AA Pension Scheme (*the "Scheme"*)
Statement of Funding Principles (*SFP*) 2013

Introduction

This statement sets out the Trustee's policy for securing that the statutory funding objective (*SFO*) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its Technical Provisions.

Technical Provisions

The Technical Provisions are calculated on a "going concern" basis and are the amount that will be needed to pay the Scheme benefits that relate to service up to the actuarial valuation date, if the assumptions made are borne out in practice.

The assumptions used to calculate the Technical Provisions are intended to provide a prudent estimate of the future experience of the Scheme on a going concern basis and to have regard to the covenant of the Automobile Association Developments Limited (the "Company"). However, the Trustee intends that the assumptions made, other than those relating to the mortality which will be experienced by Scheme members and the investment return which will be achieved on the Scheme's assets, should be broadly realistic.

There is an underlying assumption that the Scheme will continue with benefits being met from the Scheme as they fall due.

The method and assumptions used to calculate the Technical Provisions are summarised in Appendices A and B.

Monitoring Company covenant

The Company will ensure that the Trustee is provided with all of the relevant information as required under the terms of the Amended and Restated Limited Partnership Agreement in relation to the AA Pension Funding LP ("ABF").

At least once every financial year, one or more representatives from the senior management of the Company shall give a presentation to the Trustee about the financial performance of the Company. In addition in each financial year there will be a second briefer, less formal presentation to the Trustee by one or more representatives from senior management.

The Trustee will take whatever steps it feels necessary in order to meet its legal requirement to assess and monitor the Company's covenant and to meet its obligations to Scheme members.

Company contributions

Company contributions are determined by:

- calculating the cost of future benefit accrual using the same assumptions as for the Technical Provisions making an adjustment, where necessary, to the financial assumptions as the Trustee and Company agree from time to time;

reduced by

- the contributions made by members; and

adjusted by

- the amounts needed to eliminate any shortfall or surplus relative to the Technical Provisions.

The Trustee and the Company may agree that the Company can pay lower contributions subject to the Scheme Actuary certifying that the overall level of Company contributions is still expected to result in the Technical Provisions being fully funded (i.e. 100% funded) by the end of the Recovery Plan.

The Company will also pay all of the Scheme's administration expenses as they fall due, including the Pension Protection Fund (PPF) and other levies collected by the Pensions Regulator.

Dealing with shortfalls

Any shortfall in assets compared with the Technical Provisions identified at an actuarial valuation will be eliminated by the payment of additional contributions in accordance with the Recovery Plan agreed between the Trustee and the Company.

In determining the recovery period at any particular actuarial valuation the following factors will be taken into account:

- the size of the funding shortfall;
- the business plans of the Company;
- the Trustee's assessment of the financial covenant of the Company; and
- any contingent security offered by the Company.

When determining whether there is a shortfall in assets relative to the technical provisions, the Trustee and the Company will disregard 100% of the value of the Trustee's interest in AA Pension Funding LP.

Should future actuarial valuations reveal a deficit larger than expected, the payments under the original plan will continue, but may be supplemented by additional payments.

Policy on discretionary benefits and member options

Discretionary benefits

Under the provisions of the Scheme's Trust Deed and Rules, there are certain discretionary powers to provide or increase benefits for, or in respect of, all or any of the members of the Scheme.

Historically, there have been no material discretionary benefits regularly provided to Scheme members in addition to those guaranteed under the Scheme Rules. The Trustee and the Company have therefore agreed that no discretionary benefits should be taken into account for the purposes of calculating the Scheme's Technical Provisions, with one exception as detailed below.

For members joining the CARE section of the Scheme after 30 September 2005, benefits accrued prior to 30 June 2010 are revalued each year during the period prior to retirement at the discretion of the Trustee, subject to the consent of the Company. The Trustee has decided that when calculating the Technical Provisions it will be assumed that accrued benefits for such members will increase in the period prior to retirement in line with the Retail Prices Index (RPI) inflation assumption, capped at 5% per annum.

Member options

The Trustee may allow, or is required to allow members to exercise certain options, including:

- commuting pension for a lump sum at retirement
- taking voluntary early or late retirement

The terms on which these conversions occur are generally set at the Trustee's discretion and are reviewed periodically.

To the extent that these conversion terms differ from those which would be calculated using the method and assumptions consistent with those used for determining the Technical Provisions, there may be a financial gain or loss in the Scheme, when a member exercises the relevant option.

Frequency of valuations

The Scheme's actuarial valuation to which this Statement applies is being carried out as at 31 March 2013. Subsequent actuarial valuations will normally be carried out every three years.

The Trustee will obtain an annual actuarial report on developments affecting the Scheme's funding level as at each intermediate anniversary of the actuarial valuation date. The annual actuarial reports will not normally lead to changes in the Company contribution rate unless the Trustee and the Company agree otherwise.

The Trustee may request a full actuarial valuation at any time should they so wish, which they might consider doing:

- Following a request from the Company;
- If there is any event which might have a significant effect upon the Company's covenant;
- If there is a significant change to the benefit provisions of the Scheme;
- If there is a significant change in the membership for any reason;
- If the Trustee has to withdraw from the AA Pension Funding LP or if its income from the AA Pension Funding LP is reduced to a nominal amount in circumstances where the Scheme is not funded up to an amount equal to 100% of its technical provisions; or
- If there are any other factors that the Trustee considers would have a material impact on the Scheme's finances.

Signatures

Automobile Association Developments Limited, confirms its agreement to the contents of this statement.

Signed on behalf of Automobile Association Developments Limited

Signature: ________________ Name: Andrew Boland

Position: Director Date: 28 November 2013

The Trustee has taken advice from the Scheme Actuary, David Eteen.

Signed on behalf of the Trustee of the AA Pension Scheme

Signature: Name: Janet Thomson

Position: Chairman of the Trustee Date: 28 November 2013

This Statement of Funding Principles is dated 1 November 2013 for reference purposes.

Appendix A:
Method and financial assumptions for determining the Technical Provisions and Company contributions

Method	The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method with a three-year Control Period.
Financial assumptions for Technical Provisions - approach	The approach to be used in determining each of the financial assumptions for calculating the Technical Provisions and the Company contributions is set out below.
RPI inflation	The assumption is derived from the difference between the market yields on long-dated fixed-interest and index-linked gilts at the actuarial valuation date and set so as to give approximately the same value of Technical Provisions as using the Scheme's cashflows, based on the membership data at the actuarial valuation date, together with the full Aon Hewitt market implied RPI gilt break even inflation curve as at the actuarial valuation date.
CPI inflation	The assumption is derived at the actuarial valuation date by deducting 0.9% p.a. from the RPI inflation assumption. The difference between the long term assumption for RPI and CPI inflation may vary over time to reflect changing views of long term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.
UK Gilt Yield	The approach used to derive the single UK Gilt Yield (which in turn is used to derive the discount rate assumption) is consistent with the approach taken to derive the RPI inflation assumption. The single UK annualised Gilt Yield is chosen so that it produces approximately the same value of Technical Provisions as using the Scheme's cashflows, based on the membership data at the actuarial valuation date, together with the full Aon Hewitt UK gilt yield curve.
Discount rate	**Pre-retirement:** The UK Gilt Yield at the actuarial valuation date plus 2.75% p.a. **Post-retirement:** The UK Gilt Yield at the actuarial valuation date.
Pay increases	Each member's salary is assumed to increase in line with the assumed rate of RPI inflation plus 1.1% p.a. together with the allowance for promotional increases in the table in Appendix B. However, active members' benefits accrued up to 30 June 2010 are assumed to increase in future in line with deferred revaluations rather than salary increases. Benefits accrued after 30 June 2010 are assumed to increase each year in line with increases in salaries but subject to individual member-specific pensionable salary caps that apply on a year by year basis (and work in a similar way to the earnings cap). Note that pensionable salary caps were introduced on 1 July 2010 and were set equal to each member's Final Pensionable Earnings as at 30 June 2010 with an uplift of 2.5% or 3% depending on member election.

	Pensionable salary caps are increased at each 1 April at either 2.5% or 3% depending on member selection.
Increases in pensions in payment	Inflation-linked pension increase assumptions are derived from the RPI inflation assumption (except in respect of post 5 April 1988 GMP which is derived from the CPI inflation assumption) on the advice of the Scheme Actuary, allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year.
Revaluations of deferred pensions in excess of GMP	***Final salary sections:*** Derived from the CPI inflation assumption. Where the CPI inflation assumption is higher than the cap applied to the increase for a certain tranche of pension benefit (e.g. the 2.5% cap for pensions accruing after 5 April 2009), the assumption for revaluations of deferred pensions will instead revert to the relevant cap. ***CARE section:*** Derived from the RPI inflation assumption in a similar manner to that used to derive the pension increase assumptions i.e. on the advice of the Scheme Actuary, allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year. The same approach is applied to derive the assumption for in service revaluations for active members of the CARE section.
Financial assumptions for Technical Provisions summary	A summary of all the financial assumptions for calculating the Technical Provisions for the actuarial valuation as at 31 March 2013, determined using the approach outlined above, is set out below:

UK gilt yield as at 31 March 2013 This is the single UK Gilt yield which produces approximately the same value of Technical Provisions at the actuarial valuation date as using the Scheme's cashflows, based on the 2013 membership data, with the full Aon Hewitt UK gilt yield curve.	3.4% p.a.
Pre-retirement discount rate (UK gilt yield + 2.75% p.a.)	6.15% p.a.
Post-retirement discount rate (UK gilt yield + 0% p.a.)	3.4% p.a.
Rate of RPI price inflation Derived from the market implied break-even rate for future inflation which is based on the difference between UK fixed and index-linked gilt markets as at 31 March 2013 and set so as to give approximately the same value of Technical Provisions as using the Scheme's cashflows, based on the 2013 membership data, with the full Aon Hewitt market implied break-even RPI inflation curve.	3.7% p.a.
Rate of CPI price inflation Equal to RPI price inflation assumption less 0.9% p.a.	2.8% p.a.
Rate of general pay increases **(price inflation assumption + 1.1% p.a.)**	4.8% p.a.
Rate of pension increases for the final salary sections (excluding the Management 1 section) **- on benefits in excess of GMPs accrued before 23 September 1999 (RPI)** **- on benefits accrued between 22 September 1999 and 30 June 2010 (RPI, capped at 5% p.a.)**	3.7% p.a. 3.3% p.a.

- on benefits accrued after 30 June 2010 (RPI, capped at 2.5%)	2.2% p.a.
Rate of pension increases for the Management 1 final salary section **- on benefits in excess of GMPs accrued before 30 June 2010 (RPI, capped at 6% p.a.)** **- on benefits accrued after 30 June 2010 (RPI, capped at 2.5%)**	3.5% p.a. 2.2% p.a.
Rate of pension increases for the CARE section **- on benefits accrued before 30 June 2010 (RPI, capped at 5% p.a.)** **- on benefits accrued after 30 June 2010 (RPI, capped at 2.5% p.a.)**	3.3% p.a. 2.2% p.a.
Rate of pension increases on pre 6 April 1988 GMPs	Nil
Rate of pension increases on post 5 April 1988 GMPs (CPI, capped at 3% p.a.)	2.2% p.a.
Rate of future deferred revaluation in the final salary sections **- benefits accruing before 6 April 2009 (cumulative CPI, capped at 5% and cumulative CPI, capped at 6% for the Management 1 section)** **- benefits accruing after 5 April 2009 (cumulative CPI, capped at 2.5%)**	2.8% p.a. 2.5% p.a.
Rate of future pre-retirement revaluation in the CARE section ***Benefits accrued before 30 June 2010*** **- members joining before 1 October 2005 (RPI, capped at 5% p.a.)** **- members joining after 30 September 2005 (discretionary, RPI, capped at 5% p.a.)** ***Benefits accrued after 30 June 2010*** **- all members (RPI, capped at 2.5% p.a.)**	3.3% p.a. 3.3% p.a. 2.2% p.a.

Additional assumption for the calculation of the cost of future benefit accrual

As the key Gilt Yield and RPI price inflation assumptions have been calculated using the Scheme's estimated cashflows and full Aon Hewitt yield curves, these assumptions are calculated using a proxy for the average duration of the Scheme's liabilities.

The duration of the active members' liabilities and in particular the future service liabilities expected to accrue will be longer than the average duration of the Scheme liabilities used to determine the Technical Provisions assumptions shown above.

In order to better estimate the appropriate cost of future benefit accrual as at 31 March 2013, an 'adjustment' has been made to the Gilt Yield used to derive the discount rate assumptions. The adjustment as at 31 March 2013 is an addition of 0.2% p.a. This means that for the purposes of future benefit accrual (only) the discount rate is equal to 6.35% p.a. before retirement and 3.6% p.a. after retirement.

The level of 'adjustment' will be kept under review and may be changed, as advised by the Scheme Actuary, at the date subsequent calculations are carried out.

Appendix B: Demographic Assumptions

Post-retirement mortality

Base mortality table:

- Males – standard table S1PMA
- Females – standard table S1PFA

Adjusted for year of birth with an allowance for improvements between 2002 and 2012.

An allowance for future improvements has been made in line with the CMI_2012 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.5% for men and women.

Pre-retirement mortality

See table below for sample pre-retirement mortality rates.

	Percentage leaving the Scheme in the next year as a result of death from service	
Current age	**Male**	**Female**
20	0.05%	0.02%
25	0.04%	0.02%
30	0.03%	0.03%
35	0.04%	0.03%
40	0.07%	0.05%
45	0.10%	0.07%
50	0.17%	0.09%
55	0.31%	0.16%
60	0.51%	0.25%
65	0.87%	0.35%

Early retirements (normal)

All deferred pensioners are assumed to retire at the earliest age at which they are entitled to payment of their deferred pension on unreduced terms.

For active members, see table below for sample voluntary retirement rates.

Current age	**Percentage of active members retiring**
55	7%
56	7%
57	7%
58	8%
59	8%
60	25%
61	20%
62	20%
63	20%
64	20%
65	All remaining

Ill-health early retirement

See table below for sample ill-health retirement rates.

Percentage leaving the Scheme in the next year as a result of ill-health retirement

Current age	Male Patrol	Male Non-Patrol	Female
20	-	-	-
25	-	-	-
30	0.03%	0.02%	0.01%
35	0.08%	0.05%	0.02%
40	0.16%	0.10%	0.05%
45	0.26%	0.17%	0.11%
50	0.50%	0.31%	0.22%
55	0.96%	0.60%	0.60%
60	2.04%	1.02%	1.20%
65	-	-	-

Withdrawals

Allowance is made for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave a deferred pension in the Scheme, and are not assumed to exercise their option to take a transfer value.

Percentage leaving the Scheme in the next year as a result of withdrawal from service

Current age	Male Patrol	Male Non-Patrol	Female
20	5.16%	29.39%	27.32%
25	5.16%	19.99%	18.51%
30	5.36%	14.16%	11.90%
35	4.35%	10.78%	8.70%
40	3.63%	8.37%	7.26%
45	3.24%	7.86%	6.00%
50	2.20%	7.28%	3.94%
55	1.71%	7.56%	2.65%
60	1.25%	6.84%	1.80%
65	-	-	-

Promotional salary increases

See table below for sample promotional salary increase scales. The salary scale indicates the expected average increase in members' pensionable salaries over the following year which is not attributable to inflationary salary increases, i.e. it reflects increases due to greater responsibility and promotions.

Current age	Salary scale	
	Patrol	Non-Patrol
20	100	100
25	113	141
30	122	185
35	129	225
40	135	251
45	138	267
50	141	279
55	143	283
60	145	285
65	145	285

Family details

A man is assumed to be three years older than his wife.

The table below shows the proportion of members who are assumed to be married at various sample ages.

The proportions shown in the table below include an allowance for pensions payable to other dependants, including civil partners.

Current age	Proportion of members married	
	Male	Female
20	3%	3%
25	28%	21%
30	58%	44%
35	73%	56%
40	77%	59%
45	78%	60%
50	79%	61%
55	80%	61%
60	81%	62%
65	81%	62%

Commutation

Each member is assumed to commute 20% of their pension on retirement using the Scheme's current commutation factors but allowing for an improvement of 5% in the factors to reflect anticipated changes in future life expectancies.

Expenses

All administrative expenses (including PPF levies) are assumed to be paid directly by the Company.

Appendix C:
Further information to meet requirement of Scheme Funding Regulations

Payments to the Company	Both the Scheme Rules and pensions legislation limit the circumstances in which any payments may be made to the Company. Under the Trust Deed a payment can only be made to the Company on a wind up of the Scheme.
Contributions to the Scheme	Contributions are payable from the Company and from the members of the Scheme. In addition, contributions may also be payable from AA Pension Funding GP Limited (the General Partner) on behalf of AA Pension Funding LP. However, the Schedule of Contributions will show the contributions payable to the Scheme by the Company as being the total contributions due less any contributions received from AA Pension Funding GP Limited (the General Partner) on behalf of AA Pension Funding LP.