Automobile Association Personal Finance Limited

Directors' report and financial statements
For the year ended 31 December 2012

Registered office

Trinity Road
Halifax, West Yorkshire
HX1 2RG

Registered number

1772586

Directors

P N Jamieson
B A J Studds

Company secretary

P Gittins

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2012

The directors present their report and the audited financial statements of Automobile Association Personal Finance Limited ("the Company") for the year ended 31 December 2012

Business review

Principal activities

The Company is a limited company incorporated and domiciled in England and Wales (registered number 1772586) Historically the Company was a joint venture between Bank of Scotland plc and Automobile Association Developments Limited ("AAD") This changed in 2009 when Bank of Scotland plc acquired the remaining share capital however there remained certain reporting obligations by the Company to AAD, including the reporting of the credit card portfolio within the results of the Company

The principal activity of the Company is the provision of finance and associated services

The Company's results for the year, in respect of continuing operations, show a Loss before tax of £9,583,000 (2011 £30,764,000) and Net interest income of £15,603,000 (2011 £26,325,000) In respect of discontinued operations, the results show a Profit before tax of £6,535,000 (2011 £8,058,000) and Net interest income of £12,383,000 (2011 £16,245,000)

The immediate parent company, Bank of Scotland plc, is a member of the Lloyds Banking Group ("the Group") and provides funding to the Company

Future outlook

The Company ceased to write personal loan business with effect from September 2009, therefore, the carrying value of loans and advances from personal loan products and associated income will reduce as individual agreements expire

In November 2012 Bank of Scotland plc enacted a rebranding clause of the joint venture agreement allowing the Company to rebrand the credit card portfolio from AA to Bank of Scotland The joint venture agreement required the continued reporting of the credit card portfolio financials for a period of three months following the rebrand date, at which point the portfolio would be reassigned to Bank of Scotland plc as part of a Group simplification exercise Accordingly the financials in respect of the credit card portfolio have been presented as discontinued operations within these financial statements (see note 10)

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company Further details of the Company's and Group's risk management policy are contained in note 2 to the financial statements

Key performance indicators ("KPIs")

Given the business is no longer providing new financing, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Policy and practice on payment of suppliers

The Company follows "The Prompt Payment Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers Information about the "Prompt Payment Code" may be obtained by visiting www promptpaymentcode org uk

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated

It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As no amounts are owed to trade creditors as at 31 December 2012, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 2006, is nil (2011 nil)

Dividends

No dividends were paid or proposed during the year ended 31 December 2012 (2011 £nil)

Going concern

The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis

Directors' report (continued)

For the year ended 31 December 2012

Directors

The names of the current directors are shown on the cover

There have been no changes to directors during the year or since the year end

Directors' indemnities

The directors have the benefit of a deed of indemnity which constitutes a "qualifying third party indemnity provision" These deeds are in force during the whole of the financial year The indemnities remain in force at the date of signing the financial statements Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, 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 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 They 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

Disclosure of information to auditors

Each director in office at the date of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006

On behalf of the board

B A J Studds
Director

19th September 2013

Independent auditors' report to the member of Automobile Association Personal Finance Limited

We have audited the financial statements of Automobile Association Personal Finance Limited for the year ended 31 December 2012 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's member 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Scott S Berryman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

19 September 2013

Statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Continuing operations			
Interest income	4 , 10	**25,558**	46,015
Interest expense	4 , 10	**(9,955)**	(19,690)
Net interest income	4 , 10	**15,603**	26,325
Fees and commission income	5 , 10	**217**	1,422
Payment protection insurance charge	15 , 10	**(32,849)**	(39,677)
Impairment gains/(losses) on Loans and advances to customers	18 , 10	**8,941**	(17,156)
Other operating expenses	6 , 10	**(1,495)**	(1,678)
Loss before tax		**(9,583)**	(30,764)
Taxation	9 , 10	**2,222**	7,826
Loss for the year attributable to owners of the parent, being total comprehensive expense from continuing operations		**(7,361)**	(22,938)
Profit for the year attributable to owners of the parent, being total comprehensive income from discontinued operations	10	**4,934**	6,111
Loss for the year attributable to owners of the parent, being total comprehensive expense		**(2,427)**	(16,827)

The notes on pages 8 to 20 are an integral part of these financial statements

Balance sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Other current assets	11	**42,161**	41,308
Loans and advances to customers	12	**315,946**	505,407
Current tax asset		**7,057**	6,169
Deferred tax asset	13	**1,423**	1,690
Total assets		**366,587**	554,574
LIABILITIES			
Borrowed funds	14	**374,142**	565,010
Other current liabilities		**3,506**	2,247
Provision for liabilities and charges	15	**29,696**	25,647
Total liabilities		**407,344**	592,904
EQUITY			
Share capital	16	**3,000**	3,000
Retained losses		**(43,757)**	(41,330)
Total equity		**(40,757)**	(38,330)
Total equity and liabilities		**366,587**	554,574

The notes on pages 8 to 20 are an integral part of these financial statements

The financial statements on pages 4 to 20 were approved by the board of directors and were signed on its behalf by

B A J Studds
Director

20th September 2013

Statement of changes in equity

For the year ended 31 December 2012

	Share capital £'000	Retained losses £'000	Total £'000
At 1 January 2011	3,000	(24,503)	(21,503)
Loss for the year being total comprehensive expense	-	(16,827)	(16,827)
At 31 December 2011	**3,000**	**(41,330)**	**(38,330)**
Loss for the year being total comprehensive expense	-	(2,427)	(2,427)
At 31 December 2012	**3,000**	**(43,757)**	**(40,757)**

The notes on pages 8 to 20 are an integral part of these financial statements

Cash flow statement

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows generated from operating activities			
Loss before tax		**(3,048)**	(22,706)
Adjustments for			
- Interest expense		**11,076**	20,894
- Increase in Provision for liabilities and charges		**4,049**	22,444
Changes in operating assets and liabilities			
- Net decrease in Loans and advances to customers		**189,461**	318,780
- Net (increase)/decrease in Other debtors		**(853)**	3,494
- Net increase/(decrease) in Other current liabilities		**1,259**	(1,050)
Cash generated from operations		**201,944**	341,856
Interest paid		**(11,076)**	(20,894)
Net cash generated from operating activities	10	**190,868**	320,962
Cash flows used in financing activities			
Repayment of borrowings with group undertakings		**(189,125)**	(322,603)
Net cash used in financing activities	10	**(189,125)**	(322,603)
Net increase/(decrease) in cash and cash equivalents	10	**1,743**	(1,641)
Bank overdrafts at beginning of year		**(1,743)**	(102)
Bank overdrafts at end of year		**-**	(1,743)

The notes on pages 8 to 20 are an integral part of these financial statements

Notes to the financial statements

For the year ended 31 December 2012

1 Accounting policies

1 1 Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2012 and which have not been applied in preparing these financial statements are given in note 22

As a result of the rebranding exercise described in the Directors' report the Company is required to present the Statement of comprehensive income, Cash flow statement and related notes such that they are compliant with the provisions of IFRS 5 Non-current assets held for sale and discontinued operations Each individual note to the Statement of comprehensive income presents the total income or expense, both continuing and discontinued, in respect of that line item The income or expense pertaining to discontinued operations has been presented in note 10

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention

1 2 Income recognition

Income from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, using the effective interest rate method The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate such as commission associated with the sale of insurance underwritten by a related party, are generally recognised in the Statement of comprehensive income on an accruals basis when the service has been provided

1 3 Financial assets and liabilities

Financial assets comprise Loans and advances to customers, Amounts due from group undertakings and Other debtors Financial liabilities comprise Amounts due to group undertakings, Bank overdraft with group undertaking and Other current liabilities

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired

Interest bearing financial assets and liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method

1 4 Impairment

Loans and advances to customers

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower

Notes to the financial statements (continued)
For the year ended 31 December 2012

1. Accounting policies (continued)

1 4 Impairment (continued)

Loans and advances to customers (continued)

The impairment trigger is generally when the balance is two or more instalments in arrears or where the customer has exhibited one or more of the impairment characteristics set out above While the trigger is based on the payment performance or circumstances of each individual asset, the assessment of future cash flows uses historical experience of cohorts of similar portfolios such that the assessment is considered to be collective Future cash flows are estimated on the basis of the contractual cash flows of the assets in the cohorts and historical loss experience for similar assets Historical loss experience is adjusted on the basis of current observable data about economic and credit conditions to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between the loss estimates and actual loss experience

The collective provision also includes provision for inherent losses, that is losses that have been incurred but have not been separately identified at the balance sheet date The loans that are not currently recognised as impaired are grouped into homogenous portfolios by key risk drivers Risk drivers include whether the account is up to date and, if not, the number of payments that have been missed An assessment is made of the likelihood of each account becoming recognised as impaired within the loss emergence period, with the economic loss that each portfolio is likely to generate were it to become impaired

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the Statement of comprehensive income

When a loan or advance is uncollectible, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined Subsequent recoveries of amounts previously written off are recognised in the Statement of comprehensive income on a cash receipts basis

1 5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Bank overdraft with group undertaking comprises balances with less than three months' maturity

1 6 Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses arise

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

Tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

1 7 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated

2. Risk management policy

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and business risk, it is not exposed to any significant market risk and foreign exchange risk Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the ultimate parent, Lloyds Banking Group plc Interest rate and liquidity risk faced by the Company is in substance managed by other group undertakings which fund the Company and credit risk is carefully monitored by the Group's credit committee and credit functions Business risk is managed through regular reporting and oversight

2. Risk management policy (continued)

2 1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Group's credit committee and credit functions Significant credit exposures are measured and reported on a regular basis Impairment provisions are provided for losses that have been incurred at the balance sheet date

For loans and advances, credit risk arises both from both amounts lent and commitments to extend credit to a customer

In measuring the credit risk of loans and advances, the Company reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations, (ii) current exposures to the counterparty and their likely future development, from which the Company derives the 'exposure at default', and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default')

The Company assesses the probability of default of individual counterparties using internal rating models tailored to the various categories of counterparty All rating models, which are authorised by executive management, comply with the Group's standard methodology and are subject to a rigorous validation process

Credit risk mitigation

- Credit principles and policy Group Risk sets out the Group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy Principles and policy are reviewed regularly and any changes are subject to a review and approval process Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions

- Credit scoring In its principal portfolios, the Company uses statistically based decision techniques (primarily credit scoring) Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group risk approval

- Concentration risk Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level Credit policy is aligned to risk appetite, industries, sectors and restricts exposure to certain high risk and more vulnerable sectors At a divisional level, exposures are monitored to prevent excessive concentration of risk These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements

- Stress testing and scenario analysis at a divisional level The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact

2 2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due To manage this risk extensive borrowing facilities are available from within the Group

Liquidity risks are managed as part of the Group by the immediate parent company, Bank of Scotland plc, in consultation with the board of directors Monthly reviews of funding positions are undertaken to anticipate any shortfalls

2 3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities Interest rate risk is managed at a Group level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been provided in note 18 3

2 4 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy In assessing business risk, consideration is given to internal and external factors such as products, funding, resource capability, and economic, political and regulatory factors

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

Impairment of assets accounted for at amortised cost

The Company regularly reviews its portfolio of personal loans and credit cards to assess for impairment In determining whether an impairment has occurred the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows and their timings, such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on assets in the Company

The methodology used to calculate the required impairment provisions are calculated collectively using formulae which take into account factors such as the length of time that the customer's account has been delinquent and historical loss rates in order to determine expected future cash flows The variables used in the formulae are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

Deferred tax

The Deferred tax asset is recognised partly in relation to the general provision held prior to the transition from UK GAAP to IFRS which is being released to the Statement of comprehensive income over a period of ten years The remaining Deferred tax asset relates to prior year losses, which are recognised due to the forecasted position of the Company

Payment protection insurance

The Company has sold Payment Protection Insurance ("PPI") in relation to its personal loan agreements and credit cards The Company has received claims during 2011 and 2012 in respect of past sales of payment protection insurance and has settled some of the claims during the year

Following the unsuccessful legal challenge by the British Bankers' Association against the FSA and the Financial Ombudsman Service, the Group held discussions with the FSA with a view to seeking clarity around the detailed implementation of the FSA Policy Statement which set out evidential provisions and guidance on the fair assessment of a complaint and the calculation of redress in respect of PPI sales standards As a result, the Group concluded that there are certain circumstances where customer redress will be appropriate Accordingly the Company has made provision in these financial statements of £29,696,000 for the year ended 31 December 2012 (2011 £25,647,000) During 2012, the Company made redress payments of £30,529,000 to customers (2011 £19,321,000)

4 Net interest income

	2012 £'000	2011 £'000
Interest income		
Unsecured personal loans	**25,558**	46,015
Credit card finance (see note 10)	**13,504**	17,449
	39,062	63,464
Interest expense		
Group interest expense (see notes 10 and17)	**(11,076)**	(20,894)
Net interest income	**27,986**	42,570

Interest income in respect of Credit card finance has been presented as part of discontinued operations (see note 10)

Notes to the financial statements (continued)
For the year ended 31 December 2012

5. Fees and commission income

	2012 £'000	2011 £'000
Loan fees receivable	**918**	1,658
Commission receivable (see note 17)	**63**	1,554
	981	3,212

Fees and commission income includes amounts in respect of discontinued operations (see note 10)

6 Other operating expenses

	2012 £'000	2011 £'000
Management fees (see notes 10 and 17)	**1,037**	2,641

Fees payable to the Company's auditors for the audit of the financial statements of £37,000 (2011 £37,000) have been borne by the parent undertaking and are recharged to the Company via Management fees Accounting and administration services are provided by the parent undertaking and are recharged to the Company as part of Management fees

Other operating expenses includes amounts in respect of discontinued operations (see note 10)

7 Staff costs

The Company did not employ any persons during the year (2011 none)

8. Directors' emoluments

No director received any fees or emoluments during the year (2011 £nil) The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 17)

9. Taxation

a) Analysis of credit for the year

	2012 £'000	2011 £'000
UK corporation tax		
- Current tax on taxable loss for the year	**888**	6,169
UK deferred tax		
- Origination and reversal of timing differences	**(141)**	(152)
- Impact of deferred tax rate change	**(126)**	(138)
Deferred tax charge (see note 13)	**(267)**	(290)
	621	5,879

Corporation tax is calculated at a rate of 24 5% (2011 26 5%) of the taxable loss for the year

Notes to the financial statements (continued)
For the year ended 31 December 2012

9. Taxation (continued)

b) Factors affecting the tax credit for the year

The tax on the Company's Loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Company as follows

	2012 £'000	2011 £'000
Loss before tax	**3,048**	22,706
Tax credit thereon at UK corporation tax rate of 24 5% (2011 26 5%)	**747**	6,017
Factors affecting credit		
- Effect of reduction in tax rate	**(126)**	(138)
Tax on loss on ordinary activities	**621**	5,879
Effective rate	**20 4%**	25 9%

10. Discontinued operations

Discontinued operations are entirely in respect of the Company's credit card portfolio

a) Statement of comprehensive income

	2012 £'000	2011 £'000
Interest income	**13,504**	17,449
Interest expense	**(1,121)**	(1,204)
Fees and commission income	**764**	1,790
Payment protection insurance charge	**(1,729)**	(2,088)
Impairment losses on Loans and advances to customers	**(5,341)**	(6,926)
Other operating income/(expenses)	**458**	(963)
Profit before tax	**6,535**	8,058
Taxation	**(1,601)**	(1,947)
Profit for the year attributable to owners of the parent, being total comprehensive income from discontinued operations	**4,934**	6,111

b) Cash flow statement

	2012 £'000	2011 £'000
Net cash generated from operating activities - continuing operations	**171,273**	298,006
Net cash generated from operating activities - discontinued operations	**19,595**	22,956
Net cash generated from operating activities	**190,868**	320,962
Net cash used in financing activities - continuing operations	**(168,746)**	(299,646)
Net cash used in financing activities - discontinued operations	**(20,379)**	(22,957)
Net cash used in financing activities	**(189,125)**	(322,603)
Net increase/(decrease) in cash and cash equivalents	**1,743**	(1,641)

Notes to the financial statements (continued)

For the year ended 31 December 2012

11. Other current assets

	2012 £'000	2011 £'000
Amounts due from group undertakings (see note 17)	**1,168**	1,168
Other debtors	**40,993**	40,140
	42,161	41,308

Amounts due from group undertakings are unsecured, non-interest bearing and repayable on demand

Included in Other debtors is an amount of £40,984,000 (2011 £40,105,000) receivable from Automobile Association Financial Services, which is 50% owned by the parent undertaking, Bank of Scotland plc

12. Loans and advances to customers

	2012 £'000	2011 £'000
Unsecured personal loans	**247,408**	424,912
Credit card finance	**75,328**	91,163
Gross loans and advances to customers	**322,736**	516,075
Less allowance for losses on loans and advances	**(6,790)**	(10,668)
Net loans and advances to customers	**315,946**	505,407
of which		
Due within one year	**198,061**	249,401
Due after one year	**117,885**	256,006
	315,946	505,407

Advances under Credit card finance are all due within one year

Further analysis of Loans and advances to customers is provided in note 18

13. Deferred tax asset

The movement in the Deferred tax asset is as follows

	2012 £'000	2011 £'000
Brought forward	**1,690**	1,980
Charge for the year (see note 9)	**(267)**	(290)
At 31 December	**1,423**	1,690

The deferred tax charge in the Statement of comprehensive income comprises the following temporary differences

	2012 £'000	2011 £'000
Allowances for impairment losses	**(177)**	(201)
Other temporary differences	**(90)**	(89)
	(267)	(290)

Notes to the financial statements (continued)

For the year ended 31 December 2012

13. Deferred tax asset (continued)

Deferred tax asset comprises	2012 £'000	2011 £'000
Allowances for impairment losses	**396**	573
Other temporary differences	**1,027**	1,117
	1,423	1,690

On 21 March 2012, the Government announced a reduction in the rate of corporation tax to 24% with effect from 1 April 2012 This reduction was enacted under the Provisional Collection of Taxes Act 1968 on 26 March 2012 In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013 The change in the main rate of corporation tax from 25% to 23% has resulted in a reduction in the Company's Deferred tax asset at 31 December 2012 of £126,000 comprising a £126,000 charge included in the Statement of comprehensive income

On 5 December 2012, the Government announced a further reduction in the main rate of corporation tax to 21% from 1 April 2014 In addition The Finance Act 2013, which passed into law on 17 July 2013, included legislation to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 The effect of this further change upon the Company's Deferred tax asset is subject to significant uncertainty and so has not been quantified in these financial statements

14. Borrowed funds

	2012 £'000	2011 £'000
Amounts due to group undertakings (see note 17)	**374,142**	563,267
Bank overdraft with group undertaking (see note 17)	**-**	1,743
	374,142	565,010

Amounts due to group undertakings and Bank overdraft with group undertaking are unsecured and repayable on demand, although there is no expectation that such a demand would be made Amounts due to Bank of Scotland plc are interest bearing at fixed rates or variable rates based on the Bank of England base rate or three month LIBOR Bank overdraft with group undertaking is interest bearing at variable rates based on the Bank of England base rate

15 Provision for liabilities and charges

	Total £'000
At 1 January 2011	3,203
Charge for the year	41,765
Utilised during the year	(19,321)
At 31 December 2011	25,647
Charge for the year	34,578
Utilised during the year	(30,529)
At 31 December 2012	**29,696**

In 2011 and 2012 a provision was recognised in the financial statements for claims in respect of past sales of PPI to customers The provision represents an estimate of the likely future outflows to settle claims against the Company

Notes to the financial statements (continued)
For the year ended 31 December 2012

16. Share capital

	2012 £'000	2011 £'000
Allotted, issued and fully paid		
3,000,002 ordinary shares of £1 each	**3,000**	3,000

At 31 December 2012, the authorised share capital of the Company was £5,000,000 divided into 5,000,000 shares of £1 each

The immediate parent company is Bank of Scotland plc (incorporated in Scotland) The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member Bank of Scotland plc is the parent undertaking of the smallest such group of undertakings Copies of the accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN

17. Related party transactions

The Company is controlled by Bank of Scotland plc A number of transactions are entered into with related parties in the normal course of business These include loan and fee transactions A summary of the outstanding balances at the year end and the related income and expense for the year are set out below

	2012 £'000	2011 £'000
Amounts due from group undertakings		
St Andrews Life Assurance plc (see note 11)	**1,168**	1,168
Amounts due to group undertakings		
Bank of Scotland plc (see note 14)	**374,142**	563,267
Bank overdraft held with group undertaking		
Bank of Scotland plc (see note 14)	**-**	1,743
Interest expense		
Bank of Scotland plc (see note 4)	**11,076**	20,894
Management fees		
Bank of Scotland plc (see note 6)	**1,037**	2,641

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents Transactions in the year are those reflected through the Statement of comprehensive income

Commission receivable in note 5 includes insurance commission of £63,000 (2011 £1,554,000) receivable from St Andrew Life Assurance plc, a fellow subsidiary of Lloyds Banking Group plc

UK Government

In January 2009, the UK Government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer As at 31 December 2012, HM Treasury held a 39 2 per cent (2011 40 2 per cent) interest in Lloyds Banking Group plc's ordinary share capital and consequently HM Treasury remained a related party of the Company during the year ended 31 December 2012

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company Accordingly, key management comprise the directors of the Company and the members of the Lloyds Banking Group plc board There were no transactions between the Company and key management personnel during the current or preceding year Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group

Notes to the financial statements (continued)
For the year ended 31 December 2012

18. Financial risk management

A description of the nature and mitigation of key risks facing the Company is provided in note 2 A description of the Company's financial assets/liabilities and associated accounting is provided in note 1

18 1 Credit risk

Credit concentration - Loans and advances to customers

The Company lends predominantly to individual customers geographically located in the United Kingdom

Loans and advances to customers – maximum exposure

	2012 £'000	2011 £'000
Neither past due nor impaired	**239,950**	436,669
Past due but not impaired	**4,497**	8,068
Impaired		
- No provision required	**73,930**	62,520
- Provision held	**4,359**	8,818
Maximum exposure – loans and advances	**322,736**	516,075
Commitments to lend	**906,577**	890,659
Maximum credit exposure	**1,229,313**	1,406,734

Loans and advances to customers which are neither past due nor impaired

	2012 £'000	2011 £'000
Good quality	**187,216**	283,606
Satisfactory quality	**45,378**	137,729
Lower quality	**2,754**	9,789
Below standard, but not impaired	**4,602**	5,545
Total	**239,950**	436,669

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default

Loans and advances to customers which are past due but not impaired

	2012 £'000	2011 £'000
Past due up to 30 days	**2,543**	4,147
Past due from 30-60 days	**1,954**	3,921
Past due from 60-180 days	**-**	-
Total	**4,497**	8,068

Past due is defined as failure to make a payment when it falls due

Notes to the financial statements (continued)

For the year ended 31 December 2012

18. Financial risk management (continued)

18 1 Credit risk (continued)

Loans and advances to customers which are impaired

	2012 £'000	2011 £'000
Past due 60 to 90 days	**1,665**	2,904
Past due 90 to 120 days	**901**	2,166
Past due over 120 days	**1,793**	3,748
Recoveries	**73,930**	62,520
Total	**78,289**	71,338

Recoveries balances represent future expected cashflows on debts that have already been written off and as such there is no associated impairment provision

Allowance for loans and advances to customers which are impaired

	2012 £'000	2011 £'000
Brought forward	**10,668**	21,974
Advances written off	**(4,762)**	(40,003)
(Credit)/charge for year (including recoveries)	**(3,600)**	24,082
Recoveries of prior advances written off	**4,484**	4,615
At 31 December	**6,790**	10,668

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1 4 All Loans and advances to customers are collectively assessed for impairment

18 2 Liquidity risk

The Company is funded entirely by companies within the Group The table below sets out the cash flows payable by the Company in respect of Borrowed funds, by remaining contractual undiscounted repayments of principal and interest, at the balance sheet date

All other financial liabilities are repayable on demand

As at 31 December 2012

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Principal	**246,642**	**16,000**	**54,000**	**57,500**	**374,142**
Interest on Principal	**481**	**812**	**2,589**	**1,547**	**5,429**
	247,123	**16,812**	**56,589**	**59,047**	**379,571**

As at 31 December 2011

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Principal	285,510	28,000	114,000	137,500	565,010
Interest on Principal	1,062	1,887	6,156	5,469	14,574
	286,572	29,887	120,156	142,969	579,584

Notes to the financial statements (continued)
For the year ended 31 December 2012

18 Financial risk management (continued)

18 3 Interest rate risk

Interest rate risk is managed at a group level As the Company is exposed to fluctuations in both the Bank of England base rate and three month LIBOR a sensitivity analysis has been performed to illustrate the impact of a change in each rate separately

Interest rate risk - sensitivity analysis

If the Bank of England base rate increased by 0 25% and all other variables remain constant this would increase Interest expense by £191,000 (2011 £187,000) and accordingly decrease Interest expense by £191,000 (2011 £187,000) if the Bank of England base rate decreased by the same amount

If the three month LIBOR rate increased by 0 10% and all other variables remain constant this would increase Interest expense by £97,000 (2011 £196,000) and accordingly decrease Interest expense by £97,000 (2011 £196,000) if the three month LIBOR rates decreased by the same amount

18 4 Financial strategy

The Company does not trade in financial instruments, nor does it use derivatives

18 5 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale

Fair values of Loans and advances to customers are estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the balance sheet date

The aggregated fair value of Loans and advances to customers is approximately £315,445,000 (2011 £491,127,000) The carrying value of all other financial assets and liabilities is considered an approximation of fair value

19. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity The Company receives its funding requirements from its immediate parent undertaking and does not raise funding externally

20. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2011 £nil)

21 Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements

22. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2012 and have not been applied in preparing these financial statements

Pronouncement	Nature of change	Effective date
Improvements to IFRSs (issued May 2012)	Sets out minor amendments to IFRS standards as part of the annual improvements process Most amendments clarified existing practice	Annual periods beginning on or after 1 January 2013
IFRS 13 Fair value Measurement	Sets out a single IFRS framework for the measurement of fair value and the related disclosure requirements	Annual periods beginning on or after 1 January 2013
IFRS 9 Financial Instruments Classification and Measurement [1&2]	Replaces those parts of IAS 39 Financial Instruments Recognition and Measurement relating to the classification, measurement and derecognition of financial assets and liabilities Requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument The available-for-sale financial asset and held-to-maturity categories in the existing IAS 39 will be eliminated The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015

1 At the date of this report this pronouncement is awaiting EU endorsement

2 IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting Until all stages of the replacement project are complete it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

The full impact of these pronouncements is being assessed by the Company However, the initial view is that none of these pronouncements are expected to cause any material adjustments to the reported numbers in the financial statements