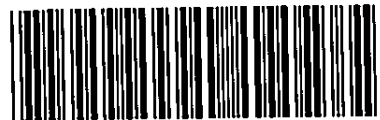


Company No. 1772586

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED
ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED
ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

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AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The Directors present their report and the audited financial statements for the year ended 31 December 2009

Business Review

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

As at 15 October 2009, the shares held by Automobile Association Developments Limited were purchased, making the Company wholly owned by Bank of Scotland plc from this date. Prior to this date the Company is a joint venture with 50% of the control being held by Automobile Association Developments Limited, a subsidiary of AA Corporation Limited, and 50% by Bank of Scotland plc, a subsidiary of Lloyds Banking Group.

Until the change in ownership, administration was provided by staff employed by both parties to the joint venture. Mark Huggins as Chief Executive Officer was employed by Automobile Association Personal Finance Limited. Charitable donations in the year were nil.

Risk Management

The key risks and uncertainties faced by the Company are managed within the framework established for the HBOS group. The key risks are credit risk, liquidity risk, market risk and operational risk. Discussion of credit, liquidity and market risk can be found under note 18. Operational risk is discussed below.

Operational risk

The main components of the operational risk framework include risk and control assessment, internal loss reporting and capture of risk event information, key risk indicator monitoring and evaluation of external events.

Operational risk is discussed monthly at a meeting attended by representatives from across the business, in addition to the business holding a quarterly Operational Risk Committee meeting, attended by the Automobile Association Personal Finance Limited Executive Management team. The Audit Committee meets quarterly and operational risk is discussed as part of the standing agenda.

Payment Protection Insurance

In January 2009, the UK Competition Commission completed its formal investigation into the supply of Payment Protection Insurance (PPI) services to non-business customers in the UK and published its final report setting out its remedies. A statement on 29 September 2009 also announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. As part of this PPI redress review, the Automobile Association Personal Finance Limited has established a provision of £9,068,000 in respect of PPI claims.

Performance

The key performance indicators used by management in assessing the performance of the Company are the review of gross loans and advances to customers, loans and advances to customers (as detailed in the balance sheet), the interest margin on these outstanding balances and the ratio of impairment losses to loans and advances to customers. These are detailed in monthly management accounts which are reviewed by the Directors and are discussed below.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

DIRECTORS' REPORT (continued)

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Gross New Loans and advances to customers	484,694	786,571
Loans and advances to customers (net of impairment)	1,295,000	1,535,000
Interest margin on outstanding balances	5.2%	2.7%
Ratio of impairment losses to loans and advances to customers	6.9%	4.1%

The Company has conducted its activities throughout the year in line with expectations of management. The Company's loss before tax for the financial year is £39,985,000 (2008: £16,345,000).

The loss is largely due to the large impairment charge in the year. Total impairment losses on loans and advances in the year were £89,922,000 (2008: £63,208,000) representing 6.9% of the loans and advances to customers balance at the year-end (2008: 4.1%).

Net interest receivable marginally increased as improved margins resulted in a rise in the net interest margin to 5.2% (2008: 2.7%), gross loans and advances to customers in the year fell to £484,694,000 (2008: £786,571,000). The removal of single premium insurance resulted in reduced take up rates which have impacted insurance commission. Other operating expenses have decreased due to a reduction in publicity and support costs.

The balance sheet has total assets of £1,435,308,000 (2008: £1,553,926,000) reflecting higher levels of debt maturity relative to new business lending.

Future Developments

The company is committed to providing competitively priced unsecured personal finance products through the AA brand via unsecured personal loans and credit cards and will continue to develop its cards product offerings to meet the needs of those customers.

Results and Dividends

During 2007, the joint venture agreement between HBOS plc and Automobile Association Developments Limited was restructured. During 2009, as part of the new agreement, HBOS plc waived £12.0m of debt which has been recorded as a capital contribution. The company became a wholly owned subsidiary in October 2009.

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
The accounts of the company show a loss after tax for the financial year	(42,355)	(15,744)
Debt waiver	12,000	7,500
(Deficit) / surplus of reserves brought forward at 1 January	(4,404)	3,840
(Deficit) / surplus of reserves to be carried forward	<u>(34,759)</u>	<u>(4,404)</u>

The Directors did not pay a dividend in the year (2008: £nil).

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

DIRECTORS' REPORT (continued)

Going concern

The Company is reliant on funding provided by Bank of Scotland plc. Notwithstanding the improvement in market liquidity during 2009, the Company's ultimate parent company, Lloyds Banking Group plc, continues to be reliant on UK Government sponsored measures to maintain its wholesale funding position. The directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to receive funding in the future and, accordingly, the financial statements have been prepared on a going concern basis.

Supplier payment policy

The Company's suppliers are paid through HBOS plc's centralised Accounts Payable department.

For the forthcoming period HBOS plc's policy for the payment of suppliers will be as follows:

- Payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement,
- Standard payment terms to suppliers of goods and services will be 30 days from the date of a correct invoice that has been received for satisfactory goods or services which have been ordered and received unless other terms are agreed in a contract,
- Payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made, and
- Suppliers will be advised without delay when an invoice is contested and disputes will be settled as quickly as possible.

HBOS plc complies with the Better Payment Practice Code. Information regarding this Code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk. The Company's main trading subsidiary undertaking, Bank of Scotland plc, had trade creditors outstanding at 31 December 2009 representing 20 days of purchases for each company. The Company itself owed no amounts to trade creditors at 31 December 2009.

Directors

The Directors of the company during the year to 31 December 2009 were -

S D Ashton	(Resigned 15 October 2009)
S M Howard	(Resigned 15 October 2009)
M Huggins	(Resigned 31 July 2009)
A Seale	(Resigned 11 June 2009)
H I Trafford	
R Galley	(Appointed 11 June 2009)
P N Jamieson	(Appointed 15 October 2009)
B A J Studds	(Appointed 15 October 2009)

The Articles of Association do not provide for the retirement of Directors by rotation.

On the 4th January 2010 H I Trafford resigned as a Director.

B Hilliard was appointed as a Director on the 25 March 2010, R Galley resigned as director on this same date.

One Director has a loan. Details are disclosed in note 17.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED**DIRECTORS' REPORT (continued)****Audit Information**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Elective Resolutions

Elective resolutions to dispense with holding Annual General Meetings and the laying of accounts before the company in general meeting are currently in force

Appointment of New Auditors

Following the resignation of KPMG on 2 July 2009, PricewaterhouseCoopers LLP were appointed as auditors of the company with effect from the same date by resolution of the members dated 14 August 2009

Pursuant to section 487 of the Companies Act 2006, auditors duly appointed by the members of the company shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year and PricewaterhouseCoopers LLP will therefore continue in office

Statement of Directors' Responsibilities In Respect of the Directors' Report and the Financial Statements

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 elected to prepare 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED**DIRECTORS' REPORT (continued)**

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.

BY ORDER OF THE BOARD

A LOCKWOOD
Secretary

Trinity Road
Halifax
West Yorkshire
HX1 2RG

12 April 2010

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED**

We have audited the financial statements of Automobile Association Personal Finance Limited for the year ended 31 December 2009 which comprise the Income Statement, 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 Directors' Responsibilities Statement set out on pages 4 and 5, 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 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 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.

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.

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 2009 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.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED (continued)**

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



Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
12 April 2010

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>Notes</u>	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Interest receivable and similar income	2	129,487	127,158
Interest payable and similar charges	3	(62,157)	(85,706)
Net interest receivable		<u>67,330</u>	<u>41,452</u>
Fee and commission income	4	(5,741)	23,799
Administrative expenses	5	(9,349)	(13,188)
Other operating expenses		(2,303)	(5,200)
Impairment losses on loans and advances	10	(89,922)	(63,208)
Loss before tax		<u>(39,985)</u>	<u>(16,345)</u>
Income tax credit	6	(2,370)	601
Loss for the year/Total comprehensive expense for the year		<u>(42,355)</u>	<u>(15,744)</u>

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Loss for the financial year	(42,355)	(15,744)
Total recognised expense for the year	<u>(42,355)</u>	<u>(15,744)</u>

The notes on pages 12 to 28 form part of the financial statements

The loss shown above is derived from continuing operations. The Company operates in a single business segment and all of the Company's activities are in the UK.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2009

	<u>Notes</u>	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Assets			
Deferred tax asset	7	963	5,743
Loans and advances to customers	8	534,268	1,009,787
Total non-current assets		<u>535,231</u>	<u>1,015,530</u>
Trade and other receivables	11	115	1,551
Amounts owed by group undertakings	12	55,902	11,657
Loans and advances to customers	8	760,657	525,188
Total current assets		<u>816,674</u>	<u>538,396</u>
Total assets		<u>1,351,905</u>	<u>1,553,926</u>
Equity			
Share capital	16	3,000	3,000
Retained earnings	16	(77,759)	(35,404)
Capital contribution reserve	16	43,000	31,000
Issued capital and reserves attributable to equity holders of the parent		<u>(31,759)</u>	<u>(1,404)</u>
Liabilities			
Amounts owed to group undertakings	12	593,000	820,000
Total non-current liabilities		<u>593,000</u>	<u>820,000</u>
Amounts owed to group undertakings	12	778,511	731,207
Provisions	13	9,068	-
Trade and other payables	15	3,085	4,123
Total current liabilities		<u>790,664</u>	<u>735,330</u>
Total liabilities		<u>1,383,664</u>	<u>1,555,330</u>
Total equity and liabilities		<u>1,351,905</u>	<u>1,553,926</u>

A reconciliation of the movement in equity is provided on page 10

The notes on pages 12 to 28 form part of the financial statements

Approved by the Board of Directors on 12 April 2010 and signed on its behalf by



..... DIRECTOR

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED
**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2009**

	<u>Share capital £000</u>	<u>Retained earnings £000</u>	<u>Capital contribution £000</u>	<u>Total £000</u>
Balance at 1 January 2009	3,000	(35,404)	31,000	(1,404)
Total recognised income and expense	-	(42,355)	-	(42,355)
Debt waiver	-	-	12,000	12,000
Balance at 31 December 2009	3,000	(77,759)	43,000	(31,759)

	<u>Share capital £000</u>	<u>Retained earnings £000</u>	<u>Capital contribution £000</u>	<u>Total £000</u>
Balance at 1 January 2008	3,000	(19,660)	23,500	6,840
Total recognised income and expense	-	(15,744)	-	(15,744)
Debt waiver	-	-	7,500	7,500
Balance at 31 December 2008	3,000	(35,404)	31,000	(1,404)

During 2007, the joint venture agreement between HBOS plc and Automobile Association Developments Limited was restructured. During 2009 as part of the new agreement, HBOS plc waived £12,000,000 of debt. The Company became a wholly owned subsidiary of BOS plc on 15 October 2009. The capital contribution reserve is wholly distributable.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	<u>Note</u>	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Cash flows from operating activities			
Loss before tax		(39,985)	(16,345)
(Decrease) / increase in impairment		(95,523)	8,673
Increase / (decrease) in trade and other payables (including provisions)		8,030	(928)
Decrease in debtors and trade and other receivables		335,715	51,752
Decrease in inter-company accounts with HBOS Group companies		(69,735)	(77,083)
Income tax credit		3,705	4,134
Net cash inflow / (outflow) from operating activities		142,207	(29,797)
Cash flows from financing activities			
Debt waiver		12,000	7,500
Net cash from financing activities		12,000	7,500
Net increase / (decrease) in cash and cash equivalents		154,207	(22,297)
Cash and cash equivalents at 1 January		(154,342)	(132,045)
Cash and cash equivalents at 31 December	12	(135)	(154,342)

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Statements

The financial statements of Automobile Association Personal Finance Limited comprise the Income Statement, Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the Cash Flow Statement, together with the related Notes to the Financial Statements

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU'), interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and the Companies Act 2006 applicable to Company's reporting under IFRS. The standards applied by the Company are those effective at the date the financial statements are approved by the Board.

(b) Basis of preparation

The Company is domiciled in England. The financial statements have been prepared on a going concern basis. They are presented in Sterling, rounded to the nearest thousand.

Accounting Pronouncements Effective in 2009

The following new IFRS pronouncements relevant to the Company have been adopted in these consolidated financial statements:

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements; the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements.

The application of the following IFRS pronouncement which became effective in 2009 has had no material impact on these financial statements:

Amendments to IFRS 7 'Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the amendments only result in additional disclosures, the amendments have not had any impact for amounts recognised in these financial statements. [Awaiting EU endorsement]

IFRS 8 'Operating Segments'. This new standard replaces IAS 14 'Segment Reporting' and requires reporting of financial and descriptive information about operating segments which are based on how financial information is reported and evaluated internally. This standard is not applicable to the Company as it is not publicly traded or part of a sub group which prepares consolidated accounts.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of preparation (continued)

IFRS2 Share based payment (amendment), IAS 32 Financial Instrument Presentation (Amendment) and IAS 23 Borrowing Costs (revision) have not been applied as they are not applicable at this time to the accounts of this Company

Improvements to IFRSs (issued May 2008) Sets out minor amendments to IFRS standards as part of annual improvements process Most amendments clarified existing practice

The application of this new interpretation has not had any impact for amounts recognised in these financial statements

IFRSs Not Yet Effective

The following pronouncements will be relevant to the Company but were not effective at 31 December 2009 and have not been applied in preparing these financial statements The full impact of these accounting changes is being assessed by the Company With the exception of IFRS 9, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements

Amendment to IAS 39 Financial Instruments Recognition and Measurement – Eligible Hedged Items, which is effective from annual periods beginning on or after 1 July 2009, clarifies how the principles underlying hedge accounting should be applied in particular situations

Improvements to IFRS1 (issued April 2009) will be dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010 It sets out minor amendments to IFRS standards as part of annual improvements process

IFRS 9 Financial Instruments Classification and Measurement, which is effective from annual periods beginning on or after 1 January 2013, simplifies the way entities will classify financial assets and reduces the number of classification categories to two, fair value and amortised cost The existing available-for-sale and held-to-maturity categories have been eliminated Classification will be made on the basis of the objectives of entity's business model for managing the assets and the characteristics of the contractual cash flows

IAS24 Related Party Disclosures ,which is effective from annual periods beginning on or after 1 January 2011, simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities

(c) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Company to make estimations where uncertainty exists The principal critical accounting estimates made by the Company are considered below Disclosures about estimates and the related assumptions are also included in the appropriate note

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(c) Critical Accounting Estimates and Judgements (continued)

Impairment Losses on Loans and Advances

Impairment loss calculations involve the estimation of future cash flows of loans and advances based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. These calculations are undertaken on a portfolio basis. In applying the portfolio basis the Company makes use of various statistical modelling techniques which are specific to different portfolio types. In calculating individual impairment provisions the Company takes account of a number of relevant considerations including historical experience, future prospects of the customer and reliability of information.

(d) Revenue Recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, using the sum of digits method which is not materially different to the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn. Where it is unlikely that loan commitments will be drawn, loan commitment fees are recognised over the life of the facility.

(e) Financial Assets and Liabilities

On initial recognition, financial assets are classified into fair value through profit or loss, available-for-sale financial assets or loans and receivables. Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss initially which are held at fair value.

The Company has no financial assets at fair value through profit or loss, or available-for-sale financial assets.

Loans and Advances to Customers

Loans and advances to customers include loans and advances to banks and customers and eligible assets. Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs or, for eligible assets transferred into this category, their fair value at the date of transfer. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method less provision for impairment.

Loans and advances to customers are split between current and non-current (>12months) on the basis of future cash flow projections.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****(e) Financial Assets and Liabilities (continued)***Borrowings*

Borrowings (which include deposits from banks, customer accounts, debt securities in issue and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.

When a financial liability is exchanged for an equity instrument, the new equity instrument is recognised at fair value and any difference between the original carrying value of the liability and the fair value of the new equity is recognised in the profit or loss together with any related costs or fees incurred.

(f) Impairment

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition and prior to the balance sheet date, there is objective evidence that a financial asset or group of financial assets has become impaired.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal and/or interest,
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty,
- Restructuring of debt to reduce the burden on the borrower,
- Breach of loan covenants or conditions, and
- Initiation of bankruptcy or individual voluntary arrangement proceedings.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between two months and twelve months.

If there is objective evidence that an impairment loss has been incurred, an allowance is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(f) Impairment (continued)

If there is no objective evidence of individual impairment the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Segmentation takes into account such factors as past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data 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 Company to reduce any differences between loss estimates and actual loss experience.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery (as a result of the customer's insolvency or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

(g) Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the difference will not reverse in the foreseeable future. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects 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.

Deferred and current 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.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(h) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with a maturity of less than three months

2 INTEREST RECEIVABLE AND SIMILAR INCOME

Interest income, all of which arose from activities within the United Kingdom, represents finance charges earned on instalment finance agreements and other personal loans

The interest income and pre-tax loss are attributable to one continuing activity, the provision of finance and associated services. This has been recognised in accordance with IAS 39 (Financial Instruments recognition and measurement) on an effective interest rate basis

3 INTEREST PAYABLE AND SIMILAR CHARGES

The components of interest payable and similar charges are as follows

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Interest payable to related undertakings	62,161	85,703
Bank interest	(4)	3
	<u>62,157</u>	<u>85,706</u>

4 FEE AND COMMISSION INCOME

The components of fee and commission income are as follows

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Additional charges	4,441	6,763
Insurance commission	(10,182)	17,036
Fee and commission income	<u>(5,741)</u>	<u>23,799</u>

Included within insurance commission is a charge of £9,068,000, in relation to the provision held for PPI

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 ADMINISTRATIVE EXPENSES

Prior to October 2009, when the Company became a wholly owned subsidiary, administration was provided by staff employed by both shareholders of the joint venture for which recharges were made. From 15 October 2009 all administration was provided by BOS plc.

Audit fees, relating wholly to the audit of these financial statements, amounted to £43,170 for the financial year ended 31 December 2009 (2008 £35,800).

Directors' emoluments:

	<u>2009</u>	<u>2008</u>
	<u>£000</u>	<u>£000</u>
Total emoluments	<u>183</u>	<u>158</u>

6 INCOME TAX CREDIT

Recognised in the income statement

	<u>2009</u>	<u>2008</u>
	<u>£000</u>	<u>£000</u>
Current tax credit	2,411	-
Deferred tax current year	(4,620)	-
Deferred tax prior year	<u>(161)</u>	<u>601</u>
Income tax credit at the standard UK corporation tax rate of 28% (2008 28.5%)	<u>(2,370)</u>	<u>601</u>

Reconciliation of effective tax rate

Loss before tax	<u>(39,985)</u>	<u>(16,345)</u>
Tax credit using the corporation tax rate 28% (2008 28.5%)	11,196	4,658
Effect of		
Adjustment to prior year restatement from 30% to 28.5%	-	3
Difference on deferred tax asset recognition at 28% versus effective tax rate of 28.5%	-	(84)
Prior year corporation tax credit	2,411	-
Losses - no deferred tax provided	<u>(15,977)</u>	<u>(3,976)</u>
Total tax in income statement	<u>(2,370)</u>	<u>601</u>

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 DEFERRED TAX

Recognised deferred tax assets

	<u>Provisions</u> <u>£000</u>	<u>Losses</u> <u>£000</u>	<u>Total</u> <u>£000</u>
Deferred tax asset brought forward at 1 January 2009	1,124	4,619	5,743
Release of deferred tax asset	(161)	(4,619)	(4,780)
Deferred tax asset carried forward at 31 December 2009	<u>963</u>	<u>-</u>	<u>963</u>

The deferred tax asset recognised in relation to the general provision held prior to transition to IFRS from UK GAAP is to be released to the income statement over a period of ten years

The deferred tax asset in relation to losses incurred in 2007 and 2008 has been released, due to AAPFL no-longer offering loan finance moving forward. The remaining deferred tax asset held relates to the change in recognition of general provisions under IAS vs UK GAAP and from 2006 is being released over 10 years.

8 LOANS AND ADVANCES TO CUSTOMERS

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Non-current assets		
Loans and advances to customers (net of impairment)	534,268	1,009,787
	<u>534,268</u>	<u>1,009,787</u>
Current assets		
Loans and advances to customers (net of impairment)	760,657	525,188
	<u>760,657</u>	<u>525,188</u>

9 NON-PERFORMING ASSETS

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Gross non-performing loans and advances	74,300	211,046
Provisions for impairment	(9,583)	(106,341)
Non-performing loans and advances net of impairment	<u>64,717</u>	<u>104,705</u>

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 IMPAIRMENT

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Cumulative provision for impairment as at 1 January	133,461	124,788
New impairment less releases	94,770	65,333
Amounts written off	(190,293)	(56,660)
Cumulative provision for impairment as at 31 December	<u>37,938</u>	<u>133,461</u>
 New impairment less releases	 94,770	 65,333
Recoveries of amounts previously written off	(4,848)	(2,125)
Net charge to income statement	<u>89,922</u>	<u>63,208</u>

11 TRADE AND OTHER RECEIVABLES

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Tax debtor	-	1,294
Other debtors	115	257
	<u>115</u>	<u>1,551</u>

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 AMOUNTS OWED BY AND TO GROUP UNDERTAKINGS

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Current assets		
Interest bearing intercompany loans and borrowings	55,902	11,657
	<u>55,902</u>	<u>11,657</u>
	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Current liabilities		
Interest bearing intercompany loans and borrowings		
Short term loans and deposits from Bank of Scotland	778,376	576,865
Bank overdraft at Bank of Scotland	135	154,342
	<u>778,511</u>	<u>731,207</u>
	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Non-current liabilities		
Interest bearing intercompany loans and borrowings	593,000	820,000
	<u>593,000</u>	<u>820,000</u>

The inter-company accounts with HBOS Group companies payable after one year are repayable

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Between one and two years	299,500	388,000
Between two and five years	274,000	396,500
In five years or more	19,500	35,500
	<u>593,000</u>	<u>820,000</u>

The inter-company accounts with HBOS Group companies and the bank overdraft at Bank of Scotland were charged at interest rates of between 4.07% and 4.80% throughout the financial year (2008: 5.07% and 5.60%)

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 PROVISIONS

	<u>Total</u> <u>£000</u>
Balance at 1 January 2009	-
PPI Provision	9,068
Balance at 31 December 2009	<u>9,068</u>

In January 2009, the UK Competition Commission completed its formal investigation into the supply of Payment Protection Insurance (PPI) services to non-business customers in the UK and published its final report setting out its remedies. A statement on 29 September 2009 also announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. As part of this PPI redress review, the Automobile Association Personal Finance Limited has established a provision of £9,068,000 in respect of PPI claims.

14 PARENT UNDERTAKING

To October 15 2009, the Company was a joint venture with 50% of the control being held by Automobile Association Developments Limited, a subsidiary of AA Corporation Limited, and 50% by Bank of Scotland plc, a subsidiary of Lloyds Banking Group plc.

On this date, Bank of Scotland plc purchased the shareholding of Automobile Association Development Limited, resulting in Automobile Association Personal Finance Limited a wholly owned subsidiary.

The company regarded by the directors as the ultimate parent company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled 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 group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

15 TRADE AND OTHER PAYABLES

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Other creditors	3,085	4,123
	<u>3,085</u>	<u>4,123</u>

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 SHARE CAPITAL AND RESERVES

	<u>2009</u> £	<u>2008</u> £
Authorised Share Capital		
'A' Ordinary shares of £1 each	-	2,500,000
'B' Ordinary shares of £1 each	-	2,500,000
Ordinary shares of £1 each	5,000,000	-
	<hr/> 5,000,000	<hr/> 5,000,000
 Allotted, called up and fully paid		
'A' Ordinary shares of £1 each	-	1,500,000
'B' Ordinary shares of £1 each	-	1,500,002
Ordinary shares of £1 each	<u>3,000,002</u>	<u>-</u>
	<hr/> 3,000,002	<hr/> 3,000,002

To 15 October 2009, the 'A' shares were held by Automobile Association Developments Limited, a subsidiary of AA Corporation Limited and the 'B' shares are held by Bank of Scotland plc, a subsidiary of HBOS plc

From the 15 October 2009, the 'A' and 'B' shares were replaced with a single class of Ordinary shares. The ordinary shares have attached to them full voting, dividend and capital distribution rights

To 15 October, the company was a joint venture with 50% of the control being held by Automobile Association Developments Limited, a subsidiary of AA Corporation Limited, and 50% by Bank of Scotland plc, a subsidiary of HBOS plc

The Company became a wholly owned subsidiary of Bank of Scotland at 15 October 2009

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 RELATED PARTY TRANSACTIONS

During the year, in addition to those transactions disclosed separately in the accounts, the company had the following transactions with related parties

In respect of credit insurance underwritten by companies within the Lloyd Banking Group

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Included within fee and commission income:		
Earned commission	(10,182)	17,036
Included in creditors at year end:		
Deferred commission	2,344	2,815

In respect of funding provided by Bank of Scotland plc

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Included within interest payable and similar charges		
Interest payable to Bank of Scotland plc	62,157	85,706
Included in creditors at year end:		
Accrued interest	5,323	9,449

In respect of services provided by Bank of Scotland plc and Automobile Association Developments Ltd

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Included within administrative expenses:		
Charges for services provided by Bank of Scotland plc	8,419	11,052
Charges for services provided by Automobile Association Developments Ltd	887	2,089
Included within other operating expenses:		
Charges for services provided by Automobile Association Developments Ltd	388	775

One of the Directors held term loans with the Company during their time in office. The opening balance at the start of the year was £5,006 and at the end of the year was £397. During their term in office, interest of £173 was charged to the Director and £4,782 was repaid by the Director.

The transactions were at arms length and no amounts have been provided for or written off in the period in respect of this debt.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 FINANCIAL INSTRUMENTS

Exposure to risk arises in the normal course of the Company's business

Credit risk

Credit risk is the risk of financial loss from a customer's failure to settle financial obligations as they fall due. Credit exposure arises in the normal course of the company's business, principally on its loans to customers.

The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Loans and advances to customers can be analysed as follows -

	<u>2009</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Not impaired		
Neither past due nor impaired	1,050,970	1,425,470
Impaired		
Past due 1 to 2 months	10,653	11,941
Past due 2 to 3 months	11,255	11,772
Past due 3 to 4 months	8,056	8,207
Past due 4 to 5 months	6,763	6,066
Past due over 5 months	6,971	5,864
Recoveries	238,197	199,116
Total impaired loans	<u>281,895</u>	<u>242,966</u>
 Gross loans and advances to customers	 1,332,865	 1,668,436
Impairment provision	(37,938)	(133,461)
Net loans and advances to customers	<u>1,294,926</u>	<u>1,534,975</u>

It is considered probable that all loans neither past due or not impaired are wholly recoverable.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The company is funded by Bank of Scotland plc and, as a result, liquidity risk is managed within the Lloyds Banking Group

The liquidity table below is a contractual maturity analysis for all financial liabilities, based on the earliest date the entity could be expected to repay the amounts owed

	<u>Carrying</u>	<u>Contractual</u>					
	<u>Value</u>	<u>repayment</u>	<u>Less than 1</u>	<u>Between</u>	<u>Between</u>	<u>Between</u>	<u>5 years</u>
2009	<u>£000</u>	<u>value</u>	<u>month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>or more</u>
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>

Loans from Group undertakings

Notional	1,371,511	1,371,511	365,511	76,000	337,000	573,500	19,500
Interest	-	69,101	3,943	6,984	24,950	33,004	219
	<u>1,371,511</u>	<u>1,440,612</u>	<u>369,454</u>	<u>82,984</u>	<u>361,950</u>	<u>606,504</u>	<u>19,719</u>

	<u>Carrying</u>	<u>Contractual</u>					
	<u>Value</u>	<u>repayment</u>	<u>Less than 1</u>	<u>Between</u>	<u>Between</u>	<u>Between</u>	<u>5 years</u>
2008	<u>£000</u>	<u>value</u>	<u>month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>or more</u>
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>

Loans from Group undertakings

Notional	1,551,207	1,551,207	303,497	74,210	353,500	784,500	35,500
Interest	-	113,388	5,675	10,302	39,183	57,375	853
	<u>1,551,207</u>	<u>1,664,595</u>	<u>309,172</u>	<u>84,512</u>	<u>392,683</u>	<u>841,875</u>	<u>36,353</u>

An element of the amounts owed to the Company's parent undertaking disclosed in the liquidity tables above relates to a funding facility which is deemed to be repayable on demand as there are no fixed repayment dates or amounts. The principal balance outstanding at the reporting date together with amounts accrued to that date is therefore shown as contractually repayable in the earliest time caption

Interest rate risk

Interest rate risk is defined as the potential loss in value or earnings of an organisation arising from changes in external market factors. Consideration of the Company's market risk can be found within the Principles Underlying Going Concern Assumption under the Basis of Preparation Note to the Financial

Interest rate risk exists where the company's financial assets and liabilities have interest rates set under different bases or are reset at different times. The risk is managed using an earnings at risk methodology

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 FINANCIAL INSTRUMENTS (continued)

A sensitivity analysis has been performed as at 31 December 2009 to assess the impact of interest rates being 25 base points higher or lower with all other variables held constant. The net effect on the company's income statement would be as shown in the table below.

	<u>-25bps</u> <u>£000</u>	<u>Loss before</u> <u>tax</u> <u>£000</u>	<u>+25bps</u> <u>£000</u>
2009	39,861	39,985	40,109
2008	16,250	16,345	16,440

Interest rate risk

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price.

			<u>Less than</u> <u>1 Year</u> <u>£000</u>	<u>Between</u> <u>1-2 Years</u> <u>£000</u>	<u>Between</u> <u>2-5 Years</u> <u>£000</u>	<u>5 years</u> <u>or more</u> <u>£000</u>	<u>Total</u> <u>£000</u>
2009	<u>Note</u>	<u>EIR</u>					
Loans and advances to customers	8	9.2%	534,268	278,151	422,141	60,365	1,294,925
Interest bearing loans and borrowings	12	4.4%	722,609	299,500	274,000	19,500	1,315,609
2008	<u>Note</u>	<u>EIR</u>					
Loans and advances to customers	8	8.1%	525,188	353,402	558,826	97,559	1,534,975
Interest bearing loans and borrowings	12	5.5%	719,550	388,000	396,500	35,500	1,539,550

Unsecured personal loans are at a fixed rate for the contractual term, usually 3 to 5 years, and are subject to early repayment charges.

AUTOMOBILE ASSOCIATION PERSONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 FINANCIAL INSTRUMENTS (continued)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

	<u>Carrying</u> <u>amount</u> <u>2009</u> <u>£000</u>	<u>Fair</u> <u>value</u> <u>2009</u> <u>£000</u>	<u>Carrying</u> <u>amount</u> <u>2008</u> <u>£000</u>	<u>Fair</u> <u>value</u> <u>2008</u> <u>£000</u>
Loans and advances to customers	1,294,925	1,205,761	1,534,975	1,425,037
Amounts owed by group undertakings	55,902	55,902	11,657	11,657
Amounts owed to group undertakings	1,371,511	1,371,511	1,551,207	1,551,207

The manner in which financial instruments are designated for measurement purposes and the valuation methodology for financial instruments recognised on a fair value basis are set out in the accounting policies. The basis for calculating the fair value of financial instruments carried at amortised cost is set out below.

Loans and advances to customers are not regularly traded and so market prices are not available. Consequently, fair value is estimated by discounting anticipated contractual cash flows at a current market rate of interest. These calculations do not necessarily represent the fair value that could be obtained for the portfolios if they were to be sold.

For loans and deposits with variable interest rates the carrying value will represent fair value. For loans with fixed rates which do not re-price in the short term, the carrying values have been adjusted to reflect current interest rates using discounted cash flow models.

The sensitivity to a 1% change in fair value of the loans and advances to customers, amounts owed by group undertaking and amounts owed to group undertakings is £12,057,610, £559,020 and £13,715,110 respectively.