

MBNA Limited

Annual Report and Accounts

2021

Member of Lloyds Banking Group



Strategic report

For the year ended 31 December 2021

The directors present their Strategic report and audited financial statements of MBNA Limited (the "Company") for the year ended 31 December 2021.

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 £647,530k (2020: decrease of £877,960k). This is linked to the reduction in customer spend, ending the year on £6,420,420k (2020: £7,067,950k) and an increase in customer repayments as customers have been able to save more during the COVID-19 pandemic. The Company's competitive product offerings have resulted in 331,000 new accounts being acquired in 2021 (2020: 325,000).

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 £358,594k (2020: £257,178k) and Net Interest income for the year was £488,540k (2020: £637,721k).

On the 12th March 2021 the Company entered into a securitisation arrangement with Wilmington Cards 2021-1 plc, which used MBNA Card assets to back the issuance of £3,350,000k Class A asset backed variable rate notes with a scheduled redemption date of 18 March 2026 and £1,000,000k Class D asset backed variable rate notes with a scheduled redemption date of 18 March 2027 (the "Notes"). The risks and rewards of the securitised assets were substantially retained by the Company.

Post balance sheet events

In February 2022, the share capital was reduced to 1 share at £10, for further details see note 31.

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.

Increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia over Ukraine and the imposition of sanctions, could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a material adverse effect on the Company's results of operations, financial condition or prospects. The company will continue to monitor the situation and risks to the business.

Principal risks and uncertainties

Despite a resilient recovery, 2021 has been another year of significant uncertainty, with COVID-19 accelerating broad structural changes, including ways of working and impacts to global and domestic economies. COVID-19 has continued to have a significant impact on all risk types in 2021. Understanding and managing its impacts dynamically has remained a major area of focus. Lloyds Banking Group plc (the "Group") has responded quickly to the challenges faced, putting in place risk mitigation strategies and refining its investment and strategic plans.

The Company is part of Lloyds Banking Group plc ("LBG"), and, at that level, following the UK's vote to leave the European Union ("EU") and the UK's subsequent exit from the EU, consideration of many of the potential implications has been undertaken. Work continues to assess the impact of the EU exit at the level of the Lloyds Banking Group plc, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications, however impacts are not considered to be material to the Company's financial performance in 2021.

The key risks and uncertainties faced by the Company are managed within the framework established for Lloyds Banking Group plc. 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 28.1.

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 28.2.



Strategic report (continued)

For the year ended 31 December 2021

Principal risks and uncertainties (continued)

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 28.3.

Key performance indicators ("KPIs")

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

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

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

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

KPI	2021	2020	Analysis
Gross loans and advances to customers (£million)	6,420	7,068	The movement in Gross loans and advances to customers has been driven by increased repayments and lower retail spend activity associated to the COVID-19 pandemic in 2021, there have also been higher repayment rates on products with promotional balance offers within the promotional offer periods.
New accounts (thousands)	331	325	There has been a increase in the volume of new accounts year-on-year.
Active customer accounts at 31 December (thousands)	2,198	2,272	Active customer accounts comprise all customers who have a balance on their account or have made a transaction in the month. The reduction in active customer accounts was driven by the COVID-19 pandemic which has reduced both retail and travel spend activity.
Impairment loss allowance on loans and advances (£million)	204	328	The decrease in the impairment loss allowance is due to an updated economic outlook which is more positive in 2021, reflecting the lifting of some COVID-19 restrictions and subsequently relating to provision releases in the Company.
Net interest income (£million)	489	638	The net interest income reduction is driven by the impacts of the COVID-19 pandemic, which has resulted in a reduction in balances linked to customer spend in 2021.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2021, the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Statement of engagement with employees and other stakeholders

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

Customers

The directors ensure the Company, as part of Lloyds Banking Group plc, works toward achieving Lloyds Banking Group plc's customer ambitions by focussing on customer fair value and by treating customers fairly. The Board meets on a regular basis and directors also regularly review customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made.

Lloyds Banking Group plc regularly benchmarks amongst its customers the performance of itself and its subsidiaries and uses this insight along with a range of internal and external research to ensure 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 2020 and 2021 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.

Strategic report (continued)

For the year ended 31 December 2021

Section 172(1) statement (continued)

Employees

As part of the Group, 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. In 2019, the Lloyds Banking Group plc Board agreed how Lloyds Banking Group plc, 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.

Employees are actively encouraged to become involved in the performance of Lloyds Banking Group plc, most notably with the annual share save scheme which in 2021 enabled colleagues to purchase Lloyds Banking Group plc shares at a 10% discount on the market rate.

During the COVID-19 pandemic the Company has taken steps to support employees impacted by the pandemic for example with policies to support colleagues requiring time off for caring responsibilities, whilst ensuring that employees can continue to perform their roles with minimal disruption, including employees working from home or adopting a hybrid of office and home environments.

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's Retail Division. As a wholly owned subsidiary, the directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's 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 2021, 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 Britain Recover by actively managing its customer lending. Further information in respect of the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic report within the Lloyds Banking Group plc Annual Report and Accounts for 2021, which does not form part of this report. Additional information on Lloyds Banking Group plc Helping Britain Recover Plan, which does not form part of this report, is available on the Lloyds Banking Group plc website.

Regulators

The Company provides quarterly updates to relevant regulators including disclosures on its capital position. During 2021 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 2021 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 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 2022.

Strategic report (continued)

For the year ended 31 December 2021

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 2021, 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 handwritten signature in black ink, appearing to read 'I S Perez', with a stylized flourish at the end.

I S Perez
Director
10th June 2022

Directors' report

For the year ended 31 December 2021

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2021. The Company is a subsidiary of Lloyds Banking Group plc.

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.

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

Employees

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

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

Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the 2021 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.

Dividends

A dividend of £207,000k (£10.35 per share) was declared and paid in 2021 (2020: £nil).

Post balance sheet events

In February 2022, the share capital was reduced to 1 share at £10, for further details see note 31.

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 £494,000k (2020: £407,000k).
- The Company does not have external debt and is funded by other companies within the Group.
- The Company will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on further funding as required from its intermediate parent, Lloyds Bank plc.

The Company also has the letter of support from Lloyds Banking Group plc dated 23rd of February 2022, which confirms that it is the intention of Lloyds Banking Group plc to support the Company in meeting its financial liabilities as they fall due.

Directors

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

I S Perez

Dr. S J Kenyon (Non-executive chairman)

V A Murden

E J Corfield

Between the beginning of the reporting year and the approval of the Annual Report and Accounts the following change has occurred;

V A Murden - resigned 4th February 2022.

Directors' report (continued)

For the year ended 31 December 2021

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, Future outlook and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on 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 page 2.

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), for the year ended 31 December 2021, 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 2021, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

Consideration of the needs of all stakeholders is fundamental to the way the Company operates, as is maintaining the highest standards of business conduct, which along with ensuring delivery for customers is a vital part of the corporate culture. The Company's approach is further influenced by the need to build a culture in which everyone feels included, empowered and inspired to do the right thing for customers. To this end, the Board plays a role in establishing, promoting and monitoring the Company's corporate culture and values, aligning to the culture and values of the Group, which are discussed in more detail in the Group annual report and accounts for 2021, which does not form part of this report, and is available on the Lloyds Banking Group plc website.

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

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

Principle Three – Director Responsibilities

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

The Board does not operate any committees. 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.

Directors' report (continued)

For the year ended 31 December 2021

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 28.

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 Lloyds Banking Group plc 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. Helping Britain Recover is central to the Group's responsible business approach and the Company supports this initiative through supporting the needs of its customers and colleagues during these uncertain times.

In 2021, the Responsible Business Committee determined that the Company and the Group continued to demonstrate responsibility as a key priority, including keeping customers' data safe, supporting vulnerable customers, lending responsibly, supporting businesses and working with suppliers.

Directors' indemnities

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 Directors' and Strategic reports 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.

Directors' report (continued)

For the year ended 31 December 2021

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 handwritten signature in black ink, appearing to read 'I S Perez', with a stylized flourish at the end.

I S Perez
Director

10th June 2022

Financial statements

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income		525,919	706,192
Interest expense		(37,379)	(68,471)
Net interest income	3	488,540	637,721
Fee and commission income		25,341	22,678
Fee and commission expense		(29,340)	(24,680)
Net fee and commission expense	4	(3,999)	(2,002)
Impairment losses on loans and advances to customers	7	(9,443)	(312,061)
Impairment losses on investment in subsidiary undertakings	17	—	(760)
Other income	5	332	1,382
Income from investments	6	—	2
Regulatory provisions - (charge)/credit for the year	23	(37,092)	867
Other operating expenses	8	(79,744)	(67,971)
Profit before tax		358,594	257,178
Taxation	11	(63,979)	(50,036)
Profit for the year from continuing operations		294,615	207,142
Discontinued operations			
Loss for the year from discontinued operations	13	(21)	(50)
Profit for the year, being total comprehensive income		294,594	207,092

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

Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Cash and cash equivalents	14	37,646	44,476
Loans and advances to customers	16	6,216,229	6,739,575
Trade and other receivables	15	186,415	152,939
Investment in subsidiary undertakings	17	1,336	1,336
Property, plant and equipment	18	3,525	3,818
Intangible assets	19	226	758
Deferred tax asset	20	24,587	23,081
Total assets		6,469,964	6,965,983
LIABILITIES			
Borrowed funds	21	5,772,291	6,351,900
Trade and other payables	22	62,627	37,998
Provision for liabilities and charges	23	75,136	112,797
Current tax liability		65,481	56,453
Total liabilities		5,975,535	6,559,148
EQUITY			
Share capital	24	200,000	200,000
Retained earnings		294,429	206,835
Total equity		494,429	406,835
Total equity and liabilities		6,469,964	6,965,983

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

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



I S Perez
Director

10th June 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share capital	Retained earnings / (Accumulated losses)	Total equity
	£'000	£'000	£'000
At 1 January 2020	200,000	(257)	199,743
Profit for the year being total comprehensive income	—	207,092	207,092
At 31 December 2020	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 12)	—	(207,000)	(207,000)
At 31 December 2021	200,000	294,429	494,429

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

Cash flow statement

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows generated from operating activities			
Profit before tax		358,594	257,178
Adjustments for:			
- Loss generated from discontinued operations before tax	13	(26)	(62)
- Dividend income	6	—	(2)
- Interest expense	3	37,379	68,471
- Depreciation of Property, plant and equipment	8	2,205	2,498
- Amortisation of Intangible assets	8	532	1,161
- Impairment of Investment in subsidiary undertakings	17	—	760
- Decrease in Provision for liabilities and charges	23	(37,661)	(219,808)
Changes in operating assets and liabilities:			
- Net decrease in Loans and advances to customers	16	523,346	961,023
- Net decrease in Other debtors and Other trade receivables	15	1,725	22,739
- Net increase/(decrease) in Trade and other payables	22	24,629	(47,349)
Cash generated from operations		910,723	1,046,609
Tax paid		(56,453)	(48,677)
Net cash generated from operating activities		854,270	997,932
Cash flows used in investing activities			
Dividend income	6	—	2
Purchase of Property, plant and equipment	18	(1,912)	(2,602)
Net cash used in investing activities		(1,912)	(2,600)
Cash flows used in financing activities			
Repayment of net borrowings with group undertakings	27	(614,809)	(926,934)
Dividends paid	12	(207,000)	—
Interest paid	3	(37,379)	(68,471)
Net cash used in financing activities		(859,188)	(995,405)
Change in Cash and cash equivalents	14	(6,830)	(73)
Cash and cash equivalents at beginning of year		44,476	44,549
Cash and cash equivalents at end of year		37,646	44,476

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 2021

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

The financial information has 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. In reaching this assessment, the directors have considered the implications of the short-term impacts of the COVID-19 pandemic and the medium to long-term impacts of climate change upon the Group's performance and projected funding and capital position.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 32. No standards have been early adopted.

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

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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

1. Accounting policies (continued)

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.

Financial instruments measured at fair value through other comprehensive income

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

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 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

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:

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

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

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

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

1.8 Taxation, including deferred income taxes

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

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

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs ("HMRC") or 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

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 2021 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 23.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote (see note 30).

Notes to the financial statements (continued)

For the year ended 31 December 2021

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 £3,350,000k Class A asset backed variable rate notes with a scheduled redemption date of 18 March 2026 and £1,000,000k 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 mortgage 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 decreased to an asset of £101,500k at 2021 year end from £145,500k at 2020 year end. This is mainly driven by a reduction in the assumed life of Balance Transfer balances.

Sensitivities on the length of the balance following the promotional period expiry have been performed as this is considered a key assumption to EIR. Each additional month in the anticipated balance life following the promotional period expiry would increase the EIR asset held by approximately £10,600k.

(ii) Critical accounting judgements and estimates

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:

Notes to the financial statements (continued)

For the year ended 31 December 2021

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

(ii) Critical accounting judgements and estimates (continued)

Allowance for impairment losses

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

Definition of default

The 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 28.1.

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.

Staging rules

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

Generation of Multiple Economic Scenarios

The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. In addition to a defined base case, as used for planning, the Company's approach relies on model-generated scenarios, reducing scope for bias in the selection of scenarios and their weightings. The assumptions underpinning the base case scenario reflect the Company's best view of future events. The base case is therefore central to the range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario.

Notes to the financial statements (continued)

For the year ended 31 December 2021

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

(ii) Critical accounting judgements and estimates (continued)

Generation of Multiple Economic Scenarios (continued)

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%. 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 2021.

Base case and MES economic assumptions

The Company's base case economic scenario has been revised in light of the continuing impact of the coronavirus pandemic, intensifying global inflation pressures, and a shift towards a more restrictive stance of monetary policy by central banks. The base case scenario reflects three key conditioning assumptions of coronavirus infections not leading to a re-imposition of lockdown restrictions, the rise in energy prices, and the rise in inflation and subsequently reverting to the Bank of England's 2 per cent inflation target.

Based on these assumptions and incorporating the improved economic data in the fourth quarter, the Company's base case outlook is for a modest rise in the unemployment rate. Risks around this base case economic view lie in both directions and are partly captured by the generation of alternative economic scenarios described above. But uncertainties relating to the key conditioning assumptions, including epidemiological developments and the efficacy of vaccine rollouts, are not specifically captured by the MES scenarios.

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.

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
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
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
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
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

Notes to the financial statements (continued)

For the year ended 31 December 2021

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

(ii) Critical accounting judgements and estimates (continued)

Base case and MES economic assumptions (continued)

At 31 December 2020	2021 %	2022 %	2023 %	2024 %	2025 %	Average %
Upside						
Gross domestic product	(10.5)	3.7	5.7	1.7	1.5	0.3
UK Bank Rate	0.10	1.14	1.27	1.20	1.21	0.98
Unemployment rate	4.3	5.4	5.4	5.0	4.5	5.0
Base case						
Gross domestic product	(10.5)	3.0	6.0	1.7	1.4	0.1
UK Bank Rate	0.10	0.10	0.10	0.21	0.25	0.15
Unemployment rate	4.5	6.8	6.8	6.1	5.5	5.9
Downside						
Gross domestic product	(10.6)	1.7	5.1	1.4	1.4	(0.4)
UK Bank Rate	0.10	0.06	0.02	0.02	0.03	0.05
Unemployment rate	4.6	7.9	8.4	7.8	7.0	7.1
Severe Downside						
Gross domestic product	(10.8)	0.3	4.8	1.3	1.2	(0.8)
UK Bank Rate	0.10	0.00	0.00	0.01	0.01	0.02
Unemployment rate	4.8	9.9	10.7	9.8	8.7	8.8
Probability-weighted						
Gross domestic product	(10.6)	2.6	5.5	1.6	1.4	(0.1)
UK Bank Rate	0.10	0.39	0.42	0.43	0.45	0.36
Unemployment rate	4.5	7.0	7.3	6.7	6.0	6.3

ECL sensitivity to economic assumptions

The table below shows the Company's ECL for Loans and Advances to Customers and Loan Commitments for the 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 constant reflecting the basis on which they are evaluated. Judgements applied through changes to inputs are reflected in the scenario 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 2021					At 31 December 2020				
	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	225,673	194,285	218,069	244,713	285,531	374,038	325,840	360,408	404,500	468,143

The impact of changes in the UK unemployment rate have also 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 decrease / increase for a 1% (pp) increase/decrease in the UK unemployment rate from base case scenario.

	31 December 2021		31 December 2020	
	1pp Increase	1pp Decrease	1pp Increase	1pp Decrease
UK unemployment				
ECL impact, £'000	8,265	(8,265)	13,835	(13,835)

Application of judgement in adjustments to modelled ECL

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

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

(ii) Critical accounting judgements and estimates (continued)

Application of judgement in adjustments to modelled ECL

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

At 31 December 2021 the continued impact from the COVID-19 pandemic and the various support measures that have been put in place have resulted in an economic environment which differs significantly from the historical economic conditions upon which the impairment models have been built. As a result there is a greater need for management judgements to be applied alongside the use of models.

At 31 December 2021 the ECL allowance was increased by in-model adjustments totalling £41,440k (2020: £29,000k) whilst further post-model adjustments totalling £(31,000k) (2020: £(23,799k)) reduced the ECL allowance. This comprises judgements adjusted due to the COVID-19 pandemic in the year and other judgements not directly linked to the COVID-19 pandemic but which have increased in size under the current outlook. The most significant judgements at 31 December 2021 are as follows:

Recognition of impact of support measures: £40,500k (2020: £27,800k)

Government support and subdued levels of consumer spending are judged to have contributed to the reduced flow of accounts into default and to improved average credit scores across portfolios. Management believes that the resulting position does not fully reflect the underlying credit risk in the portfolios although there is no longer an expectation that the reduced levels of defaults experienced in 2020 was temporary. Adjustments continue to be made to increase expected future rates of default and predicted exposures at default relative to modelled ECL. In forming this judgement, we have anchored the flow to Stage 3 forecasts at a level that assumes a 50% probability that the future customer default experience will mirror the pre-pandemic behaviour during Q1 2020 with the remaining 50% assigned to the Business As Usual anchor.

LGD alignment: £(36,500k) (2020: £(54,800k))

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

Lifetime extension: £15,100k ((2020: £26,300k)

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

3. Net interest income

	2021 £'000	2020 £'000
Interest income		
Credit card finance	525,919	706,192
	525,919	706,192
Interest expense		
Interest payable on borrowing funds to related undertakings (see note 27)	(37,379)	(68,471)
Net interest income	488,540	637,721

Notes to the financial statements (continued)

For the year ended 31 December 2021

4. Net fee and commission expense

	2021 £'000	2020 £'000
Fee and commission income		
Loan fees receivable	25,341	22,678
Fee and commission expense		
Other fees and commission payable	(8,286)	(5,394)
External infrastructure fees	(11,870)	(11,235)
Card and cashback payable	(9,184)	(8,051)
Net fee and commission expense	(3,999)	(2,002)

5. Other income

	2021 £'000	2020 £'000
Card related incentives	291	1,185
Other operating income	49	224
Foreign exchange loss	(8)	(27)
	332	1,382

6. Income from investments

Dividends of £nil were received from the Company's subsidiary undertakings during 2021 (2020: £2,000).

7. Impairment losses on Loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
For the year ended 31 December 2021				
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	(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
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
For the year ended 31 December 2020				
Transfers between stages	(2,451)	65,042	67,829	130,420
Other changes in credit quality	8,033	10,287	143,680	162,000
(Repayments)/additions	2,522	2,385	(2,859)	2,048
Methodology changes	(11,372)	28,965	—	17,593
	(3,268)	106,679	208,650	312,061
In respect of:				
Loans and advances to customers	(13,963)	98,018	208,650	292,705
Undrawn loan commitments	10,695	8,661	—	19,356
	(3,268)	106,679	208,650	312,061

Notes to the financial statements (continued)

For the year ended 31 December 2021

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

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 28.1.

8. Other operating expenses

	2021 £'000	2020 £'000
Staff costs (see note 9)	17,269	24,293
Depreciation (see note 18)	2,205	2,498
Recharge of expenses from group (see note 27)	52,476	23,418
Administrative expenses	7,262	16,601
Amortisation of intangible assets (see note 19)	532	1,161
	79,744	67,971

Included within administrative expenses are fees payable to the Company's auditors for the audit of the financial statements of £756k (2020: £720k) which included audit related assurance work of £147k (2020: £140k). All audit fees are approved by the Group Audit Committee.

9. Staff costs

	2021 £'000	2020 £'000
Wages and salaries	13,919	20,925
Social security costs	1,296	1,954
Redundancy costs	46	(2,146)
Pension costs – defined contribution plans	1,489	2,110
Other staff costs	519	1,450
	17,269	24,293

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

The average monthly number of employees during the year was 466 (2020: 725). 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 (2020: £nil).

Notes to the financial statements (continued)

For the year ended 31 December 2021

10. Directors' emoluments

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

	2021 £'000	2020 £'000
Aggregate emoluments	83	106
Aggregate post-employment benefits	9	12
	92	118

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 (2020: four) in respect of defined contribution pension schemes. No directors exercised share options in the ultimate parent company during the year (2020: none). The number and total amount of the outstanding loans to directors, officers and connected persons as at 31 December 2021 was £nil (2020: £nil).

Key management compensation related wholly to the directors, who have the authority and responsibility for directing and controlling the Company's activities. The directors holding office at 31 December 2021 are employed by other companies within the Group. Directors' emoluments have not been disclosed where directors consider that their services are incidental to their other responsibilities within the Group.

11. Taxation

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

	2021 £'000	2020 £'000
UK corporation tax:		
- Current tax on taxable profit for the year	65,663	56,559
- Adjustments in respect of prior years	(173)	(7,224)
- Current tax credit on loss from discontinued operations	(5)	(12)
Current tax charge	65,485	49,323
UK deferred tax:		
- Origination and reversal of timing differences	3,199	3,995
- Impact of deferred tax rate change	(4,917)	(2,778)
- Adjustments in respect of prior years	212	(504)
Deferred tax (credit)/charge (see note 20)	(1,506)	713
Tax charge	63,979	50,036

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable profit for the year.

Notes to the financial statements (continued)

For the year ended 31 December 2021

11. Taxation (continued)

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:

	2021 £'000	2020 £'000
Profit before tax	358,594	257,178
Tax charge thereon at UK corporation tax rate of 19% (2020: 19%)	68,133	48,864
Factors affecting charge/(credit):		
Effect of change in tax rate and related inputs	(4,917)	(2,778)
Disallowed and non-taxable items	724	11,678
Adjustment in respect of prior years	39	(7,728)
Tax charge on profit on ordinary activities	63,979	50,036
Effective rate	17.84%	19.46%

12. Dividends

A dividend of £207,000k (£10.35 per share) has been paid in the year 31 December 2021 (2020: £nil).

13. Loss for the year from discontinued operations

	2021 £'000	2020 £'000
Statement of comprehensive income		
Other operating expenses	26	62
Loss for the year from discontinued operations before tax	26	62
Tax credit on discontinued operations	(5)	(12)
Loss for the year from discontinued operations after tax	21	50

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

14. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank and in hand, held with group undertakings (see note 27)	2,646	9,476
Cash at bank and in hand, held with external banks	35,000	35,000
	37,646	44,476

The value of safeguarded cash at the end of December 2021 was £25,050k, (2020: £29,264k).

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Trade and other receivables

	2021	2020
	£'000	£'000
Amounts due from group undertakings (see note 27)	181,638	146,437
Prepayments and accrued income	3,256	3,602
Other debtors	1,521	2,900
	186,415	152,939

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 £85,223k (2020: £135,968k) due from Lloyds Bank plc.

16. Loans and advances to customers

16.1 Loans and advances to customers - movement over time

	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

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2020	7,211,416	566,087	168,407	7,945,910
Transfers to Stage 1	141,809	(140,097)	(1,712)	—
Transfers to Stage 2	(822,686)	841,961	(19,275)	—
Transfers to Stage 3	(150,403)	(75,433)	225,836	—
Net increase / (decrease) in loans and advances to customers	(685,478)	43,436	(38,480)	(680,522)
Financial assets that have been written off during the year	—	—	(256,664)	(256,664)
Recoveries of prior advances written off	—	—	59,226	59,226
Gross loans and advances to customers at 31 December 2020	5,694,658	1,235,954	137,338	7,067,950
Less: allowances for losses on loans and advances	(83,614)	(174,193)	(70,568)	(328,375)
Net loans and advances to customers at 31 December 2020	5,611,044	1,061,761	66,770	6,739,575

Notes to the financial statements (continued)

For the year ended 31 December 2021

16. Loans and advances to customers (continued)

16.1 Loans and advances to customers - movement over time (continued)

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.

16.2 Securitisation transactions

On 12 March 2021, the Company securitised Loans and advances to customers with a gross value of £4,350,000k. On this date the securitisation vehicle, Wilmington Cards 2021-1 plc, issued asset backed variable rate notes with a scheduled redemption date of 18 March 2026 and £1,000,000k 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
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Credit card	4,350,000	4,351,155	—	—
Wilmington Cards 2021-1 plc	4,350,000	4,351,155	—	—

17. Investment in subsidiary undertakings

	2021	2020
	£'000	£'000
Cost		
At 1 January and 31 December	80,000	80,000
Provision for impairment		
At 1 January	78,664	77,904
Charge for the year	—	760
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 2021 and 31 December 2020, listed below, are all incorporated in the United Kingdom.

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

MBNA Direct Limited was placed into Member's voluntary liquidation on 29 September 2020 and dissolved 27 December 2021.

The Company's interest in each of these entities is in the form of ordinary share capital. The proportion of the voting rights in the subsidiary undertaking held directly by the Company do not differ from the proportion of ordinary shares held. The following companies, forming part of the Group's securitisation programme, are considered to be legal subsidiaries as defined by the Companies Act 2006 by virtue of the actual exercise of dominant influence by the Company:

Notes to the financial statements (continued)

For the year ended 31 December 2021

17. Investment in subsidiary undertakings (continued)

Company name	Description
Credit Card Securitisation Europe Limited (i)	Dissolved
Chester Asset Securitisation Holdings Limited (iii)	Dissolved
Chester Asset Securitisation Holdings No.2 Limited (i)	In liquidation
Chester Asset Options No.2 Limited (iii)	Dissolved
Chester Asset Options No.3 Limited (ii)	Dissolved
Deva One Limited (i)	Dissolved
Deva Two Limited (i)	Dissolved
Deva Three Limited (i)	Dissolved
Chester Asset Receivables Dealings Issuer Limited (i)	In liquidation

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

Chester Asset Securitisation Holdings Limited and Chester Asset Options No.2 Limited were dissolved in February 2022. Chester Asset Options No.3 Limited applied for strike off in November 2020 and was dissolved in March 2021.

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

18. Property, plant and equipment

	Offices and other equipment £'000
Cost	
At 1 January 2020	29,399
Additions	2,602
Disposals	(161)
At 31 December 2020	31,840
Additions	1,912
Disposals	(25,490)
At 31 December 2021	8,262
Accumulated depreciation	
At 1 January 2020	25,685
Charge for the year (see note 8)	2,498
Disposals	(161)
At 31 December 2020	28,022
Charge for the year (see note 8)	2,205
Disposals	(25,490)
At 31 December 2021	4,737
Balance sheet amount at 31 December 2021	3,525
Balance sheet amount at 31 December 2020	3,818

Notes to the financial statements (continued)

For the year ended 31 December 2021

19. Intangible assets

	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 8)	532
Disposals	(26,787)
At 31 December 2021	46,012
Balance sheet amount at 31 December 2021	226
	2020
	PCCR
	£'000
Cost	
At 1 January 2020	87,110
Disposals	(14,085)
At 31 December 2020	73,025
Accumulated amortisation	
At 1 January 2020	85,191
Charge for the year (see note 8)	1,161
Disposals	(14,085)
At 31 December 2020	72,267
Balance sheet amount at 31 December 2020	758

Amortisation is included in Other operating expenses in the Statement of comprehensive income. PCCR has a remaining amortisation period of 1.3 years (2020: 2.3 years).

Notes to the financial statements (continued)

For the year ended 31 December 2021

20. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2021 £'000	2020 £'000
Brought forward	23,081	23,794
Credit/(charge) for the year	1,506	(713)
At 31 December	24,587	23,081

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

	2021 £'000	2020 £'000
Accelerated capital allowances	404	148
Accounting provisions disallowed	(191)	(202)
Other temporary differences	1,293	(659)
	1,506	(713)

Deferred tax asset comprises:

	2021 £'000	2020 £'000
Accelerated capital allowances	2,552	2,148
Accounting provisions disallowed	208	399
Other temporary differences	21,827	20,534
Total	24,587	23,081

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

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.

21. Borrowed funds

	2021 £'000	2020 £'000
Amounts due to group undertakings (see note 27)	5,772,291	6,351,900

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	26,762	26,308
Accruals and deferred income	27,155	9,259
Other payables	8,710	2,431
	62,627	37,998

Of the total trade and other payables £48k is payable after more than one year (2020: £48k).

23. Provision for liabilities and charges

	Undrawn loan commitments £'000	Payment protection insurance £'000	Redundancy costs provision £'000	Other provision £'000	Total £'000
At 1 January 2020	26,307	297,578	3,538	5,182	332,605
Charge/(credit) for the year	19,356	(867)	(2,187)	4,742	21,044
Utilised during the year	—	(236,530)	(366)	(3,956)	(240,852)
At 31 December 2020	45,663	60,181	985	5,968	112,797
Charge/(credit) for the year	(24,182)	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

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 credit in the year £(24,182)k is due to the more positive economic indicators (lower unemployment) than at the start of the Covid-19 pandemic.

As at 31 December 2021, the provision of £21,482k (2020: £45,663k) was categorised as £17,825k (2020: £31,053k) in Stage 1, £3,657k (2020: £14,610k) in Stage 2 and £nil (2020: £nil) in Stage 3, per the expected credit loss methodology under IFRS 9.

Payment protection insurance provision

The 2021 PPI provision comprises £49,850k (2020: £59,637k) in respect of continuing operations and £63k (2020: £544k) 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 reflects managements best estimate of the expected redundancy costs to be incurred by the Company as at 31 December 2021.

Notes to the financial statements (continued)

For the year ended 31 December 2021

23. Provision for liabilities and charges (continued)

Other provision

Other provisions includes £2,866k (2020: £5,968k) 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 £(355)k credit in 2021 reflects the release of prior year provision no longer required.

24. Share capital

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
20,000,000 (2020: 20,000,000) ordinary shares of £10 each	200,000	200,000

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

25. 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 16.2, 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 £'000	Carrying value of associated liabilities £'000
Loan notes	At 31 December 2021	4,351,155	4,351,155
Loan notes	At 31 December 2020	—	—

26. Share based payments

During the year ended 31 December 2021, 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 9), was £1,781k (2020: £1,500k).

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 2021 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 2021 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

27. Related party transactions

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

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 £756k (2020: £720k) 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.

Cash and cash equivalents of £2,646k (2020: £9,476k) comprises a bank account held with its parent undertaking Lloyds Bank plc.

Amounts due from group undertakings are unsecured. Balances are included within Stage 1 for IFRS 9 purposes and any expected credit losses are considered to be immaterial.

	2021	2020
	£'000	£'000
Amounts due from group undertakings		
Lloyds Bank plc	85,224	139,445
Loans.co.uk Limited	8,283	6,992
Wilmington Cards 2021-1 plc	88,131	—
Total Amounts due from group undertakings (see note 15)	181,638	146,437

Amounts due to group undertakings		
Lloyds Bank plc	5,761,406	6,341,122
Loans.co.uk	9,779	9,672
LBG Equity Investments Limited	1,100	—
Mainsearch Company Limited (liquidated)	—	1,076
MBNA Europe Holdings Limited	6	6
MBNA Global Services Limited (liquidated)	—	24
Total Amounts due to group undertakings (see note 21)	5,772,291	6,351,900

Cash and cash equivalents held with group undertakings

Lloyds Bank plc (see note 14)	2,646	9,476
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Interest on term funding balances owed to Lloyds Bank plc is charged at SONIA plus an internal liquidity transfer pricing rate and is repayable on demand.

Interest payable in relation to the call account owed to Lloyds Bank plc is charged at Bank Base Rate (BBR) plus 10 basis points.

All related party transactions are at arms length, apart from the intercompany balances which are settled on a monthly basis with short term timing differences.

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 £4,350,000k asset backed variable rate notes. The £88,100k represents the build up of a cash asset.

The amounts owed to Mainsearch Company Limited (£1,076k) and MBNA Global Services Limited (£24k) were distributed in specie to LBG Equity Investments Limited on company wind up.

Notes to the financial statements (continued)

For the year ended 31 December 2021

27. Related party transactions (continued)

	2021	2020
	£'000	£'000
Interest expense		
Lloyds Bank plc	37,272	68,364
Loans.co.uk Limited	107	107
Total Interest expense (see note 3)	37,379	68,471
Other Expenses		
Lloyds Bank plc (see note 8)	52,476	23,418
Dividend paid		
Lloyds Bank plc (see note 12)	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 £59k during the current year (2020: £696k).

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 and controlling the activities of the Company. Accordingly, key management comprises the directors of the Company and the Retail Division. Members of the Lloyds Banking Group plc board are employed by other companies within the Group and consider their services to the Company are incidental to their other responsibilities within the Group.

	2021	2020
	£'000	£'000
Salaries and short term employee benefits	101	106
Post employment benefits	10	12
	111	118

28. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial risk management (continued)

28.1 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.

Financial assets subject to credit risk

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

	2021	2020
	£'000	£'000
Cash and cash equivalents	37,646	44,476
Trade and other receivables	186,415	152,939
Gross loans and advances to customers	6,420,420	7,067,950
	6,644,481	7,265,365

Included in Trade and other receivables are Prepayments and accrued income of £3,256k (2020: £3,602k) these items do not represent financial instruments.

Loans and advances to customers

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial risk management (continued)

28.1 Credit risk (continued)

Loans and advances to customers (continued)

At 31 December 2021	Gross loans and advances to customers - Loan Quality				
	PD Range	Stage 1	Stage 2	Stage 3	Total
		£'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

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

Commitments to lend

At 31 December 2021	Gross loans and advances to customers - Loan Commitments				
	PD Range	Stage 1	Stage 2	Stage 3	Total
		£'000	£'000	£'000	£'000
RMS 1-6	0.00-0.050%	22,139,609	395,158	—	22,534,767
RMS 7-9	0.051-3.00%	111,275	56,373	—	167,648
RMS 10	3.01-20.00%	15	12,853	—	12,868
RMS 11-13	20.01-99.99%	24	29,535	—	29,559
RMS 14	100%	—	—	21,612	21,612
		22,250,923	493,919	21,612	22,766,454

At 31 December 2020	Gross loans and advances to customers - Loan Commitments				
	PD Range	Stage 1	Stage 2	Stage 3	Total
		£'000	£'000	£'000	£'000
RMS 1-6	0.00-0.050%	20,252,640	462,292	0	20,714,932
RMS 7-9	0.051-3.00%	415,761	161,275	0	577,036
RMS 10	3.01-20.00%	597,335	243,677	0	841,012
RMS 11-13	20.01-99.99%	33	31,968	0	32,001
RMS 14	100%	—	—	25,420	25,420
		21,265,769	899,212	25,420	22,190,401

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial risk management (continued)

28.1 Credit risk (continued)

Analysis of movement in the allowance for impairment losses by stage

	Stage 1	Stage 2	Stage 3	Total
<u>In respect of drawn balances</u>	£'000	£'000	£'000	£'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

	Stage 1	Stage 2	Stage 3	Total
<u>In respect of undrawn balances</u>	£'000	£'000	£'000	£'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

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial risk management (continued)

28.1 Credit risk (continued)

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

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

	Stage 1	Stage 2	Stage 3	Total
<u>In respect of undrawn balances</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
At 1 January 2020	20,358	5,949	—	26,307
Transfers to Stage 1	2,016	(2,016)	—	—
Transfers to Stage 2	(1,776)	1,776	—	—
Transfers to Stage 3	(210)	(688)	898	—
Impact of transfer between stages	(1,485)	10,123	(275)	8,363
	(1,455)	9,195	623	8,363
Other items charged/(credited) to Statement of comprehensive income	12,150	(534)	(623)	10,993
Charge for year (including recoveries)	10,695	8,661	—	19,356
At 31 December 2020	31,053	14,610	—	45,663

In respect of:

Loans and advances to customers	83,614	174,193	70,568	328,375
Provisions in relation to loan commitments	31,053	14,610	—	45,663
Total	114,667	188,803	70,568	374,038

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial risk management (continued)

28.2 Liquidity risk (continued)

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	—	—	10,233	29,326	—	39,559

As at 31 December 2020	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	189,845	—	3,238,148	2,923,907	—	6,351,900
Contractual interest payments	—	—	20,754	22,660	—	43,414

The Company is funded entirely by companies within the Group.

28.3 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 £14,850k (2020: £10,096k), and accordingly decrease Interest expense, increase Profit before tax and increase Equity by £14,850k ((2020: £10,096k) if rates decreased by the same amount.

28.4 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.

28.5 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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial risk management (continued)

28.5 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.

29. 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 2021, total managed capital was £494,429k (2020: £406,835k).

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.

30. 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 £22,766,454k (2020: £22,190,401k).

31. Post balance sheet events

Reduction in share capital

In February 2022, the share capital of 20,000k shares at £10 per share (£200,000k) was reduced to 1 share at £10.

Russian invasion of Ukraine

The Russian invasion of the Ukraine, beginning in February 2022, could have a significant adverse economic effect on financial markets and energy costs. For more detail see the future outlook section of the Strategic report, page 1.

Notes to the financial statements (continued)

For the year ended 31 December 2021

32. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2021 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 2022 (including IFRS 9 after 1 January 2022, Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).	Annual periods beginning on or after 1 January 2022.

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.

33. Ultimate parent undertaking and controlling party

The immediate parent company is Lloyds Bank plc (incorporated in England, 25 Gresham Street, London, EC2V 7HN). 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. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings.

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

Independent Auditors' report to the 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 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flows statement; and
- the related notes 1 to 33.

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

Basis for opinion

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

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

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 COVID-19 pandemic on the entity.

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.

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

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 about their own identification and assessment of the risks of irregularities.

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 Companies Act 2006, tax legislation and 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, 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 appropriateness of the EIR model and methodology applied to derive the EIR asset position. 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 used by the company 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 appropriateness of the macroeconomic scenarios and associated probability weightings ("MES") to represent a significant risk of material misstatement in relation to the expected credit loss ("ECL") model. Our challenge of the significant risk identified included involvement of the credit risk modelling specialists. With their support, we have challenged and evaluated economic forecasts in the base scenario through comparison to an independent economic outlook, external analysts and market data. We have also challenged and evaluated the appropriateness of the methodology applied to generate alternative macroeconomic scenarios, including associated weightings, and assumptions within. 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

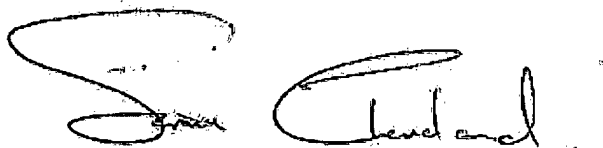
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

A handwritten signature in black ink, appearing to read 'Simon Cleveland', with a large, stylized initial 'S'.

Simon Cleveland (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
10 June 2022