Automobile Association Personal Finance Limited

Annual report and accounts
for the year ended 31 December 2016

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Registered number

01772586

Current directors

A R Brindley
S J Noakes

Company Secretary

M A A Johnson

Member of Lloyds Banking Group

Directors' report

For the year ended 31 December 2016

The directors present their report and the audited financial statements of Automobile Association Personal Finance Limited ("the Company") for the year ended 31 December 2016.

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 17 to the financial statements.

Key performance indicators ("KPIs")

Given the fact that the Company is no longer writing new business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Future outlook

The Company ceased to write new personal loan business with effect from September 2009. The carrying value of Loans and advances to customers and associated income on those personal loans will reduce as individual loan agreements expire.

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

Dividends

No dividends were paid or proposed during the year ended 31 December 2016 (2015: £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:

A R Brindley	(appointed 26 May 2017)
I S Perez	(resigned 26 May 2017)

Company Secretary

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

M A A Johnson	(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.

Directors' report (continued)

For the year ended 31 December 2016

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- 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.

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

Disclosure of information to auditors

In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditors

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

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

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

A R Brindley
Director
24th August 2017

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 2016 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

The financial statements, included within the Annual Report and accounts (the "Annual Report") comprise:

- the Balance sheet as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended;
- the Statement of changes in equity 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 the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

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.

Opinions on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Directors' Report. We have nothing to report in this respect.

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 to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

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 from preparing a strategic report. We have no exceptions to report arising from this responsibility.

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. With respect to the Directors' report, we consider whether the report includes the disclosures required by applicable legal requirements.

Claire Turner

Claire Turner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

24 August 2017

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Interest income		**666**	1,634
Interest expense		**(229)**	(634)
Net interest income	3	**437**	1,000
Fees and commission income		**103**	198
Fees and commission expense		**(2)**	-
Net fees and commission income	4	**101**	198
Payment Protection Insurance charge	14	**(5,213)**	(15,428)
Impairment (losses)/gains	5	**(1,189)**	5,942
Other operating expenses	6	**(32)**	(13)
Loss before tax		**(5,896)**	(8,301)
Taxation	9	**331**	1,638
Loss for the year attributable to owners of the parent, being total comprehensive expense		**(5,565)**	(6,663)

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

Balance sheet

As at 31 December 2016

	Note	2016 £'000	Restated 2015 £'000
ASSETS			
Cash and cash equivalents		**8,979**	8,087
Other current assets	10	**1,243**	1,439
Loans and advances to customers	11	**18,427**	36,419
Current tax asset		**1,179**	1,797
Deferred tax asset	12	**-**	850
Total assets		**29,828**	48,592
LIABILITIES			
Borrowed funds	13	**99,139**	110,522
Other current liabilities		**62**	94
Provision for liabilities and charges	14	**18,657**	20,441
Total liabilities		**117,858**	131,057
EQUITY			
Share capital	15	**3,000**	3,000
Retained earnings		**(91,030)**	(85,465)
Total equity		**(88,030)**	(82,465)
Total equity and liabilities		**29,828**	48,592

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

The 2015 comparatives have been restated to reflect the reclassification explained in note 21.

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

A R Brindley
Director

24th August 2017

Statement of changes in equity

For the year ended 31 December 2016

	Share capital £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2015	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)**
Loss for the year being total comprehensive expense	-	(5,565)	(5,565)
At 31 December 2016	**3,000**	**(91,030)**	**(88,030)**

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

Cash flow statement

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows generated from operating activities		
Loss before tax	**(5,896)**	(8,301)
Adjustments for:		
- Interest expense	**229**	634
- (Decrease)/increase in Provision for liabilities and charges	**(1,784)**	1,564
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**17,992**	26,694
- Net *(increase)/decrease in Other debtors and Other trade receivables*	**(13)**	47
- Net decrease in Other current liabilities	**(32)**	(6)
Cash generated from operations	**10,496**	20,632
Group relief received	**1,799**	9,939
Net cash generated from operating activities	**12,295**	30,571
Cash flows used in financing activities		
Repayment of net borrowings with group undertakings	**(12,325)**	(30,443)
Interest expense	**(229)**	(634)
Net cash used in financing activities	**(12,554)**	(31,077)
Change in Cash and cash equivalents	**(259)**	(506)
Cash and cash equivalents at beginning of year	**327**	833
Cash and cash equivalents at end of year	**68**	327
Cash and cash equivalents comprise		
Cash at bank	**8,979**	8,087
Bank overdrafts (see note 13)	**(8,911)**	(7,760)
Cash and cash equivalents	**68**	327

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 2016

1. Accounting policies

1.1 Basis of preparation

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

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board ("IASB") and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

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

(i) Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2010 - 12 cycle of the annual improvements projects.

(ii) Annual improvement to IFRSs (issued September 2014). A collection of amendments to IFRSs from the 2012 - 14 cycle of the annual improvements projects.

(iii) Amendments to IAS 1: Disclosure Initiative (issued December 2014). The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.

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 2016 and which have not been applied in preparing these financial statements are given in note 22. 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 Amounts due from group undertakings, Loans and advances to customers, Other debtors and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings, Bank overdraft 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 Company 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 uncollectable, 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 and Bank overdrafts comprise balances with less than three months' maturity.

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. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or 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. Income tax payable on profits is recognised as an expense in the period in which those profits arise. The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are offset 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.

Payment Protection Insurance

At 31 December 2016, the Company carried a provision of £18,657,000 (2015: £20,441,000) against the cost of making redress payments to customers and the related administration costs in relation to the misselling of Payment Protection Insurance ("PPI"). See note 14 for further information.

Determining the amount of the provision, which represents 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.

3. Net interest income

	2016	2015
	£'000	£'000
Interest income		
Unsecured personal loans	**666**	1,634
Interest expense		
Group interest expense (see note 16)	**(229)**	(634)
Net interest income	**437**	1,000

4. Net fees and commission income

	2016 £'000	2015 £'000
Fees and commission income		
Loan fees receivable	**76**	68
Commission receivable (see note 16)	**27**	130
	103	198
Fees and commission expense		
Other fees and commission payable	**(2)**	-
Net fees and commission income	**101**	198

5. Impairment (losses)/gains

	2016 £'000	2015 £'000
Advances written off	**(11,966)**	(12,387)
Recoveries of prior advances written off	**3,938**	5,034
Movement in future recoveries	**6,865**	12,855
Unwind of discount	**(217)**	-
Decrease in provision for impairment of IBNR & Collections (see note 17.1)	**191**	440
	(1,189)	**5,942**

6. Other operating expenses

	2016 £'000	2015 £'000
Other operating expenses	**32**	13

Fees payable to the Company's auditors for the audit of the financial statements of £28,800 (2015: £28,800) have been borne by a fellow subsidiary undertaking. Accounting and administration services are provided by a fellow subsidiary undertaking and are not recharged to the Company.

7. Staff costs

The Company did not have any employees during the year (2015: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2015: £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 16).

9. Taxation

	2016 £'000	2015 £'000
a) Analysis of credit for the year		
UK corporation tax:		
- Current tax on taxable loss for the year	**(1,181)**	(1,797)
UK deferred tax:		
- Origination and reversal of timing differences	**893**	116
- Due to change in UK corporation tax rate	**(43)**	43
Deferred tax charge (see note 12)	**850**	159
Tax credit	**(331)**	(1,638)

Corporation tax is calculated at a rate of 20.00% (2015: 20.25%) of the taxable loss for the year.

9. Taxation (continued)

b) Factors affecting the tax credit for the year

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

	2016	2015
	£'000	£'000
Loss before tax	**(5,896)**	(8,301)
Tax credit thereon at UK corporation tax rate of 20.00% (2015: 20.25%)	**(1,181)**	(1,681)
Factors affecting credit:		
- UK corporation tax rate change and related impacts	**(43)**	43
- Timing differences not recognised	**893**	-
Tax credit on loss on ordinary activities	**(331)**	(1,638)
Effective rate	**5.7%**	19.7%

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.

10. Other current assets

	2016	Restated 2015
	£'000	£'000
Amounts due from group undertakings (see note 16)	**1,207**	1,416
Other debtors	**36**	23
	1,243	1,439

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

The 2015 comparatives have been restated to reflect the reclassification explained in note 21.

11. Loans and advances to customers

	2016	2015
	£'000	£'000
Unsecured personal loans	**18,693**	36,876
Gross loans and advances to customers	**18,693**	36,876
Less: allowance for losses on loans and advances	**(266)**	(457)
Net loans and advances to customers	**18,427**	36,419
of which:		
Due within one year	**17,035**	32,341
Due after one year	**1,392**	4,078
	18,427	36,419

Further analysis of Loans and advances to customers is provided in note 17.

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2016	2015
	£'000	£'000
Brought forward	**850**	1,009
Charge for the year (see note 9)	**(850)**	(159)
	-	850

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

	2016	2015
	£'000	£'000
Allowances for trading losses	**893**	(115)
Other temporary differences	**(43)**	(44)
	(850)	(159)

Deferred tax asset comprises:	**2016**	2015
	£'000	£'000
Other temporary differences	**-**	850

Deferred tax asset of £759k has not been recognised in respect of trading losses carried forward as there are no predicted future trading profits. Trading losses can be carried forward indefinitely.

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.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

13. Borrowed funds

		Restated
	2016	2015
	£'000	£'000
Amounts due to group undertakings (see note 16)	**90,228**	102,762
Bank overdraft with group undertaking (see note 16)	**8,911**	7,760
	99,139	110,522

Amounts due to group 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 17.2. Variable rate borrowings are repayable on demand, although there is no expectation such a demand will be made.

The 2015 comparatives have been restated to reflect the reclassification explained in note 21.

14. Provision for liabilities and charges

	Total £'000
At 1 January 2015	18,877
Charge for the year	15,428
Utilised during the year	(13,864)
At 31 December 2015	20,441
Charge for the year	5,213
Utilised during the year	(6,997)
At 31 December 2016	**18,657**

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.

15. Share capital

	2016 £'000	2015 £'000
Allotted, issued and fully paid		
3,000,002 ordinary shares of £1 each	**3,000**	3,000

16. 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.

	2016 £'000	Restated 2015 £'000
Amounts due from group undertakings		
Bank of Scotland plc (see note 10)	**1,207**	1,416
Amounts due to group undertakings		
Bank of Scotland plc (see note 13)	**90,228**	102,762
Cash and cash equivalents held with group undertakings		
Bank of Scotland plc	**8,979**	8,087
Bank overdraft held with group undertaking		
Bank of Scotland plc (see note 13)	**8,911**	7,760
Interest expense		
Bank of Scotland plc (see note 3)	**229**	634

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.

16. Related party transactions (continued)

Commission receivable of £27,000 (2015: £130,000) includes insurance commission income receivable of £27,000 (2015: £130,000), under the terms of the Company's agreement with Scottish Widows Limited, a fellow subsidiary of Lloyds Banking Group plc.

The 2015 comparatives have been restated to reflect the reclassification explained in note 21.

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, the directors of Bank of Scotland plc and the members of the Lloyds Banking Group plc board. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other companies within the Group and consider that their services to the Company are incidental to their other activities within the Group.

17. 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 by the Group. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by 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.

17.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Group's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

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

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.

- Credit scoring: In its principal Retail portfolios, the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group Risk approval.

- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

Credit concentration - Loans and advances to customers

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

17. Financial risk management (continued)

17.1 Credit risk (continued)

Loans and advances to customers – maximum exposure

	2016 £'000	2015 £'000
Neither past due nor impaired	**1,991**	8,258
Past due but not impaired	**33**	106
Impaired		
- no provision required	**16,591**	28,419
- provision held	**78**	93
Maximum credit exposure	**18,693**	36,876

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

	2016 £'000	2015 £'000
Good quality	**-**	6,957
Satisfactory quality	**1,080**	1,202
Lower quality	**684**	7
Below standard, but not impaired	**227**	92
Total	**1,991**	8,258

In general, good quality lending comprises those balances with a lower probability to default rating assigned and the rating progressively increases for each category exhibiting a progressively higher probability to default.

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

	2016 £'000	2015 £'000
Past due up to 30 days	**22**	49
Past due from 30-60 days	**11**	57
Past due from 60-180 days	**-**	-
Total	**33**	106

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

Loans and advances to customers which are impaired

	2016 £'000	2015 £'000
Past due 60 to 90 days	**15**	29
Past due 90 to 120 days	**12**	10
Past due over 120 days	**51**	53
Recoveries	**16,591**	28,420
Total	**16,669**	**28,512**

17. Financial risk management (continued)

17.1 Credit risk (continued)

Allowance for loans and advances to customers which are impaired

	2016 £'000	2015 £'000
Brought forward	**457**	897
Movement in provision	**(77)**	44
Charge off of amounts of IBNR and collections	**(114)**	(484)
At 31 December	**266**	457

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. In 2016, following the end of a joint venture arrangement, an unwind of discount on loans and advances has been disclosed.

17.2 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 Amounts due to group undertakings, by remaining contractual undiscounted repayments at the balance sheet date.

As at 31 December 2016

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Principal	90,228	-	-	-	90,228
	90,228	**-**	**-**	**-**	**90,228**

As at 31 December 2015

	Restated Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Restated Total £'000
Principal	102,762	-	-	-	102,762
	102,762	**-**	**-**	**-**	**102,762**

The 2015 comparatives have been restated to reflect the reclassification explained in note 21.

All other funding is repayable on demand, although there is no expectation that such a demand would be made.

17.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level, however the Company is exposed to interest rate fluctuations due to factors outside the Company, and as a result a sensitivity analysis has been prepared to illustrate the impact of a change in the rates.

17. Financial risk management (continued)

17.3 Interest rate risk (continued)

Interest rate risk - sensitivity analysis

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

If the Bank of England base rate increased by 0.25% and all other variables remain constant this would increase Interest expense by £209,000 (2015 (restated): £256,000) and accordingly decrease Interest expense by £209,000 (2015 (restated): £256,000) if the Bank of England base rate decreased by the same amount. The 2015 comparatives have been restated to reflect the reclassification explained in note 21.

17.4 Financial strategy

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

17.5 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 £18,698,000 (2015: £36,953,000). The carrying value of all other financial assets and liabilities is considered an approximation of fair value.

18. 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.

19. Contingent liabilities and capital commitments

There were no contracted capital commitments at the balance sheet date (2015: £nil).

Other legal actions and regulatory matters

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

Notes to the financial statements (continued)

For the year ended 31 December 2016

20. Post balance sheet events

Two debt sales have made following the balance sheet date.

In March 2017 a debt sale was made with a cost of £5,400,000 and an impairment of £5,200,000. Sales proceeds were £1,400,000, which resulted in a profit of £1,200,000.

In June 2017 a debt sale was made with a cost of £32,300,000 and an impairment of £22,300,000. Sales proceeds were £12,300,000, which resulted in a profit of £2,400,000.

21. Reclassification of comparatives

The following items have been restated in the 2015 comparatives. Details of amounts and account items affected are provided below.

	Restated £'000	Adjustment £'000	Previously reported £'000
Balance sheet			
At 31 December 2015			
Other current assets	**1,439**	1,416	23
Borrowed funds	**110,522**	1,416	109,106

For 2015 and prior periods, Amounts due from group undertakings and Amounts due to group undertakings were shown on a net basis. In 2016 Amounts due from group undertakings and Amounts due to group undertakings are shown on a gross basis to align the presentation with other companies within the Group. Consequently the comparative balances have been reclassified in the balance sheet.

The reclassification has had £nil impact on the profit before or after tax, £nil impact on net assets.

22. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2016 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments'	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.	Annual periods beginning on or after 1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	Replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	Annual periods beginning on or after 1 January 2018

22. Future developments (continued)

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	During 2016, the IASB has issued amendments to IAS 7 Statement of Cash Flows (which require additional disclosure about an entity's financing activities) and IAS 12 Income Taxes (which clarify when a deferred tax asset should be recognised for unrealised losses) together with a number of other minor amendments to IFRSs.	Annual periods beginning on or after 1 January 2017

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.

23. Ultimate parent undertaking and controlling party

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