MBNA Limited

Annual Report and Accounts

2020

Member of Lloyds Banking Group plc

Strategic report

For the year ended 31 December 2020

The directors present their Strategic report of MBNA Limited (the "Company") for the year ended 31 December 2020.

Business overview

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

The credit card market as defined by the Bank of England ("BoE") reported a reduction year on year in market size of 19.5% to the year ended 31 December 2020 against a broadly flat movement during 2019, 2.8% growth to December 2018 and 4.8% growth to December 2017. Challenges linked to the COVID-19 pandemic have had a significant impact on the whole credit card market and as a result the Company's Gross loans and advances to customers have decreased by £877,960,000 (2019: decrease of £466,004,000). This is linked to the reduction in customer spend, ending the year on £7,067,950,000 (2019: £7,945,910,000) and an increase in customer repayments as customers have been able to save more during the COVID-19 pandemic due to spending less. The Company's competitive product offerings have resulted in 325,000 new accounts being acquired in 2020 (2019: 320,000).

The Company's result for the year shows a Profit before tax of £257,178,000 (2019: £75,302,000) and Net interest income of £637,721,000 (2019: £789,213,000).

Future outlook

The directors continue to support the Lloyds Banking Group (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. In addition, the Company is supporting the Group's strategy of Helping Britain Recover by actively managing its customer lending. Additional information on the Group's Helping Britain Recover Plan, which does not form part of this report, is available on the Lloyds Banking Group plc ("LBG") website. The directors believe the Company has achieved a satisfactory level of returns and expects to continue to do so in the foreseeable future. The Company has been impacted by the COVID-19 pandemic during 2020 and directors expect that this will continue as the economy recovers. The principal risks and uncertainties associated with the COVID-19 pandemic are detailed later in this report.

The effects on the UK, European and global economies following the UK's exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict, but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of the Group, results of operations, financial condition and prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put pressure on the Group's interest margins and potentially adversely affect its profitability and prospects.

Since the Balance sheet date the Chancellor of the Exchequer has presented his March 2021 Budget to Parliament. As a result of the Budget update, easing of lockdown restrictions and vaccine rollout programme, the Company's forward looking assumptions have improved in comparison to those included in the 31 December 2020 financial statements.

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 Group's 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. 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.

Credit risk

Credit risk arises on the individual customer balances, both on the customer spend and also any undrawn balances for an existing customer. These loans are continually monitored by the Group's Internal Risk teams for credit performance and to ensure compliance with current regulations and that customers are being treated fairly. Further information can be found included in note 27.1.

Liquidity risk

Liquidity risk is the risk of the Company being unable to meet its financial obligations. Liquidity risk is subject to independent oversight by Internal Risk teams. The Company's ability to meet its funding obligations is closely monitored by the Group's Corporate Treasury team. Further information can be found in note 27.2.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or are reset at different times. Interest rate risk for the Company includes customer lending and intragroup funding obligations. Further information can be found in note 27.3.

Principal risks and uncertainties (continued)

Covid-19 pandemic

The global pandemic from the outbreak of COVID-19 continues to cause widespread disruption to normal patterns of business activity across the world, including in the UK, and volatility in financial markets. Measures taken to contain the health impact of the COVID-19 pandemic have resulted in an adverse impact on economic activity across the world and the duration of these measures remains uncertain. Monetary policy loosening has supported asset valuations across many financial markets, but longer-term impacts on inflation, interest rates, credit spreads, foreign exchange rates and commodity, equity and bond prices remain unclear.

Further, the economic impact of the COVID-19 pandemic, including increased levels of unemployment, corporate insolvencies and business failures could adversely impact the Company’s retail or corporate customers and their ability to service their contractual obligations, including to the Company. Adverse changes in the credit quality of the Company’s borrowers and counterparties, or in their behaviour, may reduce the value of the Company’s assets and materially increase its write-downs and allowances for impairment losses. This could have a material adverse effect on the Company’s results of operations, financial condition or prospects.

In addition to providing support under government support schemes, the Company has taken specific measures to alleviate the impact on customers or borrowers, including payment holidays which, taken together with lower interest rates and restrictions on fees associated with certain products, may have an adverse impact on the Company’s results of operations, financial conditions or prospects.

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, 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 Company may need to change its ways of working whilst managing any instances of COVID-19 pandemic among its employees and locations to ensure continuity and support to colleagues and customers.

Key performance indicators ("KPIs")

The MBNA business is part of the Group's 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	2020	2019	Analysis
Gross loans and advances to customers (£ million)	7,068	7,946	The movement in Gross loans and advances to customers has been driven by increased repayments and lower retail spend activity associated to the COVID-19 pandemic in 2020, as well as a reduction in product offerings following some risk tightening in response to the COVID-19 pandemic.
New accounts (thousands)	325	320	The volume of new accounts in 2020 is broadly consistent year on year.
Active customer accounts at 31 December (thousands)	2,272	2,333	Active customer accounts comprise all customers who have a balance on their account or have made a transaction in the month. The reduction in active customer accounts was driven by the COVID-19 pandemic which has significantly reduced both retail and travel spend activity.
Impairment loss allowance on loans and advances (£ million)	328	245	The increase in the Impairment loss allowance is largely driven by an updated economic outlook to reflect the impacts of the COVID-19 pandemic. This has been offset by some model enhancements to better reflect the underlying credit risk of certain customers.
Net interest income (£ million)	638	789	The Net interest income reduction of £151,492,000 is driven by impacts of the COVID-19 pandemic, which has resulted in a sizeable reduction in balances linked to customer spend in 2020.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2020, 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 LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

Customers

The directors ensure the Company, as part of LBG, works toward achieving the Group'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. LBG 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 ongoing improvement in customer experience. During the Public Health crisis caused by the COVID-19 pandemic, the Company has been able to support its customers by providing payment holidays for up to six months if requested. As at December 2020 the Company has supported 130,000 customers with payment holidays. The Company has also provided dedicated phone lines with extended hours for customers over 70 years old and NHS workers.

Shareholders

The Company is a wholly owned subsidiary of LBG, forming part of the Group'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 LBG, ensuring that the interests of LBG as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included in the Strategic report within the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG website.

Communities and the environment

The Company 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 the Group's related initiatives, including Helping Britain Recover by actively managing its customer lending. Further information in respect of the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic report within the LBG's Annual Report and Accounts for 2020, which does not form part of this report. Additional information on LBG's Helping Britain Recover Plan, which does not form part of this report, is available on the LBG website.

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2020 the Company's directors had meetings with these regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of LBG, including that of the Company, to managing regulatory change is detailed further on page 50 of the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG 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 LBG, 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.

The directors have been supportive of the Group's initiatives to help customers through the challenges of the COVID-19 pandemic and have considered the impacts on the Company's customer base, in terms of take-up rates of payment holidays and changes in the risk profile of the Company's Loans and advances to customers.

Emerging risks

The key emerging risks relate to how the economy responds to the ongoing uncertainty from the global pandemic. This has potential for operational risks materialising in the areas of cyber fraud, people, technology and operational resilience, and where there is reliance on third-party suppliers. The Company has developed increased agility and resilience to ensure the continued support of colleagues and customers to minimise disruption to ways of working. Additionally the impact of the UK's exit from the EU will continue to be monitored as the new EU and non-EU trading relationships develop.

Section 172(1) statement (continued)

General

The directors do not consider there to be any further material issues which need to be included in the Strategic report.

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

I S Perez
Director

20 May 2021

Directors' report

For the year ended 31 December 2020

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

General information

The Company is a private company, limited by shares, incorporated, registered and domiciled in the United Kingdom (registered number: 02783251). The current Company secretary is A E Mulholland.

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

No dividends were paid or proposed during the year ended 31 December 2020 (2019: £490,849,000).

Going concern

The directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following:

- There is a net asset position of £406,835,000 (2019: £199,743,000).
- The Company does not have external debt and is funded by other companies within the Group.
- The Company will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its parent, Lloyds Bank plc.
- That it is the intention of Lloyds Bank plc, to continue to provide adequate access to liquidity for the foreseeable future.

Registered office

The Company's registered office is Cawley House, Chester Business Park, Chester, United Kingdom, CH4 9FB.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown below:

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

There have been no changes to directors between the beginning of the reporting year and the approval of the Annual Report and Accounts.

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future developments and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1 to 4.

Climate change

The Company is out of scope of the Streamlined Energy and Carbon Reporting ("SECR"), as it does not have to report on SECR in its own Director’s report where included in the Group's SECR statement of a UK Group report. Further information in respect of SECR is included within the LBG Annual Report and Accounts for 2020, which does not form part of this report, available on the LBG website.

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 3.

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 2020, 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 LBG, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic report on pages 1 to 4 of these financial statements. 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, which does not form part of this report, available on the LBG 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 page 92 of the LBG annual report and accounts for 2020, which does not form part of this report, and is available on the LBG 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 though 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. An elected director will chair the board meeting and receive support from the Company Secretary for the provision to each meeting of accurate and timely information.

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 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.

Directors' report (continued)

For the year ended 31 December 2020

Approach to Corporate Governance (continued)

Principle Five – Remuneration

The Remuneration Committee of LBG 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 LBG board on remuneration policy, as relevant to the Company and its employees, which includes colleagues where the regulators require the Company to implement a specific approach to their remuneration.

Principle Six – Stakeholders

The Company, as part of LBG, operates under LBG's wider Responsible Business approach, as overseen by the LBG Responsible Business Committee. Helping Britain Prosper is central to LBG's responsible business approach and the Company supports this initiative through supporting the needs of its customers and colleagues during these uncertain times.

In 2020, the Responsible Business Committee determined that the Company and LBG continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers.

Directors' indemnities

LBG has granted to the directors of the Company a deed of indemnity which constitutes 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The Deed for existing directors is available for inspection at the registered office of LBG. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors' responsibilities in respect of the financial statements

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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' report (continued)

For the year ended 31 December 2020

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.

Independent auditors

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company for accounting periods ending on or after 31 December 2021.

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

I S Perez
Director

20 May 2021

Financial statements

Statement of comprehensive income

For the year ended 31 December 2020

	Note	**2020 £'000**	2019 £'000
Interest income		**706,192**	872,204
Interest expense		**(68,471)**	(82,991)
Net interest income	3	**637,721**	789,213
Fee and commission income		**22,678**	45,014
Fee and commission expense		**(24,680)**	(34,062)
Net fee and commission (expense)/income	4	**(2,002)**	10,952
Other income	5	**1,382**	146
Income from investments	6	**2**	40
Regulatory provisions - credit/(charge) for the year	23	**867**	(336,821)
Impairment losses on Loans and advances to customers	7	**(312,061)**	(245,549)
Impairment losses on Investment in subsidiary undertakings	17	**(760)**	(2,432)
Other operating expenses	8	**(67,971)**	(140,247)
Profit before tax		**257,178**	75,302
Taxation	11	**(50,036)**	(50,916)
Profit for the year from continuing operations		**207,142**	24,386
Discontinued operations			
Loss for the year from discontinued operations	13	**(50)**	(24,643)
Profit/(loss) for the year, being total comprehensive income/(expense)		**207,092**	(257)

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

Balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Cash and cash equivalents	14	**44,476**	44,549
Trade and other receivables	15	**152,939**	50,940
Loans and advances to customers	16	**6,739,575**	7,700,598
Investment in subsidiary undertakings	17	**1,336**	2,096
Property, plant and equipment	18	**3,818**	3,714
Intangible assets	19	**758**	1,919
Deferred tax asset	20	**23,081**	23,794
Total assets		**6,965,983**	7,827,610
LIABILITIES			
Borrowed funds	21	**6,351,900**	7,154,096
Trade and other payables	22	**37,998**	85,347
Provision for liabilities and charges	23	**112,797**	332,605
Current tax liability		**56,453**	55,819
Total liabilities		**6,559,148**	7,627,867
EQUITY			
Share capital	24	**200,000**	200,000
Retained earnings / (Accumulated losses)		**206,835**	(257)
Total equity		**406,835**	199,743
Total equity and liabilities		**6,965,983**	7,827,610

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

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

I S Perez
Director

20 May 2021

Statement of changes in equity

For the year ended 31 December 2020

	Share capital	Retained earnings/ (Accumulated losses)	Total equity
	£'000	£'000	£'000
At 1 January 2019	200,000	490,849	690,849
Total comprehensive expense for the year	-	(257)	(257)
Dividend paid to equity holders of the Company (see note 12)	-	(490,849)	(490,849)
At 31 December 2019	**200,000**	**(257)**	**199,743**
Total comprehensive income for the year	-	207,092	207,092
At 31 December 2020	**200,000**	**206,835**	**406,835**

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

Cash flow statement

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Cash flows generated from operating activities		
Profit before tax	**257,178**	75,302
Adjustments for:		
- Loss generated from discontinued operations before tax	**(62)**	(25,934)
- Net fair value losses	**-**	9
- Foreign exchanges generated by operating activities	**-**	(73)
- Dividend income	**(2)**	(40)
- Interest expense	**68,471**	82,991
- Depreciation of Property, plant and equipment	**2,498**	3,306
- Amortisation of Intangible assets	**1,161**	2,152
- Impairment of Investment in subsidiary undertakings	**760**	2,432
- (Decrease)/increase in Provision for liabilities and charges	**(219,808)**	59,341
Changes in operating assets and liabilities:		
- Net decrease in Loans and advances to customers	**961,023**	492,278
- Net decrease/(increase) in Other debtors and Other trade receivables	**22,739**	(6,701)
- Net (decrease)/increase in Trade and other payables	**(47,349)**	17,200
Cash generated from operations	**1,046,609**	702,263
Tax paid	**(48,677)**	(27,318)
Net cash generated from operating activities	**997,932**	674,945
Cash flows used in investing activities		
Dividend income	**2**	40
Purchase of Property, plant and equipment	**(2,602)**	(3,083)
Net cash used in investing activities	**(2,600)**	(3,043)
Cash flows used in financing activities		
Repayment of net borrowings with group undertakings	**(926,934)**	(86,999)
Dividends paid	**-**	(490,849)
Interest paid	**(68,471)**	(82,991)
Net cash used in financing activities	**(995,405)**	(660,839)
Change in Cash and cash equivalents	**(73)**	11,063
Cash and cash equivalents at beginning of year	**44,549**	33,486
Cash and cash equivalents at end of year	**44,476**	44,549

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

Notes to the financial statements
For the year ended 31 December 2020

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 international accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006.

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

(i) 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).

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 31. No standards have been early adopted.

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 on the basis that the Company and each of 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 and under the historical cost convention.

The opening cost and accumulated amortisation positions at 1 January 2019 for Purchased Credit Card Receivable intangible assets have been restated downwards by £166,545,000 to remove PCCR intangibles after they reach the end of their expected life. At this point the net book value of these adjustments is £nil, and so there is no impact on the carrying values presented on the Balance sheet. Balances associated with a PCCR intangible reaching the end of its expected life in each year disclosed are presented as disposals. Therefore 2019 disposals have been restated to £48,781,000 from £nil. Further details are disclosed in note 19.

1.2 Income recognition

Dividend income

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

Interest income and expense from financial assets

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

Once a financial asset or 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.

Notes to the financial statements (continued)
For the year ended 31 December 2020

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 cash flows 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 of financial assets

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses over the year including those arising from credit related fraud. Expected credit losses are recognised for loans and advances to customers and other financial assets held at amortised cost. Expected credit losses are calculated as an unbiased and probability-weighted estimate 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 repayments and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision) 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 since origination, 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 since initial recognition 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. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensure alignment between the assessment of staging and the Company's management of credit risk which utilises these internal metrics within risk management practices. 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. The use of a payment holiday in itself has not been judged to indicate a significant increase in credit risk, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These portfolio level models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, 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. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. The Company uses the IFRS 9 rebuttable presumption that default occurs no later than when a payment is 90 days past due. The use of payment holidays is not considered to be an automatic trigger of regulatory default and therefore does not automatically trigger Stage 3. Days past due will also not accumulate on any accounts that have taken a payment holiday including those already past due.

1. Accounting policies (continued)

1.4 Impairment of financial assets

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing 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 credit impaired (for a return to Stage 2). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. 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 there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Statement of comprehensive income. The write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

1.5 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity.

1.6 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.

1.7 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.

1.8 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.

1. Accounting policies (continued)

1.8 Taxation, including deferred income taxes

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.

1.9 Investment in subsidiary undertakings

Investment in subsidiary undertakings is 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.

1.10 Retirement benefit schemes

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.

1.11 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 2020 Annual Report and Accounts of the Group.

1.12 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. Accounting policies (continued)

1.13 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).

1.14 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.

1.15 Dividends paid

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.

(i) 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:

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 of receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

The key components of EIR are the volume of Balance Transfers made, the duration of the promotional Balance Transfer periods 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.

The Company's EIR Balance sheet position increased to an asset of £145,500,000 at 2020 year end from £91,400,000 at 2019 year end. The growth of the Company's asset through 2020 is primarily driven by the Customer interest rate harmonisation programme in 2019. Through 2019, a customer's interest rate percentage differed dependant on the behaviour of the customer i.e. a balance transfer was charged at a higher interest rate compared to Retail spend. This tiered pricing was removed for the majority of the Company's customers and customer rates were aligned to the Group's Consumer Card harmonised pricing strategy giving customers one single rate for non-promotional rate balances across spend categories.

Sensitivities on the length of the balance following the promotional period expiry have been performed as this is considered a key assumption to EIR. Each additional month in the anticipated balance life following the promotional period expiry would increase the EIR asset held by approximately £2,000,000 based on harmonised pricing being applied.

There have been no changes to the EIR calculation through 2020. Balance pay down and yield assumptions have been updated with no material change to note in 2020.

(ii) 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:

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

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. Lifetime for the products offered by the Company is deemed to be 6 years.

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. Credit impaired assets are transferred to Stage 3 with a lifetime expected losses allowance.

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 3 or more grades is treated as a SICR. Further information can be found in note 27.1.

The Company SICR triggers have been refined in 2020 following a review of sensitivity to changes in economic assumptions. The impact of this has been approximately £572,625,000 of additional assets being classified as Stage 2 at 31 December 2020, with a corresponding increase in the ECL of £17,593,000 resulting from the transfer to a lifetime expected loss. This £17,593,000 is included within the "Other smaller judgements" adjustment of £54,392,000 discussed further in this note.

The use of a payment holiday in and of itself has not been judged to indicate a significant increase in credit risk, nor forbearance, with the underlying long-term credit risk deemed to be driven by economic conditions and captured through the use of forward-looking models. These models are capturing the anticipated volume of increased defaults and therefore an appropriate assessment of staging and expected credit loss.

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)

(ii) Critical accounting judgements (continued)

Allowance for impairment losses (continued)

Generation of Multiple Economic Scenarios

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In addition to a defined base case, as used for planning, the Company's approach relies on model-generated scenarios, reducing scope for bias in the selection of scenarios and their weightings. The assumptions underpinning the base case scenario reflect the Company's best view of future events. The base case is therefore central to the range of outcomes created as no alternative assumptions are factored into the model-generated scenarios.

The Company models a full distribution of economic scenarios around this base case, ranking them using estimated relationships with industry-wide historical loss data. The full distribution is summarised by a practical number of scenarios to run through ECL models representing four sections: an upside, the base case, and a downside scenario weighted at 30 per cent each, with a severe downside scenario weighted at 10 per cent. With the base case already pre-defined, the other three scenarios are constructed as averages of constituent modelled scenarios around the 15th, 75th and 95th percentiles of the distribution. The scenario weights therefore represent the allocation to each summary segment of the distribution and not a subjective view on likelihood.

In 2020, a change was made to the way in which the distribution of scenarios is created. This change allows for a greater dispersal of economic outcomes in the early periods of the forecast, to recognise the increased near-term profile of risks present since the onset of the coronavirus pandemic. This change allows for a wider distribution of losses both on the upside and downside, although is most evident in the severe downside scenario, given it represents a more adverse segment of the distribution.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating the MES. The scenarios include forecasts for key variables in the fourth quarter of 2020, for which actuals may have since emerged prior to publication.

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 2020		31 December 2019	
UK Unemployment	1pp **Increase**	1pp **Decrease**	1pp Increase	1pp Decrease
ECL impact, £	**13,835,000**	**(13,835,000)**	5,800,000	(7,700,000)

Application of judgement in adjustments to modelled ECL

Limitations in the Company's impairment models or data inputs, may be identified through the ongoing assessment and validation of the output of the models. In these circumstances, management make appropriate adjustments to the Company's allowance for impairment losses to ensure that the overall provision adequately reflects all material risks. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays.

Judgements are not typically assessed under each distinct economic scenario used to generate ECL, but instead are applied on the basis of final modelled ECL which reflects the probability weighted view of all scenarios. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated and that there are specific release criteria within a reasonable timeframe.

At 31 December 2020 the COVID-19 pandemic and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result there is a greater need for management judgements to be applied alongside the use of models. At 31 December 2020 the ECL allowance was increased by in-model adjustments totalling £29,000,000 (2019: £1,200,000) whilst further post-model adjustments totalling £(23,799,000) (2019: £(25,461,000)) reduced the ECL allowance. This comprises judgements added due to the COVID-19 pandemic in the year and other judgements not directly linked to the COVID-19 pandemic but which have increased in size under the current outlook. The most significant judgements at 31 December 2020 are as follows:

<u>Recognition of impact of support measures: £27,800,000 (2019: £nil)</u>

The use of payment holidays along with subdued levels of consumer spending is judged to have temporarily reduced the flow of accounts into arrears and default and to have also improved average credit scores across portfolios. Management believes that the resulting position does not fully reflect the underlying credit risk in the portfolios. Adjustments have therefore been made to increase expected future rates of default and remove the impact of the observed improvement in average credit scores.

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

(ii) Critical accounting judgements (continued)

Allowance for impairment losses (continued)

Application of judgement in adjustments to modelled ECL (continued)

LGD alignment: £(54,800,000) (2019: £(22,000,000))

The Company's impairment model was developed using historical data. Following the acquisition of the business and the subsequent migration of this portfolio to Lloyds Banking Group collections strategies an adjustment is required to reflect the recent improvement in cure rates now evident as collections strategies harmonise, which are not captured by the original MBNA model development data.

Unsecured non-scored accounts: £(48,491,000) (2019: £nil)

Due to a shortcoming in the models, it is not possible to retrieve relevant credit data for a number of accounts and therefore no PD is available and no assessment of whether there has been a SICR can be carried out. The model defaults these accounts to Stage 2 and a proxy ECL allowance calculated based on similar accounts within the portfolio. The deterioration in the economic outlook and growth in the number of accounts subject to this proxy have resulted in this approach having a more significant effect compared to year ended 31 December 2019, at which point the impact was deemed immaterial. An exercise has therefore been carried out to identify and adjust those accounts which should not have been allocated to Stage 2.

Lifetime extension: £26,300,000 (2019: £11,400,000)

The Company uses a model lifetime definition of three years based on historic data which shows that substantially all accounts resolve in this time. An adjustment is made to extend the lifetime used for Stage 2 exposures to six years by adding incremental probability of default through the extrapolation of the default trajectory observed throughout the three years and beyond. The resulting additional ECL allowance is added to Stage 2 accounts proportionate to the modelled three year PD. The increase in the judgement in 2020 is driven by growth in Stage 2 assets and their coverage, rather than any change to the lifetime assumption.

Other smaller judgements: £54,392,000 (2019: £(13,661,000))

Other smaller judgements collectively total £54,392,000 (2019: £(13,661,000)); this includes the £17,593,000 adjustment detailed in the "Significant increase in credit risk" section within this note.

3. Net interest income

	2020	2019
	£'000	£'000
Interest income		
Credit card finance	**706,192**	872,204
Interest expense		
Group interest expense (see note 26)	**(68,471)**	(82,991)
Net interest income	**637,721**	789,213

4. Net fee and commission (expense)/income

	2020	2019
	£'000	£'000
Fee and commission income		
Loan fees receivable	**22,678**	45,014
Fee and commission expense		
Other fees and commission payable	**(24,680)**	(34,062)
Net fee and commission (expense)/income	**(2,002)**	10,952

5. Other income

	2020 **£'000**	2019 £'000
Other operating income	**1,409**	203
Foreign exchange loss	**(27)**	(57)
	1,382	146

6. Income from investments

Income from investment relates to interest income received on the Company's equity instruments of £nil (2019: £40,000); dividends of £2,000 were received from the Company's subsidiary undertakings during 2020 (2019: £nil).

7. Impairment losses on Loans and advances to customers

For the year ended 31 December 2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Transfers between stages	**(2,451)**	**65,042**	**67,829**	**130,420**
Other changes in credit quality	**8,033**	**10,287**	**143,680**	**162,000**
Additions/(repayments)	**2,522**	**2,385**	**(2,859)**	**2,048**
Methodology changes	**(11,372)**	**28,965**	**-**	**17,593**
	(3,268)	**106,679**	**208,650**	**312,061**
In respect of:				
Loans and advances to customers	**(13,963)**	**98,018**	**208,650**	**292,705**
Undrawn loan commitments	**10,695**	**8,661**	**-**	**19,356**
	(3,268)	**106,679**	**208,650**	**312,061**

For the year ended 31 December 2019	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
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

The Company's impairment charge comprises the following items:

Transfers between stages

The net impact on the impairment charge of transfers between stages as defined by the staging criteria set out in note 2(ii).

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.

Additions/(repayments)

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.

7. Impairment losses on Loans and advances to customers (continued)

Methodology changes

To reflect the changes in relation to SICR triggers as set out in note 2(ii).

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

8. Other operating expenses

	2020	2019
	£'000	£'000
Staff costs (see note 9)	**24,293**	61,222
Depreciation (see note 18)	**2,498**	3,306
Other operating expenses (see note 26)	**23,418**	27,654
Administrative expenses	**16,601**	45,913
Amortisation of Intangible assets (see note 19)	**1,161**	2,152
	67,971	140,247

Included within administrative expenses are fees payable to the Company's auditors for the audit of the financial statements of £580,000 (2019: £720,000) and fees payable for audit related assurance work of £140,000 (2019: £nil). All audit fees are approved by the Group Audit Committee.

9. Staff costs

	2020	2019
	£'000	£'000
Wages and salaries	**20,925**	44,925
Social security costs	**1,954**	4,752
Redundancy costs	**(2,146)**	1,921
Other pension costs	**2,110**	5,660
Other staff costs	**1,450**	3,964
	24,293	61,222

There are negative redundancy costs in 2020 due to a release of the provision previously held at 2019 year end due to colleagues securing new roles within the Group.

The average monthly number of employees during the year was 725 (2019: 1,252). 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 (2019: £nil).

10. Directors' emoluments

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

	2020	2019
	£'000	£'000
Aggregate emoluments	**106**	101
Aggregate post-employment benefits	**12**	12
	118	113

During the year retirement benefits were accruing to four directors (2019: four) in respect of defined contribution pension schemes. No directors exercised share options in the ultimate parent company during the year (2019: none). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2020 was £nil (2019: £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 2020 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

	2020 £'000	2019 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	**56,559**	54,238
- Adjustments in respect of prior years	**(7,224)**	(3,844)
- Current tax credit on loss from discontinued operations	**(12)**	(1,291)
Current tax charge	**49,323**	49,103
UK deferred tax:		
- Origination and reversal of timing differences	**3,995**	5,617
- Impact of deferred tax rate change	**(2,778)**	(302)
- Adjustments in respect of prior years	**(504)**	(3,502)
Deferred tax charge (see note 20)	**713**	1,813
Tax charge	**50,036**	50,916

Corporation tax is calculated at a rate of 19.00% (2019: 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:

	2020 £'000	2019 £'000
Profit before tax	**257,178**	75,302
Tax charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**48,864**	14,307
Factors affecting charge:		
- Effect of change in tax rate and related impacts	**(2,778)**	(302)
- Disallowed and non-taxable items	**11,678**	44,257
- Adjustments in respect of prior years	**(7,728)**	(7,346)
Tax charge on profit on ordinary activities	**50,036**	50,916
Effective rate	**19.46%**	67.62%

12. Dividends

No dividend was paid or declared during the year ended 31 December 2020 (2019: £490,849,000).

13. Loss for the year from discontinued operations

	2020 £'000	2019 £'000
Statement of comprehensive income		
Payment protection insurance charge	**-**	25,874
Other operating expenses	**62**	60
Loss for the year from discontinued operations before tax	**62**	25,934
Tax credit on discontinued operations	**(12)**	(1,291)
Loss for the year from discontinued operations after tax	**50**	24,643

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

14. Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash at bank and in hand, held with group undertakings (see note 26)	**9,476**	22,549
Cash at bank and in hand, held with external banks	**35,000**	22,000
	44,476	44,549

15. Trade and other receivables

	2020	2019
	£'000	£'000
Amounts due from group undertakings (see note 26)	**146,437**	21,699
Prepayments and accrued income	**3,602**	10,679
Other debtors	**2,900**	18,562
	152,939	50,940

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. Any expected credit losses are considered to be immaterial in either year. Included within Amounts due from group undertakings in an accounts receivable balance of £135,968,000 due from Lloyds Bank plc.

16. Loans and advances to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2020	7,211,416	566,087	168,407	**7,945,910**
Transfers to Stage 1	141,809	(140,097)	(1,712)	**-**
Transfers to Stage 2	(822,686)	841,961	(19,275)	**-**
Transfers to Stage 3	(150,403)	(75,433)	225,836	**-**
Net (decrease)/increase in loans and advances to customers	(685,478)	43,436	(38,480)	**(680,522)**
Financial assets that have been written off during the year	-	-	(256,664)	**(256,664)**
Recoveries of prior advances written off	-	-	59,226	**59,226**
Gross loans and advances to customers	5,694,658	1,235,954	137,338	**7,067,950**
Less: allowances for losses on loans and advances	(83,614)	(174,193)	(70,568)	**(328,375)**
Net loans and advances to customers	**5,611,044**	**1,061,761**	**66,770**	**6,739,575**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Balance 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 prior advances written off	-	-	70,320	70,320
Gross loans and advances to customers	7,211,416	566,087	168,407	7,945,910
Less: allowances 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	96,847	7,700,598

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 majority of customer accounts, however the loan may be repaid earlier than implied by the contractual terms.

17. Investment in subsidiary undertakings

	2020	2019
	£'000	£'000
Cost		
At 1 January and 31 December	**80,000**	80,000
Provision for impairment		
At 1 January	**77,904**	75,472
Charge for the year	**760**	2,432
At 31 December	**78,664**	77,904
Carrying value of investments at 31 December	**1,336**	2,096

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.

The subsidiary undertakings at 31 December 2020 and 31 December 2019, listed below, are all incorporated in the United Kingdom.

Subsidiary undertakings	**Company interest**	**Principal activities**	**Registered address**
Loans.co.uk Limited	100%	Non-trading	Cawley House, Chester Business Park, Chester, CH4 9FB
MBNA Direct Limited	100%	Liquidation	1 More London Place, London, SE1 2AF

MBNA Direct Limited was placed into Member's voluntary liquidation on 29 September 2020.

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 (iii)	In liquidation
Chester Asset Securitisation Holdings No.2 Limited (i)	In liquidation
Chester Asset Options No.2 Limited (iii)	In liquidation
Chester Asset Options No.3 Limited (ii)	Dissolved
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)	In liquidation

Registered Office: (i) 26 New Street, St Helier, Jersey (ii) Fifth Floor, 100 Wood Street, London, EC2V 7EX (iii) The Shard, 32 London Bridge Street, London, SE1 9SG

Chester Asset Securitisation Holdings Limited, Chester Asset Securitisation Holdings No.2 Limited, Chester Asset Options No.2 Limited and Chester Asset Receivables Dealings Issuer Limited were all placed into Member's voluntary liquidation in October 2020.

Chester Asset Options No.3 Limited applied for strike off in November 2020 and was dissolved in March 2021.

18. Property, plant and equipment

	Office and other equipment £'000
Cost	
At 1 January 2019	28,361
Additions	3,083
Disposals	(2,045)
At 31 December 2019	29,399
Additions	2,602
Disposals	(161)
At 31 December 2020	31,840
Accumulated depreciation	
At 1 January 2019	24,424
Charge for the year (see note 8)	3,306
Disposals	(2,045)
At 31 December 2019	25,685
Charge for the year (see note 8)	2,498
Disposals	(161)
At 31 December 2020	28,022
Balance sheet amount at 31 December 2020	**3,818**
Balance sheet amount at 31 December 2019	3,714

19. Intangible assets

	2020 PCCR £'000
Cost	
At 1 January 2020	87,110
Disposals	(14,085)
At 31 December 2020	73,025
Accumulated amortisation	
At 1 January 2020	85,191
Charge for the year (see note 8)	1,161
Disposals	(14,085)
At 31 December 2020	72,267
Balance sheet amount at 31 December 2020	**758**

19. Intangible assets (continued)

	2019 Restated PCCR £'000
Cost	
At 1 January 2019 [1]	135,891
Disposals [2]	(48,781)
At 31 December 2019	87,110
Accumulated amortisation	
At 1 January 2019 [3]	131,820
Charge for the year (see note 8)	2,152
Disposals [2]	(48,781)
At 31 December 2019	85,191
Balance sheet amount at 31 December 2019	1,919

Amortisation is included in Other operating expenses in the Statement of comprehensive income. PCCR has a remaining amortisation period of 2.3 years (2019: 3.3 years).

[1] The opening cost position at 1 January 2019 for PCCR intangibles has been restated downwards by £166,545,000 (from £302,436,000 to £135,891,000) to remove the PCCR intangibles that had already reached the end of their expected lives.

[2] 2019 disposals have been restated to £48,781,000 from £nil to reflect the PCCR intangibles that were fully amortised in the period.

[3] The opening accumulated amortisation position at 1 January 2019 for PCCR intangibles has been restated downwards by £166,545,000 (from £298,365,000 to £131,820,000) to remove the PCCR intangibles that had already reached the end of their expected lives.

The net book value impact of these adjustments is £nil, and there is no impact on the carrying values presented on Balance sheet.

20. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2020 £'000	2019 £'000
At 1 January	**23,794**	25,607
Charge for the year (see note 11)	**(713)**	(1,813)
At 31 December	**23,081**	23,794

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

	2020 £'000	2019 £'000
Accelerated capital allowances	**148**	973
Accounting provisions disallowed	**(202)**	601
Other temporary differences	**(659)**	(3,387)
	(713)	(1,813)

20. Deferred tax asset (continued)

Deferred tax asset comprises:

	2020 £'000	2019 £'000
Accelerated capital allowances	**2,148**	2,000
Accounting provisions disallowed	**399**	601
Other temporary differences	**20,534**	21,193
	23,081	23,794

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by The Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Had this change in corporation tax been enacted on 31 December 2020, the effect would have been to increase net deferred tax assets by £4,957,000. There are no unrecognised deferred tax assets requiring disclosure in these financial statements.

21. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 26)	**6,351,900**	7,154,096

Amounts due to group undertakings include short term deposits and fixed term loans which are unsecured, interest-bearing and repayable on maturity. During 2020 the Group revised its approach to internal funding by adopting the Sterling Overnight Index Average ("SONIA") interest rate benchmark in place of LIBOR.

22. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**26,308**	49,416
Other payables	**2,431**	2,023
Other tax and social security payable	**-**	(267)
Accruals and deferred income	**9,259**	34,175
	37,998	85,347

23. Provision for liabilities and charges

	Undrawn loan commitments £'000	Payment protection insurance £'000	Redundancy costs provision £'000	Other provision £'000	Total £'000
At 1 January 2019	61,787	191,130	15,933	4,414	273,264
(Credit)/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
Charge/(credit) for the year	19,356	(867)	(2,187)	4,742	21,044
Utilised during the year	-	(236,530)	(366)	(3,956)	(240,852)
At 31 December 2020	**45,663**	**60,181**	**985**	**5,968**	**112,797**

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.

23. Provision for liabilities and charges (continued)

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.

As at 31 December 2020, the provision of £45,663,000 (2019: £26,307,000) was categorised as £31,053,000 (2019: £20,358,000) in Stage 1, £14,610,000 (2019: £5,949,000) in Stage 2 and £nil (2019: £nil) in Stage 3 of impairment per the expected credit loss methodology under IFRS 9.

Payment protection insurance provision

The 2020 PPI provision comprises £59,637,000 (2019: £276,882,000) in respect of continuing operations and £544,000 (2019: £20,696,000) in respect of discontinued operations. This provision includes the cost of making redress payments to customers, the related administration costs and the costs associated with litigation activity to date. The stock of complaints resulting from the PPI industry deadline in August 2019 was materially completed during 2020, despite the COVID-19 pandemic delaying operational activities. The Company is now focused upon the final stages of work to ensure operational completeness ahead of an orderly programme close.

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 costs provision reflects managements best estimate of the expected redundancy costs to be incurred by the Company as at 31 December 2020.

Other provision

Other provisions includes £5,968,000 (2019: £5,182,000) in respect of expected costs of rectifying certain circumstances following a review of arrears handling activities and in relation to customer remediation on persistent customer debt.

24. Share capital

	2020	2019
	£'000	£'000
Allotted, issued and fully paid		
20,000,000 (2019: 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 2020, LBG operated a number of share-based payment schemes for which employees of the Group were eligible and all of which are equity settled. Details of all schemes operated by the Group are set out below; these are managed and operated on a Group-wide basis. The amount recharged to the Company in respect of the Group share based payment schemes, and which is included within Wages and salaries (note 9), was £1,500,000 (2019: £3,100,000).

During the year 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 2020 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 2020 financial statements of the Company'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.

	2020 £'000	2019 £'000
Amounts due from group undertakings		
Lloyds Bank plc	**139,445**	18,939
Loans.co.uk Limited	**6,992**	2,760
Total Amounts due from group undertakings (see note 15)	**146,437**	21,699
Amounts due to group undertakings		
Lloyds Bank plc	**6,341,122**	7,137,869
Loans.co.uk Limited	**9,672**	9,565
Bank of Scotland plc	**-**	5,368
Mainsearch Company Limited (in liquidation)	**1,076**	1,076
MBNA Europe Holdings Limited	**6**	192
MBNA Global Services Limited (in liquidation)	**24**	24
MBNA Direct Limited (in liquidation)	**-**	2
Total Amounts due to group undertakings (see note 21)	**6,351,900**	7,154,096
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc (see note 14)	**9,476**	22,549
Interest expense		
Lloyds Bank plc	**68,364**	82,884
Loans.co.uk Limited	**107**	107
Total Interest expense (see note 3)	**68,471**	82,991
Other expenses		
Lloyds Bank plc	**23,418**	19,937
Bank of Scotland plc	**-**	7,717
Total recharge expense (see note 8)	**23,418**	27,654
Dividend paid		
Lloyds Bank plc (see note 12)	-	490,849

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 £696,400 during the current year (2019: £17,000).

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

26. Related party transactions (continued)

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 LBG board. Members of the LBG board are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group.

	2020 £'000	2019 £'000
Salaries and short term employee benefits	**106**	101
Post employment benefits	**12**	12
	118	113

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 predominantly to individual customers geographically located in the United Kingdom.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial risk management (continued)

27.1 Credit risk (continued)

Financial assets subject to credit risk

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations are detailed below.

	2020 £'000	2019 £'000
Cash and cash equivalents	**44,476**	44,549
Trade and other receivables	**152,939**	50,940
Gross loans and advances to customers	**7,067,950**	7,945,910
	7,265,365	8,041,399

Included in Trade and other receivables are Prepayments and accrued income of £3,602,000 (2019: £10,678,000) 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 Group's 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.

At 31 December 2020		**Gross loans and advances to customers - Loan Quality**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
RMS 1-6	0.00-4.50%	**4,589,627**	**431,748**	**-**	**5,021,375**
RMS 7-9	4.51-14.00%	**843,566**	**435,604**	**-**	**1,279,170**
RMS 10	14.01-20.00%	**261,319**	**158,250**	**-**	**419,569**
RMS 11-13	20.01-99.99%	**146**	**210,352**	**-**	**210,498**
RMS 14	100%	**-**	**-**	**137,338**	**137,338**
Total		**5,694,658**	**1,235,954**	**137,338**	**7,067,950**
At 31 December 2019					
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%	-	-	168,407	168,407
Total		7,211,416	566,087	168,407	7,945,910

27. Financial risk management (continued)

27.1 Credit risk (continued)

Commitments to lend

At 31 December 2020		**Gross loans and advances to customers - Loan Commitments**			
	PD Range	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
RMS 1-6	0.00-0.050%	**20,252,640**	**462,292**	**-**	**20,714,932**
RMS 7-9	0.051-3.00%	**415,761**	**161,275**	**-**	**577,036**
RMS 10	3.01-20.00%	**597,335**	**243,677**	**-**	**841,012**
RMS 11-13	20.01-99.99%	**33**	**31,968**	**-**	**32,001**
RMS 14	100%	**-**	**-**	**25,420**	**25,420**
		21,265,769	**899,212**	**25,420**	**22,190,401**
At 31 December 2019					
RMS 1-6	0.00-0.050%	20,177,396	217,226	-	20,394,622
RMS 7-9	0.051-3.00%	122,035	65,667	-	187,702
RMS 10	3.01-20.00%	830	12,386	-	13,216
RMS 11-13	20.01-99.99%	130	21,438	-	21,568
RMS 14	100%	-	-	42,427	42,427
		20,300,391	316,717	42,427	20,659,535

Analysis of movement in the allowance for impairment losses by stage

<u>**In respect of drawn balances**</u>	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2020	**97,577**	**76,175**	**71,560**	**245,312**
Transfers to Stage 1	**14,610**	**(13,814)**	**(796)**	**-**
Transfers to Stage 2	**(4,977)**	**(3,380)**	**(9,236)**	**(17,593)**
Transfers to Stage 3	**(3,923)**	**(19,058)**	**22,981**	**-**
Impact of transfer between stages	**(6,705)**	**92,099**	**54,256**	**139,650**
	(995)	**55,847**	**67,205**	**122,057**
Methodology changes	**(11,372)**	**28,965**	**-**	**17,593**
Other items (credited)/charged to Statement of comprehensive income	**(1,596)**	**13,206**	**141,445**	**153,055**
(Credit)/charge for the year (including recoveries)	**(13,963)**	**98,018**	**208,650**	**292,705**
Advances written off	**-**	**-**	**(256,664)**	**(256,664)**
Recoveries of prior advances written off	**-**	**-**	**59,226**	**59,226**
Unwind of discount	**-**	**-**	**(12,204)**	**(12,204)**
At 31 December 2020	**83,614**	**174,193**	**70,568**	**328,375**

Notes to the financial statements (continued)
For the year ended 31 December 2020

27. Financial risk management (continued)

27.1 Credit risk (continued)

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	**20,358**	**5,949**	**-**	**26,307**
Transfers to Stage 1	**2,016**	**(2,016)**	**-**	**-**
Transfers to Stage 2	**(1,776)**	**1,776**	**-**	**-**
Transfers to Stage 3	**(210)**	**(688)**	**898**	**-**
Impact of transfer between stages	**(1,485)**	**10,123**	**(275)**	**8,363**
	(1,455)	**9,195**	**623**	**8,363**
Other items charged/(credited) to Statement of comprehensive income	**12,150**	**(534)**	**(623)**	**10,993**
Charge for year (including recoveries)	**10,695**	**8,661**	**-**	**19,356**
At 31 December 2020	**31,053**	**14,610**	**-**	**45,663**
In respect of:				
Loans and advances to customers	**83,614**	**174,193**	**70,568**	**328,375**
Provisions in relation to loan commitments	**31,053**	**14,610**	**-**	**45,663**
Total	**114,667**	**188,803**	**70,568**	**374,038**

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
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 transfer between stages	(31,361)	44,994	57,727	71,360
	11,886	(18,378)	77,852	71,360
Other items charged/(credited) to Statement of comprehensive income	37,686	(1,452)	173,435	209,669
Charge/(credit) for the year (including recoveries)	49,572	(19,830)	251,287	281,029
Advances written off	-	-	(312,065)	(312,065)
Recoveries of prior advances 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
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 transfer between stages	(5,101)	3,223	(397)	(2,275)
	(835)	(2,028)	588	(2,275)
Other items credited to Statement of comprehensive income	(32,440)	(177)	(588)	(33,205)
Credit for year (including recoveries)	(33,275)	(2,205)	-	(35,480)
At 31 December 2019	20,358	5,949	-	26,307
In respect of				
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)

27.2 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.

As at 31 December 2020	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Borrowed funds	**189,845**	**-**	**3,238,148**	**2,923,907**	**-**	**6,351,900**
Contractual interest payments	**-**	**-**	**20,754**	**22,660**	**-**	**43,414**

As at 31 December 2019	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Borrowed funds	144,531	1,409,565	3,600,000	2,000,000	-	7,154,096
Contractual interest payments	-	3,835	28,448	46,588	-	78,871

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 and decrease Profit before tax and decrease Equity by £10,096,000 (2019: £14,400,000), and accordingly decrease Interest expense, increase Profit before tax and increase Equity by £10,096,000 (2019: £14,400,000) 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. Financial risk management (continued)

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 fair value 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 managed capital of the Company constitutes Total equity. This consists entirely of issued Share capital and Retained earnings (2019: Accumulated losses). As at 31 December 2020, total managed capital was £406,835,000 (2019: £199,743,000).

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 £22,200,000,000 (2019: £20,700,000,000).

30. Post balance sheet events

In March 2021, a new Master Trust structure was established to be used for the securitisation of MBNA branded credit card receivables. The structure commenced with £5,765,000,000 of receivables securitised, with note issuance of £4,350,000,000; consisting of £3,350,000,000 of AAA-rated notes and £1,000,000,000 of subordinated notes, both acquired and held by MBNA Limited.

Notes to the financial statements (continued)

For the year ended 31 December 2020

31. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2020 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 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2021
Interest rate benchmark reform	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions. Under these amendments, an immediate gain or loss is not recognised in the Statement of comprehensive income where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform.	Annual periods beginning on or after 1 January 2021

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

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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2020; 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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's going concern assessment;
- Evaluation of the company's funding arrangements;
- Evaluation of the company's forecast financial performance and the forecast liquidity and capital positions over the going concern period

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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.

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 in respect of the financial statements, 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of industry laws and regulations such as, but not limited to, regulations relating to the Financial Services and Markets Act 2000 (FSMA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in the assumptions used in significant accounting estimates. Audit procedures performed included:

- Inquiries of management, including consideration of known or suspected instances of non-compliance with laws and regulations or fraud;
- Performing testing over period end adjustments;
- Incorporating unpredictability into the nature, timing and / or extent of testing;
- Reviewing key correspondence with the FCA;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for ECL and effective interest rate (EIR) accounting adjustments;
- Identifying and testing journal entries, in particular any manual journal entries posted by unexpected or unusual users, posted with descriptions indicating a higher level of risk, and those posted late with a favourable impact on financial performance

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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
20 May 2021