MBNA Limited

Annual Report and Accounts

2022

Member of Lloyds Banking Group

Strategic report
For the year ended 31 December 2022

The directors present their Strategic report and audited financial statements of MBNA Limited (the "Company") for the year ended 31 December 2022.

Business overview

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

The Company's Gross loans and advances to customers have decreased by £77,104,000 (2021: decrease of £647,530,000), ending the year on £6,343,316,000 (2021: 6,420,420,000). The movement is primarily due to a reduction in promotional balances driven by the external funding environment. The Company's competitive product offerings have resulted in 290,000 new accounts being acquired in 2022 (2021: 331,000).

The results for the year are set out in the Statement of comprehensive income. The Company's profit before tax for the financial year was £216,965,000 (2021: £358,594,000) and Net interest income for the year was £533,386,000 (2021: £488,540,000).The net interest income increase is due to marginally higher average interest bearing balances and one-off impacts relating to EIR, however overall profit before tax decreased due to an increase in impairment losses in the year.

On 30 November 2022, Lloyds Bank plc transferred ownership of MBNA Limited to Bank of Scotland plc. There has been no impact on the Company.

In February 2022, the Company reduced its Share Capital of 20,000,000 shares at £10 per share (£200,000,000) to 1 share at £10 and converted these into distributable reserves. The Company declared but not paid an interim dividend of £280,000,000 during the year ended 31 December 2022.

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

Future outlook

Any adverse changes affecting the UK economy may have direct and indirect credit and operational exposures. Any further deterioration in global macroeconomic conditions, including as a result of geopolitical events, global health issues, including the COVID-19 pandemic or acts of war or terrorism, could have a material adverse effect on the Company's results. The Company will continue to monitor the situation and risks to the business.

Principal risks and uncertainties

2022 has been a challenging year for many of our customers. Whilst the social and economic consequences of COVID-19 continue to be felt, the Russian invasion of Ukraine in February 2022 added to the economic headwinds from nearly two years of disruption having a large impact on global and UK economies.

The Group aim to provide support to customers following the rising rates and offer support in maintaining financial resilience through the cost of living challenges.

The key risks and uncertainties faced by the Company are managed within the framework established for the Group. The three types of risk associated with the Company are credit risk, liquidity risk and interest rate risk.

Credit risk

Credit risk arises on the individual customer balances, both on the Loans and advances to customers 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.

Key performance indicators ("KPIs")

The MBNA business is part of the Group's Consumer Lending Business Unit, and the key performance indicators for the Company are aligned with those of the Consumer Lending Business Unit and the Group.

The Company'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	2022	2021	Analysis
Gross loans and advances to customers (£'000's)	6,343,316	6,420,420	The movement in Gross loans and advances to customers has been primarily driven by a reduction in promotional balances, with interest-bearing balances in line with the prior-year.
New accounts (000's)	290	331	There has been a decrease in the volume of new accounts year-on-year, driven by the withdrawal of the long 0% Balance Transfer and Money Transfer products from the market during Q4.
Active customer accounts at 31 December (000's)	2,177	2,198	Active customer accounts comprise all customers who have a balance on their account or have made a transaction in the month. Throughout the majority of the period active account volumes were higher than in the previous period, however active account volumes declined in Q4 mainly due to the withdrawal of the long 0% Balance Transfer and Money Transfer products from the market during Q4.
Impairment loss allowance on loans and advances (£'000's)	276,257	204,191	The increase in impairment loss allowance is due to a deterioration in the economic outlook throughout 2022, reflecting judgements relating to inflation and interest rate risk and moving into a period with a higher forecasted level of defaults.
Net interest income (£'000's)	533,386	488,540	The net interest income increase is due to marginally higher average interest bearing balances, and one-off impacts relating to EIR.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), the directors provide this 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.

Key stakeholder engagement

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

Customers

The directors ensure the Company, as part of Lloyds Banking Group, works toward achieving Lloyds Banking Group customer ambitions by focussing on customer fair value and by treating customers fairly. The Board meets on a regular basis and directors have also worked to agree customer plans, regularly reviewing customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made. The Company has tightened it's affordability controls in response to cost of living pressures driven by the geopolitical uncertainty as a result of the conflict between Russia and Ukraine. The Company supports customers in longer term financial difficulty with a range of debt management options including help with budgeting and reducing the cost of credit. Further information on the support provided by the Company can be found on its website at https://www.mbna.co.uk/support/moneyworries.html.

Lloyds Banking Group 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 and as a result during 2021 and 2022 the Company supported up to 130,000 customers with payment holidays and also provided dedicated phone lines with extended hours for customers over 70 years old and National Health Service workers.

Section 172(1) statement (continued)

Colleagues

As part of the Group, the Company's approach to colleague matters and colleague engagement is aligned to that of the Group, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. In 2021, the Lloyds Banking Group plc Board agreed how Lloyds Banking Group, including the Company, would engage the workforce, which has remained unchanged during the year. The definition of 'workforce', as agreed by the Lloyds Banking Group plc Board is permanent employees, contingent workers and third-party suppliers that work on Lloyds Banking Group plc premises delivering services to customers and supporting key business operations.

Colleagues are actively encouraged to become involved in the performance of Lloyds Banking Group plc, most notably with the HMRC approved share plans which promote share ownership by giving employees an opportunity to invest in Lloyds Banking Group shares.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Consumer Lending Business Unit. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's ultimate parent company are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic report within the Lloyds Banking Group plc Annual Report and Accounts for 2022, which does not form part of this report, available on the Lloyds Banking Group plc 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 to build a more sustainable and inclusive future. 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 Lloyds Banking Group plc Annual Report and Accounts for 2022, which does not form part of this report. Additional information on the Group's role in supporting the country and its people is available on the Lloyds Banking Group website within the Society and Environment section of the annual report: https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2022 the Company's directors had meetings with the regulators, representing the interests of Lloyds Banking Group plc and its subsidiaries as required. The approach of Lloyds Banking Group plc, including that of the Company, to managing regulatory change is detailed further in the Lloyds Banking Group plc Annual Report and Accounts for 2022 which does not form part of this report, which is available on the Lloyds Banking Group plc website.

How stakeholder interest has influenced decision making

The directors acknowledge that one of the primary responsibilities of the board is to ensure the strategy of the Company, as aligned to that of Lloyds Banking Group plc, is to effectively manage its 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 to maintain Company reputation.

During 2021 and 2022 an area of particular focus for the directors has been to steer through the challenges we have faced into as a result of the global pandemic both from an operational and customer perspective, ensuring alignment with guidance from Lloyds Banking Group plc and regulators. An example of this was collaborating with our Customer Financial Assistance teams to ensure measures are in place for customers experiencing longer term financial difficulties.

Emerging risks

The directors consider the following to be risks that have the potential to increase in significance and affect the performance of the Company.

The key risks are financial, derived from both physical risks (climate and weather-related events) and transition risks resulting from the process of adjustment towards a low carbon economy. Climate change extends across multiple risk types e.g. credit, market, conduct and operational. For example physical and transition risks could result in the impairment of asset values, which may impact the creditworthiness of our clients, and the products and services our customers require.

The UK domestic economy is currently experiencing inflation pressures and rising energy costs, creating financial challenges across households in the country. This could adversely affect the performance of the company and the situation is being closely monitored as further living cost pressure is expected to be felt later in 2023.

Section 172(1) statement (continued)

Emerging risks (continued)

The focus on these risks by key stakeholders including businesses, clients, shareholders, governments and regulators is increasing, aligned to the evolving societal, regulatory and political landscape. There also remains a risk that the level and pace of responses taken by Lloyds Banking Group plc are insufficient to mitigate these risks. This could lead to campaign groups or other bodies seeking to take action against Lloyds Banking Group plc or the financial services industry for funding organisations that they deem to be contributing to 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 Lloyds Banking Group plc Annual Report and Accounts for 2022, which does not form part of this report, available on the Lloyds Banking Group plc website.

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:

A B Ambani
Director
15th June 2023

Directors' report

For the year ended 31 December 2022

The directors present their report for the year ended 31 December 2022.

General information

The Company is a private limited company, incorporated, registered and domiciled in England and Wales, United Kingdom (registered number: 02783251). The registered office for the Company is Cawley House, Chester Business Park, Chester, United Kingdom, CH4 9FB. The Company is limited by shares. The directors in office are listed further in this report and the Company Secretary is A E Mulholland.

Employees

The Company's approach to employee matters and employee engagement is aligned to that of the Group, where colleagues take pride in working for an inclusive and diverse organisation which continues to work towards building a culture in which everyone feels included, empowered and inspired to do the right thing for customers. 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.

Full details of policies relating to colleague inclusion and diversity is shown in the 2022 Annual Report and Accounts of the Group, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

Post balance sheet event

An interim dividend of £280,000,000 in respect of the year ending 31 December 2022 was declared on 12 September 2022 and was paid to Bank of Scotland plc on 18 February 2023.

Going concern

The directors are satisfied that it is the intention of Lloyds Banking Group plc (LBG) that its subsidiaries, including the Company, will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis, taking into account;

– There is a net asset position of £670,044,000 (2021: £494,429,000).
– 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 Lloyds Bank plc.

The Company also has the letter of support from Lloyds Banking Group plc dated 21 February 2023, which confirms that it is the intention of Lloyds Banking Group to support the Company in meeting its financial liabilities as they fall due.

Directors

The current directors of the Company are shown below:

A B Ambani	(appointed 10 March 2023)
A Borkakoty *	(appointed 4 November 2022)
E J Corfield (Chair) *	
A C Hind *	(appointed 15 June 2023)
M Lien	(appointed 11 January 2023)

The following changes have also taken place between the beginning of the reporting period and the approval of the Annual report and accounts.

Dr S J Kenyon (Chair) *	(resigned 12 April 2023)
V A Murden	(resigned 4 February 2022)
I S Perez	(resigned 24 February 2023)

* Non executive director

Information included in the Strategic report

The disclosures for Future outlook, Principal risks and uncertainties 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.

Statement of engagement with employees and other stakeholders

A statement of engagement with employees and other stakeholders is included in the Strategic report on pages 2 and 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 2022, the Company has in its corporate governance arrangements applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles"), which are available at frc.org.uk. The following section explains the Company's approach to corporate governance, and its application of the Principles.

Principle One – Purpose and Leadership

The Board is collectively responsible for the long term success of the Company. It achieves this by agreeing the Company's strategy, within the wider strategy of Lloyds Banking Group plc, and overseeing delivery against it. The Company's strategy is discussed further in the Strategic Report on pages 1 to 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 are discussed in the Group annual report and accounts for 2022, which does not form part of this report, and is available on the Lloyds Banking Group plc website:.https://www.lloydsbankinggroup.com/investors/financial-downloads.html

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 3 of the Group annual report and accounts for 2022, which does not form part of this report, and is available on the Lloyds Banking Group plc website. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html

Principle Two – Board Composition

The Company is led by a Board comprising a Non-executive Chairman and Executive Directors; further details of the directors can be found above. The Board reviews its size and composition regularly and is committed to ensuring it has the right balance of skills and experience, with in respect to diversity. the Board meeting the recommendations of the Parker Review and aiming to meet all recommendations set out in the FTSE Women Leaders Review. 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 diversity benefits each candidate can bring overall.

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.

Approach to Corporate Governance (continued)

Principle Four – Opportunity and Risk

Strategic opportunities which may arise are considered in the first instance by the board of the Group, as part of the Group board’s role in considering such opportunities relevant to itself and its subsidiaries. Any opportunity which is specifically relevant to the Company is subsequently considered by the 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 and 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 the 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 principal risks are discussed further within note 27.

Principle Five – Remuneration

The Remuneration Committee of the Group assumes responsibility for the approach to remuneration for certain of its subsidiaries, including that of the Company. This includes reviewing and making recommendations to the Group board on remuneration policy, as relevant to the Company and its employees, 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 the Group, operates under the Group's wider Responsible Business approach, as overseen by the Lloyds Banking Group plc Responsible Business Committee. The purpose of the Committee is to support the Board in overseeing the Company's policies, performance and priorities as a responsible business including embedding purpose, social and environmental matters, culture, workforce engagement and duty to customers and stakeholders.

In 2022, the Committee became the designated body to fulfil the Board's responsibility for review and approval of the Consumer Duty implementation plan and oversight thereafter.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company a deed of indemnity which constitutes ‘qualifying third party indemnity provisions’ for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors’ responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company’s financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Statement of directors' responsibilities (continued)

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

Directors' confirmations

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the report is approved:

– so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

– they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors and disclosure of information to auditors

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

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

A B Ambani
Director

15th June 2023

Financial statements

Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Interest income		**598,884**	525,919
Interest expense		**(65,498)**	(37,379)
Net interest income	3	**533,386**	488,540
Fee and commission income		**44,018**	25,341
Fee and commission expense		**(27,748)**	(29,340)
Net fee and commission income/(expense)	4	**16,270**	(3,999)
Other income	5	**2,483**	332
Impairment losses on loans and advances to customers	6	**(230,360)**	(9,443)
Regulatory provisions - charge for the year	22	**(18,643)**	(37,092)
Other operating expenses	7	**(86,171)**	(79,744)
Profit before tax		**216,965**	358,594
Taxation	10	**(41,318)**	(63,979)
Profit for the year from continuing operations		**175,647**	294,615
Discontinued operations			
Loss for the year from discontinued operations	12	**(32)**	(21)
Profit for the year, being total comprehensive income		**175,615**	294,594

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

Balance sheet

As at 31 December 2022

	Note	**2022**	2021
		£'000	£'000
ASSETS			
Cash and cash equivalents	13	**31,787**	37,646
Trade and other receivables	14	**261,291**	186,415
Loans and advances to customers	15	**6,067,059**	6,216,229
Investment in subsidiary undertakings	16	**1,336**	1,336
Property, plant and equipment	17	**2,106**	3,525
Intangible assets	18	**—**	226
Deferred tax asset	19	**21,300**	24,587
Total assets		**6,384,879**	6,469,964
LIABILITIES			
Borrowed funds	20	**5,537,101**	5,772,291
Trade and other payables	21	**64,859**	62,627
Provision for liabilities and charges	22	**74,852**	75,136
Current tax liability		**38,023**	65,481
Total liabilities		**5,714,835**	5,975,535
EQUITY			
Share capital	23	**—**	200,000
Retained earnings		**670,044**	294,429
Total equity		**670,044**	494,429
Total equity and liabilities		**6,384,879**	6,469,964

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:

A B Ambani
Director

15th June 2023

Statement of changes in equity
For the year ended 31 December 2022

	Share capital	Retained earnings	Total equity
	£'000	**£'000**	**£'000**
At 1 January 2021	200,000	206,835	406,835
Profit for the year being total comprehensive income	—	294,594	294,594
Dividend paid to equity holders of the Company (see note 11)	—	(207,000)	(207,000)
At 31 December 2021	**200,000**	**294,429**	**494,429**
Profit for the year being total comprehensive income	**—**	**175,615**	**175,615**
Share capital reduction	**(200,000)**	**200,000**	**—**
At 31 December 2022	**—**	**670,044**	**670,044**

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

Cash flow statement

For the year ended 31 December 2022

	Note	2022	2021
		£'000	£'000
Cash flows generated from operating activities			
Profit before tax		**216,965**	358,594
Adjustments for:			
- Loss generated from discontinued operations before tax	12	**(40)**	(26)
- Interest expense	3	**65,498**	37,379
- Depreciation of Property, plant and equipment	17	**2,206**	2,205
- Net book value of disposal of Property, plant and equipment	17	**110**	—
- Amortisation of Intangible assets	18	**226**	532
- Decrease in Provision for liabilities and charges	22	**(284)**	(37,661)
Changes in operating assets and liabilities:			
- Net decrease in Loans and advances to customers	15	**149,170**	523,346
- Net (increase)/decrease in Other debtors and Other trade receivables	14	**(5,067)**	1,725
- Net increase/(decrease) in Trade and other payables	21	**2,232**	24,629
Cash generated from operations		**431,016**	910,723
Tax paid		**(65,481)**	(56,453)
Net cash generated from operating activities		**365,535**	854,270
Cash flows used in investing activities			
Purchase of Property, plant and equipment	17	**(897)**	(1,912)
Net cash used in investing activities		**(897)**	(1,912)
Cash flows used in financing activities			
Repayment of net borrowings with group undertakings	26	**(304,999)**	(614,809)
Dividends paid	11	**—**	(207,000)
Interest paid	3	**(65,498)**	(37,379)
Net cash used in financing activities		**(370,497)**	(859,188)
Change in Cash and cash equivalents	13	**(5,859)**	(6,830)
Cash and cash equivalents at beginning of year		**37,646**	44,476
Cash and cash equivalents at end of year		**31,787**	37,646

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

Notes to the financial statements
For the year ended 31 December 2022

1. Accounting policies

1.1 Basis of preparation

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

The financial statements for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the 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 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

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

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2022 and which have not been applied in preparing these financial statements are given in note 31. No standards have been early adopted.

The financial statements have been prepared under the historical cost convention. As stated on page 5, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

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.

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

1.2 Income recognition

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 gross carrying amount of the financial asset (before accounting for expected credit losses) or the amortised cost of the financial liability.

Once a financial asset or a group of similar financial assets has become credit impaired, interest income is recognised on the net lending balance (after deducting the allowance for expected credit losses) using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income and expense

Fee 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 the customer transaction is authorised.

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.

1.3 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.

1.4 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.

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.

Loans and advances to customers at amortised cost

Financial assets include loans and advances to customers. Financial assets are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method less provision for impairment.

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)

1.4 Financial assets and liabilities (continued)

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.

1.5 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 certain types of fraud and recoveries. Expected credit losses are recognised for loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. Expected credit losses are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default ("PD"), 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 in the case of some loan commitments is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. 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.

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

1. Accounting policies (continued)

1.6 Cash and cash equivalents

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

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:

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 His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

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

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

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

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. Accounting policies (continued)

1.9 Investments 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 Dividends paid

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

1.12 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 Retail Division's 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 2022 Annual Report and Accounts of the Group.

1.13 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 a period of 7 years using the straight line method.

1.14 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 payment protection insurance ("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 22.

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

1. Accounting policies (continued)

1.15 Deemed securitisation loans

On the 12th March 2021 the Wilmington Cards 2021-1 plc was set up which used MBNA Card assets to back the issuance of £3,350,000,000 Class A asset backed variable rate notes with a scheduled redemption date of 18 March 2026 and £1,000,000,000 Class D asset backed variable rate notes with a scheduled redemption date of 18 March 2027 (the “Notes”).

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it was a sale transaction from a legal perspective. The directors of the Company conclude that the Company had retained substantially all the risks and rewards of the pool of credit cards and as a consequence the Company has continued to recognise the credit cards in its Statement of financial position.

The initial amount of the deemed loan from Wilmington Cards 2021-1 plc corresponded to the consideration paid by Wilmington Cards plc for the credit cards less the subordinated loan granted by the Company. Wilmington Cards plc recognised principal and interest cash flows from the underlying pool of credit cards only to the extent that it was entitled to retain such cash flows. Additionally, the directors of the Company considered that the subordinated loan did not meet the definition of a liability as Wilmington Cards 2021-1 plc would repay the subordinated loan to the Company only if it first received an equivalent amount from the Company.

The deemed loan to the Company from Wilmington Cards plc was classified within Amounts due to group undertakings. The amount represented the net position of the deemed loan and asset as per IFRS9 which permits the elimination of both the deemed loan and the asset within the Company as a self retained transaction. The initial measurement was at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the deemed loan was calculated with reference to the interest earned on the beneficial interest in the credit cards portfolio.

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 which 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 £106,000,000 at 2022 year end from £101,500,000 at 2021 year end. This is mainly driven by the impact of the increase in the Bank of England base rate throughout 2022.

Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

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

(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:

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 probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement 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 1.5 Impairment of financial assets.

Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. The Company estimates a product's expected life using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For loans and advances to customers, the Company has assumed the expected life to be the time taken for all significant losses to be observed and for a material proportion of the assets to fully resolve through either closure or write off. 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. The assessment of significant increase in credit risk ("SICR") and corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on its expected life. Lifetime for the products offered by the Company is deemed to be 6 years.

Significant increase in credit risk

Performing assets are classified 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 as 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 a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. A deterioration in the Retail Master Scale (default model that segments customer loans into a number of rating grades, each representing a defined range of default probabilities) of three grades, is treated as a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. Further information can be found in note 27.1.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to stage 1. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

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.

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

(ii) Critical accounting judgements (continued)

Generation of Multiple Economic Scenarios

The estimate of expected credit losses is required to be based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements adopted. The Company's approach is to start from a defined base case scenario, used for planning purposes, and to generate alternative economic scenarios around this base case. The base case scenario is a conditional forecast underpinned by a number of conditioning assumptions that reflect the Company's best view of key future developments. If circumstances appear likely to materially deviate from the conditioning assumptions, then the base case scenario is updated.

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, the other three scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. 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% each, with a severe downside scenario weighted at 10 per cent. The scenario weights therefore represent the distribution of economic scenarios and not a subjective view on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured. No material changes were made to the model in 2022.

Base case and MES economic assumptions

The Company’s base case economic scenario has been revised in light of the ongoing war in Ukraine, reversals in UK fiscal policy, and a continuing global shift towards a more restrictive monetary policy stance against a backdrop of elevated inflation pressures. The Company’s updated base case scenario has three conditioning assumptions: first, the war in Ukraine remains ‘local’, i.e. without overtly involving neighbouring countries, NATO or China; second, the UK labour market participation rate remains below pre-pandemic levels, impeding the economy’s supply capacity; and third, the Bank of England accommodates above-target inflation in the medium term, recognising the economic costs that might arise from a rapid return to the two per cent target.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company’s base case scenario is for a contraction in economic activity and a rise in the unemployment rate, following increases in UK Bank Rate in response to persistent inflationary pressures. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the fourth quarter of 2022, for which actuals may have since emerged prior to publication.

The key UK economic assumptions made by the Company averaged over a five-year period are shown below. Gross domestic product is presented as an annual change. UK Bank Rate and unemployment rate are averages for the period.

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

(ii) Critical accounting judgements (continued)

Base case and MES economic assumptions (continued)

At 31 December 2022	2022 %	2023 %	2024 %	2025 %	2026 %	Average %
Upside						
Gross domestic product	**4.1**	**0.1**	**1.1**	**1.7**	**2.1**	**1.8**
UK Bank Rate	**1.94**	**4.95**	**4.98**	**4.63**	**4.58**	**4.22**
Unemployment rate	**3.5**	**2.8**	**3.0**	**3.3**	**3.4**	**3.2**
CPI inflation	**9.0**	**8.3**	**4.2**	**3.3**	**3.0**	**5.5**
Base case						
Gross domestic product	**4.0**	**(1.2)**	**0.5**	**1.6**	**2.1**	**1.4**
UK Bank Rate	**1.94**	**4.00**	**3.38**	**3.00**	**3.00**	**3.06**
Unemployment rate	**3.7**	**4.5**	**5.1**	**5.3**	**5.1**	**4.8**
CPI inflation	**9.0**	**8.3**	**3.7**	**2.3**	**1.7**	**5.0**
Downside						
Gross domestic product	**3.9**	**(3.0)**	**(0.5)**	**1.4**	**2.1**	**0.8**
UK Bank Rate	**1.94**	**2.93**	**1.39**	**0.98**	**1.04**	**1.65**
Unemployment rate	**3.8**	**6.3**	**7.5**	**7.6**	**7.2**	**6.5**
CPI inflation	**9.0**	**8.2**	**3.3**	**1.3**	**0.3**	**4.4**
Severe Downside						
Gross domestic product	**3.7**	**(5.2)**	**(1.0)**	**1.3**	**2.1**	**0.1**
UK Bank Rate - modelled	**1.94**	**1.41**	**0.20**	**0.13**	**0.14**	**0.76**
UK Bank Rate - adjusted*	**2.44**	**7.00**	**4.88**	**3.31**	**3.25**	**4.18**
Unemployment rate	**4.1**	**9.0**	**10.7**	**10.4**	**9.7**	**8.8**
CPI inflation - modelled	**9.0**	**8.2**	**2.6**	**(0.1)**	**(1.6)**	**3.6**
CPI inflation - adjusted*	**9.7**	**14.3**	**9.0**	**4.1**	**1.6**	**7.7**
Probability-weighted						
Gross domestic product	**4.0**	**(1.8)**	**0.2**	**1.5**	**2.1**	**1.2**
UK Bank Rate - modelled	**1.94**	**3.70**	**2.94**	**2.59**	**2.60**	**2.76**
UK Bank Rate - adjusted	**1.99**	**4.26**	**3.41**	**2.91**	**2.91**	**3.10**
Unemployment rate	**3.7**	**5.0**	**5.8**	**5.9**	**5.7**	**5.2**
CPI inflation - modelled	**9.0**	**8.3**	**3.6**	**2.1**	**1.4**	**4.9**
CPI inflation - adjusted	**9.1**	**8.9**	**4.3**	**2.5**	**1.7**	**5.3**

* The adjustment to UK Bank Rate and CPI inflation in the severe downside is considered to better reflect the risks around the Company's base case view in an economic environment where supply shocks are the principal concern.

At 31 December 2021	2021 %	2022 %	2023 %	2024 %	2025 %	Average %
Upside						
Gross domestic product	7.1	4.0	1.4	1.3	1.4	3.0
UK Bank Rate	0.14	1.44	1.74	1.82	2.03	1.43
Unemployment rate	4.4	3.3	3.4	3.5	3.7	3.7
CPI inflation*	2.6	5.9	3.3	2.6	3.3	3.5
Base case						
Gross domestic product	7.1	3.7	1.5	1.3	1.3	2.9
UK Bank Rate	0.14	0.81	1.00	1.06	1.25	0.85
Unemployment rate	4.5	4.3	4.4	4.4	4.5	4.4
CPI inflation*	2.6	5.9	3.0	1.6	2.0	3.0
Downside						
Gross domestic product	7.1	3.4	1.3	1.1	1.2	2.8
UK Bank Rate	0.14	0.45	0.52	0.55	0.69	0.47
Unemployment rate	4.7	5.6	5.9	5.8	5.7	5.6
CPI inflation*	2.6	5.8	2.8	1.3	1.6	2.8
Severe Downside						
Gross domestic product	6.8	0.9	0.4	1.0	1.4	2.1
UK Bank Rate	0.14	0.04	0.06	0.08	0.09	0.08
Unemployment rate	4.9	7.7	8.5	8.1	7.6	7.3
CPI inflation*	2.6	5.8	2.3	0.5	0.9	2.4
Probability-weighted						
Gross domestic product	7.0	3.4	1.3	1.2	1.3	2.8
UK Bank Rate	0.14	0.82	0.99	1.04	1.20	0.83
Unemployment rate	4.6	4.7	5.0	5.0	4.9	4.8
CPI inflation*	2.6	5.9	2.9	1.7	2.2	3.1

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

(ii) Critical accounting judgements (continued)

Base case and MES economic assumptions (continued)

* For 31 December 2021 scenarios, CPI numbers were translations of modelled Retail Price Index excluding mortgage interest payments (RPIX) estimates.

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted PD and hence the staging of assets is constant across all the scenarios. In each economic scenario the ECL for individual assessments and post-model adjustments is typically held constant reflecting the basis on which they are evaluated. Judgements applied through changes to model inputs are reflected in the scenario ECL sensitivities. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case.

	At 31 December 2022					At 31 December 2021				
	Probability -weighted	**Upside**	**Base**	**Downside**	**Severe Downside**	Probability -weighted	Upside	Base	Downside	Severe Downside
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
ECL allowance	**309,887**	**245,436**	**296,167**	**336,717**	**463,909**	225,673	194,285	218,069	244,713	285,531

The impact of changes in the UK unemployment rate have been assessed. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Company's ECL to gradual changes in this critical economic factor.

The table below shows the impact on the Company's ECL resulting from a 1 percentage point (pp) increase or decrease in the UK unemployment rate. The increase or decrease is presented based on the adjustment phased evenly over the first ten quarters of the base case scenario.

	31 December 2022		31 December 2021	
UK unemployment	**1pp Increase**	**1pp Decrease**	1pp Increase	1pp Decrease
ECL impact, £'000	**17,134**	**(17,134)**	8,265	(8,265)

Application of judgement in adjustments to modelled ECL

Impairment models fall within the Company's model risk framework with model monitoring, periodic validation and back testing performed on model components (i.e. probability of default, exposure at default and loss given default). 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 adjustments. Post-model adjustments are not typically calculated under each distinct economic scenario used to generate ECL, but on final modelled ECL. All adjustments are reviewed quarterly and are subject to internal review and challenge, including by the Audit Committee, to ensure that amounts are appropriately calculated and that there are specific release criteria identified.

The coronavirus pandemic and the various support measures resulted in an economic environment which differed significantly from the historical economic conditions upon which the impairment models had been built. As a result there was a greater need for management judgements to be applied alongside the use of models at 31 December 2021. During 2022 the direct impact of the pandemic on both economic and credit performance has reduced, resulting in the release of all material judgements required specifically to capture COVID-19 risks. Conversely, the intensifying inflationary pressures alongside rising interest rates within the Company's outlook have created further risks not deemed to be fully captured by ECL models. This has required judgements to be added to capture affordability risks from inflationary and rising interest rate pressures. At 31 December 2022 management judgement resulted in additional ECL allowances totalling £3,300,000 (2021: £9,600,000).

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

(ii) Critical accounting judgements (continued)

Inflationary risk: £34,700,000 (2021: £nil)

The Company's ECL models for credit cards use predictions of wage growth to account for future affordability stress. As rapidly increasing inflation erodes nominal wage growth, adjustments have been made to the econometric models to account for real, rather than nominal, income to produce adjusted predicted defaults. These adjustments include the specific risk to affordability from increased housing costs, not captured by CPI. As these adjustments are made within predicted default models, they are calculated under each economic scenario and impact the staging of assets through increased PDs. Alongside these adjustments management have also made an additional uplift to ECL for customers with lower income levels and higher indebtedness deemed most vulnerable to inflationary pressures and interest rate rises. Although this segment of customers has not exhibited any greater stress to date, uplifts have been applied to recognise continued inflation and interest rates pose a greater proportionate risk in future periods. Management believe that this is an appropriate way to account for the aggregate inflationary risk in this portfolio and will continue to monitor both actual economic and customer outcomes to ensure that this adjustment remains reasonable and appropriate.

Other judgements: £(31,400,000) (2021: £(31,000,000)

These adjustments principally comprise:

Lifetime extension on revolving products: £33,000,000 (2021: £15,100,000)

An adjustment is required to extend the lifetime used for Stage 2 exposures on revolving products from a three year modelled lifetime, which reflected the outcome data available when the model was developed. Previously this was deemed to be six years by increasing default probabilities through the extrapolation of the default trajectory observed throughout the three years and beyond. During 2022, work was undertaken to reassess the expected lifetime for these assets, which concluded in an extension of the expected lifetime from six to ten years, resulting in an increase to this adjustment.

Adjustments to loss given defaults (LGD's) £(59,100,000) (2021: £(36,500,000))

Adjustments have been made to the loss given default assumptions used within the Company's credit model. These include judgements held previously, notably in relation to the alignment of cure rates as collection strategies harmonise across the wider Group. Alongside this, new adjustments have also been raised to capture recent improvements in observed cure rates offset by updates to recovery cost assumptions. These adjustments will be released once incorporated into models through future recalibration which is pending model development.

3. Net interest income

	2022	2021
	£'000	£'000
Interest income		
Credit card finance	**598,884**	525,919
Interest expense		
Interest payable on borrowing funds to related undertakings	**(65,498)**	(37,379)
Net interest income	**533,386**	488,540

4. Net fee and commission income/(expense)

	2022	2021
	£'000	£'000
Fee and commission income		
Loan fees receivable	**44,018**	25,341
Fee and commission expense		
Other fees and commission payable	**(7,202)**	(8,285)
External infrastructure fees	**(10,654)**	(11,870)
Card and cashback payable	**(9,892)**	(9,184)
Net fee and commission income/(expense)	**16,270**	(3,999)

5. Other income

	2022	2021
	£'000	£'000
Card related incentives	**1,468**	291
Other operating income	**1,009**	49
Foreign exchange gain/(loss)	**6**	(8)
	2,483	332

6. Impairment losses on Loans and advances to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
For the year ended 31 December 2022	**£'000**	**£'000**	**£'000**	**£'000**
Transfers between stages	**(470)**	**64,030**	**47,895**	**111,455**
Other changes in credit quality	**12,283**	**4,570**	**94,057**	**110,910**
(Repayments)/Additions	**954**	**8,926**	**(1,885)**	**7,995**
	12,767	**77,526**	**140,067**	**230,360**
In respect of:				
Loans and advances to customers	**6,937**	**71,209**	**140,067**	**218,213**
Undrawn loan commitments	**5,830**	**6,317**	**—**	**12,147**
	12,767	**77,526**	**140,067**	**230,360**

	Stage 1	Stage 2	Stage 3	Total
For the year ended 31 December 2021	£'000	£'000	£'000	£'000
Transfers between stages	25,304	(76,765)	56,868	5,407
Other changes in credit quality	(34,859)	(4,001)	93,744	54,884
(Repayments)/additions	(32,227)	(14,850)	(3,771)	(50,848)
	(41,782)	(95,616)	146,841	9,443
In respect of:				
Loans and advances to customers	(28,554)	(84,662)	146,841	33,625
Undrawn loan commitments	(13,228)	(10,954)	—	(24,182)
	(41,782)	(95,616)	146,841	9,443

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.

Other changes in credit quality

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

(Repayments)/additions

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

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

7. Other operating expenses

	2022 £'000	2021 £'000
Staff costs (see note 8)	**11,982**	17,269
Depreciation (see note 17)	**2,206**	2,205
Recharge of expenses from group (see note 26)	**67,255**	52,476
Administrative expenses	**4,502**	7,262
Amortisation of intangible assets (see note 18)	**226**	532
	86,171	79,744

Included within administrative expenses are fees payable to the Company's auditors for the audit of the financial statements of £639,000 (2021: £756,000) which included audit related assurance work of £155,000 (2021: £147,000). All audit fees are approved by the Group Audit Committee.

8. Staff costs

	2022 £'000	2021 £'000
Wages and salaries	**10,075**	13,919
Social security costs	**1,065**	1,296
Redundancy costs	**(829)**	46
Pension costs – defined contribution plans	**1,302**	1,489
Other staff costs	**369**	519
	11,982	17,269

There were negative redundancy costs in 2022 due to a release of the provision previously held at 2021. See note 22 for further details.

The average monthly number of employees during the year was 352 (2021: 466). 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 (2021: £nil).

9. Directors' emoluments

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

	2022 £'000	2021 £'000
Aggregate emoluments	**104**	83
Aggregate post-employment benefits	**8**	9
	112	92

The amounts reported above are an allocation of a proportion of the directors' total remuneration insofar as it relates to qualifying services for their role as a director of the Company.

During the year retirement benefits were accruing to four directors (2021: four) in respect of defined contribution pension schemes. No directors exercised share options in the ultimate parent company during the year (2021: none). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2022 was £nil (2021: £nil).

The directors holding office at 31 December 2022 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.

10. Taxation

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

	2022	2021
	£'000	£'000
UK corporation tax:		
- Current tax on taxable profit for the year	**37,120**	65,663
- Adjustments in respect of prior years	**919**	(173)
- Current tax credit on loss from discontinued operations	**(8)**	(5)
Current tax charge	**38,031**	65,485
UK deferred tax:		
- Origination and reversal of timing differences	**3,285**	3,199
- Impact of deferred tax rate change	**2**	(4,917)
- Adjustments in respect of prior years	**—**	212
Deferred tax charge/(credit) (see note 19)	**3,287**	(1,506)
Tax charge	**41,318**	63,979

Corporation tax is calculated at a rate of 19.00% (2021: 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:

	2022	2021
	£'000	£'000
Profit before tax	**216,965**	358,594
Tax charge thereon at UK corporation tax rate of 19% (2021: 19%)	**41,223**	68,133
Factors affecting charge/(credit):		
Effect of change in tax rate and related inputs	**2**	(4,917)
Disallowed and non-taxable items	**(827)**	724
Adjustment in respect of prior years	**919**	39
Tax charge on profit on ordinary activities	**41,317**	63,979
Effective rate	**19.04%**	17.84%

11. Dividends

An interim dividend of £280,000,000 (£280,000,000 per share) in respect of the year ending 31 December 2022 was declared on 12 September 2022 and paid to Bank of Scotland plc on 18 February 2023 (2021: £207,000,000).

12. Loss for the year from discontinued operations

	2022	2021
	£'000	£'000
Statement of comprehensive income		
Other operating expenses	**40**	26
Loss for the year from discontinued operations before tax	**40**	26
Tax credit on discontinued operations	**(8)**	(5)
Loss for the year from discontinued operations after tax	**32**	21

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

13. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash at bank and in hand, held with group undertakings (see note 26)	**5,511**	2,646
Cash at bank and in hand, held with external banks	**26,276**	35,000
	31,787	37,646

As an Authorised Payment Institution, the Company has certain responsibilities under the Payment Services Regulations 2017 to ensure the safety of customer funds ("Safeguarding"). Safeguarding includes instances where the Company receives an overpayment of customer borrowings resulting in the Company owing money to the customer. These customer balances are held in an external bank account and amounted to £26,276,000 as at 31 December 2022 (2021: £25,050,000).

14. Trade and other receivables

	2022	2021
	£'000	£'000
Amounts due from group undertakings (see note 26)	**251,447**	181,638
Prepayments and accrued income	**6,627**	3,256
Other debtors	**3,217**	1,521
	261,291	186,415

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 is an accounts receivable balance of £132,746,000 (2021: £85,223,000) due from Lloyds Bank plc.

15. Loans and advances to customers

15.1 Loans and advances to customers - movement over time

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2022	**5,574,829**	**723,447**	**122,144**	**6,420,420**
Transfers to Stage 1	**172,726**	**(171,521)**	**(1,205)**	**—**
Transfers to Stage 2	**(585,638)**	**599,941**	**(14,303)**	**—**
Transfers to Stage 3	**(96,073)**	**(75,691)**	**171,764**	**—**
Net increase / (decrease) in loans and advances to customers	**(130,618)**	**208,826**	**(14,894)**	**63,314**
Financial assets that have been written off during the year	**—**	**—**	**(189,803)**	**(189,803)**
Recoveries of prior advances written off	—	—	**49,385**	**49,385**
Gross loans and advances to customers at 31 December 2022	**4,935,226**	**1,285,002**	**123,088**	**6,343,316**
Less: allowances for losses on loans and advances	**(61,997)**	**(160,739)**	**(53,521)**	**(276,257)**
Net loans and advances to customers at 31 December 2022	**4,873,229**	**1,124,263**	**69,567**	**6,067,059**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2021	5,694,658	1,235,954	137,338	7,067,950
Transfers to Stage 1	630,447	(628,168)	(2,279)	—
Transfers to Stage 2	(200,667)	217,195	(16,528)	—
Transfers to Stage 3	(73,222)	(106,496)	179,718	—
Net increase / (decrease) in loans and advances to customers	(476,387)	4,962	(24,645)	(496,070)
Financial assets that have been written off during the year	—	—	(195,618)	(195,618)
Recoveries of prior advances written off	—	—	44,158	44,158
Gross loans and advances to customers at 31 December 2021	5,574,829	723,447	122,144	6,420,420
Less: allowances for losses on loans and advances	(55,060)	(89,530)	(59,601)	(204,191)
Net loans and advances to customers at 31 December 2021	5,519,769	633,917	62,543	6,216,229

Loans and advances to customers have no fixed maturity. A contractual minimum payment is 1% 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.

15. Loans and advances to customers (continued)

15.2 Securitisation transactions

On 12 March 2021, the Company securitised Loans and advances to customers with a gross value of £4,350,000,000. On this date the securitisation vehicle, Wilmington Cards 2021-1 plc, issued £3,350,000,000 Class A asset backed variable rate notes with a scheduled redemption date of 18 March 2026 and £1,000,000,000 Class D asset backed variable rate notes with a scheduled redemption date of 18 March 2027 (the "Notes").

	Loans and advances securitised	**Notes in issue**	Loans and advances securitised	Notes in issue
	2022	**2022**	2021	2021
	£'000	**£'000**	£'000	£'000
Credit card	**4,350,000**	**4,356,146**	4,350,000	4,351,155
Wilmington Cards 2021-1 plc	**4,350,000**	**4,356,146**	4,350,000	4,351,155

16. Investment in subsidiary undertakings

	2022	2021
	£'000	£'000
Cost		
At 1 January and 31 December	**80,000**	80,000
Provision for impairment		
At 1 January	**78,664**	78,664
At 31 December	**78,664**	78,664
Carrying value of investments at 31 December	**1,336**	1,336

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 2022 and 31 December 2021, 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

The Company's interest in this entity 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:

16. Investment in subsidiary undertakings (continued)

Company name	Description
Chester Asset Securitisation Holdings No.2 Limited (i)	Dissolved
Chester Asset Receivables Dealings Issuer Limited (i)	Dissolved

Registered Office: (i) 26 New Street, St Helier, Jersey

Chester Asset Securitisation Holdings No.2 Limited and Chester Asset Receivables Dealings Issuer Limited were dissolved in February 2022.

17. Property, plant and equipment

	Offices and other equipment
	£'000
Cost	
At 1 January 2021	31,840
Additions	1,912
Disposals	(25,490)
At 31 December 2021	**8,262**
Additions	**897**
Disposals	**(3,214)**
At 31 December 2022	**5,945**
Accumulated depreciation	
At 1 January 2021	28,022
Charge for the year (see note 7)	2,205
Disposals	(25,490)
At 31 December 2021	4,737
Charge for the year (see note 7)	**2,206**
Disposals	**(3,104)**
At 31 December 2022	**3,839**
Balance sheet amount at 31 December 2022	**2,106**
Balance sheet amount at 31 December 2021	3,525

18. Intangible assets

	2022 PCCR £'000
Cost	
At 1 January 2022	**46,238**
Disposals	**(46,238)**
At 31 December 2022	**—**
Accumulated amortisation	
At 1 January 2022	**46,012**
Charge for the year (see note 7)	**226**
Disposals	**(46,238)**
At 31 December 2022	**—**
Balance sheet amount at 31 December 2022	**—**

	2021 PCCR £'000
Cost	
At 1 January 2021	73,025
Disposals	(26,787)
At 31 December 2021	46,238
Accumulated amortisation	
At 1 January 2021	72,267
Charge for the year (see note 7)	532
Disposals	(26,787)
At 31 December 2021	46,012
Balance sheet amount at 31 December 2021	226

Amortisation is included in Other operating expenses in the Statement of comprehensive income.

19. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2022	2021
	£'000	£'000
Brought forward	**24,587**	23,081
(Charge)/Credit for the year	**(3,287)**	1,506
At 31 December	**21,300**	24,587

The deferred tax (charge)/credit in the Statement of comprehensive income comprises the following temporary differences:

	2022	2021
	£'000	£'000
Accelerated capital allowances	**41**	404
Accounting provisions disallowed	**(208)**	(191)
Other temporary differences	**(3,120)**	1,293
	(3,287)	1,506

Deferred tax asset comprises:

	2022	2021
	£'000	£'000
Accelerated capital allowances	**2,593**	2,552
Accounting provisions disallowed	**—**	208
Other temporary differences	**18,707**	21,827
Total	**21,300**	24,587

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

20. Borrowed funds

	2022	2021
	£'000	£'000
Amounts due to group undertakings (see note 26)	**5,537,101**	5,772,291

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

Amounts due to Lloyds Bank plc of £1,370,000,000 (2021: £1,370,000,000) are interest bearing at variable rates, and are unsecured and repayable on demand, although there is no expectation that such a demand would be made. Amounts due to Lloyds Bank plc of £4,150,000,000 (2021: £4,350,000,000) is unsecured, interest bearing at fixed rates of which £2,650,000,000 (2021: £2,600,000,000) is repayable within one year.

21. Trade and other payables

	2022	2021
	£'000	£'000
Trade payables	**36,395**	26,762
Accruals and deferred income	**19,228**	27,155
Other payables	**9,236**	8,710
	64,859	62,627

Of the total trade and other payables £48,000 is payable after more than one year (2021: £48,000).

22. Provision for liabilities and charges

	Undrawn loan commitments	**Payment protection insurance**	**Redundancy costs provision**	**Other provision**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2021	45,663	60,181	985	5,968	112,797
Charge/(credit) for the year	(24,181)	37,092		(355)	12,556
Utilised during the year	—	(47,360)	(110)	(2,747)	(50,217)
At 31 December 2021	**21,482**	**49,913**	**875**	**2,866**	**75,136**
Charge/(credit) for the year	**12,147**	**18,643**	**(875)**	**(1,079)**	**28,836**
Utilised during the year	**—**	**(27,833)**	**—**	**(1,287)**	**(29,119)**
At 31 December 2022	**33,629**	**40,723**	**—**	**500**	**74,852**

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

Undrawn loan commitment provision

Undrawn loan commitment provision relates to the expected loss on the loan commitments that the Company has made to its customers for undrawn balances at the year-end. The charge in the year of £12,147,000 is due to a deterioration in economic indicators.

As at 31 December 2022, the provision of £33,629,000 (2021: £21,482,000) was categorised as £23,653,000 (2021: £17,825,000) in Stage 1, £9,976,000 (2021: £3,657,000) in Stage 2 and £nil (2021: £nil) in Stage 3, per the expected credit loss methodology under IFRS 9.

Payment protection insurance provision

The 2022 PPI provision comprises £40,714,000 (2021: £49,850,000) in respect of continuing operations and £9,000 (2021: £63,000) 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 & 2021, 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 has been reviewed and deemed to be no longer required and has been released during the year ended 31 December 2022.

22. Provision for liabilities and charges (continued)

Other provision

Other provisions includes £500,000 (2021: £2,866,000) 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. The £(1,079,000) credit in 2022 (2021: £(355,000)) reflects the release of prior year provision no longer required.

23. Share capital

	2022	2021
	£'000	£'000
Allotted, issued and fully paid		
1 ordinary share (2021: 20,000,000 ordinary shares) of £10 each	**—**	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.

On 22 February 2022, the Company carried out an exercise to reduce its Share capital of 20,000,000 shares at £10 per share (£200,000,000) to 1 share at £10 and converted this reduction into distributable reserves.

24. Transfer of financial assets

The Company enters into repurchase and securities lending transactions in the normal course of business that do not result in derecognition of the financial assets concerned. In all cases the transferee has the right to sell or repledge the assets concerned to the transferor.

As set out within note 15.2, included within Loans and advances to customers are loans securitised under Lloyds Banking Group plc's securitisation programmes. The Company retains substantially all of the risks and rewards associated with these loans and they are retained on the Company's Balance sheet. Assets transferred into the securitisation programmes are not available to be used by the Company during the term of those arrangements.

The table below sets out the details of the repurchase agreements in place. For securitisation programmes, the associated liabilities represent the external notes in issue.

		Carrying value of transferred assets	**Carrying value of associated liabilities**
		£'000	**£'000**
Loan notes	**At 31 December 2022**	**4,356,146**	**4,356,146**
Loan notes	At 31 December 2021	4,351,155	4,351,155

25. Share based payments

During the year ended 31 December 2022, Lloyds Banking Group plc 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 8), was £1,129,000 (2021: £1,781,000).

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. Bonuses in respect of employee performance in 2022 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 2022 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 Bank of Scotland 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.

A management recharge is made by the immediate parent company to cover the costs of administration and other services provided to the Company. The auditors' remuneration of £639,000 (2021: £756,000) was borne by the parent company.

Banking transactions are entered into by the Company with Lloyds Banking Group plc and its subsidiaries in the normal course of business and on normal commercial terms.

	2022	2021
	£'000	£'000
Amounts due from group undertakings		
Lloyds Bank plc	**132,745**	85,224
Loans.co.uk Limited	**8,318**	8,283
Wilmington Cards 2021-1 plc	**110,384**	88,131
Total Amounts due from group undertakings (see note 14)	**251,447**	181,638
Amounts due to group undertakings		
Lloyds Bank plc	**5,527,209**	5,761,406
Loans.co.uk Limited	**9,886**	9,779
LBG Equity Investments Limited	—	1,100
MBNA Europe Holdings Limited	**6**	6
Total Amounts due to group undertakings (see note 20)	**5,537,101**	5,772,291
Cash and cash equivalents held with group undertakings		
Lloyds Bank plc (see note 13)	**5,511**	2,646

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents.

On the 12th March 2021 the Company entered into a securitisation arrangement with Wilmington Cards plc, which used MBNA Card assets to back the issuance of £4,350,000,000 asset backed variable rate notes. Amounts due from Wilmington Cards 2021-1 plc of £110,384,000 (2021: £88,131,000) represents the build up of a cash asset. See note 1.15 for further details.

Interest income		
Lloyds Bank plc	**690**	—

26. Related party transactions (continued)

	2022	2021
	£'000	£'000
Interest expense		
Lloyds Bank plc	**65,391**	37,272
Loans.co.uk Limited	**107**	107
Total Interest expense (see note 3)	**65,498**	37,379
Fee and commission income		
Lloyds Bank plc	**3,073**	442
Other expenses		
Lloyds Bank plc (see note 7)	**67,255**	52,476
Dividend paid		
Lloyds Bank plc (see note 11)	**—**	207,000

The above balances are unsecured in nature and are expected to be settled in cash or by cash equivalents. Transactions in the year are those reflected through the Statement of comprehensive income. Other income and expense relate to non-interest related transactions with fellow group undertakings that have been received or borne by the Company during the year.

MBNA General Foundation

The MBNA General Foundation ("the Foundation"), a charitable trust, is a related party due to the power of the Company to appoint and remove Trustees of the Foundation, and due to shared Trustees of the Foundation and senior management of the Company. In the past the Company has provided the Foundation with the majority of its donations received. The Company made donations of £428,000 during the current year (2021: £59,000).

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

Key management personnel

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

Other than as set out below, there were no transactions between the Company and key management personnel during the current or preceding year.

	2022	2021
	£'000	£'000
Salaries and short term employee benefits	**127**	101
Post employment benefits	**9**	10
	136	111

27. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, market risk, interest rate risk and business risk; it is not exposed to any significant or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the Retail Division, 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. Market risk is managed by the Company through the terms negotiated in commercial agreements and management regularly reviewing its portfolio of leases for impairment. 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 Retail Division'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 1.5 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 according to which credit risk is managed, which in turn is the basis for divisional and product area credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Retail 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: In its principal portfolios, the Company uses statistically based decision techniques (primarily credit scoring). Divisional risk departments review scorecard effectiveness and approve changes, with material changes subject to Group Risk approval.

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

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

Credit concentration - Loans and advances to customers

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

Loans and advances to customers - maximum exposure

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

27. Financial risk management (continued)

27.1 Credit risk (continued)

Loans and advances to customers - maximum exposure (continued)

	As at 31 December 2022		As at 31 December 2021	
	Maximum Exposure	**Net Exposure**	Maximum Exposure	Net Exposure
	£'000	**£'000**	£'000	£'000
Loans and advances to customers, net[1]	**6,067,059**	**6,067,059**	6,216,229	6,216,229
Off balance sheet items:				
Commitments to lend	**22,056,066**	**22,056,066**	22,744,972	22,744,972
	28,123,125	**28,123,125**	28,961,201	28,961,201

[1] Amounts shown net of impairment balances.

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.

		Gross loans and advances to customers - Loan Quality			
At 31 December 2022		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	PD Range	**£'000**	**£'000**	**£'000**	**£'000**
RMS 1-6	0.00-4.50%	**4,309,240**	**598,082**	**—**	**4,907,322**
RMS 7-9	4.51-14.00%	**625,838**	**460,304**	**—**	**1,086,142**
RMS 10	14.01-20.00%	**57**	**77,470**	**—**	**77,527**
RMS 11-13	20.01-99.99%	**91**	**149,146**	**—**	**149,237**
RMS 14	100%	**—**	**—**	**123,088**	**123,088**
Total		**4,935,226**	**1,285,002**	**123,088**	**6,343,316**

		Gross loans and advances to customers - Loan Quality			
At 31 December 2021		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	PD Range	**£'000**	**£'000**	**£'000**	**£'000**
RMS 1-6	0.00-4.50%	5,187,526	364,141	—	5,551,667
RMS 7-9	4.51-14.00%	387,251	213,637	—	600,888
RMS 10	14.01-20.00%	19	41,106	—	41,125
RMS 11-13	20.01-99.99%	33	104,563	—	104,596
RMS 14	100%	—	—	122,144	122,144
Total		5,574,829	723,447	122,144	6,420,420

27. Financial risk management (continued)

27.1 Credit risk (continued)

Loans and advances to customers (continued)

Commitments to lend

At 31 December 2022		Gross loans and advances to customers - Loan Commitments			
	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00-4.50%	**20,722,402**	**867,856**	**—**	**21,590,258**
RMS 7-9	4.51-14.00%	**283,057**	**145,262**	**—**	**428,319**
RMS 10	14.01-20.00%	**45**	**16,165**	**—**	**16,210**
RMS 11-13	20.01-99.99%	**37**	**39,046**	**—**	**39,083**
RMS 14	100%	**—**	**—**	**15,825**	**15,825**
		21,005,541	**1,068,329**	**15,825**	**22,089,695**

At 31 December 2021		Gross loans and advances to customers - Loan Commitments			
	PD Range	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
RMS 1-6	0.00-4.50%	22,139,609	395,158	0	22,534,767
RMS 7-9	4.51-14.00%	111,275	56,373	0	167,648
RMS 10	14.01-20.00%	15	12,853	0	12,868
RMS 11-13	20.01-99.99%	24	29,535	0	29,559
RMS 14	100%	—	—	21,612	21,612
		22,250,923	493,919	21,612	22,766,454

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 2022	**55,060**	**89,530**	**59,601**	**204,191**
Transfers to Stage 1	**15,904**	**(15,235)**	**(669)**	**—**
Transfers to Stage 2	**(6,552)**	**14,607**	**(8,055)**	**—**
Transfers to Stage 3	**(1,783)**	**(17,309)**	**19,092**	**—**
Impact of transfers between stages	**(7,109)**	**76,708**	**37,352**	**106,951**
	460	**58,771**	**47,720**	**106,951**
Other items charged/(credited) to Statement of comprehensive income	**6,477**	**12,438**	**92,347**	**111,262**
Charge/(credit) for the year (including recoveries)	**6,937**	**71,209**	**140,067**	**218,213**
Financial assets that have been written off during the year	**—**	**—**	**(189,803)**	**(189,803)**
Reinstatement of provisions previously written off	**—**	**—**	**49,385**	**49,385**
Discount unwind	**—**	**—**	**(5,729)**	**(5,729)**
At 31 December 2022	**61,997**	**160,739**	**53,521**	**276,257**

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 2022	17,823	3,659	—	21,482
Transfers to Stage 1	1,295	(1,295)	—	—
Transfers to Stage 2	(1,254)	1,254	—	—
Transfers to Stage 3	(149)	(159)	308	—
Impact of transfer between stages	(822)	5,459	(131)	4,506
	(930)	5,259	177	4,506
Other items charged/(credited) to Statement of comprehensive income	6,760	1,058	(177)	7,641
Charge for year	5,830	6,316	—	12,146
At 31 December 2022	23,653	9,976	—	33,629
In respect of:				
Loans and advances to customers	61,997	160,739	53,521	276,257
Provisions in relation to loan commitments	23,653	9,976	—	33,629
Total	85,650	170,715	53,521	309,886

27. Financial risk management (continued)

27.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage (continued)

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	83,614	174,193	70,568	328,375
Transfers to Stage 1	74,420	(73,120)	(1,300)	—
Transfers to Stage 2	(3,802)	13,466	(9,664)	—
Transfers to Stage 3	(2,147)	(29,558)	31,705	—
Impact of transfers between stages	(43,433)	18,428	35,897	10,892
	25,038	(70,784)	56,638	10,892
Other items charged/(credited) to Statement of comprehensive income	(53,592)	(13,878)	90,203	22,733
Charge/(credit) for the year (including recoveries)	(28,554)	(84,662)	146,841	33,625
Financial assets that have been written off during the year	—	—	(195,618)	(195,618)
Reinstatement of provisions previously written off	—	—	44,158	44,158
Discount unwind	—	—	(6,350)	(6,350)
At 31 December 2021	55,060	89,531	59,600	204,191

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	31,053	14,610	—	45,663
Transfers to Stage 1	7,852	(7,852)	—	—
Transfers to Stage 2	(811)	811	—	—
Transfers to Stage 3	(189)	(227)	416	—
Impact of transfer between stages	(6,586)	1,288	(186)	(5,484)
	266	(5,980)	230	(5,484)
Other items credited to Statement of comprehensive income	(13,494)	(4,974)	(230)	(18,698)
Credit for year (including recoveries)	(13,228)	(10,954)	—	(24,182)
At 31 December 2021	17,825	3,657	—	21,482
In respect of:				
Loans and advances to customers	55,060	89,531	59,600	204,191
Provisions in relation to loan commitments	17,825	3,657	—	21,482
Total	72,885	93,188	59,600	225,673

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 parent company, Bank of Scotland plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

27. Financial risk management (continued)

27.2 Liquidity risk (continued)

As at 31 December 2022	**Up to 1 month**	**1-3 Months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowed funds	**9,910**	**—**	**3,314,239**	**2,212,952**	**—**	**5,537,101**
Contractual interest payments	**—**	**—**	**71,110**	**141,685**	**—**	**212,795**

As at 31 December 2021	Up to 1 month	1-3 Months	3-12 months	1-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowed funds	43,600	—	3,269,004	2,459,687	—	5,772,291
Contractual interest payments	—	—	12,688	35,827	—	48,515

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 £13,858,000 (2021: £14,850,000), and accordingly decrease Interest expense, increase Profit before tax and increase Equity by £13,858,000 (2021: £14,850,000) 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 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.

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

27. Financial risk management (continued)

27.5 Fair values of financial assets and liabilities (continued)

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

The Company has provided credit cards to customers on variable rate bases. The carrying value of the variable rate loans is assumed to be their 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 therefore 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, including cash and cash equivalents, borrowed funds and due to and due from related party undertakings, are equal to their carrying value and classified as level 2 in the fair value hierarchy.

28. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements. The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The managed capital of the Company constitutes Total equity. This consists entirely of issued Share capital and Retained earnings. As at 31 December 2022, total managed capital was £670,044,000 (2021: £494,429,000).

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 £22,089,695,000 (2021: £22,766,454,000).

30. Post balance sheet events

An interim dividend of £280,000,000 (£280,000,000 per share) in respect of the year ending 31 December 2022 was declared on 12 September 2022 and paid to Bank of Scotland plc on 18 February 2023.

31. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2022 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2023 (including IAS 1 Presentation of the financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors).	Annual periods beginning on or after 1 January 2023.

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

32. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland plc (incorporated in Scotland, The Mound, Edinburgh, EH1 1YZ). The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland, The Mound, Edinburgh, EH1 1YZ), which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Bank of Scotland plc is the parent undertaking of the smallest such group of undertakings.

Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Independent Auditors' report to the member of MBNA Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of MBNA Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flows statement; and
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards.

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

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

Conclusions relating to going concern
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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included our assessment of the entity's:
- current year performance and the year-end position;
- dependency on borrowing facilities including nature of facilities, repayment terms and covenants;
- cashflow forecasts including the relevance and reliability of the underlying data;
- ability to rely on the parent's support; and
- the impact of the current macroeconomic climate on the entity's future performance.

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.

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

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation, the Financial Conduct Authority ("FCA") regulations, Financial Reporting Council ("FRC") regulations, Consumer Credit Act ("CCA"); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as IT, tax, credit risk and Effective Interest Rate ("EIR") modelling specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- We presume a significant risk of material misstatement due to fraud related to revenue recognition. We focused this risk of material misstatement on the compliance of the EIR model and methodology applied to derive the EIR asset position with the IFRS 9 requirements. Our challenge of the significant risk identified included involvement of the EIR modelling specialists. With their support, we have performed an independent assessment of the models in place including challenging the appropriateness of the model through a challenger model. Based on our audit procedures, we concluded that the EIR Asset recognised on the balance sheet is not materially misstated.
- We have identified the valuation of post model adjustments ("PMAs") and in model adjustments ("IMAs") arising from high inflation and cost of living crisis to represent a significant risk of material misstatement in the current year in relation to the ECL model. Our challenge of the significant risk identified included involvement of the credit risk modelling specialists. With their support, we have reviewed and challenged the methodology, approach and assumptions in developing the cost-of-living PMAs and IMAs. We also evaluated management's selection of approach for indications of bias. Based on our audit procedures, we concluded that the ECL recognised on the balance sheet is not materially misstated.

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

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

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

Independent Auditors' report to the member of MBNA Limited (continued)

Report on other legal and regulatory requirements

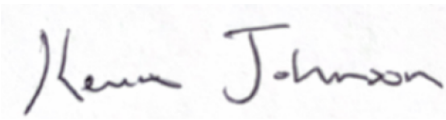
Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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



Kevin Johnson (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
16 June 2023