHER CREDITORS (amounts falling due within one year)

	2020 £'000	2019 £'000
Amounts owed to group undertakings	18	18
Corporation tax	4	5
	22	23

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

## AA UNDERWRITING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 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.

	2020		2019	
	Carrying value £'000	Quoted prices in active markets £'000	Carrying value £'000	Quoted prices in active markets £'000
Level 1	3,516	3,516	3,490	3,490
Level 2	-	-	-	-
Level 3	-	-	-	-
	<u>3,516</u>	<u>3,516</u>	<u>3,490</u>	<u>3,490</u>

Other than the solvency capital incident noted on page 1, there were no transfers of the investments between levels of the fair value hierarchy in the current year or the prior year.

## AA UNDERWRITING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 10 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

- **Intercompany.** The recoverability of intercompany debtor balances is assessed at each financial reporting period end. The fair value of the intercompany balances approximates the carrying value.

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 cash flow requirements monitored and reforecast weekly. In addition, the Company's money market fund investments of £3,516k 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").

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 noted on page 1, on 17 July 2019, the money market fund account holding the Company's solvency capital was closed at short notice by Deutsche Bank and the funds returned to an ordinary savings account held in the name of the Company. This account was then swept to another subsidiary of the AA plc group and meant that the Company was technically insolvent for 12 days whilst the situation was rectified. After 12 days the funds were moved to a current account held in the name of the Company. A new money market fund account was meanwhile set up and the solvency capital was transferred to this new account on 16 August 2019.

As at 31 January 2020 the Company's ratio of own funds to the Solvency Capital Requirement (SCR) was 114% (2019: 114%) and the Company's ratio of own funds to the Minimum Capital Requirement (MCR) was 457% (2019: 455%)

#### 11 ULTIMATE CONTROLLING PARTY AND PARENT UNDERTAKING

AA plc is the ultimate controlling party and 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](http://www.theaapl.com/investors).

## AA UNDERWRITING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 12 EVENTS AFTER THE REPORTING PERIOD

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. COVID-19 has been classified as a non-adjusting event for accounting purposes. As of 31 January 2020, a limited number of cases had been reported to the World Health Organisation. Since then the spread of the virus has been rapid and the number of reported cases and deaths has increased significantly.

The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets as a result of COVID-19 and the impact on asset and liability values is being monitored by management and has currently been assessed as having no material impact on the Company primarily because it has no active claims. The Company remains in a robust position and we expect solvency to be maintained above requirements under current laws and regulations. The impact of COVID-19 is continuing to evolve at a fast pace but we do not expect there to be any material financial impact on the Company at the time of writing.