# Capital One (Europe) plc

Report and Financial Statements

31 December 2018



**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 2018.

### Principal activity and review of business

The Company provided financial services in the UK during 2018 predominantly comprised of credit card lending

### Key performance indicators

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

| | 2018 £'000 | 2017 £'000 | Change % |
|---|---|---|---|
| Revenue | 580,465 | 566,574 | 2 % |
| Finance expense | (10,125) | (9,015) | 12 % |
| Movement in allowance for expected credit losses | (107,496) | (84,588) | 27 % |
| Operating and administrative expenses | (303,474) | (260,090) | 17 % |
| Profit for the year | 112,623 | 166,706 | (32)% |
| Net loans and advances to customers | 2,218,169 | 2,224,293 | 0 % |
| Shareholders' funds | 1,235,386 | 1,129,706 | 9 % |

| | 2018 % | 2017 % | Change % |
|---|---|---|---|
| Net loss rate | 3.0 | 4.4 | (32)% |

Revenue increased by 2% during the year despite the £32 million higher Payment Protection Insurance (PPI) provision build reflected within revenue The build was offset by higher account volumes as well as methodology changes in accounting for expected credit losses (ECLs) due to the implementation of IFRS 9 Further details on IFRS 9 implementation are contained within Note 1 to the Financial Statements

Finance expense increased by 12% during the year due to the higher average parental funding loan balance from the US parent company held during the year, as well as an increase in the average interest rate

The movement in the allowance for ECLs increased by 27% compared to prior year due to the implementation of IFRS 9 (see Note 1) Underlying this methodology change were higher write offs as a result of account growth offset by higher recoveries.

Operating and administrative expenses increased by 17% during the year primarily due to the £24 million higher PPI provision build reflected within operating and administrative expenses. There was also higher investment in technology development and marketing.

## STRATEGIC REPORT (continued)

The impact of higher debt sales in 2018 has decreased the net loss rate from 4.4% to 3.0%. The net loss rate is the net loan loss as a percentage of total loans and advances to customers, excluding movements in the provision.

**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 $250 billion at the end of the year (2017: $244 billion). The Corporation's loans held for investment at the end of the year totalled $246 billion (2017: $254 billion).

The Corporation's net income for the year ended 31st December 2018 was $6 billion (2017: $2 billion). The Corporation continues to maintain a strong balance sheet position with a Tier 1 common equity ratio of 11.2% at the end of 2018 (2017: 10.3%).

**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.

*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 have considered the risk of Brexit uncertainty but consider it to have limited direct impact due to minimal exposure to foreign exchange risk or 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 and Practice 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 that attract, retain and motivate talent and align associate contributions with long term customer and business objectives, and
- Clear monitoring, reporting and senior leadership oversight

*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

## STRATEGIC REPORT (continued)

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.

**Signed by order of the Board**

**AC Lenander**
**Director**
**19th March 2019**

# DIRECTORS' REPORT

The Directors present their report for the year ended 31st December 2018

## Directors

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

AC Lenander
NV Herbert (resigned 20th December 2018)
RW Harding
RJ Rolls
LM Hagues
JR Penzer
MJ Lynch

## Results and dividends

The profit for the year, after taxation, amounted to £112 6 million (2017: profit £166.7 million) The Directors do not recommend payment of a dividend on the ordinary shares (2017, £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

## Future developments

The Directors expect the general level of activity of the Company will remain stable and unchanged.

## Going concern

The Directors have reviewed the forecast performance as well as principal risks and uncertainties of the business and concluded that it is appropriate to adopt the going concern basis of accounting in preparing the annual financial statements

## Directors' liability

Capital One Financial Corporation and its subsidiaries ("Capital One Group") have indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision was 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

## Associate involvement

The Company places considerable value on the involvement of the people it employs ("associates") and continues to keep them informed on matters affecting them as associates and on the various factors affecting the performance of the Capital One Group This is achieved through formal and informal meetings, and other corporate communications

## DIRECTORS' REPORT (continued)

### 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 £0.6 million (2017: £0.5 million) directly benefiting 6,684 individuals (2017 3,190) from 390 charitable organisations (2017 116). No political donations were made during the year (2017: £nil) 62% of associates (2017: 32%) took part in community activities in 2018 donating over 5,800 hours (2017. 2,400 hours) in the process

The Company aims to make a positive impact through supporting financial education, digital inclusion and employability 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 Young Enterprise, humanutopia, Business in the Community and many others by mobilising employees to use their time and skills to support issues that give communities better access to skills and opportunity.

**Signed by order of the Board**

**AC Lenander**
**Director**
**19th March 2019**

## 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 31 December 2018 which comprise the Income statement, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 23, 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 2018 and of its profit 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.

## 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, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

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

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 Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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**
**19th March 2019**

## INCOME STATEMENT

For the year ended 31st December 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| Interest income | | 539,057 | 527,348 |
| Non-interest income | | 41,408 | 39,226 |
| **REVENUE** | 2 | 580,465 | 566,574 |
| Finance expense | 4 | (10,125) | (9,015) |
| Allowance for expected credit losses | | (107,496) | (84,588) |
| Operating and administrative expenses | | (303,474) | (260,090) |
| **PROFIT BEFORE TAXATION** | 3 | 159,370 | 212,881 |
| Tax charge | 5 | (46,747) | (46,175) |
| **PROFIT FOR THE YEAR** | | 112,623 | 166,706 |

All of the above activities relate to continuing operations

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2018

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Profit/(loss) for the year** | 112,623 | 166,706 |
| **Items that may be reclassified subsequently to the income statement:** | | |
| Available for sale financial assets: | | |
| Net (loss)/gains arising during the period | — | (381) |
| Income tax relating to net unrealised loss | — | (40) |
| **Other comprehensive (loss)/income for the year net of tax** | — | (421) |
| **Total Other comprehensive income/(loss) for the year** | 112,623 | 166,285 |

Other comprehensive income in 2017 was composed of the fair value movement of the preference shares in Visa, Inc. On transition to IFRS 9, these shares were reclassified as Fair Value Through Profit and Loss. Therefore, there is no Other Comprehensive Income for 2018. See Note 8 for further details on the preference shares

## BALANCE SHEET

As at 31st December 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 6, 17 | 44,812 | 71,232 |
| Loans and advances to banks | 17 | 57,900 | 17,200 |
| Debt securities | 7,17 | 139,806 | 139,897 |
| Financial assets held at fair value | 8,17 | 8,156 | 6,679 |
| Trade and other receivables | 9 | 2,263,816 | 2,264,183 |
| Property, plant and equipment | 11 | 17,757 | 17,288 |
| Intangible assets | 12 | 14,836 | 10,413 |
| Deferred tax assets | 5 | 6,074 | 6,743 |
| Investments in subsidiaries | 13 | — | — |
| **TOTAL ASSETS** | | 2,553,157 | 2,533,635 |
| **LIABILITIES** | | | |
| Trade and other payables | 14, 17 | (58,038) | (78,787) |
| Loans and borrowings | 15, 17 | (1,121,417) | (1,105,569) |
| Corporation tax payable | | (26,663) | (25,345) |
| Provisions | 16 | (111,653) | (194,228) |
| **TOTAL LIABILITIES** | | (1,317,771) | (1,403,929) |
| **NET ASSETS** | | 1,235,386 | 1,129,706 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 19 | 484,153 | 484,153 |
| Share premium | | 95,760 | 95,760 |
| Retained earnings | | 655,473 | 549,793 |
| **TOTAL EQUITY** | | 1,235,386 | 1,129,706 |

The financial statements of Capital One (Europe) plc (registered number 3879023) were approved by the Board of Directors on 19th March 2019 and signed on its behalf by,

Ay Lenander

**AC Lenander**
**Director**

## STATEMENT OF CHANGES IN EQUITY
As at 31st December 2018

| | Share Capital | Share Premium | Retained Earnings | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **31st December 2016** | 484,153 | 95,760 | 383,508 | 963,421 |
| **Comprehensive income for the year** | | | | |
| Profit | | | 166,706 | 166,706 |
| Other comprehensive income | — | — | (421) | (421) |
| **Total comprehensive income for the year** | — | — | 166,285 | 166,285 |
| **31st December 2017** | 484,153 | 95,760 | 549,793 | 1,129,706 |
| Impact of adopting IFRS 9 including tax (Note 23) | — | — | (6,942) | (6,942) |
| Restated opening balance under IFRS 9 | 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 |

## NOTES TO THE FINANCIAL STATEMENTS
As at 31st December 2018

## 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 2018

### 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 9**

The Company has applied IFRS 9 as issued by the IASB in July 2014, effective for annual periods beginning on or after 1st January 2018. As permitted by the transitional provisions of IFRS 9, the Company has elected not to restate comparative figures Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018 Refer to the Company 2017 Financial Statements for IAS 39 Accounting Policy. The adoption of IFRS 9 has resulted in changes to the accounting policies for classification and measurement and impairment of financial assets Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1st January 2018 and are disclosed in Note 23

Changes to classification and measurement:
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on de-recognition
- Financial assets at FVTPL

The Company's classification of its financial assets and liabilities is explained in Note 1 Significant accounting policies The quantitative impact of applying IFRS 9 as at 1st January 2018 is disclosed in Note 23

Changes to impairment calculation.
The adoption of IFRS 9 has changed the accounting for loan loss impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Further details of the general impairment approach including detailed qualitative and quantitative information about the ECL calculations and the assumptions and inputs used are disclosed in Note 1 Significant Accounting policies - Allowance for Expected Credit Losses for Loans. The reconciliation from opening to closing ECL allowance is presented in Note 10. For all other Financial Assets apart from Loans to Customers, the simplified approach has been used and details of impairment are included within specific sections of Note 1.

**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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

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 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 calculation of the Allowance for ECLs is included in the section 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 and is recognised on an effective interest basis.

**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. The general approach to assess impairment has been applied to Loans and detail, including loan write off and modification, is included within 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**

From 1st January 2018 the Company has maintained 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 method replaces IAS 39's incurred loss approach with a forward-looking ECL approach. 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 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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

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

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 provision for expected credit losses

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 an infinite customer behavioural life by applying a terminal value to the loss forecast and recovery streams, 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 impact of Brexit uncertainty 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 10 years would increase the 2018 allowance by 2%.
- Apply a 10% downgrading to the economic scenarios (20·40:40 ratio) would increase the 2018 allowance by 5%

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

**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.

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. An impairment review is carried out annually and 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 3-5years 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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

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

**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.

**Leased assets**

All lease contracts have been reviewed and on the basis of the review have all been regarded as operating leases Lease payments are charged to the income statement on a straight-line basis over the period of the lease

**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 2018

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 judgment 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 judgment 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 judgment 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 judgment 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 2018

## 2. REVENUE

Revenue comprises revenue of £580.5 million (2017: £566.6 million) from interest income, card fees, revenue derived from cardholder spending and other commission. Revenue incorporates deductions in relation to PPI redress provision charges to the income statement. Within interest income, £1.1 million is not accounted for under the EIR method.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Interest income | 564,719 | 534,404 |
| Non-interest income | 59,783 | 44,207 |
| PPI provision reflecting reimbursed revenue charged against interest income | (25,662) | (7,056) |
| PPI provision reflecting reimbursed revenue charged against non-interest income | (18,375) | (4,981) |
| | 580,465 | 566,574 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

### 3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | 51,277 | 45,924 |
| Social security costs | 6,664 | 6,251 |
| Pension costs | 5,607 | 5,020 |
| | 63,548 | 57,195 |
| **Provision for liabilities** | | |
| PPI provision reflecting reimbursed revenue charged against revenue | 44,037 | 12,037 |
| PPI provision reflecting other related costs charged to operating and administrative expenses | 35,478 | 11,177 |
| | 79,515 | 23,214 |
| **Operating lease rentals** | | |
| Property | 4,000 | 4,249 |
| **Amortisation of intangibles** | | |
| Software | 4,481 | 3,222 |
| **Depreciation of property, plant and equipment** | | |
| Property | 1,836 | 1,629 |
| Equipment | 2,827 | 1,907 |

Auditors' remuneration in 2018 £439,400 (2017: £342,200) has been incurred by another company within the Capital One Financial Corporation Group.

The average number of associates employed by the Company during the year was 1,051 (2017: 989), all of whom were employed in management and administration

### 4. FINANCE EXPENSE

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Group undertakings | (10,125) | (9,015) |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

## 5. TAXATION

### (a) Total tax charge on ordinary activities

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Current tax** | | |
| United Kingdom corporation tax | (45,791) | (44,699) |
| Amounts (under)/over provided in previous periods | 981 | (5,227) |
| Total current tax | (44,810) | (49,926) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (1,274) | (810) |
| Change in tax laws and rates | 134 | 94 |
| | (1,140) | (716) |
| Amounts (under)/over provided in previous periods | (797) | 4,467 |
| Total deferred tax | (1,937) | 3,751 |
| **Total charge on ordinary activities** | (46,747) | (46,175) |

### 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 19.00% (2017: 19.25%). The differences are reconciled below

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Profit/(Loss) on ordinary activities before tax** | 159,370 | 212,881 |
| 19% (2017: 19.25%) of profit/(loss) on ordinary activities | (30,280) | (40,980) |
| Effects of | | |
| Cross sell expenses not deductible and surcharge | (16,256) | (4,581) |
| Other expenses not deductible for tax purposes | (529) | 51 |
| Amounts (under)/over provided in previous periods | 184 | (759) |
| Changes in tax laws and rates | 134 | 94 |
| Total tax charge reported in the income statement | (46,747) | (46,175) |

### (c) Change in corporation tax rate

The UK corporation tax rate reduced from 20% to 19% effective 1st April 2017 and will reduce from 19% to 17% effective 1st April 2020. These changes were included in Finance Act 2016 which was enacted on 15th

## NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

## 5. TAXATION (continued)

September 2016 As the reduction in rate was enacted by the balance sheet date the deferred tax asset has been measured using the rate of 17%

### (d) Deferred Taxation

The deferred tax included in the balance sheet is recognised at a rate of 17.0% (2017: 17 0%) as follows

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Deferred tax assets** | | |
| Decelerated capital allowances | 2,574 | 2,899 |
| Pension benefits | 172 | 193 |
| Long term incentives | 170 | 278 |
| Adoption of FRS 101 and IFRS 9 | 4,545 | 4,370 |
| Heldover gain on sale of shares | (1,387) | (997) |
| | 6,074 | 6,743 |

The movement in deferred tax asset relates to £1 3 million credit to Equity - Retained Earnings and £1.9 million debit to Income Statement.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Disclosed on the balance sheet** | | |
| Deferred tax assets | 6,074 | 6,743 |

**Deferred tax in the income statement**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Decelerated capital allowances | (325) | (325) |
| Pension benefits | (21) | 23 |
| Long term incentives | (108) | 278 |
| Adoption of FRS 101 and IFRS 9 | (1,093) | 3,776 |
| Heldover gain on sale of shares | (390) | – |
| | (1,937) | 3,752 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

## 6. CASH AND CASH EQUIVALENTS

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Cash at bank and in hand | 44,812 | 71,232 |

Included within cash at bank is £11.5 million (2017: £11.7 million) held on behalf of customers who have paid security balances or hold credit balances on their accounts

## 7. DEBT SECURITIES

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Government investment securities | 139,806 | 139,897 |

Debt securities include £140 million of UK government gilts (2017: £140 million). These are due to mature within one year.

## 8. FINANCIAL ASSETS HELD AT FAIR VALUE

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| VISA preference shares | 8,156 | 6,679 |

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

## 9. TRADE AND OTHER RECEIVABLES

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Loans and advances to customers | 2,344,978 | 2,339,675 |
| Allowance for expected credit losses for loans* | (126,809) | (115,382) |
| Amounts owed by group undertakings | 5,375 | 3,538 |
| Other debtors | 4,294 | 2,161 |
| Deferred cash | 1,281 | 1,217 |
| Prepayments and accrued income | 34,697 | 32,974 |
| | 2,263,816 | 2,264,183 |

*2018 shows Allowance for ECL under newly adopted IFRS 9. 2017 comparatives are not restated and show provision for bad and doubtful debts under IAS 39

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

## 9. TRADE AND OTHER RECEIVABLES (continued)

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade and other receivables are due as follows: | | |
| Due within one year | 2,263,816 | 2,262,966 |
| Due after one year | - | 1,217 |
| | 2,263,816 | 2,264,183 |

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 and prior year comparatives have not been restated

## 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 2018 | | | 1 January 2018 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying amount | ECL allowance | Carrying Amount | Gross Carrying amount | ECL allowance | Carrying Amount |
| Loans and advances to customers at amortised cost | 2,344,978 | 126,809 | 2,218,169 | 2,339,675 | 123,654 | 2,216,021 |

The gross carrying value of the loans has increased during the period, leading to a higher expected credit loss allowance. 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

## NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

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

| Impairment Reconciliation (£'000) | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Balance at start of period** | 72,641 | 138,017 | 40,372 | 251,030 |
| Previously written off balance | | | (127,376) | (127,376) |
| **Total balance at start of period** | 72,641 | 138,017 | (87,004) | 123,654 |
| Allowance Recognised on accounts originated during the period | 20,478 | | | 20,478 |
| Write-offs | (68,323) | (65,035) | (48,182) | (181,540) |
| Recoveries | 1,318 | 2,198 | 48,020 | 51,536 |
| Unwinding of Discount | 5,888 | 14,501 | (19,875) | 514 |
| Transfer to 12-month ECLs | 3,095 | (37,427) | (325) | (34,657) |
| Transfer to lifetime ECLs not credit-impaired | (7,753) | 90,865 | (3,719) | 79,393 |
| Transfer to lifetime ECLs credit-impaired | (2,223) | (6,762) | 43,439 | 34,454 |
| Reversal of allowance against accounts closed during the period | (2,716) | (3,547) | (414) | (6,677) |
| Build/release of allowance during the period | 72,259 | (16,608) | (15,997) | 39,654 |
| **Balance at end of period** | 94,664 | 116,202 | 47,208 | 258,074 |
| Previously written off balance | — | — | (131,265) | (131,265) |
| **Total balance at end of period** | 94,664 | 116,202 | (84,057) | 126,809 |

The allowance for the period has increased by £3 2 million to £126 8 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.

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. A change to recovery strategy during the year resulted in an allowance build, which was partially off set by improvements in the baseline loss forecast.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

## 11. PLANT, PROPERTY AND EQUIPMENT

| | Leasehold improvements £'000 | Equipment, fixtures & fittings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 1st January 2018** | 18,392 | 25,547 | 43,939 |
| Additions | 1,487 | 3,812 | 5,299 |
| Reclassification | (523) | 523 | 0 |
| Disposals | (82) | (167) | (249) |
| **At 31st December 2018** | 19,274 | 29,715 | 48,989 |
| **Depreciation and impairment** | | | |
| **At 1st January 2018** | (8,425) | (18,226) | (26,651) |
| Charge for the year | (1,836) | (2,827) | (4,663) |
| Disposals | — | 82 | 82 |
| **At 31st December 2018** | (10,261) | (20,971) | (31,232) |
| **Net book value** | | | |
| **At 31st December 2018** | 9,013 | 8,744 | 17,757 |
| **Net book value** | | | |
| **At 31st December 2017** | 9,967 | 7,321 | 17,288 |

The amount of borrowing cost capitalised during the year ended 31st December 2018 was £nil (2017 £nil)

Plant, Property and Equipment includes £nil (2017. £nil) at net book value of assets under finance leases.

The Company had £nil future capital expenditure contracted for but not provided at the year end (2017: £nil).

## NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

### 12. INTANGIBLE ASSETS

| | Software £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| **At 1st January 2018** | 26,572 | 26,572 |
| Additions | 9,189 | 9,189 |
| Disposals | (11,200) | (11,200) |
| **At 31st December 2018** | 24,561 | 24,561 |
| **Amortisation and impairment** | | |
| **At 1st January 2018** | (16,159) | (16,159) |
| Charge for the year | (4,481) | (4,481) |
| Disposals | 10,915 | 10,915 |
| **At 31st December 2018** | (9,725) | (9,725) |
| **Net book value** | | |
| **At 31st December 2018** | 14,836 | 14,836 |
| **Net book value** | | |
| **At 31st December 2017** | 10,413 | 10,413 |

Intangible assets include £nil (2017: £nil) at net book value, of assets under finance leases £nil (2017: £nil) was allocated to amortisation of these lease assets during the year.

The Company had £nil future capital expenditure contracted for but not provided at the year-end (2017 £nil)

The disposals for the year mainly related to a write-off of several fully depreciated assets as a result of a software impairment review

### 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 2018

### 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 | 26 New Street, St. Helier, Jersey, JE2 3RA | Dormant – previously holding company for investor beneficiaries in a trust vehicle |
| Carlisle Castle Funding Group Limited | 26 New Street, St. Helier, Jersey, JE2 3RA | Dormant - previously investor beneficiary in trust vehicle |
| Tenby Castle Funding Group Limited | 26 New Street, St. Helier, Jersey, JE2 3RA | Dormant - previously investor beneficiary in trust vehicle |
| Dover Castle Funding Group Limited | 26 New Street, St. Helier, Jersey, JE2 3RA | Dormant - previously investor beneficiary in trust vehicle |
| Sherwood Funding Options Limited | 26 New Street, St. Helier, Jersey, JE2 3RA | 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 | Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF | Dormant – previously acquirer of options |

### 14. TRADE AND OTHER PAYABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade creditors | 8,710 | 22,097 |
| Other taxation and social security costs | 3,210 | 4,933 |
| Accruals and deferred income | 34,634 | 30,512 |
| Other creditors | 11,484 | 21,245 |
| | 58,038 | 78,787 |

Accruals include £0.5 million relating to contributions outstanding at 31st December 2018 (2017: £0.6 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 2018

## 15. LOANS AND BORROWINGS

Loans repayable, are analysed as follows

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Amounts owed to group undertakings: | | |
| not later than one year | 766,327 | 748,691 |
| after one year but not more than five years | 297,000 | 297,000 |
| after five years | 58,090 | 59,879 |
| | 1,121,417 | 1,105,570 |

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.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Amounts owed to group undertakings | | |
| variable rate | 58,090 | 59,879 |
| fixed rate | 1,052,000 | 1,037,000 |
| non-interest bearing | 11,327 | 8,691 |
| | 1,121,417 | 1,105,570 |

## 16. PROVISIONS FOR LIABILITIES

| | Cross Sell Provision £'000 | Other Provision £'000 | Total Provision £'000 |
|---|---|---|---|
| **At 1st January 2018** | 194,228 | | 194,228 |
| Additional provisions made in the year | 79,515 | 885 | 80,400 |
| Provisions utilised in the year | (162,975) | - | (162,975) |
| **At 31st December 2018** | 110,768 | 885 | 111,653 |

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 us and others within the industry. On 2nd March 2017, the FCA issued a statement that set out final rules and guidance on the PPI complaints deadline, which has been set 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. The final rules and guidance came into force on 29th August 2017.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

### 16. PROVISIONS FOR LIABILITIES (continued)

In determining the best estimate of incurred losses for future remediation payments, management considers numerous factors, including
(i) the number of customer complaints expected in the future,
(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
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 £110.8 million and £194 2 million as of 31st December 2018, and 2017, respectively In 2018, the reserve has been increased by £80.4 million to reflect greater than predicted complaint volumes 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).

| | | | Sensitivity | |
|---|---|---|---|---|
| Assumption | Actual to date | Future expected | Change in assumption | Consequential change in provision £m |
| Number of complaints (1) | 758k | 145k | +/-10k | +/-6 7 |
| Mis-sell Uphold rate (1) (2) | 54% | 59% | +/-5% | +/-3 5 |
| Average redress per complaint (1) (3) (4) | £552 | £579 | +/-5% | +/-4 2 |

Notes
(1) Excludes complaints where no PPI policy was held
(2) Includes complaints upheld by the Company and complaints upheld by the FOS
(3) Future average redress is influenced by expected compensation payments for complaints covered by the Consumer Credit Act
(4) Average redress is influenced by expected compensation payments for complaints covered by the Consumer Credit Act

### 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 2018 and 2017

| | 31st December 2018 | | | |
|---|---|---|---|---|
| **£000s** | **Fair Value Measurements Using** | | | **Total Estimated Fair Value** |
| | **Level 1** | **Level 2** | **Level 3** | |
| **Assets:** | | | | |
| Visa preference shares | — | — | 8,156 | 8,156 |
| **Total assets** | — | — | 8,156 | 8,156 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

### 17. FAIR VALUE MEASUREMENTS (continued)

| £000s | 31st December 2017 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | Total Estimated Fair Value |
| | Level 1 | Level 2 | Level 3 | |
| **Assets:** | | | | |
| **Available for sale investments** | | | | |
| UK government gilts | 139,897 | — | — | 139,897 |
| Visa preference shares | — | — | 6,679 | 6,679 |
| **Total assets** | 139,897 | — | 6,679 | 146,576 |

As at 31st December 2018 and 2017, the Company did not have any movements between levels of the fair value hierarchy for previously existing assets. UK Government Gilts were reclassified to be measured at amortised cost upon adoption of IFRS 9 on 1st January 2018. See Note 23 for more details.

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 2018 and 2017:

| £000s | 31st December 2018 Carrying Amount | Estimated Fair Value | Estimated Fair Value Hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Cash and cash equivalents | 44,812 | 44,812 | 44,812 | | — |
| Deferred cash | 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) | — |

| £000s | 31st December 2017 Carrying Amount | Estimated Fair Value | Estimated Fair Value Hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Cash and cash equivalents | 71,232 | 71,232 | 71,232 | — | — |
| Deferred cash asset | 1,217 | 1,217 | — | 1,217 | — |
| Loans and advances to banks | 17,200 | 17,200 | — | 17,200 | — |
| Available-for-sale investments | 146,576 | 146,576 | 139,897 | — | 6,679 |
| Loans and advances to customers | 2,224,293 | 2,171,118 | — | — | 2,171,118 |
| Trade and other receivables | 5,699 | 5,699 | — | 5,699 | |
| **Financial Liabilities:** | | | | | |
| Loans and payables | (1,148,913) | (1,148,913) | — | (1,148,913) | — |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

### 17. FAIR VALUE MEASUREMENTS (continued)

The following describes the valuation techniques used in estimating the fair value of the financial instruments as at 31st December 2018 and 2017. 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

***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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

## 18. FINANCIAL INSTRUMENT RISK

The Company's financial instruments comprise borrowings to finance its operations, cash deposits, short term debt securities, 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

**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 2018 | | | | 31st December 2017* | | | |
|---|---|---|---|---|---|---|---|---|
| £000's | Stage 1 Loans | Stage 2 Loans | Stage 3 Loans | Total | Stage 1 Loans | Stage 2 Loans | Stage 3 Loans | Total |
| **Current** | 1,932,074 | 277,637 | 18,232 | 2,227,943 | 1,949,051 | 272,374 | 11,881 | 2,233,306 |
| **30-59 days past due** | - | 24,023 | 8,147 | 32,170 | | 23,661 | 6,193 | 29,854 |
| **60-89 days past due** | -- | 20,796 | 7,994 | 28,790 | | 18,856 | 6,561 | 25,417 |
| **90+ days past due** | — | | 56,075 | 56,075 | | | 51,098 | 51,098 |
| **Total** | **1,932,074** | **322,456** | **90,448** | **2,344,978** | **1,949,051** | **314,890** | **75,734** | **2,339,675** |

* Prior year comparatives restated due to change in methodology

The maximum exposure to credit risk at the balance sheet date was £2,345.0 million and £2,339.7 million, respectively, as at 31st December 2018 and 31st December 2017.

**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

## NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

## 18. FINANCIAL INSTRUMENT RISK (continued)

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 posed to earnings or the economic value of equity resulting from changes in interest rates or foreign exchange rates (market rates). 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

| | 2018 Number of shares | 2018 £'000 | 2017 Number of shares | 2017 £'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 2018 and 2017.

## 20. COMMITMENTS

| **Operating lease commitments** | 2018 Land and buildings | 2017 Land and buildings |
|---|---|---|
| **Future lease payments payable:** | £'000 | £'000 |
| Within 1 year | 4,000 | 4,000 |
| between 1 and 5 years | 9,569 | 8,055 |
| over 5 years | 11,516 | 14,178 |
| | 25,085 | 26,233 |

## NOTES TO THE FINANCIAL STATEMENTS (*continued*)

As at 31st December 2018

## 21. DIRECTORS' EMOLUMENTS AND TRANSACTIONS

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

| | 2018 £'000 | 2017 £'000 (Restated)* |
|---|---|---|
| **Aggregate emoluments** | 2,928 | 3,000 |
| **Aggregate pension contributions** | 45 | 52 |

* restatement of prior year comparatives due to change in treatment of tax

The total remuneration of the highest paid Director was £780,000 (2017 £846,000) The amount of Company contributions paid to the pension scheme on behalf of the highest paid Director was £nil (2017 £nil) No Directors exercised share options in the Corporation in the year (2017 Nil) Two Directors who served during the year were members of the Capital One Master Trust Pension Scheme (2017 three) During 2018 £233,000 (2017: £265,000) 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 2018 were six loans (2017: five loans) and £7,999 (2017: £9,465) 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 which 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

## NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

### 23. ADOPTION OF IFRS 9

In applying the IFRS 9 classification requirements for financial instruments a business model assessment was performed followed by an evaluation of the contractual cash flow characteristics The business model assessment determined how cash flows will be generated The assessment led to some re-classifications of financial assets upon adoption of IFRS 9. The contractual cash flows evaluation distinguished whether cash receipts were solely payments of principal and interest ("SPPI") on the amount outstanding

**Classification and measurement of financial instruments opening balances as at 1st January 2018**

| | IAS 39 Measurement Category | £'000 Carrying Amount | IFRS 9 Measurement Category | £'000 Carrying Amount |
|---|---|---|---|---|
| **Debt instruments** | | | | |
| Cash and cash equivalents | Amortised Cost | 71,232 | Amortised Cost | 71,232 |
| Deferred cash asset | Amortised Cost | 1,217 | Amortised Cost | 1,217 |
| Loans and advances to customers | Amortised Cost | 2,224,293 | Amortised Cost | 2,216,021 |
| Government gilts | Fair value through P&L | 139,897 | Amortised Cost | 139,897 |
| Amounts owed by group undertakings | Amortised Cost | 3,538 | Amortised Cost | 3,538 |
| Other debtors | Amortised Cost | 2,161 | Amortised Cost | 2,161 |
| Prepayments and accrued income | Amortised Cost | 32,974 | Amortised Cost | 32,974 |
| Loans and advances to banks | Amortised Cost | 17,200 | Amortised Cost | 17,200 |
| **Equity instruments** | | | | |
| Visa Shares | Fair value through OCI | 6,679 | Fair value through P&L | 6,679 |

There were no changes in the classification and measurement of financial liabilities

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2018

## 23. ADOPTION OF IFRS 9 (continued)

**Reconciliation of statement of financial position balances**

The following table reconciles the carrying amount of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1st January 2018

| £'000 | 31 December 2017 Opening Balance | Reclassification or Remeasurement | 1 January 2018 Closing Balance |
|---|---|---|---|
| | **Amortised cost** | | |
| **Loans and advances to customers** | | | |
| Opening balance under IAS 39 | 2,224,293 | | |
| Remeasurement: ECL allowance | | (8,272) | |
| Closing balance under IFRS 9 | | | 2,216,021 |
| **Deferred tax asset** | | | |
| Opening balance | 6,743 | | |
| Remeasurement: ECL allowance | | 1,330 | |
| Closing balance | | | 8,073 |
| **Available for sale investments- Government Gilts** | | | |
| Opening balance under IAS 39 | | | |
| Reclassification from FVTPL | | 139,897 | |
| Closing balance under IFRS 9 | | | 139,897 |
| **Cash and cash equivalents** | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 71,232 | — | 71,232 |
| **Deferred Cash Asset** | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 1,217 | — | 1,217 |
| **Amounts owed by group undertakings** | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 3,538 | — | 3,538 |
| **Other debtors** | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 2,161 | | 2,161 |
| **Prepayments and accrued income** | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 32,974 | | 32,974 |
| **Loans and advances to banks** | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 17,200 | | 17,200 |
| **Total financial assets at amortised cost** | **2,359,358** | **132,955** | **2,492,313** |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2018

### 23. ADOPTION OF IFRS 9 (continued)

| £'000 | 31 December 2017 Opening Balance | Reclassification or Remeasurement | 1 January 2018 Closing Balance |
|---|---|---|---|
| **Fair Value through Profit and Loss** | | | |
| **Visa Shares** | | | |
| Opening balance under IAS 39 | — | | |
| Reclassification from FVOCI | | 6,679 | |
| Closing balance under IFRS 9 | | | 6,679 |
| **Available for sale investments - Government Gilts** | | | |
| Opening balance under IAS 39 | 139,897 | | |
| Reclassification to amortised cost | | (139,897) | |
| Closing balance under IFRS 9 | | | |
| **Total financial assets at FVTPL** | **139,897** | **(133,218)** | **6,679** |
| **Fair Value through Other Comprehensive Income** | | | |
| **Available for sale investments - Visa Shares** | | | |
| Opening balance under IAS 39 | 6,679 | | |
| Reclassification: to FVTPL | | (6,679) | — |
| Closing balance under IFRS 9 | | | |
| **Total financial assets at FVOCI** | **6,679** | **—** | **—** |

**Re-measurement of loans and advances to customers**

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model which recognises credit losses earlier than IAS 39 IFRS 9 has impacted the carrying value of the loan and advances to customers through the re-measurement of the impairment For further details on how the Company calculates impairment requirements of IFRS 9, see Allowance for Expected Credit Losses in Note 9

**Debt Securities- Government gilts**

The UK Government Gilts held by the Company passed the SPPI test and were identified as 'Hold to Collect' Under IFRS 9, financial assets managed to realize contractual cash flows over the life of the instrument should be measured at amortized cost Therefore, the UK Government Gilts were reclassified as measured at amortised cost as at 1st January 2018 This did not impact the carrying value of the asset

**Visa Shares**

The VISA preferred series shares are an equity instrument and were therefore out of scope of the SPPI test and business model assessment The Company has not taken the option to, upon transition, measure the Visa preference shares at fair value through other comprehensive income, but will account for them as fair value through profit or loss This is a reclassification upon transition but did not impact the carrying value of the asset.

In the prior year Government Gilts and Visa Shares were classified as available for sale investments