

AA FINANCIAL SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2013

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AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JANUARY 2013

The directors present their report and audited financial statements of AA Financial Services Limited ("the Company") for the year ended 31 January 2013

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

The Company commenced trading on 1 February 2010, after having previously been dormant

The principal activity of the Company is the provision of financial intermediation services for saving accounts, loans, credit cards and life insurance

The Company's key financial and other performance indicators during the year were as follows

	2013	2012	Change
	£'000	£'000	%
Turnover	8,051	10,614	(24%)
Staff costs	(913)	(462)	98%
Other operating charges	(1,445)	(5,342)	(73%)
Exceptional items	(127)	-	100%
Total expenses	(2,485)	(5,804)	(57%)
Profit before taxation	5,566	4,803	16%
EBITDA	5,570	4,803	16%

As shown in the Company's profit and loss on page 6, the Company's turnover decreased by 24% to £8 1m during the current year, whilst profit before taxation increased by 16% to £5 6m over the same period

The balance sheet on page 7 of the financial statements shows the Company's financial position at year end Net assets increased by 73% to £10 0m Details of amounts owed from and to its parent company and fellow subsidiary undertakings are shown in notes 8 and 9 to the financial statements

For decision making and internal performance management, management's key performance metric is Earnings before interest, tax, depreciation and amortisation (EBITDA) EBITDA increased by 16% to £5 6m during the current year

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2012 £nil)

AA FINANCIAL SERVICES LIMITED
DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 JANUARY 2013

DIRECTORS

The directors who held office during the year were as follows

J A Goodsell
S M Howard
A J P Strong
M Huggins
A K Boland (appointed 31 January 2013)

EMPLOYMENT POLICIES

All staff costs recharged to the Company relate to employees of The Automobile Association Limited, a company incorporated in Jersey. Employment policy details can be found in the financial statements of that company.

RISK MANAGEMENT FRAMEWORK

The business has developed an embedded enterprise risk management process that facilitates the identification, assessment, escalation and mitigation of the Company's risk exposure across every aspect and activity of the business. This framework enables the business to manage risk using predefined assessment criteria to ensure residual risk levels are in line with the Board's agreed risk appetite.

Risk information is formally reviewed on a quarterly basis and is a standard agenda item at each of the core business forums.

The principal risks have been grouped into the following categories:

Competitive Risk

The Company continues to operate in highly competitive markets. This could lead to increased price competition with the effect of reduced margins or reduced market share. These risks are managed through promotion of the group brand and continuing efforts to improve efficiency and reduce costs.

Financial Risk

The Company is part of the Acromas Holdings Limited Group and its financial risks are managed centrally by the Group Treasury team taking into account the Company's position as part of the group with due consideration being given to the impact of transactions.

Credit Risk

Credit risk is the risk that one party to a financial transaction will cause financial loss for that party by failing to discharge an obligation. The Company's policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures.

AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT (Continued)

FOR THE YEAR ENDED 31 JANUARY 2013

RISK MANAGEMENT FRAMEWORK (continued)

Brand Risk

The Company recognises that the AA brand is a key differentiator and source of competitive advantage, and brand damage from low quality products or services could have an adverse impact on the Company. It has in place policies and procedures to protect the brand at all times.

The Company has put in place rigorous procedures and controls designed to prevent significant risks to the business occurring or to mitigate their effects if they should occur. These controls are monitored both by the Compliance and Internal Audit functions to ensure they are working effectively.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Company's business activities and its exposure to financial risk are described in the business review on pages 1 to 3.

The Company has sufficient financial resources together with long-term contracts with a number of banks and insurers. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AA FINANCIAL SERVICES LIMITED

DIRECTORS' REPORT (Continued)

FOR THE YEAR ENDED 31 JANUARY 2013

POST BALANCE SHEET EVENT

On 2 July 2013, the Company's indirect parent, AA Mid Co Limited, completed a debt refinancing of its business, raising £3 055 billion using a combination of publicly traded bonds and bank debt. The proceeds of the refinancing have been remitted to the Acromas group to partially repay Acromas Mid Co Limited's bank debt, in return for the release of the current guarantees previously provided by the AA Mid Co Limited group and the Company outlined in note 16. AA Mid Co Limited no longer remits cash to Acromas group treasury and provides security to the new lenders via a combination of fixed and floating charges and the Company is now a Guarantor to the AA Mid Co Limited group debt.

RE-APPOINTMENT OF AUDITOR

In accordance with section 487(2) of the Companies Act 2006, the auditor Ernst & Young LLP is deemed re-appointed.

DISCLOSURE OF INFORMATION TO AUDITOR

Each current director has made enquiries of their fellow directors and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

BY ORDER OF THE BOARD



A K BOLAND
DIRECTOR

17 JULY 2013

Registered Office
Fanum House
Basing View
Basingstoke
Hampshire
RG21 4EA

Registered Number 00912211

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AA FINANCIAL SERVICES LIMITED

We have audited the financial statements of AA Financial Services Limited for the year ended 31 January 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 January 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- have been prepared in accordance with the requirements of the Companies Act 2006.

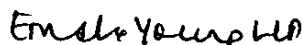
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Kevin Senior (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

18 July 2013

AA FINANCIAL SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 2013

	Notes	2013 £'000	2012 £'000
Turnover	0	8,051	10,614
Administrative expenses		(2,358)	(5,811)
Exceptional items	6	(127)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	<u>5,566</u>	<u>4,803</u>
Tax on profit on ordinary activities	7	(1,369)	(1,267)
PROFIT FOR THE FINANCIAL YEAR	14	<u><u>4,197</u></u>	<u><u>3 536</u></u>

All income and expenditure arises from continuing operations

There are no recognised gains and losses other than those passing through the profit and loss account

The notes on pages 8 to 13 form part of these financial statements

AA FINANCIAL SERVICES LIMITED

BALANCE SHEET AT 31 JANUARY 2013

	Notes	2013 £'000	2012 £'000
FIXED ASSETS	7	51	-
Tangible fixed assets		<u>51</u>	<u>-</u>
CURRENT ASSETS			
Debtors	9	11,663	10,645
CREDITORS (amounts falling due within one year)	10	(958)	(3,451)
NET CURRENT ASSETS		10,705	7,194
TOTAL ASSETS LESS CURRENT LIABILITIES		10,756	7,194
PROVISIONS FOR LIABILITIES	11	(803)	(1 438)
NET ASSETS		9,953	5,756
CAPITAL AND RESERVES			
Called up share capital	13	2,000	2,000
Profit and loss account	14	7,953	3,756
SHAREHOLDER'S FUNDS	15	9,953	5,756

The financial statements on pages 6 to 13 were approved by the board of directors on **17 JULY** 2013
and were signed on its behalf by



A K BOLAND
DIRECTOR

Registered Number 00912211

The notes on pages 8 to 13 form part of these financial statements

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards as defined in the Companies Act 2006 s 464

The financial statements are prepared on a going concern basis. A summary of the accounting policies, which have been applied on a consistent basis with the prior year, is set out below

b) Cash flow statement

The directors have taken advantage of the exemption available under FRS 1 (Cash flow statements) of the requirement to prepare a cash flow statement as a consolidated cash flow statement has been presented in the financial statements of the ultimate parent undertaking, Acromas Holdings Limited

c) Turnover

Turnover represents amounts receivable for services provided, excluding value added tax and trade discounts. Revenue is recognised on provision of service

Commission income from third parties is recognised when the product is activated. Additional commission from these parties may be earned dependent upon the additional activities of the consumer. This income is recognised when the results of this business can be determined reasonably

d) Tangible fixed assets

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

Fixtures, fittings and equipment	3 – 20 years
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The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

e) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods that are different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 TURNOVER

The turnover originates in the UK. Turnover by destination is not materially different from turnover by origin.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation is stated after charging		
Staff costs recharged (see note 4)	913	462
Audit fees	10	10
Other external charges	1,423	5,332
Operating lease rentals - motor vehicles	8	7
Depreciation of owned tangible fixed assets (see note 8)	4	-
Exceptional items (see note 6)	127	-
	<u>2,485</u>	<u>5,811</u>

The Company's auditor provided no services to the Company other than the annual audit during either of the years under review.

4 STAFF COSTS

	2013 £'000	2012 £'000
Staff costs during the year were as follows		
Wages and salaries	853	402
Social security costs	60	60
	<u>913</u>	<u>462</u>

Staff costs are recharged from The Automobile Association Limited, a group company incorporated in Jersey. The average number of employees directly employed during the year was nil (2012: nil).

5 DIRECTORS' EMOLUMENTS

	2013 £'000	2012 £'000
Aggregate emoluments in respect of qualifying services	<u>218</u>	<u>209</u>
	2013	2012
Members of defined benefit pension scheme	<u>3</u>	<u>4</u>
	2013 £'000	2012 £'000
The amounts paid in respect of the highest paid director were as follows		
Emoluments	<u>218</u>	<u>209</u>

The directors' emoluments shown above relate to M Huggins who is remunerated by Saga Group Limited, a fellow subsidiary of the ultimate holding company Acromas Holdings Limited.

J A Goodsell, S M Howard, A J P Strong and A K Boland are also remunerated by Saga Group Limited, a fellow subsidiary of the ultimate parent undertaking, Acromas Holdings Limited, and received total remuneration of £3.6m (2012: £3.3m). None of these directors received any emoluments during the year in respect of their services as directors of the Company (2012: £nil). The Company has not been recharged any amount for the emoluments of these directors (2012: £nil).

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 EXCEPTIONAL ITEMS

	2013 £'000	2012 £'000
Exceptional items	<u>127</u>	<u>-</u>

The exceptional item relates to redundancy costs arising from the restructuring of the business

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is made up as follows	2013 £'000	2012 £'000
Current Tax:		
- Group relief payable	1,219	-
- Current tax on profit in the year	-	1,261
- Adjustments in respect of prior periods	<u>165</u>	<u>13</u>
Total current tax charge	<u>1,384</u>	<u>1,274</u>
Deferred tax		
- Origination and reversal of timing differences	128	4
- Adjustments in respect of prior periods	(157)	(12)
- Effect of tax rate change on opening balance	<u>14</u>	<u>1</u>
- Total deferred tax credit	<u>(15)</u>	<u>(7)</u>
Total tax charge on ordinary activities	<u>1,369</u>	<u>1,267</u>

The difference between the total current corporation tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	<u>5,566</u>	<u>4,803</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.33% (2012: 26.32%)	1,354	1,264
Adjustments in respect of prior periods	165	13
Expenses not deductible for tax purposes	-	1
Short term timing differences	<u>(135)</u>	<u>(4)</u>
Total current tax charge	<u>1,384</u>	<u>1,274</u>

8 TANGIBLE FIXED ASSETS

	Equipment £'000
Cost	
As at 1 February 2012	-
Additions	<u>55</u>
As at 31 January 2013	<u>55</u>
Depreciation	
As at 1 February 2012	-
Charge for the year	<u>4</u>
As at 31 January 2013	<u>4</u>
Net book value	
As at 31 January 2013	<u>51</u>
As at 31 January 2012	<u>-</u>

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 DEBTORS

	2013 £'000	2012 £'000
Amounts receivable within one year		
Trade debtors	779	1,139
Amounts owed by group undertakings	10,198	9,176
Other debtors	658	317
	<u>11,635</u>	<u>10,632</u>
Deferred tax asset (note 12)	28	13
	<u>11,663</u>	<u>10,645</u>

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

10 CREDITORS (amounts falling due within one year)

	2013 £'000	2012 £'000
Amounts owed to group undertakings	-	1,543
Corporation tax	-	1,261
Other taxes and social security	-	23
Other creditors	63	13
Accruals and deferred income	895	611
	<u>958</u>	<u>3,451</u>

The amounts owed to group undertakings are unsecured have no repayment terms and bear no interest

11 PROVISIONS FOR LIABILITIES

	£ 000
As at 1 February 2012	1,438
Utilised in the year	(635)
As at 31 January 2013	<u>803</u>

Provisions relate to the liability arising from loyalty points and other payments due to customers. It is anticipated that these provisions will be substantially utilised within one year.

12 DEFERRED TAXATION

Deferred tax assets comprise

	2013 £'000	2012 £'000
Short term timing differences	28	13
Deferred tax (note 9)	<u>28</u>	<u>13</u>

£ 000

Deferred tax asset as at 1 February 2012	13
Credit to the profit and loss account	15
Deferred tax asset as at 31 January 2013	<u>28</u>

The Finance Act 2012 reduced the main rate of corporation tax from 26% to 24% with effect from 1 April 2012, and further reduced it from 24% to 23% with effect from 1 April 2013. As this reduction was substantively enacted on 3 July 2012, the deferred tax balance at 31 January 2013 has been stated at 23%.

Further reductions in the rate of UK corporation tax to 21% from 1 April 2014 and 20% from 1 April 2015 were announced in December 2012 and March 2013. The directors estimate that the effect of these changes will reduce the Company's deferred tax asset by £1,000.

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 CALLED UP SHARE CAPITAL

	2013 £'000	2012 £'000
Allotted, called up and fully paid		
2,000,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

14 PROFIT AND LOSS ACCOUNT

	2013 £'000	2012 £ 000
Opening balance	3,756	220
Profit for the financial year	<u>4,197</u>	<u>3,536</u>
Closing balance	<u>7,953</u>	<u>3,756</u>

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2013 £'000	2012 £'000
Opening shareholder's funds	5,756	2,220
Profit for the financial year	<u>4,197</u>	<u>3,536</u>
Closing shareholder's funds	<u>9,953</u>	<u>5,756</u>

16 GUARANTEES AND COMMITMENTS

Guarantees

The Company, along with certain of its fellow subsidiaries, acts as Obligor on bank loans made to Acromas Mid Co Limited. At the balance sheet date the principal, accrued interest, guarantees and other facilities outstanding on these bank loans was £5,132.1 million (2012 £5,098.2million)

At the year end, the Company had no capital commitments (2012 £nil) and no capital expenditure authorised but not yet committed (2012 £nil)

AA FINANCIAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption within FRS 8 (Related party disclosures) in not disclosing transactions with other entities in the Acromas group of companies. There are no other related party transactions.

18 ULTIMATE CONTROLLING PARTY

The directors consider the ultimate controlling party to be funds advised by Charterhouse Capital Partners, CVC Capital Partners and Permira Advisers acting in concert.

19 ULTIMATE PARENT UNDERTAKING

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

The parent of the smallest group to consolidate these financial statements is AA Limited whose registered office is Fanum House, Basing View, Basingstoke, RG21 4EA. The ultimate parent undertaking, which is also the parent of the largest group to consolidate these financial statements, is Acromas Holdings Limited whose registered office is at Enbrook Park, Folkestone, Kent, CT20 3SE.

Copies of the consolidated parent financial statements are available from the Company Secretary at the relevant registered office address.

20 POST BALANCE SHEET EVENT

On 2 July 2013, the Company's indirect parent, AA Mid Co Limited, completed a debt refinancing of its business, raising £3.055 billion using a combination of publicly traded bonds and bank debt. The proceeds of the refinancing have been remitted to the Acromas group to partially repay Acromas Mid Co Limited's bank debt, in return for the release of the current guarantees previously provided by the AA Mid Co Limited group and the Company outlined in note 16. AA Mid Co Limited no longer remits cash to Acromas group treasury and provides security to the new lenders via a combination of fixed and floating charges and the Company is now a Guarantor to the AA Mid Co Limited group debt.