MBNA Limited

Report and Accounts

2019

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

The directors present their Strategic report of MBNA Limited (the "Company") for the year ended 31 December 2019.

Business overview

The principal activity of the Company is credit card lending in the United Kingdom ("UK").

In March 2019 the Company completed the largest credit card integration program in the UK that saw all of its customer records migrate successfully over to its parent systems. To support this, the Company stepped away from proactive acquisition channels in the first quarter, which had an impact on balances for the period. Post integration the Company is now able to capitalise on the synergies as part of a larger portfolio.

The credit card market as defined by the Bank of England ("BoE") reported flat year on year growth to December 2019 against 2.8 per cent December 2018 and 4.8 per cent December 2017. Within this changing market environment and coupled with the migration impact in Q1 the Company's Gross Loans and advances to customers decreased by £466.0 million (2018: increase of £393.1 million), ending the year on £7,945.9 million (2018: £8,411.9 million). The Company's competitive product offerings have resulted in 320,000 new accounts being acquired in 2019 (2018: 332,000).

The Company's results show a loss for the financial year of £0.3 million (2018: £364.3 million profit) driven mainly as a result of an increase in Payment Protection Insurance ("PPI") costs of £362.7 million (2018: £100.0 million) during the year (see note 23).

Future outlook

The directors continue to support the Lloyds Banking Group plc (the "Group") strategy focused on maximising shareholder returns and customer offering across the combined credit card business. The key areas of the Group strategy focus on delivering a leading customer experience when using the Company's products and support services, whilst maximising the Group's capabilities by seeking to deepen its relationship with its prime customer base, simplifying how customers engage with products and services and keeping pace with regulatory change. This includes a focus on digitising the business and its operating activities as the Group continues to improve digital journeys for customers.

The directors believe the Company has achieved a satisfactory level of returns and expects to continue to do so in the foreseeable future.

There are risks arising from the outbreak of Covid-19 which has occurred since the balance sheet date. In view of its currently evolving nature, the directors continue to monitor the environment closely and based on current expectations, the impairment provision for the Company was increased by net £202 million during the first half of 2020.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Retail Division in its parent LBG. While these risks are not managed separately for the Company, the Company is a main trading company of the LBG Retail Division. The Retail Division is a portfolio of businesses and operates in a number of specialist markets providing both consumer lending and contract hire to personal and corporate customers. The main principle of credit risk for the Company is in relation to customer loans. Internal risk teams continually monitor the loans ensuring compliance and that customers are being treated fairly. Liquidity risk and Interest rate risk is managed and monitored by Internal Risk teams. Further details of these risks and the risk management policy are contained in note 27 to the financial statements.

The rapid pace and scale of measures to contain a major health issue such as the Covid-19 pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the current substantial impact to the UK economy, which may be temporary, but depending on the severity could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail customers of Lloyds Banking Group plc and as a result have a material adverse effect on the Lloyds Banking Group plc's results of operations, financial conditions or prospects.

As a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support of colleagues and customers.

Strategic report (continued)

For the year ended 31 December 2019

Key performance indicators ("KPIs")

The MBNA business is part of the Lloyds Banking Group Retail division, and the key performance indicators for MBNA are aligned with those of the wider Retail division and the Group. These are aligned under the Group's strategic objective of Helping Britain prosper.

MBNA's key objective is to retain existing and attract new customers by treating them fairly, providing a high quality product offering and exceptional customer service. The level of existing and new accounts, as well as overall lending balances, are seen as important measures of success.

Credit risk management, aligned with helping customers ensure they have a product suitable for their needs, is fundamental to the success of the business. Impairment losses and interest income are considered to be relevant measures in relation to this.

The key performance metrics considered to be KPIs for the company are listed below:

KPI	2019	2018	Analysis
Gross Loans and advances to customers (£ million)	*7,946*	*8,412*	*6% down in 2019 mainly due to the impacts of the Company stepping away from proactive acquisition as it completed the integration to its parent platform.*
New accounts (thousands)	*320*	*332*	*Growth in new accounts acquired has fallen compared with 2018, due mainly from the impacts being out of market in first quarter of 2019 to support the integration.*
Active customer accounts at 31 December (thousands)	*2,333*	*2,238*	*4% uplift in active customer accounts reflecting strength of MBNA brand.*
Impairment loss allowance on loans and advances (£ million)	*245*	*219*	*Asset quality remained high. Allowance for impairment losses is broadly in line with the prior period, with the small increase primarily driven by impairment modelling enhancements in 2019.*
Net interest income (£ million)	*789*	*753*	*5% increase driven mainly as a result of the impact of harmonising customer rates with existing Lloyds credit card product rates across the different spend types, this was then marginally offset by increased funding costs.*

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of Engagement with Employees and Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the following statement also provides details on how the Directors have engaged with, and had regard to, the interest of key stakeholders and employees. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant. Information in relation to employees is included in the Directors report.

Strategic report (continued)

For the year ended 31 December 2019

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions and is focused on treating customers fairly. The directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer lending, to understand areas where improvements can be made. Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries and uses this insight along with a range of internal and external research to ensure on going improvement in customer experience. In 2019 as part of the harmonisation of the Brand and Company into its parent LBG, MBNA management specifically undertook a price harmonisation exercise to align customer rates across a number of spend transaction types, making it simpler for a customer to understand the rate they would be charged.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Retail Division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned, where required, to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included in the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Communities and the Environment

MBNA continues to operate its own separate foundation that supports local communities in and around its main base in Chester. In addition it has aligned and supports Lloyds Banking Group plc's related initiatives, including Helping Britain Prosper by actively managing its customer lending. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

Regulators

The Company provides bi-annual updates on its current status to relevant regulators including disclosures on its loan profile and capital position (see note 28). During 2019 the Company's directors had meetings with the regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The status of regulatory relationships, continue to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of Lloyds Banking Group plc, including that of the Company, to managing regulatory change is detailed further on page 11 of the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

The directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of Lloyds Banking Group plc, is to effectively manage its remaining customer base to generate sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct.

On this basis, during 2019, the MBNA board made a number of changes, firstly in its directors, to enable better reflection on stakeholder feedback by increasing the level of diversity of experience on the board and secondly, the implementation of the SMCR 3 regime to increase financial control and more transparent reporting.

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

I S Perez
Director

3 September 2020

Directors' report

For the year ended 31 December 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

General information

The Company is a private company, limited by shares, incorporated, registered and domiciled in England and Wales (registered number: 02783251).

The Company is funded entirely by other companies within the Group.

Employees

The Company is committed to ensuring that employees feel valued and empowered to thrive in a truly inclusive business. Employees are offered a competitive and fair reward package that supports its aims as a responsible business. The Company's employees have the ability to join the Group's trade unions, Accord and Unite, which negotiate and consult on behalf of Group employees.

The Company aims to appoint the best person available into any role and to attract talented people from diverse backgrounds. Applications from people with a disability are encouraged and given full and fair consideration. The Company is unbiased in the way it approaches assessment, appointment, training and promotion. A wide range of programmes are available to support colleagues who become disabled or develop a long-term health condition during employment.

Dividends

A dividend of £490.9 million (2018: £215.0 million), representing a dividend of £24.54 per share, was declared and paid during the year.

Going concern

The financial statements have been prepared on a going concern basis. There is a net asset position of £199.7 million (2018: £690.9 million). The Company does not have material external debt and is funded by other companies within the Lloyds Banking Group.

It was further noted that a letter of support had been issued by Lloyds Banking Group plc, dated 19 February 2020, confirming that Lloyds Banking Group plc will honour the current letter of support to 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.

Registered office

Cawley House
Chester Business Park
Chester
Cheshire
CH4 9FB

Directors

The current directors of the Company are shown below:

E J Corfield
Dr. S J Kenyon (Chairman)
V A Murden
I S Perez

The following changes have taken place between the beginning of the reporting period and the approval of the Report and Accounts:

P A Gordon	(resigned 17 September 2019)
Dr. S J Kenyon	(appointed 9 December 2019)
V A Murden	(appointed 17 September 2019)

Directors' report (continued)

For the year ended 31 December 2019

Company Secretary

The current Company Secretary is shown below:

A E Mulholland

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on page 1.

Statement of Engagement with Employees and Other Stakeholders

A statement of Engagement with Employees and other Stakeholders is included in the Strategic report on page 2.

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), for the year ended 31 December 2019, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"), which are available at frc.org.uk. The following section explains the Company’s approach to corporate governance, and its application of the Principles.

Principle One – Purpose and Leadership

The board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company’s strategy, within the wider strategy of Lloyds Banking Group plc, and overseeing delivery against it. The Company’s strategy is discussed further in the Strategic Report on pages 1 to 3. The board also assumes responsibilities for the management of the culture, values and wider standards of the Company, within the equivalent standards set by the Group within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Company’s approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the board plays a role in establishing, promoting and monitoring the Company’s corporate culture and values, aligning to the culture and values of the Group, which are discussed in more detail on pages 14 to 35 of the Group annual report and accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Principle Two – Board Composition

The Company is led by a board comprising a Chairman and Executive Directors, further details of the directors can be found above. The board considers its composition regularly, and is committed to ensuring it has the right balance of skills and experience. The board considers that its current size and composition is appropriate to the Company's circumstances. New appointments are made on merit, taking account of the specific skills, experience and knowledge needed to ensure a rounded board and the benefits each candidate can bring to the board overall. There are a range of initiatives within the Group to help provide mentoring and development opportunities for female and BAME executives, and to ensure unbiased career progression opportunities.

The board undertakes an annual review of its effectiveness, which provides an opportunity to consider ways of identifying greater efficiencies, ways to maximise strengths and highlights areas of further development. The effectiveness review is commissioned by the board, assisted by the Company Secretary.

Principle Three – Director Responsibilities

The directors assume ultimate responsibility for the affairs of the Company, and along with senior management are committed to maintaining a robust control framework as the foundation for the delivery of good governance, including the effective management of delegation through related Group processes. Policies are also in place in relation to potential conflicts of interest which may arise.

The board does not operate any committees. The Chairman of the board assumes responsibility with support from the Company Secretary for the provision to each meeting of accurate and timely information.

Approach to Corporate Governance (continued)

Principle Four – Opportunity and Risk

Strategic opportunities which may arise are considered in the first instance by the board of the Group, as part of the Group board's role in considering such opportunities relevant to itself and its subsidiaries. Any opportunity which is specifically relevant to the Company is subsequently considered by the Company board.

The board is responsible for the long term sustainable success of the Company, generating value for its shareholder and ensuring a positive contribution to society. Key to this is the Company's culture, purpose, values and strategy, as discussed under Principle One, which are closely aligned to those of the Group.

Strong risk management is central to the strategy of the Company, which along with a robust risk control framework acts as the foundation for the delivery of effective risk management. The board agrees the Company's risk appetite, within the wider risk appetite of the Group, and ensures the Company manages risk effectively through delegation within the management hierarchy. Board level engagement, coupled with the direct involvement of management in risk issues ensures that escalated issues are promptly addressed and remediation plans are initiated where required. The Company's risk appetite, principles, policies, procedures, controls and reporting are managed in conjunction with those of Group, and as such are regularly reviewed to ensure they remain fully in line with regulations, law, corporate governance and industry best practice. The Company's principle risks are discussed further within note 27.

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain of its subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy, as relevant to the Company and its employees.

Principle Six – Stakeholders

The Company, as part of the Group, operates under Group's wider Responsible Business approach, which acknowledges that the Company has a responsibility to help address the economic, social and environmental challenges which the UK faces, and as part of this understand the needs of the Company's external stakeholders, including in the development and implementation of strategy. Central to this is Group's Helping Britain Prosper plan, in which the Company participates, which seeks to gather stakeholder views through a dedicated materiality study, as overseen by Group's board level Responsible Business Committee. Further information in respect of Group's Helping Britain Prosper plan is available on the Lloyds Banking Group plc website.

In 2019, the Responsible Business Committee determined that the Company and the Group continued to demonstrate this responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers. The approach of the board in respect of its non colleague stakeholders is described in the separate statement made in compliance with the Regulations, on page 3, and approach in respect of colleague engagement is described in the separate statement made in compliance with the Regulations on page 2.

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 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 indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. 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' report (continued)

For the year ended 31 December 2019

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.

The directors are responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

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

I S Perez
Director

3 September 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Interest income		**872,204**	818,554
Interest expense		**(82,991)**	(65,979)
Net interest income	3	**789,213**	752,575
Fee and commission income		**45,014**	52,580
Fee and commission expense		**(34,062)**	(24,532)
Net fee and commission income	4	**10,952**	28,048
Other income	5	**146**	52,745
Income from investments	6	**40**	140,296
Regulatory provisions - charge for the year	23	**(336,821)**	(91,425)
Impairment losses on Loans and advances to customers	7	**(245,549)**	(222,531)
Impairment losses on Investment in subsidiary undertakings	17	**(2,432)**	(12,300)
Other operating expenses	8	**(140,247)**	(218,714)
Profit before tax		**75,302**	428,694
Taxation	11	**(50,916)**	(56,951)
Profit for the year from continuing operations		**24,386**	371,743
Discontinued operations			
Loss for the year from discontinued operations	13	**(24,643)**	(7,480)
(Loss)/profit for the year, being total comprehensive (expense)/income		**(257)**	364,263

Balance sheet

As at 31 December 2019

	Note	**2019 £'000**	2018 £'000
ASSETS			
Cash and cash equivalents	14	**44,549**	33,486
Trade and other receivables	15	**50,940**	24,828
Loans and advances to customers	16	**7,700,598**	8,192,876
Investment in subsidiary undertakings	17	**2,096**	4,528
Property, plant and equipment	18	**3,714**	3,937
Intangible assets	19	**1,919**	4,071
Deferred tax asset	20	**23,794**	25,607
Total assets		**7,827,610**	8,289,333
LIABILITIES			
Borrowed funds	21	**7,154,096**	7,221,748
Trade and other payables	22	**85,347**	68,147
Provision for liabilities and charges	23	**332,605**	273,264
Current tax liability		**55,819**	35,325
Total liabilities		**7,627,867**	7,598,484
EQUITY			
Share capital	24	**200,000**	200,000
(Accumulated losses) / Retained earnings		**(257)**	490,849
Total equity		**199,743**	690,849
Total equity and liabilities		**7,827,610**	8,289,333

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

3 September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Retained earnings / (Accumulated losses) £'000	Total equity £'000
At 1 January 2018	**200,000**	**341,586**	**541,586**
Total comprehensive income for the year	-	364,263	364,263
Dividend paid to equity holders	-	(215,000)	(215,000)
At 31 December 2018	**200,000**	**490,849**	**690,849**
Total comprehensive expense for the year	-	(257)	(257)
Dividend paid to equity holders	-	(490,849)	(490,849)
At 31 December 2019	**200,000**	**(257)**	**199,743**

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 generated from/(used in) operating activities		
Profit before tax	**75,302**	428,694
Adjustments for:		
- Loss generated from discontinued operations before tax	**(25,934)**	(8,716)
- Net fair value gains	**9**	(39)
- Foreign exchange generated by operating activities	**(73)**	(143)
- Dividend income	**(40)**	(140,296)
- Gain on valuation of investments	**-**	(6,616)
- Interest expense	**82,991**	65,979
- Depreciation of Property, plant and equipment	**3,306**	4,539
- Profit on sale of Property, plant and equipment	**-**	(45,628)
- Increase/(decrease) in Provision for liabilities and charges	**59,341**	(100,246)
- Amortisation of intangible assets	**2,152**	3,315
- Profit on disposal of Investment in subsidiary undertakings	**-**	(23)
- Impairment of Investment in subsidiary undertakings	**2,432**	12,300
Changes in operating assets and liabilities:		
- Net decrease/(increase) in Loans and advances to customers	**492,278**	(302,196)
- Net (increase) in Other debtors and Other trade receivables	**(6,701)**	(13,142)
- Net increase/(decrease) in Trade and other payables	**17,200**	(54,491)
Cash generated from/(used in) operations	**702,263**	(156,709)
Tax paid	**(27,318)**	(71,390)
Net cash generated from/(used in) operating activities	**674,945**	(228,099)
Cash flows (used in)/generated from investing activities		
Dividend income	**40**	140,296
Proceeds on sale of Property, plant and equipment	**-**	66,285
Purchase of Property, plant and equipment	**(3,083)**	(2,552)
Proceeds on sale of equity investments	**-**	24,468
Proceeds on sale of Investment in subsidiary undertakings	**-**	1,123
Net cash (used in)/generated from investing activities	**(3,043)**	229,620
Cash flows (used in)/generated from financing activities		
Dividends paid	**(490,849)**	(215,000)
(Increase in)/Proceeds from net borrowings	**(86,999)**	362,500
Interest paid	**(82,991)**	(65,979)
Net cash (used in)/generated from financing activities	**(660,839)**	81,521
Change in Cash and cash equivalents	**11,063**	83,042
Cash and cash equivalents/(net bank overdraft) at beginning of year	**33,486**	(49,556)
Cash and cash equivalents at end of year	**44,549**	33,486

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.

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

(i) IFRS 16 'Leases': Replaces IAS 17 Leases and addresses the classification and measurement of all leases. The Company's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases. For all assets the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis.

(ii) Amendments to other accounting standards: the IASB has issued a number of minor amendments to IFRSs effective 1 January 2019 (including IAS 19 Employee Benefits, IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). The changes to IAS 12 Income Taxes will result in the presentation of the tax benefit of distributions on other equity instruments in being recognised in the Statement of comprehensive income; these impacts are currently recognised directly in equity. Comparative information will be restated.

Neither of these pronouncements has had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 31. No standards have been adopted early.

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemptions under IFRS 10 Consolidated Financial Statements and Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent company.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Interest income and expense

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 group of similar financial assets is considered to be in default, 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 are recognised in the Statement of comprehensive income on an accruals basis when the service has been provided.

Interchange income, included in Loan fees receivable (note 4), represents merchant fees for credit card transactions processed through the interchange networks, net of the fee retained by the merchant's processing bank. Interchange income is earned at the time of purchase.

1. Accounting policies (continued)

1.2 Income recognition (continued)

Other income

Other income includes cash recoveries received from debtors previously underwritten in other group companies which are accounted for on an accruals basis, fair value gains or losses on financial assets held at fair value through profit or loss on remeasurement, foreign exchange currency gains or losses on retranslation as discussed below in Valuation of foreign currency, together with any profits or losses from the sale of the Company's Property, plant and equipment and Investments in subsidiary undertakings.

Valuation of foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the Balance sheet date. All differences are taken to the Statement of comprehensive income in Other income.

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings, Loans and advances to customers, Trade and other receivables and Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings and Trade and other payables. Amounts due from group undertakings is assessed at the reporting date for impairment on a forward looking basis and where appropriate an expected credit loss (''ECL'') is recognised on reasonable and supportive information.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company’s business model for managing the financial assets and whether the cashflows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Company’s operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Company elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss but fair value gains and losses are not subsequently reclassified to profit or loss following derecognition of the investment.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Financial instruments measured at amortised cost

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest. Financial assets measured at amortised cost are Loans and advances to customers, Cash and cash equivalents, Amounts due from group undertakings and Trade and other receivables. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value.

1. Accounting policies (continued)

1.3 Financial assets and liabilities (continued)

Financial instruments measured at fair value through other comprehensive income

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the Balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the Statement of comprehensive income. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Statement of comprehensive income other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. The company recognises a charge for expected credit losses in the Statement of comprehensive income. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset, it is reflected in other comprehensive income.

Financial instruments measured at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. All derivatives are carried at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised in the Balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the Statement of comprehensive income within net trading income. Financial liabilities measured at fair value through profit or loss are recognised in the Balance sheet at their fair value. Fair value gains and losses are recognised in the Statement of comprehensive income in the period in which they occur, except that gains and losses attributable to changes in own credit risk are recognised in other comprehensive income.

1.4 Impairment

Impairment of financial assets

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses 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 by using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some undrawn loan commitments) 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. 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. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

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.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an on-going customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer in default (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

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. Accounting policies (continued)

1.5 Property, plant and equipment

Property, plant and equipment is included at historical purchase cost less depreciation and any impairment allowance. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The value of land is not depreciated. Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over their estimated useful lives, as follows:

Land and buildings: Freehold property	- between 20 and 40 years.
Land and buildings: Freehold improvements	- between 8 and 10 years.
Office and other equipment	- between 2 and 8 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, it is written down immediately. The recoverable amount is the higher of the asset's fair value, less costs to sell, and its value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Other operating income or charges in the Statement of comprehensive income.

1.6 Cash and cash equivalents

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents and Bank overdrafts comprise balances with less than three months' maturity.

1.7 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 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 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.8 Investments

Investment in subsidiary undertakings

Investment in subsidiary undertakings are stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings are reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of comprehensive income for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use.

1.9 Retirement benefit obligations

Defined contribution

A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The Company receives recharges in respect of a defined contribution plan operated by the Group based on the level of contributions paid in relation to staff providing services to this Company. These are charged to the Statement of comprehensive income in the period in which they fall due.

1.10 Share based payments

The Company's ultimate parent company operates a number of group wide, equity settled, share based compensation plans. The Company's share of the value of employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest. The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model. The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest.

At each Balance sheet date, this estimate is reassessed and if necessary revised. Any revision of the original estimate is recognised in the Statement of comprehensive income over the remaining vesting period.

Full details of these schemes can be found in the 2019 Annual Report and Accounts of the Group.

1.11 Intangible assets

Purchased credit card relationships ("PCCR") are initially recorded at cost, being the premium on the consideration paid plus any incidental costs incurred as part of the acquisition of credit card loans and corresponding customer relationships. They are amortised on a sum of digits basis, based upon a 15 year life.

Intangible fixed assets are subject to impairment review, any resulting impairment charge is taken to the Statement of comprehensive income when identified.

Expenses incurred for software product development are expensed as incurred unless the technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the Company has an intention and ability to complete and use or sell the software and the costs can be measured reliably. Such expenses and advances paid for software development which is not yet ready for the intended use as at the Balance sheet date are recognised as Intangible assets. Once they are completed for the intended use, the Intangible assets are carried at historical costs less accumulated amortisation, and are amortised over their useful lives using the straight line method.

1.12 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. This includes management's best estimate of amounts payable for customer redress relating to PPI and any other regulatory matters. All assumptions are frequently assessed and the provision recorded represents the current estimated cost to the Company. Provisions are charged to the Statement of comprehensive income, further detail is provided in note 23.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote (see note 29).

1. Accounting policies (continued)

1.13 Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short term nature of the amounts included within other financial liabilities.

1.14 Borrowed funds

Borrowed funds are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

1.15 Dividends

Dividend income is recognised when the right to receive payment is established.

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

2. Critical accounting estimates and judgements in applying accounting policies

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

Critical accounting estimates

The following are critical accounting estimates 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 £297.6 million (2018: £191.1 million) against the cost of making redress payments to customers and the related administration costs in relation to the misselling of Payment Protection Insurance (see note 23).

As a result of the unprecedented volume of claims received in the run up to the 29 August 2019 FCA deadline for making claims, the Group and the Company are in the process of assessing the claims received. Until this process is complete, the determination of an estimate of the amount of provision, respresenting management's best estimate of the cost of settling, requires the application of assumptions in respect of matters that are inherently uncertain, including the number of valid complaints received and the average cost of redress. Whilst these assumptions are subject to regular review against actual experience, it is possible that the claims against the Company that are yet to be assessed, will result in future costs which differ from those calculated using assumptions in order to derive management's best estimate.

Sensitivity of the provision to the assumptions adopted has been presented in note 23.

Effective Interest Rate

Interest income is recognised using the effective interest rate ("EIR") method where the EIR 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.

The key components to the EIR are the volume of Balance Transfers made, the duration of the promotional Balance Transfer period offered, the balance profile and length of balance life following the promotional period expiry and the Balance Transfer fee at the point of the transaction.

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

Effective Interest Rate (contunued)

The MBNA EIR balance sheet position increased to an asset of £91.4 million at 2019 year end from a liability of £33.3 million at 2018 year end reflecting both an underlying trajectory of the decreasing liability position and an £80.1 million impact from changes made to MBNA customer pricing through 2019. In the year the majority of MBNA customers were moved from Tiered Pricing, where transaction categories can have a separate APR rate, to Harmonised Pricing which gave customers a single rate for non-promotional rate balances across transaction categories. The change in terms and conditions has resulted in a revision to the estimates of receipts on these balances and an adjustment to the carrying amount of the asset. The revision is based on an extended life of balance post promotional rate expiry due to the allocation of payments received no longer going first to expired Balance Transfer balances due to their being on a higher APR.

There are no changes to the EIR methodology, only the estimate of the life of balance post promotional rate expiry caused by the change to Harmonised Pricing. Specific populations representing approximately a fifth of the portfolio were held out from the Harmonised Pricing and will be assessed for alignment in future periods.

Sensitivities on the length of balance life following the promotional period expiry have been performed as this is considered a key assumption to the EIR. Each additional month in the anticipated balance life following the promotional period expiry would increase the EIR asset held by approximately £3.0 million based on Harmonised Pricing being applied.

Critical accounting judgements

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

Allowance for impairment losses

The calculation of the Company's ECL allowance under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

Definition of default

The potential losses from an exposure, both over a 12 month period and over its lifetime, are a key consideration in the calculation of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

Lifetime of an exposure

The Company has considered the losses beyond the contractual term over which the Company is exposed to credit risk. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

Significant increase in credit risk

Performing assets are defined as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified in Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk ("SICR") since initial recognition.

The Company uses qualitative indicators to determine whether there has been an SICR for an asset. Any account meeting the criteria is treated as an SICR. All financial assets are assumed to have suffered an SICR if they are more than 30 days past due.

For disclosure in these financial statements, the Company has applied the Group's Retail Master Scale ("RMS") model and probability of default ("PD") ranges of its credit card portfolio to align to its current model, with a deterioration by 4 or more grades is treated as a SICR. Further information can be found in note 27.1.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

Staging rules

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's individual characteristics and performance. Management used various information sources, including observed account performance and other credit data available for the lifetime of the asset. The use of proxies and simplifications is not considered to materially impact the ECL allowance either at transition or now.

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

Allowance for impairment losses (continued)

Post-model adjustments

At 31 December 2019, post model adjustments of £(24.3)m (31 December 2018: £25.3m) were included within the overall ECL to take into account known differences in credit quality between the Company and other unsecured portfolios within the Group, as well as extension to the modelled lifetime of the exposures.

Forward looking

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In order to do this, the Group has developed an economic model to project a wide range of key impairment drivers using information derived from external sources. These drivers include factors such as the unemployment rate, the house price index, commercial property prices and corporate credit spreads. The model-generated economic scenarios for the six years beyond 2019 are mapped to industry-wide historical data by portfolio. Combined losses across portfolios are used to rank the scenarios by severity of loss. Alongside a defined central scenario three further scenarios are generated by averaging a group of individual scenarios around specified points along the loss distribution to reflect the range of outcomes. The central scenario reflects the Group's base case assumptions used for medium-term planning purposes, an upside and a downside scenario are also produced together with a severe downside scenario.

Rare occurrences of adverse economic events can lead to relatively large credit losses which means that typically the most likely outcome is less than the probability-weighted outcome of the range of possible future events. To allow for this a relatively unlikely severe downside scenario is therefore included. At 31 December 2018 and 2019, the base case, upside and downside scenarios each carry a 30 per cent weighting; the severe downside scenario is weighted at 10 per cent. The choice of alternative scenarios and scenario weights is a combination of quantitative analysis and judgemental assessment to ensure that the full range of possible outcomes and material non-linearity of losses are captured. A committee under the chairmanship of the Chief Economist meets quarterly to review and, if appropriate, recommend changes to the economic scenarios to the Chief Financial Officer and Chief Risk Officer. Findings dealing with all aspects of the expected credit loss calculation are presented to the Group Audit Committee.

The table below shows the impact on the Company's ECL resulting from a decrease / increase for a 1 percentage point (PP) increase / decrease in the UK Unemployment rate from base case scenario.

	31 December 2019	
UK Unemployment	1pp Increase	1pp Decrease
ECL impact, £m	5.8	(7.7)

Further information can be found in note 3 to the Annual report and accounts for the Group's ultimate parent undertaking, Lloyds Banking Group plc.

3. Net interest income

	2019 £'000	2018 £'000
Interest income		
Credit card finance	**872,204**	818,554
Interest expense		
Group interest expense (see note 26)	**(82,991)**	(65,979)
Net interest income	**789,213**	752,575

4. Net fee and commission income

	2019 £'000	2018 £'000
Fee and commission income		
Loan fees receivable	**45,014**	52,580
Fee and commission expense		
Other fees and commission payable	**(34,062)**	(24,532)
Net fee and commission income	**10,952**	28,048

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

5. Other income

	2019	2018
	£'000	£'000
Other operating income	**203**	273
Foreign exchange (loss)/gain	**(57)**	769
Profit on disposal of subsidiary undertakings (note 17)	**-**	23
Profit on disposal of Property, plant and equipment (note 18)	**-**	45,628
Fair value gains	**-**	6,052
	146	52,745

6. Income from investments

Income from investment relates to interest income received on the Company's equity instruments of £40,000 (2018: £123,000), no dividends were received from the Company's subsidiary undertakings during 2019 (2018: £140,173,000). See Note 26.

7. Impairment losses on Loans and advances to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
31 December 2019				
Transfers between stages	11,051	(20,406)	78,440	69,085
Other changes in credit quality	604	4,942	181,318	186,864
Additions/(repayments)	4,642	(6,571)	(8,471)	(10,400)
	16,297	**(22,035)**	**251,287**	**245,549**
In respect of:				
Loans and advances to customers	49,572	(19,830)	251,287	281,029
Undrawn loan commitments	(33,275)	(2,205)	-	(35,480)
	16,297	**(22,035)**	**251,287**	**245,549**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
31 December 2018				
Transfers between stages	(1,396)	6,895	85,359	90,858
Other changes in credit quality	4,600	(4,987)	132,084	131,697
(Repayments)/additions	(4,215)	(4,228)	8,419	(24)
	(1,011)	(2,320)	225,862	222,531
In respect of:				
Loans and advances to customers	(22,033)	7,428	225,862	211,257
Undrawn loan commitments	21,022	(9,748)	-	11,274
	(1,011)	(2,320)	225,862	222,531

The Company's impairment charge comprises the following items:

Transfers between stages

The net impact on the impairment charge of transfers between stages.

Other changes in credit quality

Changes in loss allowance as a result of movements in risk parameters that reflect changes in customer quality, but which have not resulted in a transfer to a different stage. This also contains the impact of the impairment charge as a result of write-offs and recoveries, where the related loss allowances are reassessed to reflect ultimate realisable or recoverable value.

Repayments/additions

Expected loss allowances are recognised on origination of new loans and further drawdowns of existing facilities. Repayments relate to the reduction of loss allowances as a result of repayments of outstanding balances.

Movements in the Company's impairment allowance are shown in note 27.1.

8. Other operating expenses

	2019 £'000	2018 £'000
Staff costs (see note 9)	**61,222**	116,120
Depreciation (see note 18)	**3,306**	4,539
Other operating expenses	**27,653**	3,429
Administrative expenses	**45,914**	91,311
Amortisation of Intangible assets (see note 19)	**2,152**	3,315
	140,247	218,714

Included within administrative expenses are fees payable to the Company's auditors for the audit of the financial statements of £0.72 million (2018: £0.72 million). All audit fees are approved by the Group Audit Committee.

9. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**44,925**	64,359
Social security costs	**4,752**	7,791
Redundancy costs	**1,921**	15,916
Pension costs – defined contribution plans	**5,660**	10,100
Other staff costs	**3,964**	17,954
	61,222	116,120

The average monthly number of employees during the year was 1,252 (2018: 1,644). All employees are located in the United Kingdom and are engaged in the delivery of credit card lending and ancillary services.

The Company operates a defined contribution pension scheme. There were no amounts payable by the Company to the pension scheme at the year end (2018: £nil).

10. Directors' emoluments

The directors' emoluments payable for services provided to the Company are set out below:

	2019 £'000	2018 £'000
Aggregate emoluments	**101**	93
Aggregate post-employment benefits	**12**	9

During the year retirement benefits were accruing to four directors (2018: three) in respect of defined contribution pension schemes. No directors exercised share options in the ultimate parent company during the year (2018: none).

The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2019 was £nil (2018: £nil).

Key management compensation related wholly to the directors, who have the authority and responsibility for directing and controlling the Company's activities. The directors holding office at 31 December 2019 are employed by other companies within the Group. Directors' emoluments have not been disclosed where directors consider that their services are incidental to their other responsibilities within the Group.

11. Taxation

	2019 £'000	2018 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**54,238**	66,339
- Adjustments in respect of prior years	**(3,844)**	(8,261)
- Current tax credit on loss from discontinued operations	**(1,291)**	(1,236)
Current tax charge	**49,103**	56,842
UK deferred tax:		
- Origination and reversal of timing differences	**5,617**	(202)
- Due to change in UK corporation tax rate	**(302)**	311
- Adjustments in respect of prior years	**(3,502)**	-
Deferred tax charge (see note 20)	**1,813**	109
Tax charge	**50,916**	56,951

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	**75,302**	428,694
Tax charge thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**14,307**	81,452
Factors affecting charge:		
- Disallowed and non-taxable items	**44,257**	(16,551)
- Adjustments in respect of prior years	**(7,346)**	(8,261)
- Effect of reduction in tax rate and related impacts	**(302)**	311
Tax charge on profit on ordinary activities	**50,916**	56,951
Effective rate	**67.6%**	13.3%

12. Dividends

In May 2019, a dividend of £24.54 per share was paid, representing a total dividend of £490,849,000 (2018: £215,000,000).

13. Loss for the year from discontinued operations

Statement of total comprehensive income:

	2019 £'000	2018 £'000
Payment protection insurance charge	**25,874**	8,575
Other operating expenses	**60**	141
Loss for the year from discontinued operations before tax	**25,934**	8,716
Tax on discontinued activities	**(1,291)**	(1,236)
Loss for the year from discontinued operations after tax	**24,643**	7,480

The Company continues to incur costs in relation to the UK instalment loan business, which has been disclosed as a discontinued operation.

Notes to the financial statements (continued)

For the year ended 31 December 2019

14. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand, held with group undertakings (see note 26)	**22,549**	4,195
Cash at bank and in hand, held with external banks	**22,000**	29,291
	44,549	33,486

15. Trade and other receivables

	2019 £'000	2018 £'000
Amounts due from group undertakings (see note 26)	**21,699**	2,352
Prepayments and accrued income	**10,679**	17,196
Other debtors	**18,562**	5,280
	50,940	24,828

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand. All Amounts due from group undertakings are included within Stage 1 for IFRS 9 purposes. The ECL is £nil (2018: £nil).

16. Loans and advances to customers

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance as at 1 January 2019	7,542,988	717,025	151,902	8,411,915
Transfers to Stage 1	394,295	(393,998)	(297)	-
Transfers to Stage 2	(393,596)	396,562	(2,966)	-
Transfers to Stage 3	(156,314)	(124,795)	281,109	-
Net decrease in loans and advances to customers	(175,957)	(28,707)	(19,596)	(224,260)
Financial assets that have been written off during the year	-	-	(312,065)	(312,065)
Recoveries of advances previously written off	-	-	70,321	70,321
Gross loans and advances to customers	7,211,416	566,087	168,408	7,945,911
Less: allowance for losses on loans and advances	(97,577)	(76,175)	(71,560)	(245,312)
Net loans and advances to customers	**7,113,839**	**489,912**	**96,848**	**7,700,598**
Balance as at 1 January 2018	7,207,111	698,671	113,054	8,018,836
Transfers to Stage 1	224,374	(224,363)	(11)	-
Transfers to Stage 2	(326,000)	329,103	(3,103)	-
Transfers to Stage 3	(166,310)	(117,163)	283,473	-
Net decrease in loans and advances to customers	603,813	30,777	(35,021)	599,569
Financial assets that have been written off during the year	-	-	(288,882)	(288,882)
Recoveries of advances previously written off	-	-	82,392	82,392
Gross loans and advances to customers	7,542,988	717,025	151,902	8,411,915
Less: allowance for losses on loans and advances	(48,005)	(96,005)	(75,029)	(219,039)
Net loans and advances to customers	7,494,983	621,020	76,873	8,192,876

Loans and advances to customers have no fixed maturity. A contractual minimum payment is 1 per cent or higher of the principal balance per month, plus interest and fees is applied to the customer account, however the loan may be repaid earlier than implied by the contractual terms.

17. Investment in subsidiary undertakings

	2019 £'000	2018 £'000
Cost		
Cost brought forward	**80,000**	93,663
Disposals	**-**	(13,663)
Cost at 31 December	**80,000**	80,000
Provision for impairment		
Provision brought forward	**75,472**	75,735
Charge for the year	**2,432**	12,300
Disposals	**-**	(12,563)
Provision at 31 December	**77,904**	75,472
Carrying value of investments at 31 December	**2,096**	4,528

Investment in subsidiary undertakings is stated at cost less impairment. As permitted by section 611 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiaries.

During 2018 the Company sold its investments in MBNA Europe Holdings Limited, MBNA Global Services Limited and Mainsearch Limited to LBG Equity Investments Limited. Sapphire Cards Limited and Paneldeluxe Company Limited were both dissolved in January 2018.

The Company's subsidiary undertakings at 31 December 2019 are listed below.

Subsidiary undertakings	Principal activities	Company interest
Loans.co.uk Limited (i)	Personal loan broker (formerly)	100.00%
MBNA Direct Limited (i) (Dormant entity)	Provision of data processing services	100.00%

(i) Registered office: Cawley House, Chester Business Park, Chester, CH4 9FB.

The Company's interest in each of these entities is in the form of ordinary share capital. The proportion of the voting rights in the subsidiary undertaking held directly by the Company do not differ from the proportion of ordinary shares held.

The following companies, forming part of the Group's securitisation programme, are considered to be legal subsidiaries as defined by the Companies Act 2006 by virtue of the actual exercise of dominant influence by the Company:

Company name	Description
Credit Card Securitisation Europe Limited (i)	Provision of Trustee services
Chester Asset Securitisation Holdings Limited (ii)	Investment holding
Chester Asset Securitisation Holdings No.2 Limited (i)	Investment holding
Chester Asset Options No.2 Limited (ii)	Provision of long term finance (formerly)
Chester Asset Options No.3 Limited (iii)	Provision of long term finance (formerly)
Deva One Limited (i)	Provision of long term finance (formerly)
Deva Two Limited (i)	Provision of long term finance (formerly)
Deva Three Limited (i)	Provision of long term finance (formerly)
Chester Asset Receivables Dealings Issuer Limited (i)	Provision of long term finance (formerly)

Registered Office: (i) 26 New Street, St Helier, Jersey (ii) C/O Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF (iii) Fifth Floor, 100 Wood Street, London, EC2V 7EX.

Notes to the financial statements (continued)

For the year ended 31 December 2019

18. Property, plant and equipment

	Land and buildings	Office and other equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2018	60,237	42,663	102,900
Additions	86	2,466	2,552
Disposals	(60,323)	(16,768)	(77,091)
At 31 December 2018	-	28,361	28,361
Additions	-	3,083	3,083
Disposals	-	(2,238)	(2,238)
At 31 December 2019	-	29,206	29,206
Accumulated depreciation			
At 1 January 2018	39,213	37,106	76,319
Charge for the year (see note 8)	892	3,647	4,539
Disposals	(40,105)	(16,329)	(56,434)
At 31 December 2018	-	24,424	24,424
Charge for the year (see note 8)	-	3,306	3,306
Disposals	-	(2,238)	(2,238)
At 31 December 2019	-	25,492	25,492
Balance sheet amount at 31 December 2019	**-**	**3,714**	**3,714**
Balance sheet amount at 31 December 2018	-	3,937	3,937

During 2018 the Company disposed of its freehold Land and buildings to an external third party with the benefit of a lease of the whole to the Company's immediate parent, Lloyds Bank plc, on a 20 year lease term with an open market rent.

19. Intangible assets

	PCCR
	£'000
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	302,436
Accumulated amortisation	
At 1 January 2018	295,050
Charge for the year (see note 8)	3,315
At 31 December 2018	298,365
Charge for the year (see note 8)	2,152
At 31 December 2019	300,517
Balance sheet amount at 31 December 2019	**1,919**
Balance sheet amount at 31 December 2018	4,071

Amortisation is included in Other operating expenses in the Income Statement. PCCR has a remaining amortisation period of 3.3 years (2018: 4.3 years).

20. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2019	2018
	£'000	£'000
At 1 January	**25,607**	123
Transition to IFRS 9	**-**	25,593
At 1 January under IFRS 9	**25,607**	25,716
Charge for the year (see note 11)	**(1,813)**	(109)
	23,794	25,607

The deferred tax charge for the year comprises the following temporary differences:

	2019	2018
	£'000	£'000
Accelerated capital allowances	**973**	(105)
Accounting provisions disallowed	**601**	-
Allowances for impairment losses	**-**	(2,749)
Other temporary differences	**(3,387)**	(290)
Available-for-sale financial assets	**-**	3,035
	(1,813)	(109)

Deferred tax asset comprises:	**2019**	2018
	£'000	£'000
Accelerated capital allowances	**2,000**	1,025
Accounting provisions disallowed	**601**	-
Allowances for impairment losses	**-**	22,845
Other temporary differences	**21,193**	1,737
	23,794	25,607

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 per cent with effect from 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. Had this rate change been substantively enacted at 31 December 2019, the effect would have been to increase net deferred tax assets by £2.7 million.

21. Borrowed funds

	2019	2018
	£'000	£'000
Amounts due to group undertakings (see note 26)	**7,154,096**	7,213,227
Bank overdraft	**-**	8,521
	7,154,096	7,221,748

Amounts due to group undertakings include short term deposits and fixed term loans which are unsecured, interest-bearing and repayable on maturity.

Notes to the financial statements (continued)

For the year ended 31 December 2019

22. Trade and other payables

	2019 **£'000**	2018 £'000
Trade payables	**49,416**	18,744
Accruals and deferred income	**34,175**	45,831
Other payables	**2,023**	1,970
Other tax and social security payable	**(267)**	1,602
	85,347	68,147

23. Provision for liabilities and charges

	Undrawn loan commitments **£'000**	**Payment protection insurance** **£'000**	**Redundancy costs** **£'000**	**Other provision** **£'000**	**Total** **£'000**
At 1 January 2018	50,513	333,703	-	39,807	424,023
Charge for the year	11,274	100,000	15,933	-	127,207
Utilised during the year	-	(242,573)	-	(35,393)	(277,966)
At 31 December 2018	61,787	191,130	15,933	4,414	273,264
Charge for the year	(35,480)	362,695	1,600	3,004	331,819
Utilised during the year	-	(256,247)	(13,995)	(2,236)	(272,478)
At 31 December 2019	**26,307**	**297,578**	**3,538**	**5,182**	**332,605**

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.

Undrawn loan commitment provision

Undrawn loan commitment provision relates to the expected loss on the loan commitments that the Company has made to its customers for undrawn balances at the year-end, following transition to IFRS 9 (further information can be found in note 27).

As at 31 December 2019, the provision of £26.3 million (2018: £61.8 million) was categorised as £20.4 million (2018: £53.6 million) in Stage 1, £5.9 million (2018: £8.2 million) in Stage 2 and £nil (2018: £nil) in Stage 3 of impairment per the expected credit loss methodology under IFRS 9.

Payment protection insurance provision

As described in note 2, an assessment has been made of the potential cost arising from complaints 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. A number of risks and uncertainties remain including processing the remaining PIRs and outstanding complaints.

The 2019 PPI provision charge comprises £336.8 million (2018: £91.4 million) in respect of continuing operations and £25.9 million (2018: £8.6 million) in respect of discontinued operations. The charge is a result of management reassessing future expected claim volumes.

The following table details the key assumptions adopted and the sensitivity of the provison to the changes in those assumptions.

Metric	**Sensitivity**	**Provision Value**
PIR Conversion Rate	1% Increase	£1.8 million
Missale Uphold Rate	1% Increase	£3.1 million
Missale Average Redress	£100 Increase	£9.0 million

Redundancy costs provision

The Company was acquired by the Group on 1 June 2017 and has been through a number of Group reorganisations, resulting in a number of staff redundancies. The Redundancy provision reflects managements best estimate of the expected redundancy costs to be incurred by the Company as at 31 December 2019.

Other provision

Other provisions includes £2.2 million (2018 £4.4 million) in respect of expected costs of rectifying certain circumstances following a review of arrears handling activities. A new provision in relation to customer remediation on persistent customer debt was raised during the period to the amount of £3.0 million (2018 £nil).

Notes to the financial statements (continued)

For the year ended 31 December 2019

24. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
20,000,000 (2018: 20,000,000) ordinary shares of £10 each	**200,000**	200,000

All ordinary shares rank pari passu in all respects including the right to receive all dividends and other distributions declared, made or paid on the ordinary share capital of the Company.

25. Share based payments

During the year ended 31 December 2019 Lloyds Banking Group plc operated a number of share-based payment schemes for which employees of the Lloyds Bank Group were eligible and all of which are equity settled. Details of all schemes operated by Lloyds Banking Group are set out below; these are managed and operated on a Lloyds Banking Group-wide basis. The amount recharged to the Company in respect of Lloyds Banking Group share based payment schemes, and which is included within Wages and salaries (note 9), was £3.1 million (2018: £6.1 million).

During the period the Group operated the following share-based payment scheme, all of which are equity settled.

Group Performance Share plan

The Group operates a Group Performance Share plan that is equity settled. Bonuses in respect of employee performance in 2019 have been recognised in the charge in line with the proportion of the deferral period completed.

Further details in respect of share based payment schemes can be found in the 2019 financial statements of the Bank's ultimate parent undertaking, copies of which may be obtained from the 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

26. Related party transactions

The Company is controlled by Lloyds Bank plc. A number of transactions are entered into with related parties in the normal course of business. 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		
Lloyds Bank plc	**18,939**	2,352
Loans.co.uk Limited	**2,760**	-
Total Amounts due from group undertakings (see note 15)	**21,699**	2,352
Amounts due to group undertakings		
Lloyds Bank plc	**7,137,870**	7,195,052
Loans.co.uk Limited	**9,565**	9,997
Bank of Scotland plc	**5,368**	8,176
Mainsearch Company Limited	**1,076**	-
MBNA Europe Holdings Limited	**192**	-
MBNA Global Services Limited	**24**	-
MBNA Direct Limited	**2**	2
Total Amounts due to group undertakings (see note 21)	**7,154,096**	7,213,227
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc (see note 14)	**22,549**	4,195

Notes to the financial statements (continued)

For the year ended 31 December 2019

26. Related party transactions (continued)

	2019 £'000	2018 £'000
Interest expense		
Lloyds Bank plc	**82,884**	65,470
Loans.co.uk Limited	**107**	73
Other related parties	**-**	436
Total Interest expense (see note 3)	**82,991**	65,979
Other income		
Lloyds Bank plc	**-**	4,504
MBNA Europe Holdings Limited	**-**	140,190
Total recharge income	**-**	144,694
Other expense		
Lloyds Bank plc	**19,937**	17,332
Bank of Scotland plc	**7,717**	-
Other related parties	**-**	7
Total recharge expense	**27,654**	17,339
Dividend paid		
Lloyds Bank plc (see note 12)	**490,849**	215,000

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.

Other income and expense relate to non-interest related transactions with fellow group undertakings that have been received or borne by the Company during the year.

MBNA General Foundation

The MBNA General Foundation ("the Foundation"), a charitable trust, is a related party due to the power of the Company to appoint and remove Trustees of the Foundation, and due to shared Trustees of the Foundation and senior management of the Company. In the past the Company has provided the Foundation with the majority of its donations received. The Company made donations of £17k during the current year (2018: £1.6 million). The Foundation has sufficient reserves to operate without any changes for a further 2-3 years and has not received any additional funding since February 2019.

No amounts were due to or from the Foundation at the end of the current year or previous year.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, which is determined to be the Company's directors and members of the Lloyds Banking Group plc board. Members of the Lloyds Banking Group plc board are employed by other companies within the Lloyds Banking Group and consider that their services to the Company are incidental to their other responsibilities within the Group.

	2019 £'000	2018 £'000
Salaries and short term employee benefits	**101**	93
Post employment benefits	**12**	9
	113	102

27. 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 Lloyds Bank plc, and the ultimate parent, Lloyds Banking Group plc. The 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 Retail Division's credit committee and credit functions. Business risk is managed through regular reporting and oversight. A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

27.1 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 all losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in notes 1.4 and 2.

The credit risk associated with Cash and cash equivalents and Trade and other receivables is not considered to be significant.

Credit risk mitigation

- Credit principles and policy: Group Risk sets out the group credit principles and policy, which in turn is the basis for divisional and business unit credit policy, of which the cards portfolio forms part of. 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.

- The Company uses strict lending criteria when assessing applications for unsecured lending. The approval process uses credit acceptance scorecards and involves a review of the applicant's credit history using information held by Credit Reference Agencies. The Company also assesses the affordability and sustainability of lending for each borrower and takes steps to validate information used in the assessment of a customer's income and expenditure. Affordability assessments are compliant with regulatory conduct guidelines.

- Credit scoring: The Company uses statistically based automated decisioning techniques that utilise custom credit scores and the latest credit bureau information.

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

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

Credit concentration - Loans and advances to customers

The Company lends to customers geographically located within the United Kingdom. The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations are detailed below.

Financial assets subject to credit risk

	2019	2018
	£'000	£'000
Cash and cash equivalents	**44,549**	33,486
Trade and other receivables	**50,940**	24,828
Gross Loans and advances to customers	**7,945,911**	8,411,915
	8,041,400	8,470,229

Included in Trade and other receivables are Prepayments and accrued income of £10.7 million (2018: £17.2 million) these items do not represent financial instruments.

Loans and advances to customers

The analysis of lending has been prepared by applying the Group's rating scales to the Company's impairment model, for the cards portfolio in the Retail division. The internal credit rating systems are set out below. The Group's PD, that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired.

27. Financial risk management (continued)

27.1 Credit risk (continued)

Loans and advances to customers (continued)

As at 31 December 2019		Gross loans and advances to customers - Loan Quality			
	PD %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00 - 4.50%	6,600,367	201,235	-	6,801,602
RMS 7-9	4.51 - 14.00%	601,619	222,924	-	824,543
RMS 10	14.01 - 20.00%	8,958	33,665	-	42,623
RMS 11-13	20.01 - 99.99%	472	108,263	-	108,735
RMS 14	100%	-	-	168,408	168,408
Total		**7,211,416**	**566,087**	**168,408**	**7,945,911**

As at 31 December 2018 Reclassified		Gross loans and advances to customers - Loan Quality			
	PD %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00 - 4.50%	6,499,929	138,711	-	6,638,640
RMS 7-9	4.51 - 14.00%	894,367	264,007	-	1,158,374
RMS 10	14.01 - 20.00%	40,785	46,129	-	86,914
RMS 11-13	20.01 - 99.99%	107,907	268,178	-	376,085
RMS 14	100%	-	-	151,902	151,902
Total		7,542,988	717,025	151,902	8,411,915

As at 31 December 2019		Gross loans and advances to customers - Loan Commitments			
	PD %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00 - 4.50%	20,177,396	217,226	-	20,394,622
RMS 7-9	4.51 - 14.00%	122,035	65,667	-	187,702
RMS 10	14.01 - 20.00%	830	12,386	-	13,216
RMS 11-13	20.01 - 99.99%	130	21,438	-	21,568
RMS 14	100%	-	-	42,427	42,427
Total		**20,300,391**	**316,717**	**42,427**	**20,659,535**

As at 31 December 2018 Reclassified		Gross loans and advances to customers - Loan Commitments			
	PD %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00 - 4.50%	19,110,756	152,599	-	19,263,355
RMS 7-9	4.51 - 14.00%	223,584	29,095	-	252,679
RMS 10	14.01 - 20.00%	7,064	3,140	-	10,204
RMS 11-13	20.01 - 99.99%	2,998	5,847	-	8,845
RMS 14	100%	-	-	-	-
Total		19,344,402	190,681	-	19,535,083

A review was performed to align 2018 comparatives around loan quality classifications with that of the wider Group methodology. Overall 2018 stagings remain consistent, changes seen within RMS allocations.

27. Financial risk management (continued)

27.1 Credit risk (continued)

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**
Balance as at 1 January 2019	48,005	96,005	75,029	219,039
Transfers to Stage 1	49,478	(49,309)	(169)	-
Transfers to Stage 2	(4,147)	5,686	(1,539)	-
Transfers to Stage 3	(2,084)	(19,749)	21,833	-
Impact of transfers between stages	(31,361)	44,994	57,727	71,360
	11,886	(18,378)	77,852	71,360
Other items charged to the Income statement	37,686	(1,452)	173,435	209,669
Charge for year (including recoveries)	49,572	(19,830)	251,287	281,029
Advances written off			(312,065)	(312,065)
Recoveries of advances previously written off			70,321	70,321
Unwind of discount			(13,012)	(13,012)
At 31 December 2019	**97,577**	**76,175**	**71,560**	**245,312**

In respect of undrawn balances	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Balance as at 1 January 2019	53,633	8,154	-	61,787
Transfers to Stage 1	5,779	(5,779)	-	-
Transfers to Stage 2	(1,188)	1,188	-	-
Transfers to Stage 3	(325)	(660)	985	-
Impact of transfers between stages	(5,101)	3,223	(397)	(2,275)
	(835)	(2,028)	588	(2,275)
Other items charged to the Income statement	(32,440)	(177)	(588)	(33,205)
Charge for year (including recoveries)	(33,275)	(2,205)	-	(35,480)
At 31 December 2019	**20,358**	**5,949**	**-**	**26,307**
Total	**117,935**	**82,124**	**71,560**	**271,619**

Represented by	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Loans and advances to customers	97,577	76,175	71,560	245,312
Provisions in relation to loan commitments	20,358	5,949	-	26,307
Total	**117,935**	**82,124**	**71,560**	**271,619**

27. Financial risk management (continued)

27.1 Credit risk (continued)

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2017				128,156
Adjustment on adoption of IFRS 9				94,149
Balance as at 1 January 2018	70,038	88,577	63,690	222,305
Transfers to Stage 1	27,718	(27,713)	(5)	-
Transfers to Stage 2	(5,662)	7,462	(1,800)	-
Transfers to Stage 3	(2,930)	(18,372)	21,302	-
Impact of transfers between stages	(19,608)	46,654	63,902	90,948
	(482)	8,031	83,399	90,948
Other items charged to the Income statement	(21,551)	(603)	142,463	120,309
Charge for year (including recoveries)	(22,033)	7,428	225,862	211,257
Advances written off	-	-	(288,882)	(288,882)
Recoveries of advances previously written off	-	-	82,392	82,392
Unwind of discount	-	-	(8,033)	(8,033)
At 31 December 2018	48,005	96,005	75,029	219,039

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 December 2017				-
Adjustment on adoption of IFRS 9				50,513
Balance as at 1 January 2018	32,611	17,902	-	50,513
Transfers to Stage 1	4,457	(4,457)	-	-
Transfers to Stage 2	(979)	979	-	-
Transfers to Stage 3	(481)	(2,309)	2,790	-
Impact of transfers between stages	(3,911)	4,651	(830)	(90)
	(914)	(1,136)	1,960	(90)
Other items charged to the Income statement	21,936	(8,612)	(1,960)	11,364
Charge for year (including recoveries)	21,022	(9,748)	-	11,274
At 31 December 2018	53,633	8,154	-	61,787
Total	101,638	104,159	75,029	280,826

Represented by	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loans and advances to customers	48,005	96,005	75,029	219,039
Provisions in relation to loan commitments	53,633	8,154	-	61,787
Total	101,638	104,159	75,029	280,826

The criteria used to determine that there is objective evidence of an impairment is disclosed in more detail in notes 1.4 and 2.

27. Financial risk management (continued)

27.2 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 Company's immediate parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

Maturity analysis

As at 31 December 2019	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Total £'000**
Borrowed funds	144,531	1,409,565	3,600,000	2,000,000	7,154,096
Contractual interest expense	-	3,835	28,448	46,588	78,871
As at 31 December 2018					
Borrowed funds	221,748	-	3,500,000	3,500,000	7,221,748
Contractual interest expense	7	-	18,666	75,478	94,151

The Company is funded entirely by companies within the Group.

27.3 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 on its borrowings 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

Interest income on the Company's Loans and advances to customers is fixed, therefore a movement in market rates of interest will not immediately effect the return on the portfolio and has not been included in the sensitivity analysis. The sensitivity analysis has been performed to assess the impact on interest margins being 100 basis points higher or lower with all other variables held constant. The Company has taken a prudent approach to this analysis by assuming that any basis point movement would be reflected in all variable products. The impact if rates were to increase by 100 basis points would be to increase interest expense by £14.4 million (2018: £25.2 million) and accordingly decrease interest expense by £14.4 million (2018: £25.2 million) if rates decreased by the same amount.

27.4 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.

27.5 Financial strategy

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

27.6 Fair values of financial assets and liabilities

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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, which comprise amounts due to and due from related party undertakings, are equal to their carrying value and classified as level 2 in the fair value hierarchy.

28. 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 is authorised and regulated by the Financial Conduct Authority ('FCA') and is subject to capital resource requirements as set out by the FCA. Capital is actively managed at an appropriate level of frequency and regulatory capital levels are a key factor in the Company's budgeting and planning processes.

All FCA capital requirements imposed on the Company during the year were met.

29. Contingent liabilities and capital commitments

During the ordinary course of business the Company is subject to other complaints as well as legal and regulatory reviews, challenges and investigations. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant Balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. The Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

At the Balance sheet date undrawn credit lines and other commitments to lend were £20.7 billion (2018: £19.5 billion).

30. Post Balance sheet events

Since the balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is 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.The Directors continue to monitor the environment closely and confirm that the impairment provision for the Company was increased by a net £202 million during the first half of 2020.

31. 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 effective 1 January 2020 (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 these pronouncements are being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

32. Ultimate parent undertaking and controlling party

The immediate parent company is Lloyds Bank plc (incorporated in England and Wales). 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. Lloyds Bank 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 members of MBNA Limited

Report on the audit of the financial statements

Opinion

In our opinion, MBNA 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 loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (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 when:

- 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 Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on these 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.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and 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 Strategic report and Directors' report.

Independent Auditors' report to the members of MBNA 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 7, 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 members 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.

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

03 September 2020