Automobile Association Personal Finance Limited

Annual report and financial statements
for the year ended 31 December 2022

Registered office

Trinity Road
Halifax
West Yorkshire
HX1 2RG

Registered number

01772586

Current directors

A B Ambani
H Gogoi

Company Secretary

A E Mulholland

Member of Lloyds Banking Group plc

Directors' report
For the year ended 31 December 2022

The directors present their report and the audited financial statements of Automobile Association Personal Finance Limited ("the Company") for the year ended 31 December 2022.

General information

The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is Trinity Road, Halifax, West Yorkshire, HX1 2RG.

The Company provided finance products and associated services.

A capital contribution of £69,289,000 was granted in June 2021 by Bank of Scotland plc, the parent company, to return the entity to a solvent position.

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

The Company qualifies as a small company in accordance with sections 381-382 of the Companies Act 2006 (the "Act"). The Directors' report has therefore been prepared taking into consideration the entitlement to small companies exemptions provided in sections 414B (as incorporated into the Act by the Strategic Report and Directors' Report Regulations 2013) and 415A of the Act.

Review of business

The results of the Company show a Profit before tax of £166,000 (2021: Loss before tax of £1,877,000) for the year as set out in the Statement of comprehensive income on page 3.

The Company has Total equity of £1,863,000 (2021: £1,729,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 16 to the financial statements.

Other significant uncertainties are discussed below in more detail.

Long-term impact of the United Kingdom's exit from the European Union

Uncertainties in respect of the medium to long-term implications of the United Kingdom's ("UK") exit from the European Union ("EU") on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. The Directors believe that there will continue to be limited impact on the Company.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation ("NATO") and Russia and caused sanctions to be imposed. This has had a significant adverse economic effect on financial markets and on energy costs and may also result in increased cyber-attacks and an increase in costs associated with such cyber-attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition, or prospects. The Group will monitor the situation and risks to the business. The Directors believe that there will be limited impact on the Company.

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 writing new business in September 2009. Now that the remaining customer agreements have been terminated, the expectation is that the Company will be liquidated at the earliest opportunity.

Dividends

No dividends were paid or proposed during the year ended 31 December 2022 (2021: £nil).

Going concern

As the directors intend to liquidate the Company at the earliest opportunity, the accounts have been prepared on a basis other than going concern.

Directors' report (continued)

For the year ended 31 December 2022

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 financial statements:

E J Corfield	(resigned 9 January 2023)
H Gogoi	(appointed 9 January 2023)
I S Perez	(resigned 24 February 2023)
A B Ambani	(appointed 1 March 2023)

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity which constitutes '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 the Director who joined 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 had the benefit of this deed of indemnity during that period of service. The deed for existing Directors is 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' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the Company's ability to continue as a going concern.

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

Directors' confirmations

In accordance with Section 418 of the Companies Act 2006, 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.

Auditors and disclosure of information to auditors

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

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

ABAmbani

A B Ambani
Director

16 June 2023

Statement of comprehensive income

For the year ended 31 December 2022

	Note	**2022 £'000**	2021 £'000
Interest income	3	-	218
Fee and commission income	4	-	130
Payment protection insurance credit	13	-	58
Impairment credit/(charge)	5	**168**	(2,251)
Other operating expenses	6	**(2)**	(32)
Profit/(loss) before tax		**166**	(1,877)
Taxation	9	**(32)**	354
Profit/(loss) for the year, being total comprehensive income/(expense)		**134**	(1,523)

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

Balance sheet

As at 31 December 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Cash and cash equivalents		**2,177**	1,645
Loans and advances to customers	10	**-**	11
Current tax asset	9	**-**	354
Total assets		**2,177**	2,010
LIABILITIES			
Trade and other payables	12	**270**	269
Current tax liability	9	**33**	-
Deferred tax liability	11	**11**	12
Total liabilities		**314**	281
EQUITY			
Share capital	14	**3,000**	3,000
Capital contribution reserve		**69,289**	69,289
Accumulated losses		**(70,426)**	(70,560)
Total equity		**1,863**	1,729
Total equity and liabilities		**2,177**	2,010

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:

ABAmbani

A B Ambani
Director

16 June 2023

Statement of changes in equity

For the year ended 31 December 2022

	Share capital	Capital Contribution reserve	Accumulated losses	Total equity
	£'000	£'000	£'000	£'000
At 1 January 2021	**3,000**	**-**	**(69,037)**	**(66,037)**
Loss for the year, being total comprehensive expense	-	-	(1,523)	(1,523)
Capital contribution	-	69,289	-	69,289
At 31 December 2021	**3,000**	**69,289**	**(70,560)**	**1,729**
Profit for the year, being total comprehensive income	-	-	134	134
At 31 December 2022	**3,000**	**69,289**	**(70,426)**	**1,863**

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

Cash flow statement

For the year ended 31 December 2022

	2022 £'000	2021 £'000
Cash flows generated from operating activities		
Profit/(loss) before tax	**166**	(1,877)
Adjustments for:		
- Decrease in Provision for liabilities and charges	**-**	(151)
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**11**	3,132
- Net decrease in Trade and other receivables	**-**	30
- Net increase/(decrease) in Trade and other payables	**1**	(65)
Cash generated from operations	**178**	1,069
Taxation received/(paid)	**354**	(161)
Net cash generated from operating activities	**532**	908
Cash flows used in financing activities		
Decrease in net borrowings with group undertakings	**-**	(80,300)
Capital contribution	**-**	69,289
Net cash used in financing activities	**-**	(11,011)
Change in Cash and cash equivalents	**532**	(10,103)
Cash and cash equivalents at beginning of year	**1,645**	11,748
Cash and cash equivalents at end of year	**2,177**	1,645

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 2022

1. Accounting policies

1.1 Basis of preparation

Automobile Association Personal Finance Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The registered office can be found on the front page and its principal activity is included in the Directors report.

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.

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have also been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs comprise accounting standards prefixed IFRS issued by the International Accounting Standards Board and those prefixed IAS issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRSIC") and its predecessor body.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The following new IFRS pronouncement relevant to the Company and has been adopted in these financial statements:

- Minor amendments to other accounting standards: The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

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

The financial statements have been prepared on a basis other than going concern as the directors expect to liquidate the Company at the earliest opportunity. There would be no difference to asset values between a going concern basis and a basis other than going concern under the historical cost convention.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

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 Loans and advances to customers and Cash and cash equivalents. Financial liabilities comprise 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.

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

1.4 Impairment

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses ("ECL"), certain direct losses and recoveries of amounts previously written off. 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 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 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 Statement of comprehensive income. 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 comprise balances with less than three months' maturity.

1.6 Taxation, including deferred income taxes

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.

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 His Majesty's Revenue and Customs (HMRC) or other relevant 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. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

1. Accounting policies (continued)

1.6 Taxation, including deferred income taxes (continued)

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.

1.8 Capital contribution reserve

During 2021 the Company's immediate parent company, Bank of Scotland plc, agreed to unconditionally and irrevocably release the Company from its obligations to repay the sum of £69,289,000 in respect of amounts due by the Company. Capital contributions are considered realised profits for distributable reserves purposes when received as a qualifying consideration.

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.

3. Interest income

	2022	2021
	£'000	£'000
Interest income		
Unsecured personal loans	-	218
	-	218

4. Fee and commission income

	2022	2021
	£'000	£'000
Fee and commission income		
Loan fees receivable	-	80
Commission receivable	-	50
	-	130

Notes to the financial statements (continued)
For the year ended 31 December 2022

5. Impairment

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
For the year ended 31 December 2022				
Other changes in credit quality	**-**	**(5)**	**172**	**167**
In respect of:				
Loans and advances to customers	**-**	**(5)**	**172**	**167**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
For the year ended 31 December 2021				
Movement in allowance for impairment losses	-	11	-	11
Recoveries of advances previously written off	-	-	935	935
Other changes in credit quality	-	-	(2,979)	(2,979)
Discount unwind	-	-	(218)	(218)
	-	11	(2,262)	(2,251)
In respect of:				
Loans and advances to customers	-	11	(2,262)	(2,251)

6. Other operating expenses

	2022 £'000	2021 £'000
Other operating expenses	**2**	32

Fees payable to the Company's auditors for the audit of the financial statements of £33,000 (2021: £32,000) have been borne by a fellow group company and are not 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 (2021: none).

8. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2021: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group (see also note 15).

Notes to the financial statements (continued)

For the year ended 31 December 2022

9. Taxation

a) Analysis of charge/(credit) for the year

	2022 £'000	2021 £'000
UK corporation tax:		
- Current tax on taxable profit/(loss) for the year	**33**	(355)
UK deferred tax:		
- Origination and reversal of timing differences	**(1)**	(1)
- *Due to change in UK corporation tax rate*	**-**	2
Deferred tax (credit)/charge (see note 11)	**(1)**	1
Tax charge/(credit)	**32**	(354)

Corporation tax is calculated at a rate of 19.00% (2021: 19.00%) of the taxable profit/(loss) for the year.

b) Factors affecting the tax charge/(credit) for the year

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

	2022 £'000	2021 £'000
Profit/(loss) before tax	**166**	(1,877)
Tax charge/(credit) thereon at UK corporation tax rate of 19.00% (2021: 19.00%)	**32**	(357)
Factors affecting charge/(credit):		
- Due to change in UK corporation tax rate	**-**	3
Tax charge/(credit) on profit/(loss)	**32**	(354)
Effective rate	**19.00%**	18.87%

10. Loans and advances to customers

10.1 Loans and advances to customers maturity

	2022 £'000	2021 £'000
Gross Loans and advances to customers	**-**	12
Less: Impairment provision	**-**	(1)
Net Loans and advances to customers	**-**	11

All of the above Loans and advances to customers are due within one year of the reporting date.

Notes to the financial statements (continued)
For the year ended 31 December 2022

10. Loans and advances to customers (continued)

10.2 Loans and advances to customers movement over time

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	-	173	2,982	3,155
Repayments	-	(164)	-	(164)
Other changes in quality	-	-	(2,979)	(2,979)
At 31 December 2021	-	9	3	12
Repayments	-	**(4)**	**(175)**	**(179)**
Financial assets that have been written off during the year	-	**(5)**	-	**(5)**
Recoveries of prior advances written off	-	-	**172**	**172**
At 31 December 2022	-	-	-	-
Less: allowance for losses on loans and advances	-	-	-	-
Net loans and advances to customers	-	-	-	-

Included in Loans and advances to customers is a recovery asset representing the estimated valuation of loans in recoveries of £nil (2021: £3,000).

11. Deferred tax liability

The movement in the Deferred tax liability is as follows:

	2022 £'000	2021 £'000
Brought forward	**12**	11
(Credit)/charge for the year (see note 9)	**(1)**	1
At 31 December	**11**	12

The deferred tax (credit)/charge in the period comprises the following temporary differences:

	2022 £'000	2021 £'000
Other temporary differences	**(1)**	1

Deferred tax liability comprises:	**2022 £'000**	2021 £'000
Other temporary differences	**11**	12

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

Notes to the financial statements (continued)
For the year ended 31 December 2022

12. Trade and other payables

	2022 £'000	2021 £'000
Other payables	**270**	269

Trade and other payables includes a balance of £264,000 (2021: £264,000) in respect of amounts due to customers.

13. Provision for liabilities and charges

	Total £'000
At 1 January 2021	151
Credit for the year	(58)
Utilised during the year	(93)
At 31 December 2021	-

There was no provision activity during 2022.

As at 31 December 2022, the Company carried a provision of £nil (2021: £nil) against the cost of making redress payments to customers and the related administration costs in relation to the misselling of PPI.

14. Share capital

	2022 £'000	2021 £'000
Allotted, issued and fully paid		
3,000,002 (2021: £3,000,002) ordinary shares of £1 each	**3,000**	3,000

15. Related party transactions

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

	2022 £'000	2021 £'000
Cash and cash equivalents held with group undertakings		
Bank of Scotland plc	**2,177**	1,645

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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2022

16. Financial risk management

The Company's operations expose it to credit risk, liquidity risk and business risk; it is not exposed to any significant market risk, interest rate 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.

16.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Cash and cash equivalents and Amounts due from group undertakings is not considered significant as held with other parties within the Group.

Maximum credit exposure

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	2022	2021
	£'000	£'000
Cash and cash equivalents	**2,177**	1,645

16.2 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.

16.3 Financial strategy

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

16.4 Fair values of financial assets and liabilities

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The directors consider that there are no significant differences between the carrying amounts shown in the Balance sheet and the fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2022

17. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets. The Company's parent can also request the Company to pay dividends or make a capital contribution in order to maintain or adjust the Group's capital structure.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. Total equity comprises Share capital of £3,000,002 (2021: £3,000,002), Capital contribution reserve of £69,289,000 (2021: £69,289,000) and Accumulated losses of £70,426,000 (2021: £70,560,000). The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

18. Contingent liabilities and capital commitments

There were no contingent liabilities or contracted capital commitments at the Balance sheet date (2021: £nil).

19. Post balance sheet events

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

20. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2022 and has 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 effective 1 January 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors).	Annual periods beginning on or after 1 January 2023.

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

21. Ultimate parent undertaking and controlling party

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Automobile Association Personal Finance Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Financial statement prepared other than on a going concern basis

We draw attention to note 1.1 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the Company's industry and its control environment and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's business sector.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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

Report on other legal and regulatory requirements

Opinions on other matters 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 the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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

P Cawley

Paul Cowley CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
19 June 2023