AA FINANCIAL SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JANUARY 2023

Registered number: 00912211

AA FINANCIAL SERVICES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JANUARY 2023

The Directors present their annual report and audited financial statements of AA Financial Services Limited ("the Company") for the year ended 31 January 2023.

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

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

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

Despite the challenging macroeconomic environment, the Company remains in a resilient position to continue to perform its primary activity and management have assessed that this will continue to be the case.

As shown in the Company's income statement, the Company's revenue increased by 9.6% to £7,849,000 (2022: £7,164,000) during the current year due to the recharge arrangement with the Bank of Ireland. Marketing spend, which is recharged to the Bank of Ireland, increased in the current year and thus impacted revenue. Operating profit for the year increased by 13.7% to £2,068,000 (2022: £1,819,000). The key driver for this increase in profit was the profit share arrangement.

The statement of financial position shows the Company's financial position at the year end. Net assets increased by 6.9% to £28,273,000 (2022: £26,452,000).

The Directors are pleased with the performance of the Company in the year. There are currently no plans to alter the principal activity of the Company in the future. From time to time, the Directors may pursue other partner arrangements.

The Directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006. For details of how this is accomplished across the AA Limited group ("the Group"), refer to page 40 of AA Limited's Annual Report, with whom the Company shares common Directorship and management structure.

ALTERNATIVE PERFORMANCE MEASURES

For decision making and internal performance management, management's key performance metric is Reported EBITDA (previously 'Trading EBITDA'). Reported EBITDA is profit before tax on a continuing basis as reported, adjusted for depreciation, adjusting operating items, share-based payments, pension service charge adjustments, impairment of property, plant and equipment, impairment of intangible assets, net finance costs and tax expense.

Reported EBITDA increased by 17.4% to £2,292,000 (2022: £1,952,000), primarily as a result of the profit share gain realised in the current year.

Reconciliation of Reported EBITDA to operating profit

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

	Note	**Year ended 31 January 2023 £'000**	Year ended 31 January 2022 £'000
Reported EBITDA (formerly known as Trading EBITDA)		**2,292**	1,952
Amortisation	**11**	**(33)**	(38)
Depreciation	**12**	**(21)**	(4)
Adjusting operating items	**5**	**(170)**	(91)
Operating profit	**4**	**2,068**	1,819

ALTERNATIVE PERFORMANCE MEASURES (continued)

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

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

RISK MANAGEMENT FRAMEWORK

Overall Responsibility

The Company is part of the AA Limited group, the ultimate parent of which was Basing Consortium Co Limited during FY23. Decisions, policies and procedures that may affect stakeholders were implemented at The AA Limited group level during the year and the Board oversees the application of these to the Company. The Board recognises that the Company's stakeholders include those that interact with the Company directly, in addition to those with indirect relationships in the context of the wider AA Limited group. Further information about the corporate governance arrangements for the AA is set out in the Director's Report on pages 46-51 of the AA Limited Annual Report and Accounts 2023.

The principal risks faced by the AA over the last year are summarised below. We monitor and assess these risks very closely to ensure they are managed appropriately and effectively. Principal risks and opportunities are defined as the risks and opportunities that are likely to have a material impact on the AA's business strategy.

Risk Governance

The AA operates a three lines of defence model to ensure that its risks and opportunities are identified, assessed, monitored and managed in line with its stated risk appetite.

The three lines of defence model can be summarised as follows:

- First line of defence: the business units that run the business, they are accountable for the day-to-day management of the AA, which includes identifying and managing their risks;
- Second line of defence: the AA's group Risk and Compliance function, they are accountable for providing oversight, challenge and advice to the first line; and
- Third line of defence: the AA's Internal Audit function, they are accountable for providing assurance to the business by performing independent reviews of the first and second lines of defence.

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

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

RISK MANAGEMENT FRAMEWORK (continued)

Risk Governance (continued)

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

Risk culture and governance	The processes and structures to demonstrate to the AA Limited group board that effective risk management, oversight and assurance is being undertaken for all key risks faced by the AA.
Strategy and objectives	The processes that set the AA's approach to risk management, including the direction it sets for taking and avoiding risks.
Risk identification and prioritisation	A set of key risk categories to identify where the AA has, or is likely to have, material risk exposures and the activities we perform to prioritise our actions.
Risk management and controls	A set of processes to review and assess the risk and control environment. Risks are assessed on an inherent (no controls), residual (with controls) and target basis to help senior management understand and manage their risk exposures.
Risk reporting and communication	The information and reporting in place to support senior management in discharging their risk management accountabilities effectively and to help them make informed, risk-based decisions.

Principal Risks and Opportunities

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

Customer Risk

The risk that the AA fails to constantly monitor, manage and develop the interaction between our agents and customers to ensure fair treatment and good outcomes.

We continually review and adapt our products and services to ensure we deliver good outcomes. We have also been closely monitoring the rising cost of living crisis and we run a financial difficulty forum to identify how we can support our customers.

We are also preparing ourselves for our regulator's incoming cornerstone regulation, Consumer Duty. We have an extensive program of work in place to review our existing frameworks, structures and processes to proactively look for opportunities to improve and enhance the outcomes we deliver to our customers.

Products and services are continually evolving in the market and as customer needs are changing, there is a risk that products do not perform as customers expect and that they no longer deliver appropriate customer outcomes.

Credit risk

The Company is exposed to credit risk in relation to the intercompany balance due from a fellow subsidiary undertaking.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The AA Limited group monitors the recoverability of Intercompany balances to ensure that there are sufficient resources to meet each counterparty's obligation.

RISK MANAGEMENT FRAMEWORK (continued)

Principal Risks and Opportunities (continued)

Cyber Security

The risk of failure to detect fraudulent or unauthorised modification of IT resources, physical or virtual theft of assets and events that compromise critical data.

Cyber-attacks are an ever-increasing threat for businesses. This is a risk that has heightened as a result of the increase in state-sponsored cyber-attacks and the development of more sophisticated ransomware attacks.

We continue to operate our clearly defined cyber security strategy and we have invested in resources to further strengthen our controls. We benchmark our security controls against the Standard for Information Security (ISO27001) and an independent third party performs an annual review to provide assurance that our controls remain effective.

Financial Risk

The risk that the AA Limited group (Group) has insufficient liquid funds required for the business to operate, is unable to refinance its maturing debt, or unable to do this at an affordable cost.

Despite a challenging macroeconomic environment, the Group has completed a successful refinancing of its A6 Notes, issuing £250m of A10 Notes in FY23, as well as a complete refinancing of its £550m A7 Notes in FY24 and continues to seek to refinance bonds well ahead of their maturity dates. The Group is highly cash generative and has good levels of available cash as well as a Working Capital Facility of £56m, of which £46m is available for cash drawings allowing it to withstand such macroeconomic challenges.

The ability to finance is critical to the ongoing existence and operation of the Group. Credit rating, stakeholder management, financial market conditions and interest rates are all important factors. In particular, financing costs have increased as a result of rising interest rates as the economy sees higher levels of inflation.

People risk

The risk that we are unable to attract and retain the critical skills, knowledge and experience we need to deliver our services.

Covid-19, Brexit and changing workforce expectations in terms of location, flexibility and pay have all contributed to a shrinking workforce, with fewer people in the talent pool across the UK.

Our people play a critical role in the success of our business and in our future growth. We have made some significant enhancements to our Employee Value Proposition in FY23 and continue to ensure we adapt and respond to a changing environment.

Emerging Risks

The most notable emerging risks and opportunities for the AA are summarised below. For more information see page 31 of the AA Limited Annual Report and Accounts 2023.

Government reform

The Department for Business and Trade (formerly the Department for Business, Energy and Industrial Strategy) published its plans to strengthen the UK's audit, corporate reporting and corporate governance systems. The proposed measures aim to enhance accountability across the business ecosystem and increase resilience and choice in the statutory audit market.

The AA has started to assess the potential impact and is making plans to respond to the expected future direction of financial reporting for in scope firms.

RISK MANAGEMENT FRAMEWORK (continued)

Emerging Risks (continued)

Climate change and TCFD

The AA recognises that climate change poses a number of transitional and physical risks and opportunities for business, people and our communities.

Over the last 12 months we have identified further key climate related risks (such as adverse weather events and energy usage), we have been developing financial modelling of the most material to our future strategy and we're embedding the management of climate-related risks

into our broader risk management framework. These key activities form part of our commitments under the Task Force for Climate related Financial Disclosure's (TCFD) recommendations, which will be reported in FY24.

We also recognise the critical importance of reducing our GHG emissions. As part of our ESG strategy we are making a commitment to become Net Zero for our own emissions by 2035.

Macroeconomic risks

The risk that uncertain macroeconomic conditions may affect the Company's prospects. Economic uncertainty is expected to remain high as a result of the geopolitical risks arising from the Russian war on Ukraine and the UK's long term macroeconomic outlook. The AA continues to monitor financial markets and the external environment.

ON BEHALF OF THE BOARD

J A PARK
DIRECTOR
17 AUGUST 2023

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

AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2023

DIRECTORS

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

J E Fairclough	(resigned 31 December 2022)
D Coughlan	(resigned 15 March 2022)
J A Park	(appointed 1 April 2022)
B Horvath	(appointed 1 January 2023)

COMPANY SECRETARY

J Cox

DIRECTORS' INDEMNITY

The Company maintains Directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its Directors and officers. The Company has also granted indemnities to its Directors and officers against all losses and liabilities incurred in the discharge of their duties, to the extent permitted by law. This is a qualifying third-party indemnity provision and was in force throughout the financial year and at the date of approval of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DIRECTORS' CONFIRMATIONS

In the case of each Director in office at the date the Directors' report is approved:

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

DIVIDENDS

The Company has not paid a dividend in the year (2022: £nil) and the Directors do not propose the payment of a final dividend (2022: £nil).

GOING CONCERN

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activities and review of the business" and "Risk management framework" sections on pages 1 to 5.

The Company has adequate financial resources due to the Company's own net current asset position. AA Financial Services Limited is a wholly owned subsidiary of the AA Limited group ("Group"), hence the going concern status of the Company is linked to the wider Group which provides the cash required to meet the scheduled debt interest payments and principal repayments. The Company directors have reviewed projected cash flows of the Group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Company has sufficient funds to continue trading during this period and the foreseeable future.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of its A7 Notes which had a maturity date of 31 July 2024. As at the date of approval of these financial statements, the full £550m of A7 Notes have already been refinanced (see note 18).

The Company directors have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 50-51 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. This is important to the Company, which has intercompany receivables from and payables to members of the AA Intermediate Co Limited group, where settlement is dependent on the wider Group's ability to refinance.

After making appropriate enquiries, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

INDEPENDENT AUDITORS

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

ON BEHALF OF THE BOARD

J A PARK
DIRECTOR
17 AUGUST 2023

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

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 January 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 January 2023; the Income Statement and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 January 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and relevant tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase profit and the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit, internal compliance and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud.
- Challenging significant accounting assumptions and judgements individually and collectively for indications of management bias.

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

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Alison Dunwoody (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
17 August 2023

AA FINANCIAL SERVICES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 JANUARY 2023

	Note	2023 £'000	2022 £'000
REVENUE	3	**7,849**	7,164
Cost of sales		**(3,579)**	(3,259)
GROSS PROFIT		**4,270**	3,905
Administrative expenses		**(2,202)**	(2,086)
OPERATING PROFIT	4	**2,068**	1,819
Finance Income	8	**178**	242
PROFIT BEFORE TAX		**2,246**	2,061
Income tax expense	9	**(425)**	(389)
PROFIT FOR THE FINANCIAL YEAR		**1,821**	1,672

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

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

AA FINANCIAL SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 JANUARY 2023

	Note	2023 £'000	2022 £'000
NON-CURRENT ASSETS			
Deferred tax assets	10	19	15
Intangible assets	11	104	169
Property, plant and equipment	12	-	-
Other receivables	13	4,013	4,243
		4,136	4,427
CURRENT ASSETS			
Trade and other receivables	13	25,115	23,617
		25,115	23,617
TOTAL ASSETS		29,251	28,044
CURRENT LIABILITIES			
Trade and other payables	14	(931)	(938)
Current tax payable		(47)	(654)
TOTAL LIABILITIES		(978)	(1,592)
NET CURRENT ASSETS		24,137	22,025
NET ASSETS		28,273	26,452
EQUITY			
Called up share capital	15	2,000	2,000
Retained earnings		26,273	24,452
TOTAL EQUITY		28,273	26,452

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

J A PARK
DIRECTOR
17 AUGUST 2023
Registered number: 00912211

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

AA FINANCIAL SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JANUARY 2023

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 February 2021	**2,000**	**22,780**	**24,780**
Profit for the financial year	-	1,672	1,672
At 31 January 2022	**2,000**	**24,452**	**26,452**
Profit for the financial year	-	1,821	1,821
At 31 January 2023	**2,000**	**26,273**	**28,273**

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

1 PRESENTATION OF FINANCIAL STATEMENTS

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

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

Going concern

The Company's business activities, future developments and its exposure to financial risks are described in the "Principal activities and review of the business" and "Risk management framework" sections on pages 1 to 5.

The Company has adequate financial resources due to the Company's own net current asset position. AA Financial Services Limited is a wholly owned subsidiary of the AA Limited group ("Group"), hence the going concern status of the Company is linked to the wider Group which provides the cash required to meet the scheduled debt interest payments and principal repayments. The Company directors have reviewed projected cash flows of the Group for a period of at least one year from the date of signing of these financial statements and have concluded, with the AA Limited directors, that the Company has sufficient funds to continue trading during this period and the foreseeable future.

The Group continues to seek to refinance its debt within good time of its scheduled maturity, including the refinancing of its A7 Notes which had a maturity date of 31 July 2024. As at the date of approval of these financial statements, the full £550m of A7 Notes have already been refinanced (see note 18).

The Company directors have reviewed the projected cash flows of the AA Limited group for a period of at least one year from the date of approval of these financial statements. The Company directors have concluded, with the AA Limited directors, that they have confidence that the Company and the AA Limited group will have sufficient funds to continue trading during this period and the foreseeable future and will be able to secure financing so as to be able to continue to meet its liabilities as they fall due. For more detail see page 50-51 of the AA Limited group's Annual Report. For the AA Limited group's longer-term viability, it remains a key assumption of its directors that the AA Limited group continues to have ready access to public debt markets to enable its borrowings to be refinanced in due course. This is important to the Company, which has intercompany receivables from and payables to members of the AA Intermediate Co Limited group, where settlement is dependent on the wider Group's ability to refinance.

After making appropriate enquiries, the Company's directors have, at the time of approving these financial statements, a reasonable expectation that the AA Limited group and the Company have adequate resources to continue in operational existence for the foreseeable future and, as a consequence, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

2 ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- IAS 1 paragraphs 10(d) and 10(f),
- IAS 1 paragraph 16 (statement of compliance with all IFRS),
- IAS 1 paragraph 38 (comparative information in respect of Property, Plant and Equipment, and Intangible Assets),
- IAS 1 paragraph 38A (requirement for minimum of two primary statements, including cash flow statements),
- IAS 1 paragraph 40A-D (prior period balance sheet following a restatement),
- IAS 1 paragraph 111 (cash flow statement information),
- IAS 1 paragraphs 134-136 (capital management disclosures),
- IAS 7 'Statement of cash flows',
- IFRS 7 'Financial Instruments Disclosures',
- IFRS 15 'Revenue from Contracts with Customers',
- IAS 8 paragraphs 30 and 31 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective),
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group,
- IAS 24 'Related party disclosures' (key management compensation)

New standards, amendments and IFRIC interpretations

The Company did not identify any new accounting standards coming into effect in the current year with a material impact on the financial statements. A number of new accounting standards, amendments and interpretations have been issued and will be effective for years beginning on and after 1 February 2023, however the Company has not identified any with an expected material impact on the financial statements.

2.2 Critical accounting estimates and judgements

Estimates are evaluated regularly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Management have exercised judgement in applying the Company's accounting policies and in making critical estimates. The underlying assumptions on which these judgements are based are reviewed on an on-going basis.

The principal estimates and judgements that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Contract assets

Management accrue income each month based on a best estimate of the number of products sold. This is then aligned to the actual number of products sold in the following month but is not expected to generate a material impact to the financial statements.

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

2 ACCOUNTING POLICIES (continued)

2.2 Critical accounting estimates and judgements (continued)

Contract assets (continued)

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

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

Trade and Intercompany receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) which uses a lifetime expected loss allowance to trade receivables.

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

2.3 Significant accounting policies

a) Intangible assets

Intangible assets which are acquired separately are initially recognised at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

Software development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

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

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

b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of property, plant and equipment less their expected residual value is depreciated in equal instalments over their useful economic lives. In assessing residual values and asset lives consideration have been given to the impact of climate change. These lives are as follows:

Plant and Equipment	2-4 years

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

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

c) Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

d) Revenue recognition

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

Commission revenue is recognised on a point in time basis at the point of the provision of the service. This includes work which has not yet been fully invoiced, provided that it is considered to be fully recoverable. This stream is accounted for under IFRS 15.

Direct commission is earned as a recharge from incurring costs in delivering the Company's services to the bank, which is recognised on a point in time basis, as the expenses are incurred. This stream is accounted for under IFRS 15.

Profit share income is earned based on the cumulative profits earned by the financial services partnership with the Bank of Ireland, which is recognised over time when certain thresholds of profitability in the partnership are reached. This stream is accounted for under IFRS 15.

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

e) Adjusting operating items

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

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

f) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. They are classified according to the substance of the contractual arrangements entered into. The Company recognises loss allowances for expected credit losses (ECLs) on relevant financial assets.

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting policies (continued)

f) Financial assets and financial liabilities

Trade receivables and contract assets

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

The Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) which uses a lifetime expected loss allowance to trade receivables and loan receivables (as loans receivable are trading in nature).

Amounts due from group undertakings have no repayment terms and bear no interest. They are classified as current, recognised at fair value and subsequently held at amortised cost. The Company applies the IFRS 9 general 3 stage model to measuring expected credit losses (ECLs).

Loan receivable

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

Trade and other payables

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

g) Finance Income

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

3 REVENUE

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

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

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

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

- Each 1% increase in the constraint against the Bank of Ireland forecast reduces revenue by £76k.
- Increasing or decreasing the Bank of Ireland's forecast by +10%/-10% and keeping all other factors equal increases or decreases revenue by £367k.
- Increasing or decreasing all other factors by +5%/-5% has the impact of decreasing or increasing revenue by £382k.

4 OPERATING PROFIT

Operating profit is stated after charging:

	Note	2023 £'000	2022 £'000
Amortisation of intangible assets	11	33	38
Depreciation of property, plant and equipment	12	21	4
Adjusting operating items	5	170	91

Auditors' remuneration in respect of the audit of the Company's financial statements for the year ended 31 January 2023 amounted to £31,000 (2022: £17,000). The Company's auditors provided no services to the Company other than the statutory audit during either the current or prior year.

5 ADJUSTING OPERATING ITEMS

	2023 £'000	2022 £'000
Adjusting operating costs	170	91

Adjusting operating items in the current year related to £170,000 recharge of group adjusting operating costs (2022: £91,000).

6 EMPLOYEE COSTS

Employee costs during the year were as follows:

	2023 £'000	2022 £'000
Wages and salaries	1,063	1,153
Social security costs	131	137
Other pension costs	143	145
	1,337	1,435

Employee costs relate to those recharged from Automobile Association Developments Limited. The average number of employees directly employed during the year was nil (2022: nil). The average number of employees for whose services the Company was charged during the year was 14 (2022: 15).

7 DIRECTORS' REMUNERATION

	2023 £'000	2022 £'000
Aggregate remuneration in respect of qualifying services	1,120	775
Compensation for loss of office	357	-
Contributions to money purchase schemes	-	11
Share-based payments	48	132
	1,525	918
The amounts paid in respect of the highest paid Director were as follows:		
Remuneration	450	331
Compensation for loss of office	198	-
Share-based payments	-	132
	648	463

7 DIRECTORS' REMUNERATION (continued)

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

During the year ended 31 January 2023, the highest paid Director received and exercised nil shares (2022: 376,229) in respect of qualifying services under a long-term incentive scheme.

Retirement benefits are accruing for 1 (2022: 0) Directors under a defined benefit scheme and 0 (2022: 0) under a money purchase scheme.

Retirement benefits are not (2022: 0) accruing for the highest paid Director under a defined benefit scheme or a money purchase scheme.

8 FINANCE INCOME

	2023 £'000	2022 £'000
Interest receivable	**178**	242
Finance income	**178**	242

9 INCOME TAX EXPENSE

The major components of the income tax expense are:

	2023 £'000	2022 £'000
Current tax:		
- Current tax on income in the year	**49**	384
- Group relief payable	**380**	-
Total current income tax charge	**429**	384
Deferred tax:		
- Origination and reversal of temporary differences	**(2)**	8
- Adjustments in respect of prior years	**(1)**	-
- Effect of tax rate change on opening balances	**(1)**	(3)
Total deferred income tax (credit)/expense (note 10)	**(4)**	5
Total income tax expense	**425**	389

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

	2023 £'000	2022 £'000
Profit before tax	**2,246**	2,061
Tax at rate of 19% (2022: 19%)	**427**	392
Effects of:		
Adjustments in respect of prior years	**(1)**	-
Rate change adjustment on temporary differences	**(1)**	(3)
Income tax expense reported in the income statement	**425**	389

10 DEFERRED TAX ASSETS

Deferred tax by type of temporary difference:

	Statement of financial position		Income statement	
	2023	2022	**2023**	2022
	£'000	£'000	**£'000**	£'000
Fixed asset temporary differences	**12**	7	**(5)**	-
Other short-term temporary differences	**7**	8	**1**	5
Deferred tax (credit)/expense (note 9)			**(4)**	5
Deferred tax assets	**19**	15		

	2023	2022
	£'000	£'000
Deferred tax assets as at 1 February	**15**	20
Tax credit/(expense) recognised in the income statement	**4**	(5)
Deferred tax assets as at 31 January	**19**	**15**

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

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

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

11 INTANGIBLE ASSETS

	Software
	£'000
Cost	
At 1 February 2022	351
Additions	13
Transfers	(45)
At 31 January 2023	**319**
Accumulated amortisation	
At 1 February 2022	182
Charge for year	33
At 31 January 2023	**215**
Net book value	
At 31 January 2023	**104**
At 31 January 2022	169

Amortisation expenses are included under administrative expenses.

12 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £'000
Cost	
At 1 February 2022	-
Transfers	45
Disposals	(45)
At 31 January 2023	-
Accumulated depreciation	
At 1 February 2022	-
Charge for the year	21
Disposals	(21)
At 31 January 2023	-
At 31 January 2023	-
At 31 January 2022	-

Transfers to property, plant and equipment relate to assets under construction.

13 TRADE AND OTHER RECEIVABLES

	2023 £'000	2022 £'000
Non-current		
Other receivable	**4,013**	4,243
	4,013	4,243
Current		
Trade receivables	**51**	143
Contract assets	**3,549**	2,805
Amounts owed by group undertakings	**21,257**	19,469
Prepayments	**28**	21
Other receivable	**230**	279
Loan receivable	**-**	900
	25,115	23,617

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

14 TRADE AND OTHER PAYABLES

	2023 £'000	2022 £'000
Trade payables	**54**	254
Other taxation and social security	**53**	95
Accruals	**435**	556
Amounts owed to group undertakings	**380**	-
Deferred income	**1**	21
Other payables	**8**	12
	931	938

Amounts owed to group undertakings are unsecured, have no repayment terms and bear no interest.

15 CALLED UP SHARE CAPITAL

Allotted, called up and fully paid	2023 £'000	2022 £'000
2,000,000 (2022: 2,000,000) ordinary shares of £1 each	**2,000**	2,000

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

In the year ended 31 January 2023, the Company has not paid a dividend (2022: £nil).

16 GUARANTEES AND COMMITMENTS

The Company is an obligor to the bank loans and bond debt of the AA Intermediate Co Limited group. At 31 January 2023, the principal outstanding on the AA Intermediate Co Limited group debt was £2,325m (2022: £2,325m).

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

17 ULTIMATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

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

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

At 31 January 2023, the ultimate controlling party and parent undertaking is Basing ConsortiumCo Limited, whose registered office is 3rd Floor 44 Esplanade, St Helier, JE4 9WG, Jersey.

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

18 EVENTS AFTER THE REPORTING PERIOD

A11 Loan Note Issue

On 6 February 2023 the AA Limited group issued £400m of Class A11 Notes at an interest rate of 8.45%. The proceeds of the issuance of the Class A11 Notes were used to redeem £308m of Class A7 Notes for a cash payment of £302m on 7 February 2023 tendered by existing note holders as part of a liability management exercise. The remaining surplus cash proceeds of £98m were transferred to a mandatory prepayment account to be held for redemption of Class A7 Notes. A further £10m of Class A7 Notes were purchased from existing bond holders on 3 March 2023 and redeemed. A further £103m of Class A7 Notes were voluntarily repaid on 16 May 2023 and redeemed using the £98m surplus and £5m of additional cash.

A10 Loan Note Issue

On 23 June 2023 the AA Limited group issued an additional £135m of Class A10 Notes at an interest rate of 7.38%. This rate is below the prevailing yield at the time of issue of 9.50% and so the Notes were issued below par. The proceeds of the issue were therefore £122m. The proceeds were used in combination with existing cash held to redeem the outstanding £129m of Class A7 Notes.

A2 Loan Note repurchase

On 17 August 2023 the AA Limited group repurchased and cancelled £61m of A2 Notes for cash consideration of £60m. The remaining A2 principal balance after this redemption is £439m.