Automobile Association Personal Finance Limited

Annual report and financial statements for the year ended 31 December 2019

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Registered number

01772586

Current directors

S J Bayley
I S Perez

Company Secretary

A E Mulholland

Member of Lloyds Banking Group

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Directors' report

For the year ended 31 December 2019

The directors present their report and the audited financial statements of Automobile Association Personal Finance Limited ("the Company") for the year ended 31 December 2019.

General information

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

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

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 18 to the financial statements.

In the context of operational resilience, the Company is assessing the risks associated with the current global health issue Covid-19 and continues to analyse the impacts.

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.

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by governments across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019. In view of its currently evolving nature, the directors continue to monitor the developments closely. Given the size and quality of the remaining loan book, an initial assessment deemed that the pandemic would have an immaterial impact on impairment (see note 21).

Dividends

No dividends were paid or proposed during the year ended 31 December 2019 (2018: £nil).

Going concern

The Company is reliant on funding from Bank of Scotland plc which is a subsidiary of Lloyds Banking Group plc. The directors are satisfied that it is the intention of Lloyds Banking Group plc ("LBG") that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

It was further noted that a letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that it is its current intention to provide financial support to Lloyds Bank plc and its subsidiaries (of which the Company is one) to meet their respective financial liabilities as they fall due.

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

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

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

Directors' report (continued)

For the year ended 31 December 2019

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 Annual Report and the financial statements in accordance with applicable law and regulation.

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

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

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

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

Directors' confirmations

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

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

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

30 September 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest income		**46**	171
Interest expense		**(34)**	(77)
Net interest income	3	**12**	94
Fee and commission income		**17**	41
Fee and commission expense		**(2)**	(9)
Net fee and commission income	4	**15**	32
Payment protection insurance credit	15	**208**	2,470
Impairment	5	**4,189**	7,158
Other operating expenses	6	**(41)**	(32)
Profit before tax		**4,383**	9,722
Taxation	9	**(832)**	(1,847)
Profit for the year		**3,551**	7,875

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

Balance sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Cash at bank and in hand		**14,398**	12,114
Trade and other receivables	10	**1,295**	1,237
Loans and advances to customers	11	**2,470**	612
Total assets		**18,163**	13,963
LIABILITIES			
Borrowed funds	13	**83,265**	78,457
Trade and other payables	14	**310**	410
Provision for liabilities and charges	15	**466**	2,234
Current tax liability		**834**	3,123
Deferred tax liability	12	**11**	13
Total liabilities		**84,886**	84,237
EQUITY			
Share capital	16	**3,000**	3,000
Accumulated losses		**(69,723)**	(73,274)
Total equity		**(66,723)**	(70,274)
Total equity and liabilities		**18,163**	13,963

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

30 September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Accumulated losses £'000	Total equity £'000
At 31 December 2017	3,000	(81,220)	(78,220)
Impact of transition to IFRS 9	-	71	71
At 1 January 2018	**3,000**	**(81,149)**	**(78,149)**
Profit for the year being total comprehensive income	-	7,875	7,875
At 31 December 2018	**3,000**	**(73,274)**	**(70,274)**
Profit for the year being total comprehensive income	-	3,551	3,551
At 31 December 2019	**3,000**	**(69,723)**	**(66,723)**

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

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows (used in)/generated from operating activities		
Profit before tax	**4,383**	9,722
Adjustments for:		
- Interest expense	**34**	77
- Impact of transition to IFRS 9 on Loans and advances to customers	**-**	86
- Decrease in Provision for liabilities and charges	**(1,768)**	(6,803)
Changes in operating assets and liabilities:		
- Net (increase)/decrease in Loans and advances to customers	**(1,858)**	1,371
- Net decrease in Other debtors and Trade and other receivables	**-**	1
- Net (decrease)/increase in Trade and other payables	**(100)**	323
Cash generated from operations	**691**	4,777
Income taxes paid	**(3,123)**	-
Net cash (used in)/generated from operating activities	**(2,432)**	4,777
Cash flows generated from/(used in) financing activities		
Net repayment of borrowed funds	**11,451**	(4,716)
Interest paid	**(34)**	(77)
Net cash generated from/(used in) financing activities	**11,417**	(4,793)
Change in Cash and cash equivalents	**8,985**	(16)
Cash and cash equivalents at beginning of year	**45**	61
Cash and cash equivalents at end of year	**9,030**	45
Cash and cash equivalents comprise		
Cash at bank and in hand	**14,398**	12,114
Bank overdrafts (see note 13)	**(5,368)**	(12,069)
Cash and cash equivalents	**9,030**	45

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 2019

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.

There are no new IFRS pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 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.

It was further noted that a letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that it is its current intention to provide financial support to Lloyds Bank plc and its subsidiaries (of which the Company is one) to meet their respective financial liabilities as they fall due.

As a result, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly the continue to adopt the going concern basis in preparing the annual report and financial statements.

1.2 Income recognition

Income and expense from financial assets

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate (such as commission associated with the sale of insurance underwritten by a third party) are generally recognised in the Statement of comprehensive income on an accruals basis when the service has been provided.

1.3 Financial assets and liabilities

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

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

The impairment charge in the Income Statement includes the change in expected credit losses ("ECL") and certain fraud costs. Expected credit losses are recognised for Loans and advances to customers and other financial assets held at amortised cost. Expected credit losses are calculated using a borrowed rates method. The ECL provision rate (excluding management judgements) of the HBOS Loans front book is applied to the back book balances to generate the back book ECL.

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

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, uses business rules and forward looking information consistent with that used in the measurement of expected credit losses. However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

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

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

1.5 Cash and cash equivalents and Bank overdrafts

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

1.6 Taxation

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

1. Accounting policies (continued)

1.6 Taxation (continued)

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

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

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

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

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

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

1.7 Provision for liabilities and charges

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

2. Critical accounting estimates and judgements in applying accounting policies

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

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

Payment Protection Insurance

At 31 December 2019, the Company carried a provision of £466,000 (2018: £2,234,000) 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 15). The total amount provided for PPI represents the Company's best estimate of the likely future cost. In estimating the likely future cost, it is necessary to form a view on the average cost of redress and the extent to which complaints will be upheld. A number of risks and uncertainties remain including processing the remaining PIRs and outstanding complaints. The cost could differ from the Company's estimates and the assumptions underpinning them, and could result in a further provision being required. These may also be impacted by any further regulatory changes and potential remediation arising from the continuous improvement of the Company's operational practices. For sensitivity analysis see note 15.

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

Recovery asset within Loans and advances
Following the charge off of Loans and advances accounts into recoveries, balances are written off and a recovery asset is created representing the estimated present value of future cash recoveries on these assets. This asset is then presented within the Loans and advances line at its net present value.

The recovery asset is valued using a discounted cash flow approach, forecasting future cash recoveries based on historical trends and discounting them back to produce a net present value at the reporting date.

The table below shows the impact on the Company's recovery asset valuation resulting from a 1 percentage point (PP) increase / decrease in the discount rate.

	31 December 2019	
Discount Rate	1pp Increase	1pp Decrease
Impact on recovery asset valuation, £'000	(36)	37

3. Net interest income

	2019 £'000	2018 £'000
Interest income		
Unsecured personal loans	**46**	171
Interest expense		
Group interest expense (see note 17)	**(34)**	(77)
	12	94

4. Net fee and commission income

	2019 £'000	2018 £'000
Fee and commission income		
Loan fees receivable	**17**	41
	17	41
Fee and commission expense		
Commission payable (see note 17)	**-**	(7)
Other fees and commission payable	**(2)**	(2)
	15	32

5. Impairment

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
For the year ended 31 December 2019				
Movement in allowance for impairment losses	-	(1)	6	5
Recoveries of advances previously written off	-	-	2,232	2,232
Other changes in credit quality	-	-	1,988	1,988
Discount Unwind	-	-	(36)	(36)
	-	**(1)**	**4,190**	**4,189**
In respect of:				
Loans and advances to customers	**-**	**(1)**	**4,190**	**4,189**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
For the year ended 31 December 2018				
Movement in allowance for impairment losses	-	28	4	32
Recoveries of advances previously written off	-	-	8,476	8,476
Other changes in credit quality	-	-	(1,215)	(1,215)
Discount Unwind	-	-	(135)	(135)
	-	**28**	**7,130**	**7,158**
In respect of:				
Loans and advances to customers	**-**	**28**	**7,130**	**7,158**

6. Other operating expenses

	2019	2018
	£'000	£'000
Other operating expenses	**41**	32

Fees payable to the Company's auditors for the audit of the financial statements of £28,800 (2018: £28,800) have been borne by a fellow group company and are recharged to the Company. Accounting and administration services are provided by a fellow group undertaking and are not recharged to the Company.

7. Staff costs

The Company did not have any employees during the year (2018: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2018: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 17).

9. Taxation

a) Analysis of charge for the year

	2019 £'000	2018 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	**834**	1,849
Current tax charge	**834**	1,849
UK deferred tax:		
- Origination and reversal of timing differences	**(2)**	(2)
Deferred tax credit (see note 12)	**(2)**	(2)
Tax charge	**832**	1,847

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

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

	2019 £'000	2018 £'000
Profit before tax	**4,383**	9,722
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**832**	1,847
Factors affecting charge:		
- Disallowed and non-taxable items	**-**	-
Tax charge on profit on ordinary activities	**832**	1,847
Effective rate	**19.00%**	19.00%

Notes to the financial statements (continued)
For the year ended 31 December 2019

10. Trade and other receivables

	2019 £'000	2018 £'000
Amounts due from group undertakings (see note 17)	**1,265**	1,207
Other debtors	**30**	30
	1,295	1,237

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

11. Loans and advances to customers

11.1 Loans and advances to customers maturity

	2019 £'000	2018 £'000
Gross Loans and advances to customers	**2,494**	641
Less: Impairment provision	**(24)**	(29)
Net Loans and advances to customers	**2,470**	612
of which:		
Due within one year	**2,470**	612
	2,470	612

11.2 Loans and advances to customers movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2018	-	509	1,621	2,130
Repayments	-	(267)	(7)	(274)
Other changes in quality	-	-	(1,215)	(1,215)
At 31 December 2018	-	242	399	641
Repayments	-	(129)	(6)	(135)
Other changes in quality	-	-	1,988	1,988
At 31 December 2019	-	113	2,381	2,494
Less: allowance for losses on loans and advances	-	(12)	(12)	(24)
Net loans and advances to customers	-	101	2,369	2,470

Included in Loans and advances to customers is a recovery asset representing the estimated valuation of loans in recoveries of £2,357,000. This estimated valuation has been revised upwards to reflect up to date information (2018: £369,000).

12. Deferred tax liability

The movement in the Deferred tax liability is as follows:

	2019 £'000	2018 £'000
Brought forward	**13**	15
Credit for the year (see note 9)	**(2)**	(2)
At 31 December	**11**	13

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

	2019 £'000	2018 £'000
Other temporary differences	**(2)**	(2)

Deferred tax liability comprises:	2019 £'000	2018 £'000
Other temporary differences	**11**	13

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19% on 1 April 2020. This intention to maintain the corporation tax rate was enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

13. Borrowed funds

	2019 £'000	2018 £'000
Amounts due to group undertakings (see note 17)	**77,897**	66,388
Bank overdraft with group undertaking (see note 17)	**5,368**	12,069
	83,265	78,457

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

14. Trade and other payables

	2019 £'000	2018 £'000
Other payables	**310**	**410**

Trade and other payables includes a balance of £244,000 (2018: £371,000) in respect of amounts due to customers.

15. Provision for liabilities and charges

	Total £'000
At 1 January 2018	9,037
Credit for the year	(2,470)
Utilised during the year	(4,333)
At 31 December 2018	2,234
Credit for the year	(208)
Utilised during the year	(1,560)
At 31 December 2019	**466**

As described in note 2, an assessment has been made of the potential future transfer of economic benefits from claims made against the Company in relation to PPI. The total amount provided for PPI represents the Company's best estimate of the likely future cost. In estimating the likely future cost, it is necessary to form a view on the average cost of redress and the extent to which complaints will be upheld. A number of risks and uncertainties remain including processing the remaining PPI Information Requests and outstanding complaints. The cost could differ from the Company's estimates and the assumptions underpinning them, and could result in a further provision being required. These may also be impacted by any further regulatory changes and potential remediation arising from the continuous improvement of the Company's operational practices.

For every one per cent increase in upheld volumes, this would result in an additional charge of approximately £5,000.

16. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
3,000,002 ordinary shares of £1 each	**3,000**	3,000

17. Related party transactions

The Company is controlled by Bank of Scotland plc. A number of transactions are entered into with related parties in the normal course of business. These include loan and fee transactions. A summary of the outstanding balances at the year end and the related income and expense for the year are set out below.

	2019 £'000	2018 £'000
Amounts due from group undertakings		
Bank of Scotland plc (see note 10)	**1,265**	1,207
Amounts due to group undertakings		
Bank of Scotland plc (see note 13)	**77,897**	66,388
Cash and cash equivalents held with group undertakings		
Bank of Scotland plc	**14,398**	12,114
Bank overdraft held with group undertaking		
Bank of Scotland plc (see note 13)	**5,368**	12,069
Interest expense		
Bank of Scotland plc (see note 3)	**34**	77

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

Commission payable of £nil (2018: £7,000) includes insurance commission income payable under the terms of the Company's agreement with Scottish Widows Limited, a fellow subsidiary of Lloyds Banking Group plc.

17. Related party transactions (continued)

Key management personnel

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

18. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk and business risk; it is not exposed to any significant 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 Bank of Scotland plc, and the ultimate parent, Lloyds Banking Group plc. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company and credit risk is carefully monitored by the Group's credit committee and credit functions.

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

18.1 Credit risk

Credit risk management

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

For loans and advances, credit risk arises from amounts lent to customers.

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

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Credit scoring: In its principal Retail portfolios, the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group Risk approval.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.

18. Financial risk management (continued)

18.1 Credit risk (continued)

Credit concentration - Loans and advances to customers loan quality

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

Loans and advances to customers - gross carrying amount

At 31 December 2019	PD range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00-4.50%	-	-	-	-
RMS 7-9	4.51-14.00%	-	113	-	**113**
RMS 10	14.01-20.00%	-	-	-	-
RMS 11-13	20.01-99.99%	-	-	-	-
RMS 14	100%	-	-	2,381	**2,381**
		-	113	2,381	**2,494**
At 31 December 2018					
RMS 1-6	0.00-4.50%	-	-	-	-
RMS 7-9	4.51-14.00%	-	242	-	242
RMS 10	14.01-20.00%	-	-	-	-
RMS 11-13	20.01-99.99%	-	-	-	-
RMS 14	100%	-	-	399	399
			242	399	641

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

Analysis of movement in the allowance for impairment losses by stage

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2017				147
Adjustment on adoption of IFRS 9				(86)
At 1 January 2018	-	39	22	61
Credit to the Statement of comprehensive income (note 5)	-	(28)	(4)	(32)
At 31 December 2018	-	**11**	**18**	**29**
Credit to the Statement of comprehensive income (note 5)	-	1	(6)	(5)
At 31 December 2019	-	**12**	**12**	**24**

In respect of:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	-	12	12	24

18. Financial risk management (continued)

18.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

Liquidity risks are managed as part of the Group by the immediate parent company, Bank of Scotland plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

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

18.3 Interest rate risk

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

Interest rate risk - sensitivity analysis

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

If the Bank of England base rate increased by 0.25% and all other variables remain constant this would increase Interest expense by £187,000 (2018: £183,000) and accordingly decrease Interest expense by £187,000 (2018: £183,000) if the Bank of England base rate decreased by the same amount.

18.4 Business risk

Business risk is the risk that the Company's earnings are adversely impacted by a suboptimal business strategy or the suboptimal implementation of the strategy. In assessing business risk consideration is given to internal and external factors such as products, funding, resource capability and economic, political and regulatory factors.

Through regular reports and oversight business risk is managed by corrective actions to plans and reductions in exposures where necessary.

18.5 Financial strategy

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

18.6 Fair values of financial assets and liabilities

Financial instruments include financial assets and financial liabilities. The fair value ("FV") 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. The aggregated carrying value of Loans and advances to customers is considered to be an approximation of the fair value.

A number of the inputs required to estimate FV are unobservable. Such inputs include estimated future cash flows (including interest at contractual rates), discount rates and relevant credit losses. The fair value is classified as level 3 in the fair value hierarchy due to the significant unobservable inputs used in the valuation.

The fair value of all other financial assets and liabilities are equal to their carrying value and classified as level 2 in the fair value hierarchy.

19. 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.

20. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2018: £nil).

21. Post balance sheet events

In March 2020 the World Health Organisation declared the outbreak of Covid-19 a global pandemic. The outbreak and the action taken by governments across the world are causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event given the limited number of cases reported as at 31 December 2019. In view of its currently evolving nature, the directors continue to monitor the developments closely. Given the size and quality of the remaining loan book, an initial assessment deemed that the pandemic would have an immaterial impact on impairment.

Notes to the financial statements (continued)

For the year ended 31 December 2019

22. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2019 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements).	Annual periods beginning on or after 1 January 2020

The full impact of this pronouncement is being assessed by the Company. However, the initial view is that it is 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.

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Statement of comprehensive income, the Cash flow statement, and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

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

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

Reporting on other information

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

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

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

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

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

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

Daniel Pearce

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

1 October 2020