

Automobile Association Personal Finance Limited

Annual report and accounts
for the year ended 31 December 2018

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Registered number

01772586

Current directors

S J Bayley
I S Perez

Company Secretary

A E Mulholland

Member of Lloyds Banking Group



Directors' report

For the year ended 31 December 2018

The directors present their report and the audited financial statements of Automobile Association Personal Finance Limited ("the Company") for the year ended 31 December 2018.

General information

The Company is a limited company incorporated and domiciled in England and Wales (registered number: 01772586).

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

The Company is funded entirely by other companies within the Lloyds Banking Group ("the Group").

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 18 to the financial statements.

Key performance indicators ("KPIs")

Given the fact that the Company is no longer writing new business, 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.

Future outlook

The Company ceased to write new personal loan business with effect from September 2009. The carrying value of Loans and advances to customers and associated income on those personal loans will reduce as individual loan agreements expire. It is expected that the loan book will run off before September 2019.

The Company is part of the wider Lloyds Banking Group, and, at that level, consideration of many of the potential implications following the UK's vote to leave the European Union ("EU") has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications.

Dividends

No dividends were paid or proposed during the year ended 31 December 2018 (2017: £nil).

Going concern

The Company is reliant on funding from Bank of Scotland plc which is a subsidiary of Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc ("LBG") 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

The current directors of the Company are shown on the front cover.

There have been no changes to directors between the beginning of the reporting year and the approval of the Annual report and accounts.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of directors who join the board of the Company during the financial year. Directors no longer in office but who served on the board of the Company at any time in the financial year have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

Directors' report (continued)

For the year ended 31 December 2018

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved:

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

Independent auditors

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

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Approved by the board of directors and signed on its behalf by:



I S Perez
Director

23 August 2019

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest income		171	219
Interest expense		(77)	(83)
Net interest income	3	94	136
Fee and commission income		41	79
Fee and commission expense		(9)	(2)
Net fee and commission income	4	32	77
Payment protection insurance credit	15	2,470	5,267
Impairment	5	7,158	5,662
Other operating expenses	6	(32)	(58)
Profit before tax		9,722	11,084
Taxation	9	(1,847)	(1,274)
Profit for the year		7,875	9,810

The accompanying notes to the financial statements are an integral part of these financial statements.

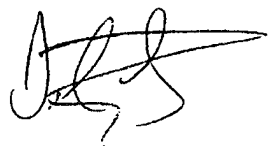
Balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Cash at bank and in hand		12,114	4,573
Trade and other receivables	10	1,237	1,239
Loans and advances to customers	11	612	1,983
<hr/>			
Total assets		13,963	7,795
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LIABILITIES			
Borrowed funds	13	78,457	75,617
Trade and other payables	14	410	87
Provision for liabilities and charges	15	2,234	9,037
Current tax liability		3,123	1,274
Deferred tax liability	12	13	-
<hr/>			
Total liabilities		84,237	86,015
<hr/>			
EQUITY			
Share capital	16	3,000	3,000
Accumulated losses		(73,274)	(81,220)
<hr/>			
Total equity		(70,274)	(78,220)
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Total equity and liabilities		13,963	7,795

The accompanying notes to the financial statements are an integral part of these financial statements.

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



I S Perez
Director

23 August 2019

Statement of changes in equity

For the year ended 31 December 2018

	Share capital £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2017	3,000	(91,030)	(88,030)
Profit for the year being total comprehensive income	-	9,810	9,810
At 31 December 2017	3,000	(81,220)	(78,220)
Impact of transition to IFRS 9	-	71	71
At 1 January 2018 - restated	3,000	(81,149)	(78,149)
Profit for the year being total comprehensive income	-	7,875	7,875
At 31 December 2018	3,000	(73,274)	(70,274)

The accompanying notes to the financial statements are an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows generated from operating activities		
Profit before tax	9,722	11,084
Adjustments for:		
- Interest expense	77	83
- Impact of transition to IFRS 9 on Loans and advances to customers	86	-
- Decrease in Provision for liabilities and charges	(6,803)	(9,620)
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	1,371	16,444
- Net decrease in Other debtors and Trade and other receivables	1	5
- Net increase in Trade and other payables	323	25
Cash generated from operations	4,777	18,021
Group relief received	-	1,179
Net cash generated from operating activities	4,777	19,200
Cash flows used in financing activities		
Net repayment of borrowed funds	(4,716)	(19,124)
Interest paid	(77)	(83)
Net cash used in financing activities	(4,793)	(19,207)
Change in Cash and cash equivalents	(16)	(7)
Cash and cash equivalents at beginning of year	61	68
Cash and cash equivalents at end of year	45	61
Cash and cash equivalents comprise		
Cash at bank and in hand	12,114	4,573
Bank overdrafts (see note 13)	(12,069)	(4,512)
Cash and cash equivalents	45	61

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

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 in 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 IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

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

- (i) IFRS 9 'Financial Instruments' - Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income 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 instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.
- (ii) IFRS 15 'Revenue from Contracts with customers': Replaces IAS 18 Revenue and IAS 11 Construction Contracts. Establishes principles for reporting useful information about the nature, amount and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

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 and expense 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 third 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 Amounts due from group undertakings, Loans and advances to customers, Other debtors and Cash at bank and in hand. Financial liabilities comprise Amounts due to group undertakings, Bank overdraft and Trade and other payables.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.3 Financial assets and liabilities (continued)

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

1.4 Impairment

The impairment charge in the Income Statement includes the change in expected credit losses and certain fraud costs. Expected credit losses are recognised for Loans and advances to customers and other financial assets held at amortised cost. Expected credit losses are calculated by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigates of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some undrawn loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, uses business rules and forward looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses business rules to risk rank accounts and uplifts a modelled percentage based on performance of accounts in the wider group. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

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 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. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

1.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash at bank and in hand and Bank overdrafts comprise balances with less than three months' maturity.

1.6 Taxation

Tax expense comprises current tax. Current tax is charged or credited in the Statement of comprehensive income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of comprehensive income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.6 Taxation (continued)

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

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. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with IFRS 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.

The following are critical accounting estimates and judgements that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Payment Protection Insurance

At 31 December 2018, the Company carried a provision of £2,234,000 (2017: £9,037,000) against the cost of making redress payments to customers and the related administration costs in relation to the mis-selling of Payment Protection Insurance ("PPI") (see note 15). Determining the amount of the provision, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

PPI provisions are estimated at group level and allocated based on past utilisation and volume of expected future claims. Sensitivities over the assumptions at a group level are included in the Group's accounts and therefore are not repeated here.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Allowance for impairment losses

The calculation of the Company's expected credit loss ("ECL") allowances and provisions against loan commitments under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Similarity of loan book credit quality to other portfolios in the Group

The Company's loan book modelling solution segments the loan book into categories based on utilisation, arrears and credit bureau data. The ECL allowance is calculated at a segment level by using consistent coverage rates with that applied to other unsecured portfolios within the Group for the same segments. The appropriateness of the ECL allowance is therefore contingent on similarity of credit performance between the Company and other portfolios in the Group.

Definition of default

The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

Lifetime of an exposure

The Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company. For non-revolving assets, the Company has assumed the expected life for each product to be the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off.

Significant increase in credit risk

Performing assets are defined as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified in Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk ("SICR") since initial recognition.

The Company uses qualitative and quantitative indicators to determine whether there has been an SICR for an asset. Any account meeting the criteria is treated as an SICR. All financial assets are assumed to have suffered an SICR if they are more than 30 days past due.

For disclosure in these financial statements, the Company has applied the Group's Retail Master Scale ("RMS") model and probability of default ("PD") ranges to align to its current model, with a deterioration by 4 or more grades is treated as a SICR. Further information can be found in note 18.1.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

Notes to the financial statements (continued)

For the year ended 31 December 2018

2. Critical accounting estimates and judgements in applying accounting policies (continued)

Allowance for impairment losses (continued)

Forward looking

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Company used the Group's economic model, which has been designed to project a number of key impairment drivers using information derived mainly from external sources. These drivers include factors such as the unemployment rate and other factors. The model-generated economic scenarios for the 6 years beyond 2018 are mapped to industry-wide historical loss data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. 4 scenarios from specified points along the loss distribution are selected to reflect the range of outcomes; the central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also selected together with a severe downside scenario. Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included.

At 1 January and 31 December 2018, the base case, upside and downside scenarios each carry a 30% weighting; the severe downside scenario is weighted at 10%.

The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A committee under the chairmanship of the LBG Chief Economist meets quarterly, to review and, if appropriate, recommend changes to the economic scenarios to the LBG Chief Financial Officer and LBG Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

Further information can be found in note 3 to the Annual report and accounts for the Group's ultimate parent undertaking, Lloyds Banking Group plc.

3. Net interest income

	2018 £'000	2017 £'000
Interest income		
Unsecured personal loans	171	219
Interest expense		
Group interest expense (see note 17)	(77)	(83)
	94	136

Notes to the financial statements (continued)

For the year ended 31 December 2018

4. Net fee and commission income

	2018 £'000	2017 £'000
Fee and commission income		
Loan fees receivable	41	63
Commission receivable (see note 17)	-	16
	41	79
Fee and commission expense		
Commission payable (see note 17)	(7)	-
Other fees and commission payable	(2)	(2)
	32	77

5. Impairment

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
For the year ended 31 December 2018				
Movement in allowance for impairment losses	-	28	4	32
Recoveries of advances previously written off	-	-	8,476	8,476
Other changes in credit quality	-	-	(1,215)	(1,215)
Discount Unwind	-	-	(135)	(135)
	-	28	7,130	7,158
In respect of:				
Loans and advances to customers	-	28	7,130	7,158
	-	28	7,130	7,158
31 December 2017				
				Total £'000
Advances written off				(41,771)
Recoveries of advances previously written off				15,938
Movement in future recoveries				31,456
Unwind of discount				(80)
Decrease in provision for impairment of IBNR and collections (see note 18.1)				119
				5,662

Notes to the financial statements (continued)

For the year ended 31 December 2018

6. Other operating expenses

	2018 £'000	2017 £'000
Other operating expenses	32	58

Fees payable to the Company's auditors for the audit of the financial statements of £28,800 (2017: £28,800) have been borne by a fellow group company and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

7. Staff costs

The Company did not have any employees during the year (2017: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2017: £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

	2018 £'000	2017 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	1,849	1,274
Current tax charge	1,849	1,274
UK deferred tax:		
- Origination and reversal of timing differences	(2)	-
Deferred tax credit (see note 12)	(2)	-
Tax charge	1,847	1,274

Corporation tax is calculated at a rate of 19.00% (2017: 19.25%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	2018 £'000	2017 £'000
Profit before tax	9,722	11,084
Tax charge thereon at UK corporation tax rate of 19.00% (2017: 19.25%)	1,847	2,134
Factors affecting charge:		
- Disallowed and non-taxable items	-	(860)
Tax charge on profit on ordinary activities	1,847	1,274
Effective rate	19.00%	11.49%

Notes to the financial statements (continued)

For the year ended 31 December 2018

9. Taxation (continued)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

10. Trade and other receivables

	2018 £'000	2017 £'000
Amounts due from group undertakings (see note 17)	1,207	1,208
Other debtors	30	31
	1,237	1,239

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

11. Loans and advances to customers

11.1 Loans and advances to customers maturity

	2018 £'000	2017 £'000
Gross Loans and advances to customers	641	2,130
Less: Impairment provision	(29)	(147)
Net Loans and advances to customers	612	1,983
<i>of which:</i>		
Due within one year	612	1,860
Due after one year	-	123
	612	1,983

11.2 Loans and advances to customers movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 31 December 2017				2,130
Adjustment on adoption of IFRS 9				-
Balance as at 1 January 2018	-	509	1,621	2,130
Repayments	-	(267)	(7)	(274)
Other changes in quality	-	-	(1,215)	(1,215)
As at 31 December 2018	-	242	399	641
Less: allowance for losses on loans and advances	-	(11)	(18)	(29)
Net loans and advances to customers	-	231	381	612

Notes to the financial statements (continued)

For the year ended 31 December 2018

12. Deferred tax liability

The movement in the Deferred tax liability is as follows:

	2018 £'000	2017 £'000
Brought forward	-	-
Adjustment on adoption of IFRS 9 (see note 19)	15	-
Credit for the year (see note 9)	(2)	-
At 31 December	13	-

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

	2018 £'000	2017 £'000
Other temporary differences	(2)	-

Deferred tax liability comprises:	2018 £'000	2017 £'000
Other temporary differences	13	-

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

13. Borrowed funds

	2018 £'000	2017 £'000
Amounts due to group undertakings (see note 17)	66,388	71,105
Bank overdraft with group undertaking (see note 17)	12,069	4,512
	78,457	75,617

Amounts due to group undertakings is secured and repayable on demand. Amounts in respect of the funding of variable Loans and advances to customers and other short term funding are interest bearing at the Bank of England base rate ("Base rate"). All other amounts are interest bearing at fixed rates.

14. Trade and other payables

	2018 £'000	2017 £'000
Other payables	410	87

Trade and other payables includes a balance of £371,000 in respect of amounts due to customers.

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Provision for liabilities and charges

	Total £'000
At 1 January 2017	18,657
Credit for the year	(5,267)
Utilised during the year	(4,353)
At 31 December 2017	9,037
Credit for the year	(2,470)
Utilised during the year	(4,333)
At 31 December 2018	2,234

PPI is estimated at a group level and allocated based on past utilisation and volume of expected future claims. Sensitivities over the assumptions at a group level are included in the Group accounts.

16. Share capital

	2018 £'000	2017 £'000
Allotted, issued and fully paid		
3,000,002 ordinary shares of £1 each	3,000	3,000

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.

	2018 £'000	2017 £'000
Amounts due from group undertakings		
Bank of Scotland plc (see note 10)	1,207	1,208
Amounts due to group undertakings		
Bank of Scotland plc (see note 13)	66,388	71,105
Cash and cash equivalents held with group undertakings		
Bank of Scotland plc	12,114	4,573
Bank overdraft held with group undertaking		
Bank of Scotland plc (see note 13)	12,069	4,512
Interest expense		
Bank of Scotland plc (see note 3)	77	83

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 payable of £7,000 (2017: Commission receivable of £16,000) includes insurance commission income payable of £7,000 (2017: Insurance commission income receivable of £16,000) under the terms of the Company's agreement with Scottish Widows Limited, a fellow subsidiary of Lloyds Banking Group plc.

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Related party transactions (continued)

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 is comprised of the directors of the Company and Bank of Scotland plc 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.

18. Financial risk management

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

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

18.1 Credit risk

Credit risk management

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 from amounts lent to customers.

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').

Credit risk is assessed using 'exposure at default' and 'loss given default' models. 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.

Cash at bank and in hand and Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant.

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 Retail 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 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.

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial risk management (continued)

18.1 Credit risk (continued)

Credit concentration - Loans and advances to customers loan quality

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

Loans and advances to customers - gross carrying amount

	2018 £'000
Stage 2	
Good quality	-
Satisfactory quality	241
Lower quality	-
Below standard, but not impaired	-
Credit-impaired	-
	241
Stage 3	
Good quality	-
Satisfactory quality	-
Lower quality	-
Below standard, but not impaired	-
Credit-impaired	400
	400

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.

Analysis of movement in the allowance for impairment losses by stage

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
In respect of drawn balances				
At 31 December 2017				147
Adjustment on adoption of IFRS 9				(86)
Balance as at 1 January 2018	-	39	22	61
Credit to the Statement of comprehensive income (note 5)	-	(28)	(4)	(32)
At 31 December 2018	-	11	18	29
In respect of:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	-	11	18	29

Comparative information

The information disclosed in the following tables relates to the Company's credit risk exposure as disclosed under IFRS7, per recognition and measurement under IAS 39 prior to the transition to IFRS 9 by the Group on 1 January 2018.

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial risk management (continued)

18.1 Credit risk (continued)

Loans and advances to customers – maximum exposure

	2017 £'000
Neither past due nor impaired	497
Past due but not impaired	12
Impaired	
- no provision held	1,584
- provision held	37
Maximum credit exposure	2,130

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

	2017 £'000
Lower quality	348
Below standard, but not impaired	149
Total	497

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

	2017 £'000
Past due up to 30 days	7
Past due from 30-60 days	5
Total	12

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

Loans and advances to customers which are impaired

	2017 £'000
Past due 60 to 90 days	2
Past due over 120 days	35
Recoveries	1,584
Total	1,621

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial risk management (continued)

18.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired	2017 £'000
Brought forward	266
Movement in provision	(72)
Charge off of amounts of IBNR and collections	(47)
At 31 December	147

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

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.

The Company is funded entirely by companies within the Group. Such funding is repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

18.3 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 divisional 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 prepared to illustrate the impact of a change in the rates.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's interest earning intercompany position and takes account of movement in the Bank of England base rate which is the basis for the interest rate on intercompany balances. A 0.25% increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as the Bank of England base rate generally increases or decreases in increments of 0.25%.

If the Bank of England base rate increased by 0.25% and all other variables remain constant this would increase Interest expense by £183,000 (2017: £197,000) and accordingly decrease Interest expense by £183,000 (2017: £197,000) if the Bank of England base rate 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 considered to be level 2 in the valuation hierarchy as their fair value is estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans prevailing at the Balance sheet date.

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2018

19. Transition to IFRS 9

The following table summarises the adjustments arising on the adoption of IFRS 9 to the Companies Balance sheet as at 1 January 2018.

	As at 31 December 2017 £'000	IFRS 9: Impairment £'000	Adjusted as at 1 January 2018 £'000
ASSETS			
Cash and cash equivalents	4,573	-	4,573
Trade and other receivables	1,239	-	1,239
Loans and advances to customers	1,983	86	2,069
Total assets	7,795	86	7,881
LIABILITIES			
Borrowed funds	75,617	-	75,617
Trade and other payables	87	-	87
Provision for liabilities and charges	9,037	-	9,037
Current tax liability	1,274	-	1,274
Deferred tax liability	-	15	15
Total liabilities	86,015	15	86,030
EQUITY			
Share capital	3,000	-	3,000
Retained earnings	(81,220)	71	(81,149)
Total equity	(78,220)	71	(78,149)
Total equity and liabilities	7,795	86	7,881

The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through Accumulated losses as at 1 January 2018, the date of initial application. As a result shareholders equity increased by £71,000.

There are no differences under the reclassifications or remeasurements under the requirements of IFRS 9.

Under IFRS 9, the Company's impairment allowances have decreased by £86,000. This includes the application of an expected credit loss methodology (12 months ECL, other for those with a significant increase in credit risk (Stage 2) or credit impaired/default (Stage 3) where life time ECL is calculated) and incorporation of forward looking information and multiple economic scenarios.

For tax purposes, the impact of the adoption and implementation of IFRS 9 are recognised over a period of 10 years, resulting in a temporary tax difference with a deferred tax liability of £15,000.

Notes to the financial statements (continued)

For the year ended 31 December 2018

20. 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 fellow group undertakings and does not raise funding externally.

21. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2017: £nil).

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters.

22. Post balance sheet events

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

23. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland plc (incorporated in Scotland). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest group of undertakings for which group financial statements 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 financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.

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

Report on the audit of the financial statements

Opinion

In our opinion, Automobile Association Personal Finance Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit 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.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2018; the Statement of comprehensive income, the Cash flow statement, and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on these responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Independent Auditors' report to the member of Automobile Association Personal Finance Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Nick Dumper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

23 August 2019