# Automobile Association Personal Finance Limited

## Annual report and accounts
## for the year ended 31 December 2015

**Registered office**

Trinity Road
Halifax
West Yorkshire
HX1 2RG

**Registered number**

01772586

**Current directors**

I S Perez
S J Noakes

**Company Secretary**

M A A Johnson

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A18 30/06/2016 #300
COMPANIES HOUSE

Member of Lloyds Banking Group

# Directors' report
For the year ended 31 December 2015

The directors present their report and the audited financial statements of Automobile Association Personal Finance Limited ("the Company") for the year ended 31 December 2015.

**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 16 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 personal loan business with effect from September 2009, therefore, the carrying value of loans and advances and associated income will reduce as individual agreements expire.

**Dividends**

No dividends were paid or proposed during the year ended 31 December 2015 (2014: £nil).

**Going concern**

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

**Directors**

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

The following changes have taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

| | |
|---|---|
| P N Jamieson | (resigned 24 August 2015) |
| S J Noakes | (appointed 24 August 2015) |
| I S Perez | (appointed 24 August 2015) |
| B A J Studds | (resigned 24 August 2015) |

**Company Secretary**

The following changes have taken place during the year or since the year end:

| | |
|---|---|
| D D Hennessey | (appointed 11 March 2015, resigned 7 December 2015) |
| M A A Johnson | (resigned 6 March 2015, appointed 13 January 2016) |

### 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.

### Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

### Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that 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.

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

### Independent auditors

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

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**

17 JUNE 2016

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

## Report on the financial statements

### Our opinion

In our opinion, Automobile Association Personal Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Automobile Association Personal Finance Limited's financial statements comprise:

- the Balance sheet as at 31 December 2015;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## 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.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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, 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.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. 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.

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

## Responsibilities for the financial statements and the audit

**Our responsibilities and those of directors**

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK and Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

17 June 2016

## Statement of comprehensive income

For the year ended 31 December 2015

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Interest income | | **1,634** | 4,808 |
| Interest expense | | **(634)** | (1,909) |
| **Net interest income** | 3 | **1,000** | 2,899 |
| Fees and commission income | 4 | **198** | 86 |
| Payment Protection Insurance charge | 13 | **(15,428)** | (43,012) |
| Impairment gains | | **5,942** | 2,683 |
| Other operating expenses | 5 | **(13)** | (744) |
| **Loss before tax** | | **(8,301)** | (38,088) |
| Taxation | 8 | **1,638** | 8,039 |
| **Loss for the year attributable to owners of the parent, being total comprehensive expense** | | **(6,663)** | (30,049) |

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

## Balance sheet

As at 31 December 2015

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash at bank | | **8,087** | 7,074 |
| Other current assets | 9 | **23** | 70 |
| Loans and advances to customers | 10 | **36,419** | 63,113 |
| Current tax asset | | **1,797** | 9,939 |
| Deferred tax asset | 11 | **850** | 1,009 |
| **Total assets** | | **47,176** | 81,205 |
| **LIABILITIES** | | | |
| Borrowed funds | 12 | **109,106** | 138,030 |
| Other current liabilities | | **94** | 100 |
| Provision for liabilities and charges | 13 | **20,441** | 18,877 |
| **Total liabilities** | | **129,641** | 157,007 |
| **EQUITY** | | | |
| Share capital | 14 | **3,000** | 3,000 |
| Retained earnings | | **(85,465)** | (78,802) |
| **Total equity** | | **(82,465)** | (75,802) |
| **Total equity and liabilities** | | **47,176** | 81,205 |

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**

17 JUNE 2016

## Statement of changes in equity

For the year ended 31 December 2015

| | Share capital £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|
| **At 1 January 2014** | 3,000 | (48,753) | (45,753) |
| Loss for the year being total comprehensive expense | - | (30,049) | (30,049) |
| **At 31 December 2014** | **3,000** | **(78,802)** | **(75,802)** |
| Loss for the year being total comprehensive expense | - | (6,663) | (6,663) |
| **At 31 December 2015** | **3,000** | **(85,465)** | **(82,465)** |

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

## Cash flow statement

For the year ended 31 December 2015

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| **Cash flows generated from operating activities** | | |
| Loss before tax | **(8,301)** | (38,088) |
| | | |
| *Adjustments for:* | | |
| - Interest expense | **634** | 1,909 |
| Changes in operating assets and liabilities: | | |
| - Net decrease in Loans and advances to customers | **26,694** | 56,761 |
| - Net decrease/(increase) in Other debtors and Other trade receivables | **47** | (59) |
| - Net decrease in Other current liabilities | **(6)** | (355) |
| - Increase in Provision for liabilities and charges | **1,564** | 3,030 |
| - Decrease in Amounts due from group undertakings | **-** | 501 |
| **Cash generated from operations** | **20,632** | 23,699 |
| Group relief received | **9,939** | 6,933 |
| Net cash generated from operating activities | **30,571** | 30,632 |
| **Cash flows used in financing activities** | | |
| Repayment of borrowings with group undertakings | **(30,443)** | (27,512) |
| Interest expense | **(634)** | (1,909) |
| Net cash used in financing activities | **(31,077)** | (29,421) |
| **Change in cash and cash equivalents** | **(506)** | 1,211 |
| Cash and cash equivalents/(net bank overdrafts) at beginning of year | **833** | (378) |
| **Cash and cash equivalents at end of year** | **327** | 833 |
| **Cash and cash equivalents comprise** | | |
| Cash at bank (see note 15) | **8,087** | 7,074 |
| Bank overdrafts (see note 12) | **(7,760)** | (6,241) |
| ***Cash and cash equivalents*** | **327** | 833 |

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 2015

## 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 pronouncement relevant to the Company have been adopted in these financial statements:

- Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2011 - 13 cycle of the annual improvements projects.

The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2015 and which have not been applied in preparing these financial statements are given in note 20. No standards have been early adopted.

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 Other debtors and Loans and advances to customers. Financial liabilities comprise Amounts due to group undertakings and Other current liabilities.

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

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

# 1. Accounting policies (continued)

## 1.4 Impairment

**Loans and advances to customers**

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

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

The collective provision also includes provision for inherent losses, that is losses that have been incurred but have not been separately identified at the balance sheet date. The loans that are not currently recognised as impaired are grouped into homogenous portfolios by key risk drivers. Risk drivers include whether the account is up to date and, if not, the number of payments that have been missed. An assessment is made of the likelihood of each account becoming recognised as impaired within the loss emergence period, with the economic loss that each portfolio is likely to generate were it to become impaired. The method and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between the loss estimates and actual loss experience.

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

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

## 1.5 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents comprise cash on hand, Bank overdrafts, demand deposits and other short term highly liquid investments with original maturities of less than three months.

## 1.6 Taxation, including deferred income taxes

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

## 1.7 Provision for liabilities and charges

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

## 2. Critical accounting estimates and judgements in applying accounting policies

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

**Impairment of assets accounted for at amortised cost**

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

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

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

**Deferred tax**

The recoverability of the Deferred tax asset requires the consideration of the level of forecast taxable profits in the Group, taking into account the Group's long term financial and strategic plans.

The Deferred tax asset has been recognised on the basis that tax losses arising in the future will be used by the Company against taxable profits or surrendered as group relief which will be paid for by the recipient company.

**Payment Protection Insurance**

The Company has a provision against the cost of making redress payments to customers in relation to the misselling of Payment Protection Insurance ("PPI"). See note 13 for further information.

## 3. Net interest income

| | **2015**<br>**£'000** | 2014<br>£'000 |
|---|---|---|
| **Interest income** | | |
| Unsecured personal loans | **1,634** | 4,808 |
| **Interest expense** | | |
| Group interest expense (see note 15) | **(634)** | (1,909) |
| **Net interest income** | **1,000** | 2,899 |

## 4. Fees and commission income

| | **2015**<br>**£'000** | 2014<br>£'000 |
|---|---|---|
| Loan fees receivable | **68** | 141 |
| Commission receivable | **130** | (55) |
| | **198** | 86 |

## 5. Other operating expenses

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Other operating expenses | **13** | 744 |

Fees payable to the Company's auditors for the audit of the financial statements of £28,800 (2014: £28,800) have been borne by a fellow subsidiary undertaking and are recharged to the Company via management fees. Accounting and administration services are provided by a fellow subsidiary undertaking and are recharged to the Company as part of Management fees.

## 6. Staff costs

The Company did not have any employees during the year (2014: none).

## 7. *Directors' emoluments*

No director received any fees or emoluments from the Company during the year (2014: £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 15).

## 8. Taxation

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **a) Analysis of credit for the year** | | |
| UK corporation tax: | | |
| - Current tax on taxable loss for the year | **(1,797)** | (8,204) |
| - Adjustments in respect of prior years | **-** | 365 |
| Current tax credit | **(1,797)** | (7,839) |
| UK deferred tax: | | |
| - Origination and reversal of timing differences | **116** | 123 |
| - Adjustments in respect of prior years | **-** | (314) |
| - Impact of deferred tax rate change | **43** | (9) |
| Deferred tax charge/(credit) (see note 11) | **159** | (200) |
| Tax credit | **(1,638)** | (8,039) |

Corporation tax is calculated at a rate of 20.25% (2014: 21.50%) of the taxable profit for the year.

# Notes to the financial statements (continued)
For the year ended 31 December 2015

## 8. Taxation (continued)

**b) Factors affecting the tax credit for the year**

Where taxation on the Company's loss for the year differs from the taxation credit that would arise using the standard rate of corporation tax of 20.25% (2014: 21.50%), the differences are explained below:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Loss before tax | **(8,301)** | (38,088) |
| Tax credit thereon at UK corporation tax rate of 20.25% (2014: 21.50%) | **(1,681)** | (8,189) |
| Factors affecting credit: | | |
| - Non-allowable and non-taxable items | **-** | 108 |
| - Adjustments in respect of prior years | **-** | 51 |
| - Effect of reduction in tax rate and related impacts | **43** | (9) |
| Tax credit on loss on ordinary activities | **(1,638)** | (8,039) |
| Effective rate | **19.7%** | 21.1% |

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

## 9. Other current assets

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Other debtors | **23** | 70 |

## 10. Loans and advances to customers

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Unsecured personal loans | **36,876** | 64,010 |
| Gross loans and advances to customers | **36,876** | 64,010 |
| Less: allowance for losses on loans and advances | **(457)** | (897) |
| Net loans and advances to customers | **36,419** | 63,113 |
| of which: | | |
| Due within one year | **32,341** | 49,654 |
| Due after one year | **4,078** | 13,459 |
| | **36,419** | 63,113 |

## 11. Deferred tax asset

The movement in the Deferred tax asset is as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Brought forward | **1,009** | 809 |
| (Charge)/credit for the year (see note 8) | **(159)** | 200 |
| At 31 December | **850** | 1,009 |

The deferred tax (charge)/credit in the Statement of comprehensive income comprises the following temporary differences:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Allowances for impairment losses | **(115)** | (114) |
| Other temporary differences | **(44)** | 314 |
| | **(159)** | 200 |

| Deferred tax asset comprises: | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Allowances for impairment losses | **-** | 115 |
| Other temporary differences | **850** | 894 |
| | **850** | 1,009 |

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

On 16 March 2016, the Government announced that the corporation tax rate applicable from 1 April 2020 would be 17%. The proposed reductions in the rate of corporation tax are expected to be enacted, and the impact accounted for, during 2016.

## 12. Borrowed funds

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Amounts due to group undertakings (see note 15) | **101,346** | 131,789 |
| Bank overdraft with group undertaking (see note 15) | **7,760** | 6,241 |
| | **109,106** | 138,030 |

Amounts due to related undertakings is unsecured and includes amounts interest bearing at fixed rates and amounts interest bearing at variable rates at the Bank of England base rate. Fixed rate borrowings are repayable in stages on contractual maturity dates. An analysis of the maturity profile of these amounts is provided in note 16.2. Variable rate borrowings are repayable on demand, although there is no expectation such a demand will be made.

### 13. Provision for liabilities and charges

| | Total £'000 |
|---|---|
| At 1 January 2014 | 15,847 |
| Charge for the year | 43,012 |
| Utilised during the year | (39,982) |
| At 31 December 2014 | 18,877 |
| Charge for the year | 15,428 |
| Utilised during the year | (13,864) |
| **At 31 December 2015** | **20,441** |

At 31 December 2015, the Company carried a provision of £20,441,000 (2014: £18,877,000) against the cost of making redress payments to customers and the related administration costs. 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 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 and therefore are not repeated here.

### 14. Share capital

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Allotted, issued and fully paid** | | |
| 3,000,002 ordinary shares of £1 each | **3,000** | 3,000 |

### 15. 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.

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Amounts due to group undertakings** | | |
| Bank of Scotland plc (see note 12) | **101,346** | 131,789 |
| **Cash at bank held with group undertakings** | | |
| Bank of Scotland plc | **8,087** | 7,074 |
| **Bank overdraft held with group undertaking** | | |
| Bank of Scotland plc (see note 12) | **7,760** | 6,241 |
| **Interest expense** | | |
| Bank of Scotland plc (see note 3) | **634** | 1,909 |

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

Commission receivable of £130,000 (2014: debit of £55,000) includes insurance income receivable of £130,000 (2014: £234,000), under the terms of the Company's agreement with St Andrews Life Assurance plc, a related undertaking within the Group.

## 15. 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 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.

### UK Government

In January 2009, the UK government through HM Treasury became a related party of Lloyds Banking Group plc, the Company's ultimate parent company, following its subscription for ordinary shares issued under a placing and open offer. HM Treasury's interest fell below 20% on 11 May 2015. As a consequence, HM Treasury is no longer considered to have a significant influence and ceased to be a related party of the Company for IAS 24 Related Party Disclosures purposes at that date.

## 16. 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 business risk, market risk or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established the Group. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other related undertakings which fund the Company and credit risk is carefully monitored by Group's credit committee and credit functions. Business risk is managed through regular reporting and oversight.

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

### 16.1 Credit risk

**Credit concentration - Loans and advances to customers**

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

**Loans and advances to customers – maximum exposure**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Neither past due nor impaired | **8,258** | 27,705 |
| Past due but not impaired | **106** | 305 |
| Impaired | | |
| - no provision required | **28,419** | 35,639 |
| - provision held | **93** | 361 |
| **Maximum credit exposure** | **36,876** | 64,010 |

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Good quality | **6,957** | 24,595 |
| Satisfactory quality | **1,202** | 2,844 |
| Lower quality | **7** | 57 |
| Below standard, but not impaired | **92** | 209 |
| **Total** | **8,258** | 27,705 |

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.

## 16. Financial risk management (continued)

### 16.1 Credit risk (continued)

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Past due up to 30 days | **49** | 182 |
| Past due from 30-60 days | **57** | 123 |
| Past due from 60-180 days | **-** | - |
| **Total** | **106** | 305 |

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

**Loans and advances to customers which are impaired**

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Past due 60 to 90 days | **29** | 81 |
| Past due 90 to 120 days | **10** | 106 |
| Past due over 120 days | **53** | 174 |
| Recoveries | **28,420** | 35,639 |
| **Total** | **28,512** | **36,000** |

**Allowance for loans and advances to customers which are impaired**

| | 2015 £'000 | Reclassified 2014 £'000 |
|---|---|---|
| Brought forward | **897** | 10,488 |
| Advances written off | **(12,387)** | (14,983) |
| Charge for year (including recoveries) | **(5,942)** | (2,683) |
| Recoveries of prior advances written off | **5,034** | 4,127 |
| Movement in future recoveries | **12,855** | 3,948 |
| At 31 December | **457** | 897 |

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.

## 16. Financial risk management (continued)

### 16.2 Liquidity risk

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

All other funding is repayable on demand.

As at 31 December 2015

| | Up to 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| Principal | 101,346 | - | - | - | 101,346 |
| Interest on Principal | - | - | - | - | - |
| | 101,346 | - | - | - | 101,346 |

As at 31 December 2014

| | Up to 1 month £'000 | 1-3 months £'000 | 3-12 months £'000 | 1-5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| Principal | 80,892 | 6,000 | 13,000 | - | 99,892 |
| Interest on Principal | 56 | 79 | 68 | - | 203 |
| | 80,948 | 6,079 | 13,068 | - | 100,095 |

### 16.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a Group level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been 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 Borrowed funds and Cash and cash equivalents 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 Bank of England rates increased by 0.25% and all other variables remain constant this would increase Interest expense by £163,000 (2014: £199,000) and accordingly decrease Interest expense by £163,000 (2014: £199,000) if Bank of England rates decreased by the same amount.

### 16.4 Financial strategy

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

### 16.5 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 aggregated fair value of Loans and advances to customers is approximately £36,953,000 (2014: £64,618,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

## 17. 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.

## 18. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the balance sheet date (2014: £nil).

## 19. Post balance sheet events

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

## 20. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2015 and have not been applied in preparing these financial statements.

| Pronouncement | Nature of change | Effective date |
|---|---|---|
| Annual improvement to IFRSs (issued September 2014) | A collection of amendments to IFRSs from the 2012 - 2014 cycle of the annual improvements projects. | Annual periods beginning on or after 1 January 2016 |
| Annual improvement to IFRSs (issued December 2013) | A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects. | Annual periods beginning on or after 1 February 2015 |
| Amendments to IAS 1 'Disclosure Initiative' | The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes. | Annual periods beginning on or after 1 January 2016 |
| IFRS 9 'Financial Instruments' [1] | 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 costs, 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. | Annual periods beginning on or after 1 January 2018 |

1. At the date of this report, this pronouncement was awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

# Notes to the financial statements (continued)
For the year ended 31 December 2015

## 21. 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.