Capital One (Europe) plc

Report and Financial Statements

31st December 2019

Registered in England: Number 3879023

Registered office: Trent House,
Station Street,
Nottingham,
NG2 3HX

STRATEGIC REPORT

The Directors present their strategic report and the audited financial statements of Capital One (Europe) plc ("the Company") for the year ended 31st December 2019.

Principal activity and review of business

The Company provided financial services in the UK during 2019 predominantly comprised of credit card lending via an Authorised Payment Institution.

Key performance indicators

The key financial and other performance indicators during the year were as follows:

	2019 £'000	2018 £'000	Change %
Revenue	483,606	580,465	(17)%
Finance expense	(10,668)	(10,125)	5 %
Impairment losses on loans and advances to customers	(126,382)	(107,496)	18 %
Operating and administrative expenses	(345,125)	(303,474)	14 %
(Loss)/Profit for the year	(34,624)	112,623	(131)%
Net loans and advances to customers	2,246,294	2,218,169	1 %
Shareholders' funds	1,200,762	1,235,386	(3)%

	2019 %	2018 %
Net credit loss rate	4.3	3.0

Revenue decreased by 17% during the year primarily due to the £71 million higher Payment Protection Insurance (PPI) and other provision builds reflected within revenue as well as fee policy changes implemented in the year.

Finance expense increased by 5% during the year primarily driven by interest expense on lease liability due to adoption of IFRS 16 on 1st January 2019 (Note 20 Lease Liability).

Impairment losses on loans and advances to customers increased by 18% compared to prior year due to higher loss rate and lower recoveries from selling debt.

Operating and administrative expenses increased by 14% during the year primarily due to the £25 million higher PPI and other provision builds reflected within operating and administrative expenses. There was also an increase in staff expenses primarily due to increased headcount.

The impact of lower debt sales and higher charge offs in 2019 have increased the net loss rate from 3.0% to 4.3%. The net loss rate is the value of written off balances for the year as a percentage of average loans and advances to customers.

STRATEGIC REPORT (continued)

Ultimate parent company performance

The Company is ultimately owned by Capital One Financial Corporation ('the Corporation'). The Corporation started as an independent company in 1994, and has since developed to become a Fortune 500 company. The Corporation has developed into a global diversified financial services provider with operations in the US and Canada as well as the UK. The Corporation offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients and had total deposits outstanding of $263 billion at the end of the year (2018: $250 billion). The Corporation's loans held for investment at the end of the year totalled $266 billion (2018: $246 billion).

The Corporation's net income for the year ended 31st December 2019 was $6 billion (2018: $6 billion). The Corporation continues to maintain a strong balance sheet position with a Tier 1 common equity ratio of 12.2% at the end of 2019 (2018: 11.2%).

Principal risks and uncertainties

The Company has formal processes for identifying, measuring, assessing and monitoring enterprise risk. The Company uses various risk categories which represent defined risk groupings that help achieve consistent identification, assessment, measurement and monitoring across risks. The principal risk categories facing the Company comprise the following:

Operational risk

Operational risk represents the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events.

The Company's policy is to maintain a well controlled and sustainable operating environment that assures processes and controls are managed with a degree of rigour commensurate with their risk, and to maintain adequate capital reserves to protect against unforeseen operational risk events.

The Company is actively managing and has business continuity plans in place to minimise the operational risks posed by COVID-19. Capital One is focused on the well-being of associates, customers and the communities it serves.

Strategic risk

Strategic risk represents the risk of a material impact on current or anticipated earnings, capital, franchise or enterprise value arising from: the Company's competitive and market position and evolving forces in the industry that can affect that position; lack of responsiveness to these conditions; strategic decisions to change the company's scale, market position or operating model; or failure to appropriately consider implementation risks inherent in the Company's strategy.

The Company monitors and mitigates the strategic risks to the business by creating and pursuing effective strategies and by monitoring the external environment for changes that could disrupt the strategy. The Company has considered the risk of Brexit uncertainty. The direct impact of the UK leaving the EU was assessed to be of limited materiality due to the Company's minimal exposure to foreign exchange risk or changes in international trade.

STRATEGIC REPORT (continued)

Legal risk

Legal risk represents the risk of material adverse impact due to new and changed laws and regulations; interpretations of law; drafting, interpretation and enforceability of contracts; adverse decisions or consequences arising from litigation or regulatory action; the establishment, management and governance of legal entity structure; and the failure to seek and follow appropriate legal counsel when needed.

Legal risk is managed by applying legal expertise through the internal legal department, accessing specialised outside counsel when needed and effective partnership working between the legal department and business areas to assess and mitigate legal risk. Business areas are informed of new and impending changes to law and regulation as they arise through roadmap bulletins and quarterly through a legal and regulatory roadmap which assists the Company to prepare for new laws and regulation and manage new legal risks.

Compliance risk

Compliance risk represents the risk to current or anticipated earnings or capital arising from violations of laws, rules, or regulations. Compliance risk can also arise from non-conformance with prescribed practices, internal policies and procedures, contractual obligations, or ethical standards that reinforce those laws, rules, or regulations.

It is the policy of the Company to comply with all laws, rules, and regulations governing its business activities and corporate behaviour. The Company expects all of its associates and third party representatives to follow the highest legal and ethical standards to protect our customers and shareholders and to ensure the safety and soundness of our business. The Company manages compliance risk through a robust compliance management programme, including processes to actively manage compliance risk requirements, independent compliance testing, compliance policies and procedures, compliance training, compliance monitoring and controls, compliance issue management and compliance risk reporting.

Conduct risk

Conduct risk is the risk of failing to ensure good outcomes are delivered to customers. The materialisation of this risk may also adversely impact the Company's strategic objectives, earnings, capital or reputation together with the integrity of the market within which the Company operates.

Conduct risk is managed through a combination of:

- Product Risk Assessments and Conduct Risk Assessments which aim to ensure that the Company's products and practices are designed to avoid poor customer outcomes at each stage of the product lifecycle and customer journey;
- Business-wide staff training on Conduct Risk, as well as targeted role-based training, as appropriate;
- Balanced associate remuneration and incentive schemes ensure associates recognise that they are expected to behave well and deliver good outcomes for customers. Exemplary conduct and the consequences of misconduct are recognised throughout recruitment processes, training, performance management, remuneration policy and the development of staff, and
- Clear monitoring, reporting and senior leadership oversight.

STRATEGIC REPORT (continued)

Reputation risk

Reputation risk represents the risk to market value, recruitment and retention of talented associates, the maintenance of a loyal customer base and the ability to attract new customers due to the negative perceptions of stakeholders regarding the Company's business strategies, activities and actions.

Reputation risk is managed by ensuring a thorough understanding of the environment within which the Company operates. This includes proactively engaging with the Company's existing and potential stakeholders, both locally and nationally to understand and respond to key issues relating to the business, monitoring media channels, and staying abreast of the government and legislative agenda. Internally, ongoing monitoring and consultation with the lines of business ensures that reputation risk is considered in key process and decision making.

Section 172(1) Statement

Background

In its oversight of the Company and its decision making, the directors of the Company ("the Board") is aware of its responsibilities under section 172(1)(a) to (f) of the Companies Act 2006 to promote the success of the Company for the long term and have consideration to a range of stakeholders including: customers, consumer advocates, Associates, suppliers, the community, its ultimate shareholders and its regulators. The Board looks to balance the Capital One enterprise ("Capital One Group") values and its strategic priorities with those of these key stakeholders in its oversight of the Company and in its key decision making.

The Board both directly and through its delegation to management and beyond looks to encourage a culture that in particular looks to ensure that the interests of its customers, consumer advocates and regulators guide all activities. This statement outlines how the Board have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 when performing their duties under section 172.

The Board was reminded of its responsibilities under section 172(1) during an update to the Board on corporate governance reforms in Q2 2019 and through annual training documentation provided to directors in Q4 2019.

The Company is ultimately held by a publicly traded US company, the Capital One Financial Corporation (defined earlier as "the Corporation"), which maintains holistic oversight over both the Company and how intercompany decisions may affect the Capital One Group as a whole. The Board has regard to how its activity and decisions impact the Capital One Group, and its ultimate parent, the Corporation.

Effective decision making and long term value

The Board is responsible for setting the Company's strategy. The Company's strategy focuses on long term success and is reviewed and approved annually by the Board. Each year strategic imperatives (the "Imperatives") are defined which are cascaded to all Associates to form the basis of in-year activity and align to the overall Company strategy.

The Board is responsible for monitoring the execution of the Company's strategy and meet at least quarterly to review key metrics and forward-looking plans, to ensure the Company is operating in line with the long term intent and taking relevant appropriate action.

STRATEGIC REPORT (continued)

Effective relationships with the Company's stakeholders, including its Associates, customers, suppliers and others, are crucial to the success of the business. For this reason, the impact of strategy and decision making on those stakeholders is a consistent consideration for the Board when performing their duties. Each Board member is part of the Company's leadership team and a senior employee of the Company, partaking in the day to day running and decision making of the business, which allows them to maintain a holistic view of decision making affecting key stakeholders.

The Board's approach to engagement with its key stakeholders

These key stakeholders are considered by the Board to be particularly relevant to the long term success of the business, as follows:

- Associates - The Board considers the Company's Associates to be a fundamental asset critical to its long term success. Thus the Board robustly supports the Company's investments in the development and focus of talent. The Board prides itself on the high standard of Associate culture across the Company. To help maintain this, the interests of its Associates are monitored using various mechanisms including regular one to ones with management, team meetings where matters can be escalated, and

  Associate surveys requesting feedback on various matters including: the Associate experience, inclusion and delivery against the Imperatives. The Company takes the results of these surveys very seriously, prioritising making improvements to Associate experience and applying continued investment in a strong purpose led culture. In 2019, the Board has supported and been engaged in a number of initiatives, including a focus on further enhancing the Company's culture. To assist in the delivery of this work, and provide independence and specialist expertise, an external party was engaged to collate feedback from Associates at all levels of the Company and provide an assessment of this work and next steps to the Board and management.

- Customers and Consumer advocates - Customer interests are paramount to the strategy of every business area. All Associates, including the Board, are required to maintain consistent awareness of customer outcomes and needs. This is encouraged through forums such as call listening sessions and the Company's annual Imperatives event. Customer outcomes are monitored via quality assurance and reviews/testing by the second and third lines of defence as well as through the engagement of third parties as necessary. In addition, the Company carries out regular customer insight activity to inform its strategy and engagement with customers. Customer feedback metrics and performance metrics are shared regularly with the Board in order to ensure the Board is able to effectively evaluate customer outcomes when determining the strategy of the Company. The Company's dedicated Vulnerable Customer Team partners with all areas of the Company to ensure policies and processes are fair and inclusive. The Company hosts regular consumer stakeholder forums with third parties including debt charities and consumer advocate groups in order to seek external challenge and assist the Company in defining and constantly improving its approach to customer needs.

- Regulators - The Board, on a regular basis, considers relevant public policy, regulatory and legal issues and topics that could, or will, impact the Company. They consider and have regard to how external engagement across this area can assist them in performing their duties. Board members, including through their wider Company responsibilities, consider and develop relationships with regulators (both in the UK and US), policy-makers, stakeholder and advocacy groups. A primary objective of such engagement is to listen to and consider perspectives on product development and customer outcomes, as well as to explain the Company's strategy and intent where appropriate. The Company is also a member of the Lending Standards Board who conduct regular reviews of customer outcomes which are provided to the Board and management.

STRATEGIC REPORT (continued)

- Suppliers - The Company leverages a number of critical suppliers where these suppliers have direct contact with customers and/or provide services impacting critical business processes. The Company looks to ensure that such suppliers fully understand the culture and regulatory requirements of the Company. This is achieved through effective third party management which ultimately provides for positive relationships with suppliers allowing the desired standard of engagement with customers.

The Board will continue to take key stakeholder views into account in the following financial year and onwards, when making day to day decisions and having regard to the long term success of the Company.

Signed by order of the Board

DocuSigned by:
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AC Lenander
Director
17th April 2020

DIRECTORS' REPORT

The Directors present their report for the year ended 31st December 2019.

Directors

The Directors who served in the year and subsequently are as follows:

AC Lenander
H Brichet (appointed 9th May 2019)
RW Harding
RJ Rolls
LM Hagues
JR Penzer
MJ Lynch

Results and dividends

The Company made a loss after taxation of £34.6 million (2018: profit £112.6 million) over the 12 month period to 31st December 2019. The Directors do not recommend payment of a dividend on the ordinary shares (2018: £nil).

Position at end of year

The Directors have reviewed the financial position at the end of the year and concluded that it is satisfactory. The loss generated during the year was due to a one-off PPI provision build as a result of the complaint deadline falling during the year (see Note 16 for details). Excluding this the Company generated a profit during the year.

Capital Management

The Payment Services Regulations 2017 (PSD2) require the Company to hold a minimum amount of capital as a buffer to absorb unexpected losses. As at 31st December 2019, the Company held regulatory capital of £1.2 billion (2018: £1.2 billion). This exceeded the minimum requirement of £10.3 million (2018: £11.1 million) and the Company was in compliance with all capital regulations.

Future developments

In November 2019 the Company launched two new credit card products in partnership with Post Office. Through this new partnership, Post Office and Capital One will be offering credit cards to meet a broad range of customer needs. The Directors expect the general level of activity of the Company will remain stable and unchanged (excluding the one-off PPI provision build in 2019) subject to the uncertain operational and credit performance impacts of COVID-19.

Going concern

The Directors are reviewing the forecast performance as well as principal risks and uncertainties of the business. They continue to consider the potential repercussions on the economy and Capital One customers of COVID-19 as the situation evolves; see Note 1 for disclosure of assessment. While the full impact of COVID-19 is unknown at the date of the approval of the financial statements, the directors have concluded that it remains appropriate to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' liability

The Company has indemnified one or more Directors of the Company and individuals determined as performing a senior manager function against their liability subject to certain statutory and contractual

DIRECTORS' REPORT (continued)

exceptions. Such qualifying indemnity provision was in force, or became in force, throughout the year and remains in force at the date of this report.

Employment of disabled persons

The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. It is the Company's policy to provide ongoing employment and appropriate retraining to associates who become disabled, wherever practicable, and to provide training and career development to all associates whether disabled or not.

Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Reappointment of auditors

The Company proposes the reappointment of Ernst & Young LLP as auditors of the Company.

Charitable donations and activity

During the year the Company made charitable contributions of £0.7 million (2018: £0.6 million) directly benefiting 7,075 individuals (2018: 6,684) from 285 charitable organisations (2018: 390). No political donations were made during the year (2018: £nil). 56% of associates (2018: 62%) took part in community activities in 2019 donating over 8,400 hours (2018: 5,800 hours) in the process.

The Company aims to make a positive impact through supporting social mobility, financial education and digital inclusion on both a local and national scale and is committed to supporting communities it serves to prosper and succeed. The Company is doing this by forming partnerships with national charitable organizations such as The Sutton Trust, humanutopia, Business in the Community and many others by mobilising employees to use their time and skills to support creating a fairer society.

Employee Engagement

See the 'Section 172(1) Statement' in the Strategic Report for information regarding how the Company has engaged with its Associates in 2019.

Stakeholder Engagement

See the 'Section 172(1) Statement' in the Strategic Report for information regarding how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company in 2019.

Statement of Corporate Governance Arrangements

For the year ended 31st December 2019, the Company has adopted the Wates Corporate Governance Principles ("Wates Principles"). The following considers how the Wates Principles were applied by the Company throughout 2019.

Principle 1 - Purpose and Leadership

DIRECTORS' REPORT (continued)

The Company's purpose, values and culture are codified into the engaging Imperatives which are championed by the Board and regularly communicated to Associates through business updates and other mediums. The Board has high expectations for a purpose led customer-focused culture throughout the business, which is considered central to the Company's success. This is encouraged and monitored through various means outlined within the Company's 'Section 172(1) Statement'. Company strategy is analysed and reviewed by the Board and wider business to set the Company up to achieve long-term sustainable value.

Principle 2 - Board Composition

The Company's Board members represent diverse skills and knowledge, and are from various backgrounds and experiences. The Company prides itself on the gender representation across its Board, including having a female Chair/CEO. Each Board member is also employed as a member of the senior leadership team of the business, and therefore has detailed, practical awareness of the way the business operates. The size and structure of the Board is consistently under review, in order to promote the success of the business in the most efficient way possible, such as regular board effectiveness reviews.

Principle 3 - Director Responsibilities

The Company maintains key governance policies and procedures to provide clarity and reliability in the management of the business. Policies are clearly documented and user friendly, supporting management and decision making processes. The Company has various committees to assist with effective governance, whilst ensuring the Board and the Assurance and Risk Committee ("ARC") maintain overall responsibility for challenge and oversight of decision-making. Robust systems and controls are in place to maintain integrity of information relied upon for the successful operation of the business.

Principle 4 - Opportunity and Risk

Long term opportunity of the Company is recognised within the Company's annual strategy which is reviewed and approved by the Board each year. Short term and long term opportunities to improve customer management, performance and resilience are discussed regularly at quarterly board meetings and at other management forums.

Future opportunity is balanced against the business' risk appetite, which is constantly monitored and managed through controls and effective decision making. Risk management is delegated by the Board to ARC, consisting of all Board members and key risk experts (from all three lines of defence) with documented communication channels and risk management procedures. The Company's Strategic Report considers key risk categories which are monitored by ARC.

Principle 5 - Remuneration

The Company regularly reviews its remuneration structure across all levels of the business, to ensure that it is fair and appropriate, and will attract the best talent into the Company. Pay of each Associate, including Board members, is subject to performance management processes, taking Associate achievement and behaviours into account on decisions regarding discretionary pay increases, bonuses and progression. Performance management processes are transparent and fair, and are in turn subject to thorough monitoring to ensure appropriate application. Remuneration for all Associates is managed via Group policy which is appropriately reviewed and updated.

Principle 6 - Stakeholder Relationships and Engagements

The Group third party management policy allows successful management of relationships with external suppliers that are integral to the operation of the Company. With regard to regulatory and policy stakeholders,

DIRECTORS' REPORT (continued)

the Company employs experts in this area in the External Affairs, Compliance and Legal teams, who prioritise awareness of the regulatory landscape and management of relevant relationships.

The Company's Corporate Responsibility team, with oversight from senior management and the Board, maintain awareness of the external impact of the business. The Company's Green Team, focusing on sustainability and climate change, assists with shaping related decision making across the business.

With regard to workforce engagement, the Company has open channels of communication with Associates in order to take their views into account when making decisions.

For more information regarding the Company's stakeholder relationships, see the "Section 172(1) Statement" within the Strategic Report.

Signed by order of the Board

DocuSigned by:

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AC Lenander
Director
17th April 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 applicable UK Accounting Standards have been followed, 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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPITAL ONE (EUROPE) PLC

Opinion

We have audited the financial statements of Capital One (Europe) plc for the year ended 31st December 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31st December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. 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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to the post balance sheet events disclosure in note 24 to the financial statements which describes the economic impact the Company is facing as a result of COVID-19 which is impacting the financial performance of the business through increasing arrears and loss rates and limiting growth opportunities. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 11, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPITAL ONE (EUROPE) PLC

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPITAL ONE (EUROPE) PLC

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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Ernst & Young LLP

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
17th April 2020

INCOME STATEMENT

For the year ended 31st December 2019

	Notes	2019 £'000	2018 £'000
Interest income		487,177	539,057
Non-interest income		(3,571)	41,408
REVENUE	2	483,606	580,465
Finance expense	4	(10,668)	(10,125)
Impairment losses on loans and advances to customers		(126,382)	(107,496)
Operating and administrative expenses		(345,125)	(303,474)
PROFIT BEFORE TAXATION	3	1,431	159,370
Tax charge	5	(36,055)	(46,747)
(LOSS)/PROFIT FOR THE YEAR		(34,624)	112,623

All of the above activities relate to continuing operations.

There was no Other Comprehensive Income in 2019 (2018: nil).

BALANCE SHEET
As at 31st December 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
Cash and cash equivalents	6,17	62,890	44,812
Loans and advances to banks	17	—	57,900
Debt securities	7,17	139,807	139,806
Financial assets held at fair value	8,17	8,967	8,156
Trade and other receivables	9	2,290,211	2,263,816
Property, plant and equipment	11	33,967	17,757
Intangible assets	12	14,356	14,836
Deferred tax assets	5	4,477	6,074
Investments in subsidiaries	13	—	—
TOTAL ASSETS		2,554,675	2,553,157
LIABILITIES			
Trade and other payables	14,17	(62,235)	(58,038)
Loans and borrowings	15,17,20	(1,108,678)	(1,121,417)
Corporation tax payable		(20,042)	(26,663)
Provisions	16	(162,958)	(111,653)
TOTAL LIABILITIES		(1,353,913)	(1,317,771)
NET ASSETS		1,200,762	1,235,386
SHAREHOLDERS' EQUITY			
Share capital	19	484,153	484,153
Share premium		95,760	95,760
Retained earnings		620,849	655,473
TOTAL EQUITY		1,200,762	1,235,386

The financial statements of Capital One (Europe) plc (registered number 3879023) were approved by the Board of Directors on 17th April 2020 and signed on its behalf by:

DocuSigned by:
Helene Brichet

H Brichet
Director

STATEMENT OF CHANGES IN EQUITY
As at 31st December 2019

	Share Capital	Share Premium	Retained Earnings	Total
	£'000	£'000	£'000	£'000
31st December 2017	**484,153**	**95,760**	**542,851**	**1,122,764**
Comprehensive income for the year				
Profit			112,623	112,623
Total comprehensive income for the year	—	—	112,623	112,623
31st December 2018	**484,153**	**95,760**	**655,473**	**1,235,386**
Comprehensive income for the year				
Loss			(34,624)	(34,624)
Total comprehensive expense for the year	—	—	(34,624)	(34,624)
31st December 2019	**484,153**	**95,760**	**620,849**	**1,200,762**

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2019

1. BASIS OF PREPARATION

Compliance with Financial Reporting Standard 101 Reduced Disclosure Framework

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

Consolidated financial statements

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 401 (2)(b) of the Companies Act 2006 because the Company and all of its subsidiaries are included in the consolidated financial statements of the ultimate parent company, Capital One Financial Corporation, which are publicly available.

Currency

The financial statements are presented in pounds sterling, which is also the Company's functional currency. Amounts are rounded to the nearest thousand pounds (£'000), unless otherwise stated.

Disclosure Exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
   (iii) paragraph 118(e) of IAS 38 Intangible Assets;
b) the requirements of paragraphs 10(d), 10(f) and 38(c) of IAS 1;
c) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
d) the requirements of IAS 7 Statement of Cash Flows;
e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
h) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

Critical accounting estimates and judgements

The Company has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial year. The following are the most significant areas of judgement and estimation and details are contained within the Significant Accounting Policies note below or contained within the specific Note to the Financial Statements.

Allowance for Expected Credit Losses for Loans	Note 10
Provisions for Liabilities	Note 16

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

Going Concern

The directors have performed an assessment of the impact of the COVID-19 global pandemic as it relates to the going concern assumption in the preparation of the financial statements. The likely impacts are provided in the post balance sheet events disclosure in Note 24. The Company holds a high level of capital over and above minimum requirements (see Capital Management section in the Directors' Report) and sees no reasonable scenario that could lead to a capital challenge. The Company has significant liquidity in the form of bilateral funding arrangements and a parental guarantee with Capital One Bank North America (a direct subsidiary of the ultimate parent company), which are expected to continue and renew through and beyond April 2021. Aside from parental funding the business is able to use its liquidity resources in the form of cash and liquid securities, which amounted to £203 million at 31 December 2019, and restrict operational costs as necessary in order to continue operating. The Company is adapting to the challenges raised by the COVID-19 crisis well and does not foresee material problems in relation to the continued operational running of the business.

Based on the assessment performed, as stated within the Directors' Report, the directors have a reasonable expectation that the Company is well placed to manage its business risks and continue in operational existence for the foreseeable future. Accordingly, the directors continue to consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies, which have been applied consistently throughout the year, is set out below.

Adoption of IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, which brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for annual periods beginning on or after 1st January 2019. Under IAS 17 all lease contracts were regarded as operating leases. Lease payments were charged to the income statement on a straight-line basis over the period of the lease. The Company adopted the new standard on the effective date using the modified retrospective method of adoption without restating prior periods. Additional information on the adoption of IFRS 16 is disclosed in Note 23.

Interest Income and Fees

The Company recognise finance charges and fees on loans in interest and non-interest income, respectively, in the statements of income and comprehensive income in accordance with the contractual provisions of the credit arrangements, using the effective interest rate (EIR) method. Fees considered integral to the EIR are deferred and recognised as an adjustment to the EIR, which is used to calculate interest income over the life of the financial instrument. Fees and commissions not directly attributable to generating a financial instrument are recognised as non-interest income on the accruals basis as performance obligations are met.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired loans (Stage 1 and 2 assets). For loans which meet the definition of credit impaired (Stage 3 assets), interest income is calculated by applying the EIR to the net amortised cost of the loan.

Finance charges and fees accrued but not collected at the date a loan is written off are included within the Allowance for Expected Credit Losses (ECLs) and the credit loss expense. The methodology for estimating the uncollectable portion of previously accrued interest income and fees is consistent with the methodology used to estimate the expected principle losses on credit card loans. Further details on the methodology for

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

calculation of the Allowance for ECLs is included in the section 'Allowance for Expected Credit Losses for Loans' below.

Cross sell provisions for previously recognised revenue are charged against revenue and all other charges against operating and administrative expenses.

Finance expense

Finance expense principally comprises interest on intercompany loans which is recognised on an effective interest basis and interest on lease liabilities which is measured using the Company's incremental borrowing rate on the lease.

Loans

Loans and advances to customers consist of credit card loans that the Company has the ability and intent to hold for the foreseeable future for the purpose of collecting the contractual cash flows which represent solely payments of principal and interest. Loans are reported on the balance sheet at amortised cost, which is the outstanding principle balance, net of any unamortised deferred fees, costs and write offs but including billed finance charges and fees. Customer loans are recognised at the point when the funds are advanced to customers. Our approach for assessing loan impairment is included within the Allowance for Expected Credit Losses for Loans section below.

The UK Trust is now in a state of dormancy whereby it still owns certain customer loans and assets but no loan notes have been issued.

Allowance for Expected Credit Losses for Loans

The Company maintains an allowance for expected credit losses (the "allowance") that represents management's best estimate of expected credit losses inherent in the loan portfolio as of each balance sheet date. The allowance, which is charged to expenses, reflects credit losses the Company expects to arise over the life of the loan, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

The three staging categories and their subsequent measurement are as follows:

- Financial assets not credit impaired at the reporting date and with no significant increase in credit risk are measured as the present value of all cash shortfalls expected in the next 12 months from the date of reporting. These are referred to as Stage 1 assets.

- Financial assets which have shown a significant increase in credit risk since initial reporting date but are not credit impaired at the reporting date are measured as the present value of all cash shortfalls expected in their lifetime. These are referred to as Stage 2 assets. The Company uses delinquency (days past due) as an indicator of increased credit risk and accounts move to Stage 2 at 5 days past due.

- Financial assets which are credit impaired at the reporting date are also measured as the present value of all cash shortfalls expected in their lifetime. These are referred to as Stage 3 assets. As with Stage 2 assets, delinquency is used as an indicator of credit impairment and the Company considers a financial asset to be in default when the borrower is past due more than 90 days on its credit obligation to the Company. It is at this breach of obligation the Company considers it unlikely the borrower will pay its credit obligation to the Company in full. A default on a financial asset is also considered to occur when the terms of the debt are restructured to facilitate the servicing of the debt.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

Loans are collectively evaluated for impairment whereby financial assets are assigned to portfolios of assets and collectively assessed for significant increases in credit risk. Assets are grouped on the basis of their shared risk characteristics such as origination year, interest rate and geography. Loss forecast models are utilized to estimate credit losses and consider several portfolio indicators including, but not limited to, historical loss experience, account seasoning, defaults based on observable trends, delinquencies, bankruptcy filings, unemployment and general economic and business trends. The Company incorporates forward looking information into its modelling approach by using economic scenarios from a third party source (Moody's Analytics) and applying their suggested weightings for upside, baseline and downside economic forecasts of 30:40:30.

When there is no reasonable expectation of recovering the economic value of a loan it is written off. This is generally in the period the account becomes 180 days past due. Loans in bankruptcy are generally charged-off by the end of the month following 30 days after the receipt of a complete bankruptcy notification from the bankruptcy court. Loans of deceased account holders are charged-off by the end of the month following 60 days of receipt of notification. Where a write-off has occurred, the Company continues to undertake collections activity or will make periodic sales of debt to attempt to recover the receivable due. Where recoveries are made, these are recognised in the income statement as received and reduce the impairment losses on loans and advances to customers.

IFRS 9 states that for financial instruments which include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the commitment does not limit the entity's exposure to credit losses to the contractual notice period, allowance must be held for losses associated with the undrawn commitment as well as the existing loan balance. The Company therefore include losses from future spend in the allowance calculation, but remove losses due to future line growth, as these loan commitments do not exist as of the reporting date. The Company assumes a ten year customer behavioural life in line with analysis of historical trends.

If the contractual terms of a loan were to be modified to a degree which was considered by the Company to constitute a substantial modification, the loan would be de-recognised and the new modified loan would be recognised in Stage 1. If the modification is not considered by the Company to constitute a substantial modification, then the loan will remain within its current assigned stage.

Determining the appropriateness of the allowance is complex and requires judgement by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the credit card loan portfolio, in light of the factors then prevailing, may result in targeted adjustments to the modelled output to adequately capture future risk. No adjustment has been made to incorporate the uncertainty around the impact of the UK leaving the European Union as this is included within Moody's downside scenario.

The model for ECLs contains significant estimates in relation to behavioural life and weighting of economic scenarios. Sensitivity around these key estimates within the model has been performed.

- Reducing the behavioural life to 7 years would increase the 2019 allowance by 2%.
- Apply a 10% downgrading to the economic scenarios (20:40:40 ratio) would increase the 2019 allowance by 4%.

Provisions and contingent liabilities

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

Contingent liabilities are possible obligations whose existence is dependent on the outcome of uncertain future events, or those where the outflow of resources are uncertain or cannot be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

During the ordinary course of business, the Company is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Company does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claims.

Accounting for partnership agreements

The Company's partnership agreements primarily relate to alliances with third parties to provide lending and other services to co-branded card customers. The Company evaluates the specific terms of each agreement to determine whether it meets the definition of a collaborative arrangement and how revenue generated from third parties, costs incurred and transactions between participants in the partnership agreement should be accounted for and reported in the financial statements.

Other Financial Assets

Investments in subsidiaries are shown at cost less any provision for impairment, where relevant.

Debt securities and loans and advances to bank consist of UK Government Gilts and overnight deposits. They are held to collect the contractual cash flows and therefore recognised at amortised cost. Due to the short term exposure and inherent low risk the calculated ECL is negligible.

Financial assets held at fair value consist exclusively of Series B preferred shares held in Visa Inc. The Visa shares are measured at fair value and their purchase and sale is recorded on a trade date basis. The shares are re-valued quarterly and any gain or loss in fair value is recognised in the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of the assets, less their estimated residual values, on a straight-line basis over their expected useful economic lives, being 3-5 years for computer equipment, 3-10 years for fixtures, fittings and furniture and the shorter of the remaining leasehold term or 10 years for leasehold improvements.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets consist of internally developed software and purchased software. Amortisation is charged so as to write off the cost of the assets, less their estimated residual values, on a straight-line basis over their expected useful economic lives, being 3 years for software.

The carrying value of intangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The Company has no Goodwill included in its intangible assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

Loans and borrowings

Amounts owed to group undertakings are held at amortised cost. Interest payments owed to group undertakings, associated with the loans, are recognised as a finance expense in the income statement.

Leases

For new leases, the Company records a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, being the initial measurement of the lease liability less any lease incentives received, and subsequently depreciated on a straight-line basis over the lease term. The depreciation expense is included in operating and administrative expenses in the income statement. The carrying values of right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The lease liability is initially measured at the present value of future lease payments, discounted using the incremental borrowing rate as the lease does not provide an implicit rate. The incremental borrowing rate is the rate that is representative of the Company's cost to borrow funds over the length of the lease. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the income statement. Non-monetary assets which are measured at fair value and revalued quarterly will also be retranslated at the current exchange rate when the fair value is measured. The exchange rate gain or loss will be taken to other comprehensive income.

Pension scheme

The Company participates in the Capital One Master Trust Pension Scheme, a defined contribution scheme which is operated by an independent trustee board. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Company.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Interest payable or received in relation to under or overpaid corporation tax and foreign tax is charged or credited within the tax charge on ordinary activities in the income statement.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less tax. Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits to utilise these against. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise income tax is recognised in the income statement.

Post Balance Sheet Events

A post balance sheet event can occur between the end of the reporting period and the date of the financial statements being signed by the Company board, and is disclosed in the Company financial statements if it is material. If this event provides further evidence of conditions existing at the end of the reporting period then a numerical adjustment is recorded with the Company financials. If the event is indicative of a condition which arose after the reporting period, then the nature of the event and an estimate of its financial effect, if reasonable and possible to estimate, will be disclosed within the notes of the financial statements.

Fair Value Measurements

IFRS 13 Fair Value Measurements requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are described below:

Level 1: Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation is based on observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is generated from techniques that use significant assumptions not observable in the market.

Valuation techniques include pricing models, discounted cash flow methodologies or similar techniques. The degree of management judgement involved in determining the fair value of assets or liabilities is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management judgement is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgement and assumptions.

The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining the fair value. Significant judgement may be required to determine whether certain assets or liabilities measured at fair value are included in Level 2 or Level 3. In making this determination, we consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. The calculation of fair value is based on market conditions as at each balance sheet date, and may not be reflective of ultimate realisable value. Additional information on fair value is included in "Note 17—Fair Value Measurements."

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

2. REVENUE

Revenue of £483.6 million (2018: £580.5 million) is derived from interest income, card fees, cardholder spending and other commission. Revenue incorporates deductions in relation to PPI redress provision charges to the income statement. Within interest income, £1.5 million (2018: £1.1 million) is not accounted for under the EIR method.

	2019 £'000	2018 £'000
Interest income	543,467	564,719
Non-interest income	55,242	59,783
Reimbursed revenue charged against interest in relation to PPI and other provisions	(56,290)	(25,662)
Reimbursed revenue charged against non-interest in relation to PPI and other provisions	(58,813)	(18,375)
	483,606	580,465

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	2019 £'000	2018 £'000
Staff costs		
Wages and salaries	(62,949)	(51,277)
Social security costs	(7,543)	(6,664)
Pension costs	(6,536)	(5,607)
	(77,028)	(63,548)
Provision for liabilities		
Reimbursed revenue charged against revenue in relation to PPI and other provisions	(115,103)	(44,037)
Other costs charged against non-revenue in relation to PPI and other provisions	(60,784)	(35,478)
	(175,888)	(79,515)
Rent expense		
Property	(2,885)	(4,000)
Amortisation of intangibles		
Software	(6,731)	(4,481)
Depreciation of property, plant and equipment		
Property	(845)	(1,836)
Equipment	(3,286)	(2,827)
Right-of-use asset	(1,673)	—

The Company paid auditors' remuneration in 2019 £407,452 (2018: £439,400).

The average number of associates employed by the Company during the year was 1,209 (2018: 1,051), all of whom were employed in management and administration.

4. FINANCE EXPENSE

	2019 £'000	2018 £'000
Group undertakings	(10,339)	(10,125)
Other interest payable	(329)	—
	(10,668)	(10,125)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

5. TAXATION

(a) Total tax charge on ordinary activities

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax	(35,514)	(45,791)
Amounts (under)/over provided in previous periods	1,056	981
Total current tax	(34,458)	(44,810)
Deferred tax		
Origination and reversal of temporary differences	(856)	(1,274)
Change in tax laws and rates	90	134
	(766)	(1,140)
Amounts (under)/over provided in previous periods	(831)	(797)
Total deferred tax	(1,597)	(1,937)
Total charge on ordinary activities	(36,055)	(46,747)

b) Reconciliation of total tax charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £'000	2018 £'000
Profit/(Loss) on ordinary activities before tax	1,431	159,370
19% (2018: 19%) of profit/(loss) on ordinary activities	(272)	(30,280)
Effects of:		
PPI redress not deductible and surcharge	(35,533)	(16,256)
Other expenses not deductible for tax purposes	(565)	(529)
Amounts (under)/over provided in previous periods	225	184
Changes in tax laws and rates	90	134
Total tax charge reported in the income statement	(36,055)	(46,747)

(c) Change in corporation tax rate

The UK corporation tax rate was to have been reduced from 19% to 17% from 1st April 2020. The reduction will not now be made and the rate of corporation for 2020 will therefore be 19%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

5. TAXATION (continued)

(d) Deferred Taxation

On 12th March 2020 it was confirmed that the UK corporation tax rate would increase from 17% (the previously enacted rate) to 19% from 1st April 2020. The deferred tax included in the balance sheet has been valued by reference to the rate of 17% as required under International Financial Reporting Standards. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that this will increase the deferred tax asset held by £526,000.

The deferred tax included in the balance sheet is recognised at a rate of 17.0% (2018: 17.0%) as follows:

	2019 £'000	2018 £'000
Deferred tax assets		
Decelerated capital allowances	1,786	2,574
Pension benefits	230	172
Long term incentives	128	170
Adoption of FRS 101 and IFRS 9	3,857	4,545
Heldover gain on sale of shares	(1,524)	(1,387)
	4,477	6,074

The movement in deferred tax asset relates to 2019: nil (2018: £1.3 million) credit to Equity - Retained Earnings and £1.6 million (2018: £1.9 million) debit to Income Statement.

	2019 £'000	2018 £'000
Disclosed on the balance sheet		
Deferred tax assets	4,477	6,074

Deferred tax in the income statement

	2019 £'000	2018 £'000
Decelerated capital allowances	(788)	(325)
Pension benefits	58	(21)
Long term incentives	(42)	(108)
Adoption of FRS 101 and IFRS 9	(688)	(1,093)
Heldover gain on sale of shares	(137)	(390)
	(1,597)	(1,937)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

6. CASH AND CASH EQUIVALENTS

	2019 £'000	2018 £'000
Cash at bank and in hand	62,890	44,812

Included within cash at bank is £10.3 million (2018: £11.5 million) held on behalf of customers who have paid security balances or hold credit balances on their accounts.

7. DEBT SECURITIES

	2019 £'000	2018 £'000
Government investment securities	139,807	139,806

Debt securities include £140 million of UK government gilts (2018: £140 million). These are due to mature within one year.

8. FINANCIAL ASSETS HELD AT FAIR VALUE

	2019 £'000	2018 £'000
VISA preference shares	8,967	8,156

Balance relates to 9,712 Series B preferred shares in Visa, Inc. held at fair value. These are fair valued and the gain/(loss) is taken through the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

9. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Loans and advances to customers	2,366,999	2,344,978
Allowance for expected credit losses for loans	(120,705)	(126,809)
Amounts owed by group undertakings	5,355	5,375
Other debtors	3,635	4,294
Deferred cash	—	1,281
Prepayments and accrued income	34,927	34,697
	2,290,211	2,263,816

	2019 £'000	2018 £'000
Trade and other receivables are due as follows:		
Due within one year	2,290,211	2,262,535
Due after one year	—	1,281
	2,290,211	2,263,816

Impairment is deducted from the carrying value of loans and advances to customers by the use of a separate account representing the allowance for expected credit losses. The movement in allowance for expected credit losses during the year is detailed in Note 10.

10. ALLOWANCE FOR EXPECTED CREDIT LOSSES FOR LOANS

The provision for loan losses is to provide for the expected credit losses arising from the loan portfolio, comprising of revolving credit card loans originated and maintained in the UK with UK customers. The below table shows the gross carrying value of the loan and the associated expected credit loss allowance.

£'000	31 December 2019			31 December 2018		
	Gross Carrying amount	ECL allowance	Carrying Amount	Gross Carrying amount	ECL allowance	Carrying Amount
Loans and advances to customers at amortised cost	2,366,999	120,705	2,246,294	2,344,978	126,809	2,218,169

Despite the increase of gross carrying value of the loans during the period there was a release of allowance for expected credit losses due to improvement in both forecast future credit losses and improved external economic factors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

10. ALLOWANCE FOR EXPECTED CREDIT LOSSES FOR LOANS (continued)

The below reconciliation provides further detail on the movement in the allowance for loan loss since transition. The balance for previously written off loans is the allowance arising from expected recoveries from accounts that have previously been written off and therefore have a carrying value of nil. The total of this allowance balance is allocated to the stage 3 allowance where it is shown separately within the reconciliation.

Impairment Reconciliation (£'000)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 31st December 2018 excluding recoveries on prior write off	94,664	116,202	47,208	258,074
Recoveries on previously written off balance			(131,265)	(131,265)
Balance at 31st December 2018	**94,664**	**116,202**	**(84,057)**	**126,809**
Movement during period	(13,205)	(2,148)	9,249	(6,104)
Balance at 31st December 2019	**81,459**	**114,054**	**(74,808)**	**120,705**
Recoveries on previously written off balance			(128,116)	(128,116)
Balance at 31st December 2019 excluding recoveries on prior write off	81,459	114,054	53,308	248,821

Movement during period (£'000)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance Recognised on accounts originated during the period	26,449	—	—	26,449
Write-offs	(72,535)	(67,732)	(54,446)	(194,713)
Recoveries	1,278	2,296	39,219	42,793
Unwinding of Discount	5,888	14,783	(19,867)	804
Transfer to 12-month ECLs	4,052	(31,641)	(408)	(27,997)
Transfer to lifetime ECLs not credit-impaired	(9,923)	78,220	(5,174)	63,123
Transfer to lifetime ECLs credit-impaired	(2,695)	(5,494)	43,794	35,605
Reversal of allowance against accounts closed during the period	(3,581)	(2,960)	(531)	(7,072)
Build/release of allowance during the period	37,862	10,380	6,662	54,904
Total	**(13,204)**	**(2,148)**	**9,249**	**(6,104)**

The allowance for the period has decreased by £6.1 million to £120.7 million. The stage 2 accounts make up the largest portion of the allowance held driven by the requirement to hold allowance for lifetime losses (as opposed to 12 months in stage 1) and higher risk of default increasing the expected losses compared to stage 1 assets. The volume of stage 3 loans is significantly lower than stage 2, driving a lower allowance despite the higher ratio of expected losses to outstanding loan balance.

All accounts opened within the period are allocated to stage 1 and any subsequent movement of accounts between stages during the period are included within the transfer lines. Accounts that open and charge-off within the same quarterly reporting period are captured in the build/release of the allowance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

10. ALLOWANCE FOR EXPECTED CREDIT LOSSES FOR LOANS (continued)

Writes-offs is the release of the allowance for loans written off in the period, categorised by the stage the loan was in at the start of the quarterly reporting period in which the loan defaults. Recoveries is the value recovered on the written off loans and is similarly categorised by stage of loan at the start of the quarterly reporting period in which it defaults. All future expected credit losses are discounted back to the date of reporting. The unwinding of the discount is the adjustment to the allowance for the impact of the movement of time over the period. Due to the impact of expected recoveries, which are also discounted, within stage 3 the unwinding of the discount is a release of allowance.

The build or release in allowance is driven by changes to the underlying loss forecast, changes in macroeconomic scenarios and portfolio yield.

11. PLANT, PROPERTY AND EQUIPMENT

	Right of use asset £'000	Leasehold improvements £'000	Equipment, fixtures & fittings £'000	Total £'000
Cost				
At 31st December 2018	—	19,274	29,715	48,989
Adoption of IFRS 16	15,347	—	—	15,347
Additions	—	1,761	4,906	6,667
Disposals	—	—	(2,509)	(2,509)
At 31st December 2019	15,347	21,035	32,112	68,494
Depreciation and impairment				
At 31st December 2018	—	(10,261)	(20,971)	(31,232)
Charge for the year	(1,673)	(845)	(3,286)	(5,804)
Disposals	—	—	2,509	2,509
At 31st December 2019	(1,673)	(11,106)	(21,748)	(34,527)
Net book value				
At 31st December 2019	13,674	9,929	10,364	33,967
Net book value				
At 31st December 2018	—	9,013	8,744	17,757

The amount of borrowing cost capitalised during the year ended 31st December 2019 was £nil (2018: £nil).

The Company had £nil future capital expenditure contracted for but not provided at the year end (2018: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

12. INTANGIBLE ASSETS

	Software £'000	Total £'000
Cost		
At 31st December 2018	24,561	24,561
Additions	6,544	6,544
Disposals	(340)	(340)
At 31st December 2019	30,765	30,765
Amortisation and impairment		
At 31st December 2018	(9,725)	(9,725)
Charge for the year	(6,731)	(6,731)
Disposals	47	47
At 31st December 2019	(16,409)	(16,409)
Net book value		
At 31st December 2019	14,356	14,356
Net book value		
At 31st December 2018	14,836	14,836

13. INVESTMENTS IN SUBSIDIARIES

The Company holds directly or indirectly a 100% investment in each of the following subsidiary undertakings:

	Registered Office	Principal activity
Capital One Loans (UK) Limited	Trent House, Station Street, Nottingham, NG2 3HX	Holding Company - dormant
Capital One Homeowner Loans Limited *		Non trading - dormant
Capital One Mortgages Limited *		Non trading - dormant

* 100% interest held by subsidiary undertakings.

The Company is deemed to have dominant influence over the following subsidiary undertakings in which the Company has no equity holding. These subsidiaries were incorporated as a result of the securitisation activities of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

13. INVESTMENTS IN SUBSIDIARIES (continued)

	Registered Office	Principal activity
Castle Receivables Trust Limited	26 New Street, St. Helier, Jersey, JE2 3RA	Dormant - previously securitisation of credit card receivables
Castle Credit Card Securitisation Funding Limited		Dormant – previously holding company for investor beneficiaries in a trust vehicle
Carlisle Castle Funding Group Limited		Dormant – previously investor beneficiary in trust vehicle
Tenby Castle Funding Group Limited		Dormant – previously investor beneficiary in trust vehicle
Dover Castle Funding Group Limited		Dormant - previously investor beneficiary in trust vehicle
Sherwood Funding Options Limited		Dormant – previously acquirer of options
Sherwood Castle Holdings Limited	Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF	Dormant – previously holding investments in subsidiary companies
Sherwood Castle Options Limited		Dormant – previously acquirer of options

14. TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
Trade creditors	(13,906)	(8,710)
Other taxation and social security costs	(4,397)	(3,210)
Accruals and deferred income	(32,287)	(34,634)
Other creditors	(11,645)	(11,484)
	(62,235)	(58,038)

Accruals include £0.8 million relating to contributions outstanding at 31st December 2019 (2018: £0.5 million) to the Capital One Master Trust Pension Scheme, arising as a result of the normal monthly investment cycle.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

15. LOANS AND BORROWINGS

Loans repayable, are analysed as follows:

	2019 £'000	2018 £'000
Amounts owed to group undertakings:		
not later than one year	769,269	766,327
after one year but not more than five years	297,000	297,000
after five years	26,319	58,090
	1,092,588	1,121,417

All loans are owed to group undertakings are unsecured loans denominated in pounds sterling.

The carrying value of loans and borrowings measured at amount payable approximates fair value.

	2019 £'000	2018 £'000
Amounts owed to group undertakings		
variable rate	26,319	58,090
fixed rate	1,057,000	1,052,000
non-interest bearing	9,269	11,327
	1,092,588	1,121,417

16. PROVISIONS FOR LIABILITIES

	Cross Sell Provision £'000	Other Provision £'000	Total Provision £'000
At 1st January 2019	110,768	885	111,653
Additional provisions made in the year	170,435	5,453	175,888
Provisions utilised in the year	(123,699)	(885)	(124,584)
At 31st December 2019	157,505	5,453	162,958

The Company previously sold payment protection insurance ("PPI"). In response to an elevated level of customer complaints across the industry, heightened media coverage and pressure from consumer advocacy groups, the U.K. Financial Conduct Authority ("FCA"), formerly the Financial Services Authority, investigated and raised concerns about the way the industry has handled complaints related to the sale of these insurance policies. For the past several years, the U.K.'s Financial Ombudsman Service ("FOS") has been adjudicating customer complaints relating to PPI, escalated to it by consumers who disagree with the rejection of their complaint by firms, leading to customer remediation payments by the Company and others within the industry.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

16. PROVISIONS FOR LIABILITIES (continued)

In August 2017, the FCA issued final rules and guidance on the PPI complaints. This set the deadline for complaints as 29th August 2019. The statement also provides clarity on how to handle PPI complaints under section 140A of the Consumer Credit Act, including guidance on how redress for such complaints should be calculated. In determining the best estimate of incurred losses for future remediation payments, management considers numerous factors, including;
(i) the number of customer complaints or information requests still to be processed;
(ii) the expectation of upholding those complaints;
(iii) the expected number of complaints customers escalate to the FOS;
(iv) the expectation of the FOS upholding such escalated complaints;
(v) the number of complaints that fall under the section 140A of the Consumer Credit Act;
(vi) the number of litigation claims being pursued under section 140A of the Consumer Credit Act; and
(vii) the estimated remediation payout to customers.
(viii) the uphold rates and average redress rates in response to enquires from the Official Receiver in relation to bankrupt individuals
These factors are monitored each quarter and the reserves adjusted to reflect the latest data.

The Company's best estimate of incurred losses related to U.K. PPI totalled £157.5 million and £110.8 million as of 31st December 2019, and 2018, respectively. In 2019, the Company recorded an additional reserve build of £170.4 million due to significantly elevated claims volume ahead of the 29th August 2019 claims submission deadline. Other movements to the reserve were due to utilisation of the reserve through customer refund payments.

The table below shows the sensitivity of the provision to changes in the principal assumptions relating to UK Card PPI complaints (all other assumptions remaining the same).

Assumption	Actuals - already processed	Expected	Sensitivity: Change in assumption	Sensitivity: Consequential change in provision £m
Number of complaints (1)	925k	123k	+/-10k	+/-10.1
Mis-Sell Uphold rate (1) (2)	54%	62%	+/-5%	+/-2.7
Average redress per complaint (1) (2) (3)	£585	£910	+/-5%	+/-5.4
Litigation claims	1k	20k	+/-1k	+/-1.2
Escalation to the Financial Ombudsman Services	95k	18k	+/-1k	+/-0.8

Notes:

(1) Uncertainty remains where customer complaints or information requests are still to be processed. Number includes customer complaints and information requests expected to convert to complaints.

(2) Includes complaints upheld by the Company and complaints upheld by the FOS.

(3) Average redress is expected compensation payments per total complaints including those successfully defended.

Other Provisions relates to expected redress to customers and employees as a result of historical obligating events.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

17. FAIR VALUE MEASUREMENTS

The following tables display the assets measured on the Company's balance sheet at fair value on a recurring basis as at 31st December 2019 and 2018.

£000's	31st December 2019 Fair Value Measurements Using			31st December 2019 Total Estimated Fair Value	31st December 2018 Fair Value Measurements Using			31st December 2018 Total Estimated Fair Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets:								
Visa Preference shares	—	—	8,967	8,967	—	—	8,156	8,156
Total assets	—	—	8,967	8,967	—	—	8,156	8,156

As at 31st December 2019 and 2018, the Company did not have any movements between levels of the fair value hierarchy for previously existing assets. The three levels of the fair value hierarchy are described below:

Level 1: Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation is based on observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is generated from techniques that use significant assumptions not observable in the market.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

17. FAIR VALUE MEASUREMENTS (continued)

The following tables reflect the fair value of financial instruments, whether or not recognised on the Company's Balance Sheet at fair value as at 31st December 2019 and 2018.

	31st December 2019		Estimated Fair Value Hierarchy		
£000s	**Carrying Amount**	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	62,890	62,890	62,890	—	—
Deferred cash	—	—	—	—	—
Loans and advances to banks	—	—	—	—	—
Financial assets held at fair value	8,967	8,967	—	—	8,967
Debt securities	139,807	139,807	139,807	—	—
Loans and advances to customers	2,246,294	2,183,785	—	—	2,183,785
Trade and other receivables	8,990	8,990	—	8,990	—
Financial Liabilities:					
Loans and payables	(1,118,138)	(1,118,138)	—	(1,118,138)	—
Lease liability	(16,090)	(16,090)	—	(16,090)	—

	31st December 2018		Estimated Fair Value Hierarchy		
£000s	**Carrying Amount**	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	44,812	44,812	44,812	—	—
Deferred cash asset	1,281	1,281	—	1,281	—
Loans and advances to banks	57,900	57,900	—	57,900	—
Financial assets held at Fair Value	8,156	8,156	—	—	8,156
Debt securities	139,806	139,806	139,806	—	—
Loans and advances to customers	2,218,169	2,165,340	—	—	2,165,340
Trade and other receivables	9,669	9,669	—	9,669	—
Financial Liabilities:					
Loans and payables	(1,141,611)	(1,141,611)	—	(1,141,611)	—

The following describes the valuation techniques used in estimating the fair value of the financial instruments as at 31st December 2019 and 2018. The Company applied the fair value provisions to the financial instruments not recognized in the Company's balance sheet at fair value, which include loans, interest receivable and non-interest bearing deposits.

Financial Assets and Liabilities

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

17. FAIR VALUE MEASUREMENTS (continued)

Deferred cash

The carrying amount of deferred cash asset is at fair value, adjusted for foreign exchange gains and losses and interest accrued on the balance. The fair value is calculated as the present value of the consideration which is equal to the non interest element, and the interest is unwound over the life of the asset.

Loans and advances to Banks

The carrying amount of loans and advances to banks approximates fair value due to its relatively short-term nature.

Debt securities

Quoted prices in active markets are used to measure the government gilts. The fair value is the price that would be received to sell the assets in an orderly transaction between market participants at the measurement date.

Financial assets held at fair value

The Visa shares are a non-monetary asset and the gains and losses on fair value and foreign exchange movement are recognised as Fair Value through P&L. The carrying value of the shares is measured using unobservable inputs.

Loans and advances to customers

Loans are reported on the balance sheet at amortised cost. The fair value of credit card loans is estimated using a discounted cash flow method, which is a form of the income approach. Discount rates are determined considering rates at which similar portfolios of loans would be applied under current conditions and considering liquidity spreads applicable to the loan portfolio based on the secondary market. The fair value of these credit card loans excludes any value related to customer account relationships. Due to the use of significant unobservable inputs, credit card loans are classified as Level 3 under the fair value hierarchy.

Trade and other receivables

The carrying amount of trade and other receivables approximates fair value due to their relatively short term nature.

Loans and payables

The carrying amount of loans and borrowings approximates fair value as they are either priced to market rate or of a relatively short term nature.

Lease liability

The carrying amount of lease liability is calculated as the present value of the future lease payments which approximates fair value of the lease liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

18. FINANCIAL INSTRUMENT RISK

The Company's financial instruments comprise borrowings to finance its operations, cash deposits, short term debt securities and loans and advances to customers.

The main risks arising from the Company's financial instruments are market risk, liquidity risk and credit risk. The Company's Board of Directors is responsible for monitoring and control activities for market risk, liquidity and wholesale credit matters, the Board of Directors has delegated these responsibilities to the Company's Chief Credit Officer for retail credit matters. The company's risk is concentrated in a single geographical area, being the UK.

As at 31st December 2019, only a few cases of COVID-19 had been confirmed and the virus only just identified. We have deemed that the wider outbreak was a post balance sheet event that arose after the accounting period and therefore no adjustment has been made to the financial statements as of the year end. COVID-19 will have an impact on all financial instrument risks included below, the financial effect of which are not possible to estimate at this time.

Credit Risk

Credit risk is the risk that the Company will suffer loss in the event of a default by a customer or bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due. Further details on calculation of the allowance for expected credit losses are disclosed within Note 1 and Note 10.

The quality of all lending is monitored and measured using portfolio management tools and proactive quality assurance measures. These are supplemented with credit risk related management information. The arrears management process ensures that the impact of delinquent loans on the Company's performance is minimised. Wholesale lending and counterparty credit exposure is tightly controlled with specific limits applied to counterparties depending on an internal assessment of their credit quality. Any investment activity undertaken by the Company is limited to instruments authorised by the Company's Board of Directors.

The following table presents the credit quality of the loan portfolio based on number of days past due.

	31st December 2019				31st December 2018			
£000's	Stage 1 Loans	Stage 2 Loans	Stage 3 Loans	Total	Stage 1 Loans	Stage 2 Loans	Stage 3 Loans	Total
Current	1,950,348	280,690	19,401	2,250,439	1,932,074	277,637	18,232	2,227,943
30-59 days past due	—	23,985	9,693	33,678	—	24,023	8,147	32,170
60-89 days past due	—	19,797	8,851	28,648	—	20,796	7,994	28,790
90+ days past due	—	—	54,234	54,234	—		56,075	56,075
Total	**1,950,348**	**324,472**	**92,179**	**2,366,999**	**1,932,074**	**322,456**	**90,448**	**2,344,978**

The maximum exposure to credit risk at the balance sheet date was £2,367.0 million and £2,345.0 million, respectively, as at 31st December 2019 and 31st December 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

18. FINANCIAL INSTRUMENT RISK (continued)

Liquidity Risk

Liquidity risk is the risk that that the Company will not be able to meet its future financial obligations as they fall due, or to invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time period.

It is Company policy to ensure that resources are always available to meet the Company's obligations as they fall due. The development, implementation and monitoring of this policy is the responsibility of the Company's Board of Directors. The exposure is managed by holding a liquid asset portfolio and the Company has access to significant parental committed facilities.

The Company is a registered Authorised Payment Institution and is not required to hold a liquidity buffer by its regulators, but management chooses to hold a liquidity buffer based on historical and expected future performance of the loan book. This liquidity buffer is reviewed twice a year by the UK Financial Controller.

Market Risk

Market risk is the risk that an institution's earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates, or other market factors. As the Company does not carry out any proprietary trading activity and does not split its business between banking and a trading book, the Company's market risk arises primarily from mismatches occurring in the organic growth of its balance sheet. Management of market risk is the responsibility of the Company's Board of Directors and is monitored through rigorous quantification and reporting.

19. SHARE CAPITAL

	2019 Number of shares	2019 £'000	2018 Number of shares	2018 £'000
Issued, allotted and fully paid				
Ordinary shares of £1 each	434,153,105	434,153	434,153,105	434,153
B shares of £1 each	50,000,000	50,000	50,000,000	50,000
	484,153,105	484,153	484,153,105	484,153

The Ordinary and B shares rank pari passu in all respects except for voting rights, whereby B shares hold no entitlement to attend, speak or vote at any general meetings of the Company. There were 600 million Ordinary shares and 320 million B shares authorised at 31st December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

20. LEASE LIABILITY

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	£'000
As at 1st January 2019 – effect of adoption of IFRS 16 (Note 23)	16,717
Additions	—
Accretion of interest	329
Payments	(956)
As at 31st December 2019	16,090
Weighted average remaining lease term	8.2
Weighted average discount rate	2.01%

The following table presents a maturity analysis of our leases:

	£'000
Within 1 year	1,914
1-5 years	8,569
5+ years	7,008
Total undiscounted lease payments	17,491

The following table presents a reconciliation of the undiscounted cash flows to our lease liabilities as at 31st December 2019:

	£'000
Total undiscounted lease payments	17,491
Less: imputed interest	(1,401)
Total lease liabilities	16,090

21. DIRECTORS' EMOLUMENTS AND TRANSACTIONS

The amount of emoluments paid to the Directors in respect of services as Directors of the Company is:

	2019 £'000	2018 £'000
Aggregate emoluments	3,572	2,928
Aggregate pension contributions	30	45

The total remuneration of the highest paid Director was £1,422,000 (2018: £780,000). The amount of Company contributions paid to the pension scheme on behalf of the highest paid Director was £nil (2018: £nil). No Directors exercised share options in the Corporation in the year (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

21. DIRECTORS' EMOLUMENTS AND TRANSACTIONS (continued)

Two Directors who served during the year were members of the Capital One Master Trust Pension Scheme (2018: two). During 2019 £nil (2018: £233,000) was payable to Directors for compensation for loss of office.

The number and total amount outstanding of loans to Directors, connected persons and officers as at 31st December 2019 were five loans (2018: six loans) and £8,401 (2018: £7,999) respectively representing balances held on personal Capital One credit cards at the year end. The terms and conditions of these credit card loans are either consistent with the terms and conditions on cards available to Capital One customers or are consistent with the terms and conditions with credit cards that were available to all staff at the point in time that the cards were opened. The only differentiation in the card characteristic is the credit limit which is determined by role level. The maximum credit limit is no higher than the maximum credit limit offered to Capital One customers. The balances vary during the year and are settled by the Directors as they fall due in accordance with the terms and conditions of the card. Similarly, any interest accrued on the card is repayable in accordance with the terms and conditions of the card.

22. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company and immediate controlling party is Capital One Holdings Limited, a company incorporated in England and Wales. The Company's ultimate parent company and ultimate controlling party is Capital One Financial Corporation, which is incorporated in the United States of America. The consolidated financial statements of Capital One Financial Corporation, which include the Company, are available from the Company's registered office; 1680 Capital One Drive, McLean, Virginia, 22102.

23. ADOPTION OF IFRS 16 LEASES

On 1st January 2019, the Company adopted IFRS 16 Leases ("IFRS 16"). The Company's involvement with leases is in the capacity as a lessee where the Company lease office space to support its business.

Prior to the adoption of IFRS 16, the total future minimum rental commitments for the non-cancellable operating lease was £25.1 million.

Upon adoption, the Company recorded a lease liability of £16.7 million and a right-of-use asset of £15.3 million, which is net of other lease-related balances.

The difference between the total minimum lease payments as of 31st December 2018 and the total lease liability recognised on transition was a result of the effect of discounting on the minimum lease payments and as a result of an operating lease not being classified as a lease under IFRS 16. The weighted average discount rate applied to the lease liability recognised on transition was 2.005%.

	1 January 2019 Closing Balance £'000
Opening Operating Lease Commitment balance under IAS17	**25,085**
Adjustment for operating lease not being classified as a lease under IFRS 16	(2,851)
Remeasurement: effect of discounting	(5,517)
Opening balance under IFRS 16	**16,717**

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2019

24. POST BALANCE SHEET EVENT

The Company will likely be impacted by the potential repercussions on the economy and Capital One customers of the COVID-19 global pandemic and management continue to monitor the situation as it evolves. The COVID-19 outbreak is deemed to be a non-adjusting post balance sheet event that will likely have a material impact on the financial performance of the Company through increases in arrears, default rates and resulting credit losses, through changes in customer behaviour, the measures being taken by the Company to support customers and through regulatory intervention. This will limit the opportunities for growth and serve to decrease the profitability of the Company and could lead to an erosion of capital. The Company expects that the interventions made by the UK Government to provide income support to individuals and support for businesses will reduce the losses as a result of COVID-19 but the impact is currently not known. At the time of authorisation of the financial statements it is not possible to estimate the impact of these events.