

AA FINANCIAL SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2022

Registered number: 00912211

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AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2022

STRATEGIC REPORT

The directors present their annual report and audited financial statements of AA Financial Services Limited ("the Company") for the year ended 31 January 2022.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS, FUTURE DEVELOPMENTS AND KEY PERFORMANCE INDICATORS

The Company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited.

The Company is regulated by the Financial Conduct Authority (FCA). The principal activity of the Company is the provision of financial intermediation services for saving accounts, loans and branded car finance products.

Despite the uncertain market following the impact of COVID-19 in the prior year, the Company remains in a resilient position to continue to perform its primary activity and management have assessed that this will continue to be the case.

As shown in the Company's income statement, the Company's revenue decreased by 2.0% to £7,164,000 (2021: £7,313,000) during the current year due to the recharge arrangement with the Bank of Ireland. Marketing spend, which is recharged to the Bank of Ireland, decreased in the current year and thus impacted revenue. Operating profit for the year increased by 76.8% to £1,819,000 (2021: £1,029,000). The key driver for this increase in profit was as a result of the profit share arrangement, with better than expected performance resulting in a gain being realised.

The statement of financial position shows the Company's financial position at the year end. Net assets increased by 6.7% to £26,452,000 (2021: £24,780,000).

For decision making and internal performance management, management's key performance metric is Trading EBITDA, being earnings before tax, adjusting operating items and amortisation (see note 4). Trading EBITDA increased by 73.7% to £1,952,000 (2021: £1,124,000), primarily as a result of the profit share gain realised in the current year.

The directors are pleased with the performance of the Company in the year. There are currently no plans to alter the principal activity of the Company in the future.

The directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006. For details of how this is accomplished across the AA Limited group, refer to page 46 of AA Limited's Annual Report, with whom the Company shares common directorship and management structure.

RISK MANAGEMENT FRAMEWORK

The Company is part of the AA Limited group. The Board of the AA Limited is responsible for determining the level of risk that the AA is prepared to take, or that it is willing to accept, in order to achieve its strategic objectives. The levels of risk are articulated through a series of risk appetite statements, and we monitor ourselves closely against the statements through our risk governance and our risk management framework. These controls are monitored by the Risk, Compliance and Internal Audit functions to ensure they are working effectively.

AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2022

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

The AA's risk management framework aims to ensure that:

- risks are made visible
- risks are discussed and understood
- risks are owned and managed
- appropriate action is taken
- risks are used for opportunities
- we learn from our risk-taking

The risk management framework is comprised of the five pillars set out below.

Risk culture and governance	The processes and structures to demonstrate that effective risk management, oversight and assurance is being undertaken for all key risks faced by the AA.
Strategy and objectives	The process to ensure that risk is considered as part of strategy and objectives, including the direction it sets for taking, avoiding and considering opportunity from risk.
Risk identification and prioritisation	A set of key risk categories to identify where the AA has, or is likely to have, material risk exposures and the activities we perform to prioritise our actions
Risk management and controls	A set of processes to review and assess the risk and control environment. Risks are assessed on an inherent (no controls), residual (with controls) and target basis to help senior management understand and manage their risk exposures. The AA will be undertaking a comprehensive review of its financial controls in 2022 as part of its continuous improvement of the risk management framework.
Risk reporting and communication	The information and reporting in place to support senior management in discharging their risk management accountabilities effectively and to help them make informed, risk-based decisions.

The principal risks and uncertainties facing the Company are considered to be:

Customer Risk

The risk that the AA fails to constantly monitor, manage and develop the interaction between our customers to ensure fair treatment and good outcomes. Financial services products and services are continually evolving in the market and as customer needs are changing, there is a risk that products do not perform as customers expect and that they no longer deliver appropriate customer outcomes.

The AA has a robust product governance framework in place to ensure that it continually reviews and adapts the products and services it offers to ensure customers receive fair treatment and good outcomes.

AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2022

STRATEGIC REPORT (continued)

RISK MANAGEMENT FRAMEWORK (continued)

Operational Resilience

The risk of failure to adequately prepare, respond and recover from disruptive events or stress scenarios leading to disruptions to internal and external services provided by the AA.

Disruptive events can have a severe impact on our ability to deliver the products and services we offer to our customers. 2021 saw a continuation of home working and intermittent disruption to businesses following the effects of the global pandemic.

The AA has an effective homeworking infrastructure in place to mitigate the disruption of the global pandemic for office-based services. We also have processes in place to continually assess external events that may affect our operational resilience.

Cyber Security

The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise business critical data. Cyber attacks are becoming more and more sophisticated and businesses are becoming increasingly vulnerable to cyber threats due to their reliance on IT infrastructure.

The AA has a clearly defined cyber security strategy and it invests significant resources in controls that enable it to prevent, identify, detect and correct potential cyber-related issues. In addition, the AA benchmarks its security controls against the Standard for Information Security (ISO27001) and an annual review of the effectiveness of these controls is performed by an independent third party.

Financial risks

The Group's senior management oversees the management of financial risks, supported by the Group Treasury function. The Group Treasury function ensures that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives.

The Company is an obligor of the financial indebtedness of the AA Intermediate Co Limited group which ringfences its debt within a whole business securitisation (WBS) structure. AA Intermediate Co Limited is a parent undertaking of the Company and part of the AA Limited group. The viability and financial success of the Company is therefore tied to the viability and financial success of the AA Intermediate Co Limited group. For more detail see note 1.

Regulatory Risk

The risk of failing to comply with regulatory changes, obtain the required authorisations / licencing and meet reporting requirements imposed by relevant regulatory authorities. 2021 was a period of substantial regulatory change and there are a number of other significant regulatory changes on the horizon. Transformation linked to Regulatory change, alongside our strategic transformation ambitions presents a heightened risks around ability to implement change effectively and in line with regulatory requirements.

The AA has effective processes in place to proactively identify incoming regulatory change. We remain well-positioned to support changes that will drive the highest standards of behaviour and support for retail consumers. We manage risks around conflict, and execution of regulatory change programmes through our transformation governance processes.

AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2022

STRATEGIC REPORT (continued)

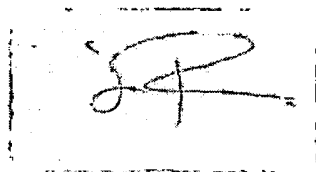
RISK MANAGEMENT FRAMEWORK (continued)

Macroeconomic risks

The risks that the uncertain macroeconomic conditions and impact of increasing inflation, may affect the Company's prospects. Economic uncertainty is expected to remain high as a result of the global pandemic and geopolitical risks arising from the Russian war on Ukraine.

The AA continues to monitor financial markets and the external environment.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to be 'J E Fairclough', is enclosed within a rectangular box.

**J E FAIRCLOUGH
DIRECTOR**

20 OCTOBER 2022

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

AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2022

DIRECTORS' REPORT

DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements were as follows:

J E Fairclough	
D Coughlan	(resigned 15 March 2022)
J A Park	(appointed 1 April 2022)

COMPANY SECRETARY

N Hoosen	(resigned 31 May 2021)
J Cox	(appointed 1 October 2021)

DIRECTORS' 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 officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law. This is a qualifying third-party indemnity provision and was in force throughout the financial year and at the date of approval of the financial statements.

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, 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 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 also 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.

AA FINANCIAL SERVICES LIMITED

FOR THE YEAR ENDED 31 JANUARY 2022

DIRECTORS' REPORT (continued)

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.

DIVIDENDS

The Company has not paid a dividend in the year (2021: £nil) and the directors do not propose the payment of a final dividend (2021: £nil).

GOING CONCERN

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business, future developments and key performance indicators" and "Risk management framework" sections on pages 1 to 4.

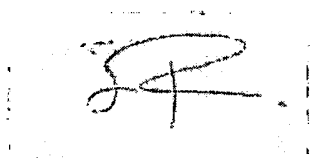
The Company has adequate financial resources due to the Company's own net current asset position. AA Financial Services Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Company is linked to the wider AA Limited group. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. In July 2022, the AA Limited group completed a successful refinancing of its outstanding A6 notes, issuing £250,000k of A10 notes at a coupon of 7.38%. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities. The next debt maturity is not until July 2024.

The Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Company has sufficient funds to continue in operation during this period and the foreseeable future. This has been reviewed by the directors of the Company in the context of its status as an obligor of the AA Intermediate Co Limited group's borrowings. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

INDEPENDENT AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

ON BEHALF OF THE BOARD



J E FAIRCLOUGH
DIRECTOR

20 OCTOBER 2022

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

Independent auditors' report to the members of AA Financial Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, AA Financial Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2022 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 Statement of financial position as at 31 January 2022; the Income statement, and 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.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

AA FINANCIAL SERVICES LIMITED

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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 in Respect of the Financial Statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

AA FINANCIAL SERVICES LIMITED

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 regulatory requirements, such as those governed by the Financial Conduct Authority ("FCA"), and unethical and prohibited business practices, 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 financial statements such as the Companies Act 2006. 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 to increase revenue or reduce expenditure thereby improving the financial performance of the Company, and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, the AA group's internal audit, internal compliance and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Challenging accounting assumptions and judgements individually and collectively for indications of management bias.
- Designing risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any).
- Incorporating elements of unpredictability into the audit procedures performed.
- Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements, for example within the Directors' Report.
- Review of Board minutes and relevant meeting minutes, for matters relating to any instances of non-compliance with laws and regulations and fraud matters.
- Review of regulatory correspondence with the Financial Conduct Authority

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

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. 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.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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.



Helen Grainger (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
21 October 2022

AA FINANCIAL SERVICES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY

	Note	2022 £'000	2021* £'000
REVENUE	3	7,164	7,313
Cost of sales		<u>(3,259)</u>	<u>(4,147)</u>
GROSS PROFIT		3,905	3,166
Administrative expenses		<u>(2,086)</u>	<u>(2,137)</u>
OPERATING PROFIT	5	1,819	1,029
Finance Income	9	<u>242</u>	<u>322</u>
PROFIT BEFORE TAX		2,061	1,351
Income tax expense	10	<u>(389)</u>	<u>(280)</u>
PROFIT FOR THE FINANCIAL YEAR		1,672	1,071

There is no income and expenditure other than that passing through the income statement, therefore no separate statement of comprehensive income is presented.

*Revenue, gross profit, operating profit, finance income, profit before tax, income tax expense and profit for the financial year have been restated due to a prior year error. See note 17 for further details.

The accompanying notes are an integral part of this income statement.

AA FINANCIAL SERVICES LIMITED

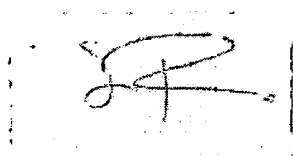
STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY

	Note	2022 £'000	2021* £'000
NON-CURRENT ASSETS			
Deferred tax assets	11	15	20
Intangible assets	12	169	38
Property, plant and equipment	13	-	42
Other receivables	14	4,243	5,422
		<u>4,427</u>	<u>5,522</u>
CURRENT ASSETS			
Trade and other receivables	14	23,617	20,409
		<u>23,617</u>	<u>20,409</u>
TOTAL ASSETS		<u>28,044</u>	<u>25,931</u>
CURRENT LIABILITIES			
Trade and other payables	15	(938)	(881)
Current tax payable		<u>(654)</u>	<u>(270)</u>
TOTAL LIABILITIES		<u>(1,592)</u>	<u>(1,151)</u>
NET CURRENT ASSETS		<u>22,025</u>	<u>19,258</u>
NET ASSETS		<u>26,452</u>	<u>24,780</u>
EQUITY			
Called up share capital	16	2,000	2,000
Retained earnings		<u>24,452</u>	<u>22,780</u>
TOTAL EQUITY		<u>26,452</u>	<u>24,780</u>

*Other receivables, trade and other receivables and retained earnings as at 31 January 2021 have been restated to correct a prior year error. See note 17.

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



J E FAIRCLOUGH
DIRECTOR

20 OCTOBER 2022

Registered number: 00912211

The accompanying notes are an integral part of this statement of financial position.

AA FINANCIAL SERVICES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JANUARY**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 February 2020	2,000	21,709	23,709
Profit for the year as previously reported*		1,089	1,089
Adjustment	-	(18)	(18)
At 31 January 2021*	2,000	22,780	24,780
Profit for the year	-	1,672	1,672
At 31 January 2022	2,000	24,452	26,452

* Profit for the year ended 31 January 2021 and retained earnings as at 31 January 2021 have been restated to correct a prior year error. See note 17.

The accompanying notes are an integral part of this statement of changes in equity.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Presentation of financial statements

AA Financial Services Limited is a private company limited by shares, and is incorporated and domiciled in England and Wales, UK.

The financial statements are prepared in Sterling and are rounded to the nearest £1,000.

Going concern

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activity, review of the business, future developments and key performance indicators" and "Risk management framework" sections on pages 1 to 4.

The Company has adequate financial resources due to the Company's own net current asset position. AA Financial Services Limited is a wholly owned subsidiary of the AA Limited group, hence the going concern status of the Company is linked to the wider AA Limited group. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. In July 2022, the AA Limited group completed a successful refinancing of its outstanding A6 notes, issuing £250,000k of A10 notes at a coupon of 7.38%. The AA Limited group will continue to seek to refinance its maturities within good time of their scheduled maturities. The next debt maturity is not until July 2024.

The Company directors have reviewed projected cash flows of the AA Limited group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Company has sufficient funds to continue in operation during this period and the foreseeable future. This has been reviewed by the directors of the Company in the context of its status as an obligor of the AA Intermediate Co Limited group's borrowings. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"). The financial statements are under the historical cost convention and have been prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements.

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 38 (comparative information in respect of Property, Plant and Equipment, and Intangible Assets),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 40A-D (prior period balance sheet following a restatement),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures',
- IFRS 15 'Revenue from Contracts with Customers',
- IAS 8 paragraphs 30 and 31 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective),
- 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)

New standards, amendments and IFRIC interpretations

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements. A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning after 1 February 2022, however the Company has not identified any with an expected material impact on the financial statements.

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.

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 basis for accruing revenue.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 Critical accounting estimates and judgements (continued)

The principal estimate and assumption that has a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year is in respect of contract assets. Management accrue income each month based on a best estimate of the number of products sold. This is then aligned to the actual number of products sold in the following month but is not expected to generate a material impact to the financial statements.

Upon inception of the current Bank of Ireland contract an element of the rebate of future commissions has been classified as a loan receivable with the fixed performance commission payments being the loan repayments. The amount of the future commission representing a loan receivable has been calculated by estimating the present value of the fixed performance commission payments as at the date of contract inception. The remaining rebate of future commissions represents a prepaid discount, recognised within other receivables, and the allocation of this is in line with the expected revenues, inclusive of profit share income, from the Bank of Ireland contract (excluding any constraint as discussed in Note 3). Both the interest rate on the loan receivable and the interest on the prepaid discount has been calculated using the group cost of debt. As such, management is required to estimate the expected future revenues over the remaining term of the contract which is subject to a high degree of uncertainty given the variable nature of the consideration received under the arrangement. As the proportion of cumulative profit share that is paid to the Company increases over time the amount of prepaid discount recognised increases.

The Company has a profit-sharing agreement with the Bank of Ireland (BOI) in which the Company is entitled to a percentage of cumulative profits of the partnership once certain targets are reached. The profit share revenue is recognised over time, when it is probable it is being earned, and as such significant judgement is exercised by management in relation to the expectation of the future profitability of the contract. Please refer to note 2.3(d) and note 3 for further details of the key assumptions used to estimate the profit share income recognised.

The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. There is also estimation uncertainty in respect to the expected credit loss rates applied to such balances, which may differ to the actual outcome.

Management make estimates for some trading accruals which are evaluated continually based on historical experience and other factors. These estimates may differ to the actual results but are not significant.

2.3 Significant accounting policies

a) Intangible assets

Intangible assets which are acquired separately are initially recognised at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Software development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful economic lives. The only intangible assets with finite lives held by the Group are customer relationships, software and development costs. Customer relationships are amortised over 10 years and software and development costs over 5 years.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. Depreciation is provided on property, plant and equipment at rates calculated to write off the costs, less estimated residual value based on prices prevailing at the date of acquisition of each asset, evenly over its expected useful life as follows:

Plant and Equipment	3 years
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The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

c) 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 statement of financial position 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 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 statement of financial position 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 statement of financial position 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.

d) Revenue recognition

Revenue represents various flows of commission income receivable and payable as well profit share from the sale and related marketing and administrative services of financial products, excluding value added tax and trade discounts.

Commission revenue is recognised on a point in time basis at the point of the provision of the service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable.

Direct commission is earned as a recharge from incurring costs in delivering the Company's services to the bank, which is recognised on a point in time basis, as the expenses are incurred.

Profit share income is earned based on the cumulative profits earned by the financial services partnership with the Bank of Ireland, which is recognised over time when certain thresholds of profitability in the partnership are reached.

All revenue originates in the UK. Revenue by destination is not materially different from revenue by origin.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Significant accounting policies (continued)

e) Adjusting operating items

Adjusting operating items are events or transactions that fall within the operating activities of the Company and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

In addition, occasionally there are events or transactions that fall below operating profit that are one-off in nature and items within operating profit that relate to transactions that do not form part of the ongoing segment performance and which, by virtue of their size or incidence, have been separately disclosed in the financial statements.

f) 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.

Trade receivables and contract assets

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised at fair value and are subsequently held at amortised cost.

The Group applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade receivables.

Amounts owed by group undertakings

Amounts owed by group undertakings are amounts due from other intercompany entities. The assessment of credit loss allowances for intercompany receivables requires judgement to assess the collectability of intercompany balances. There is also estimation uncertainty in respect of the expected credit loss rates applied to such balances, which may differ to the actual outcome.

Loan receivable

Loan receivables are recognised at fair value and are subsequently held at amortised cost.

Trade and other payables

Trade and other payables are not interest bearing and are recognised at fair value and are subsequently held at amortised cost.

g) Finance Income

Finance income represents the unwind of the discount, representing the time value of money, on the loan receivable and other receivable. See note 2.2 for further details.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 REVENUE

Revenue is earned through a contract with the Bank of Ireland, arising from three main components:

- Product and performance commission based on the volumes of loans sold and savings balances.
- Direct commission in reflection of the fact that the AA incurs certain costs in delivering AAFS' services to the bank.
- A share of profits based on the cumulative profits earned by the financial services partnership with the Bank of Ireland.

Three key assumptions are used in determining the profit share revenue earned by the Company; revenue forecast from the Bank of Ireland, probability weightings as part of the expected valuation model and the level of constraints used. The forecast of the total profit share payments is used to determine the expected amounts to be paid to the Company. The Company applies a constraining de-risk to the Bank of Ireland forecast to the extent that the estimate is considered to be too uncertain and it is not highly probable a significant reversal of cumulative profit share will not occur. An expected value method has been adopted as the profit share element is variable in accordance with IFRS 15. This method requires probability weightings to be used to determine the level of constraint required based on a) the likelihood of a reversal of the cumulative distributable profit share, b) an assessment on the judgements in the forecast, and c) volatility in the market. The company has concluded that there is an element of profit share that passes the highly probable of occurring threshold and has therefore been recognised in revenue.

Due to the profit share being material to the Company, a sensitivity analysis has been performed to determine the impact of changes of the following:

- Each increase of 1% in the constraint against the Bank of Ireland forecast reduces revenue by £48k.
- Increasing or decreasing the Bank of Ireland's forecast by +10%/-10% and keeping all other factors equal increases or decreases revenue by £162k.
- Increasing or decreasing the assessment of each of the factors by +5%/-5% and keeping all other factors equal has the impact of decreasing or increasing revenue by £245k.
- Reallocating the weighting to an increase in 10% likelihood of a reversal in the cumulative distributable profit share and a decrease of 5% in both the forecast and volatility in the market has the impact of increasing revenue by £171k.
- If the proportion of revenue earned in FY21 relative to the total expected revenue in the contract increases/decreases by 1% the prepaid discount will decrease/increase by 62k. If the proportion of revenue earned in FY22 relative to the total expected revenue in the contract increases/decreases by 1% the prepaid discount will decrease/increase by 33k.

4 ADJUSTED PERFORMANCE MEASURES

Management reviews the Company's results and performance both on a statutory and non-GAAP (non-statutory) basis. The Company's adjusted performance measure of Trading EBITDA is a non-GAAP (non-statutory) financial measure and is included in these financial statements as it is a key financial measure used by management to evaluate performance. The measure enables management to more easily and consistently track the underlying operational performance of the Company.

Trading EBITDA is profit after tax on a continuing basis as reported, adjusted for amortisation, adjusting operating items and tax expense.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 ADJUSTED PERFORMANCE MEASURES (continued)

Reconciliation of Trading EBITDA to operating profit

Trading EBITDA is calculated as operating profit before adjustments as shown in the table below:

	Note	Year ended 31 January 2022 £'000	Year ended 31* January 2021 £'000
Trading EBITDA		1,952	1,124
Amortisation	12	(38)	(38)
Depreciation	13	(4)	-
Adjusting operating items	6	(91)	(57)
Operating profit	5	1,819	1,029

* Trading EBITDA and operating profit for the year ended 31 January 2021 have been restated due to a prior year error. See note 17.

Trading EBITDA excludes the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as income or costs which are the result of an isolated, non-recurring event. It also excludes the effects of amortisation.

These specific adjustments are made between the GAAP measure of operating profit and the non-GAAP measure of Trading EBITDA because Trading EBITDA is a performance measure required and clearly defined under the terms of the AA Limited group's debt documents and is used for calculating debt covenants. Given the significance of the AA Limited group debt, Trading EBITDA is therefore a key measure for management, enabling them to more easily and consistently track the underlying operational performance of the Company.

5 OPERATING PROFIT BEFORE TAX

Operating profit is stated after charging:

	2022 £'000	2021 £'000
Amortisation of intangible assets (Note 12)	42	38
Adjusting operating items (Note 6)	91	57

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2022 amounted to £17,000 (2021: £16,000). The Company's auditors provided no services to the Company other than the statutory audit during either the current or prior year.

6 ADJUSTING OPERATING ITEMS

	2022 £'000	2021 £'000
Adjusting operating costs	<u>91</u>	<u>57</u>

Adjusting operating items in the current year related to £91,000 recharge of group adjusting operating costs (2021: £57,000).

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2022 £'000	2021 £'000
Wages and salaries	1,153	1,115
Social security costs	137	105
Other pension costs	145	159
	<u>1,435</u>	<u>1,379</u>

Employee costs relate to those recharged from Automobile Association Developments Limited. The average number of employees directly employed during the year was nil (2021: nil). The average number of employees for whose services the Company was charged during the year was 15 (2021: 15).

8 DIRECTORS' REMUNERATION

	2022 £'000	2021 £'000
Aggregate remuneration in respect of qualifying services	775	1,076
Contribution to money purchase schemes	-	98
Share-based payments	132	-
	<u>907</u>	<u>1,174</u>

The amounts paid in respect of the highest paid director were as follows:

Remuneration	331	557
Contribution to money purchase schemes	-	82
Share-based payments	132	-
	<u>463</u>	<u>639</u>

All directors of the Company are directors of the ultimate parent undertaking (Basing ConsortiumCo Limited) and/or fellow subsidiaries. These directors are remunerated by another company that is part of the Basing ConsortiumCo Limited group. As the directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of the ultimate parent undertaking and fellow subsidiary companies, their full remuneration has been reflected in the disclosure above.

During the year ended 31 January 2022, the highest paid director received and exercised 376,229 shares (2021: nil) in respect of qualifying services under a long-term incentive scheme.

Retirement benefits are accruing for 0 (2021: 0) directors under a defined benefit scheme and 0 (2021: 2) under a money purchase scheme.

9 FINANCE INCOME

	2022 £'000	2021* £'000
Interest receivable	242	322
Finance income	<u>242</u>	<u>322</u>

* Finance income for the year ended 31 January 2021 has been restated due to a prior year error. See note 17.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 INCOME TAX EXPENSE

The major components of the income tax expense are:

	2022 £'000	2021* £'000
Current tax:		
- Current tax on income in the year	384	270
- Adjustment in respect of prior years	-	24
Total current income tax charge	384	294
Deferred tax:		
- Origination and reversal of temporary differences	8	(13)
- Effect of tax rate change on opening balances	(3)	(1)
Total deferred income tax charge/(credit)	5	(14)
Total income tax expense	389	280

Reconciliation of income tax expense to profit before tax multiplied by UK's corporation tax rate:

	2022 £'000	2021* £'000
Profit before tax	2,061	1,351
Tax at rate of 19% (2021: 19%)	392	257
Effects of:		
Adjustments in respect of prior years	-	24
Rate change adjustment on temporary differences	(3)	(1)
Income tax expense reported in the income statement	389	280

* Profit before tax and income tax expense for the year ended 31 January 2021 have been restated to correct an error relating to the prior year. Please refer to Note 17 for full details of the restatements made.

11 DEFERRED TAX ASSETS

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Fixed asset temporary differences	7	7	-	(3)
Other short-term temporary differences	8	13	5	(11)
Deferred tax assets	15	20	5	(14)
			2022 £'000	2021 £'000
Deferred tax assets as at 1 February			20	6
Tax (expense)/credit recognised in the income statement			(5)	14
Deferred tax assets as at 31 January			15	20

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 DEFERRED TAX ASSETS (continued)

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The March 2021 budget announced that the main corporation tax rate will increase from 19% to 25% in April 2023. This increase was substantively enacted in May 2021 and has therefore been reflected in the measurement of deferred tax as at 31 January 2022. The effect of the tax rate increase has not had a material effect on the deferred tax balances during the year.

Deferred tax balances have been measured according to the substantively enacted rates applicable to the periods in which they are scheduled to reverse.

12 INTANGIBLE ASSETS

	Software £'000
Cost	
At 1 February 2021	178
Additions	128
Transfers	45
At 31 January 2022	351
Accumulated amortisation	
At 1 February 2021	140
Charge for year	42
At 31 January 2022	182
Net book value	
At 31 January 2022	169
At 31 January 2021	38

Amortisation expenses are included under administrative expenses.

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £'000
Cost	
At 1 February 2021	42
Additions	3
Transfers	(45)
At 31 January 2022	-
Accumulated depreciation	
At 1 February 2021 and 31 January 2022	-
At 31 January 2022	-
At 31 January 2022	-
At 31 January 2021	42

Assets under construction totalling £45k related to software developed in relation to the Smart Lease product. The costs capitalised were transferred to intangible assets on 6th January 2022 and amortised in line with the accounting policy.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 TRADE AND OTHER RECEIVABLES

	2022 £'000	2021* £'000
Non-current		
Other receivable	4,243	4,522
Loan receivable	-	900
	<u>4,243</u>	<u>5,422</u>
Current		
Trade receivables	143	668
Contract assets	2,805	1,117
Amounts owed by group undertakings	19,469	16,272
Prepayments	21	132
Other receivable	279	370
Loan receivable	900	1,850
	<u>23,617</u>	<u>20,409</u>

* Prepayments, other receivables and loan receivables as at 31 January 2021 have been restated to correct an error relating to the prior year. Please refer to Note 17 for full details of the restatements made.

Amounts owed by group undertakings within one year are unsecured, are repayable on demand and bear no interest.

15 TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	254	263
Other taxation and social security	95	46
Accruals	556	423
Deferred income	21	134
Other payables	12	15
	<u>938</u>	<u>881</u>

16 CALLED UP SHARE CAPITAL

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
2,000,000 (2021: 2,000,000) ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

The voting rights of the holders of all ordinary shares are the same and all ordinary shares rank pari passu on a winding up.

In the year ended 31 January 2022, the Company has not paid a dividend (2021: £nil).

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 PRIOR YEAR RESTATEMENT

A restatement of the prior year figures has been made as a result of a reassessment of the methodology to correct the recognition associated with the Bank of Ireland contract.

In the 31 January 2021 financial statements the rebate of future commissions and fixed commission were both prepaid and spread over the life of the contract on a straight-line basis. At the start of FY22, management revised the basis of recognition to spread this in line with expected product commission loan volumes from the Bank of Ireland.

Following reassessment, part of the rebate of future commissions has been reclassified from prepayments to a loan receivable, with the fixed performance commission payments acting as the loan repayments. The remaining balance of the rebate of future commissions has been spread over the life of the contract, representing a discount. The basis for spreading the revenue reduction has changed from expected commissions to expected product commission including unconstrained profit share.

The effect of the restatement discussed above is shown below:

	31 January 2021		
	Previously reported	Effect of restatement	Restated
	£'000	£'000	£'000
Income statement			
Revenue	7,657	(344)	7,313
Finance income	-	322	322
Profit before tax	1,373	(22)	1,351
Income tax expense	(284)	4	(280)
Profit after tax	1,089	(18)	(1,071)
Statement of financial position			
Other receivables			
Non-current	-	4,521	4,521
Current	-	370	370
Loan receivable			
Non-current	-	900	900
Current	-	1,850	1,850
Prepayments	7,796	(7,663)	133
Current tax payable	(274)	4	(270)
Retained earnings	22,798	(18)	22,780

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 GUARANTEES AND COMMITMENTS

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2022, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325.0m (2021: £2,776.7m).

The covenants governing the bank loans and bond debt of the AA Intermediate Co Limited group place restrictions on the group's ability to distribute cash from the key trading companies to pay external dividends and finance activities unconstrained by the restrictions embedded in the debts.

19 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of Automobile Association Insurance Services Holdings Limited, a company registered in England and Wales, UK.

The parent of the smallest group to consolidate these financial statements is AA Intermediate Co Limited and the parent of the largest group to consolidate these financial statements is AA Limited, both of whose registered office is Fanum House, Basing View, Basingstoke, Hampshire, RG21 4EA.

At 31 January 2022, the ultimate controlling party and parent undertaking is Basing ConsortiumCo Limited, whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey.

Copies of the consolidated AA Limited financial statements are available from the website www.theaacorporate.com/investors.

20 EVENTS AFTER THE REPORTING PERIOD

On 13 July 2022, the AA Limited group completed a refinancing of its outstanding A6 notes, issuing £250m of A10 notes at a coupon of 7.38%.