Capital One (Europe) plc

Report and Financial Statements

31st December 2020

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 2020.

Principal activity and review of business

The Company provided financial services in the UK during 2020 which predominantly comprised of credit card lending via an Authorised Payment Institution.

Non-FRS101 performance measures

The Directors believe that the non-FRS101 performance measures included in this strategic report provide useful information to the users of the financial statements as they enable the user to better understand the underlying business results of the Company between financial periods. The non-FRS101 performance measures are not a substitution for the FRS101 measures detailed in the financial statements.

Key performance indicators

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

	2020 £'000	2019 £'000	Change %
Revenue[1]	528,890	598,709	(12)%
Finance expense	(6,982)	(10,668)	(35)%
Impairment losses on loans and advances to customers	(183,526)	(126,382)	45 %
Operating and administrative expenses[2]	(286,120)	(284,341)	1 %
Customer redress provision released/(charged)[3]	35,371	(175,887)	(120)%
Profit/(Loss) for the year	77,915	(34,624)	(325)%
Net loans and advances to customers	1,797,319	2,246,294	(20)%
Shareholders' funds	1,278,677	1,200,762	6 %

	2020 %	2019 %
Net credit loss rate	4.5	4.3

[1] Revenue has been reduced in 2020 by £32,888,000 and increased in 2019 by £115,103,000 to remove the impact of the customer redress provision movements.

[2] Operating and administrative expenses has been reduced in 2020 by £2,484,000 and increased in 2019 by £60,784,000 to remove the impact of the customer redress provision movements.

[3] Customer redress provision has been broken out to allow users to understand the underlying movements in revenue and operating and administrative expenses

STRATEGIC REPORT (continued)

Revenue decreased by 12% during the year driven by the reduction in average loans and fees caused by the COVID-19 impact on customer behaviour.

Finance expense decreased by 35% during the year primarily driven by lower interest rates and lower loan balances in comparison to 2019.

Impairment losses on loans and advances to customers increased by 45% compared to prior year primarily due to increase in provision driven by COVID-19 impacts on expected credit losses (please see Note 10).

Operating and administrative expenses increased by 1% during the year with higher operational spend being partially offset by marketing cost reduction.

Customer redress provisions were increased by £175.9 million in 2019 following the significantly elevated payment protection insurance complaints ahead of the 29th August 2019 claims submission deadline. In 2020, the Company recorded a release of £35.4 million as these complaints were resolved.

COVID-19 impact on purchase volumes drove a decrease in average loans and advances to customers in 2020 which also led to an increase in the net loss rate from 4.3% to 4.5%. The net loss rate is the value of written off balances for the year as a percentage of average loans and advances to customers.

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 $305 billion at the end of the year (2019: $263 billion). The Corporation's loans held for investment at the end of the year totalled $252 billion (2019: $266 billion).

The Corporation's net income for the year ended 31st December 2020 was $3 billion (2019: $6 billion). The Corporation continues to maintain a strong balance sheet position with a Tier 1 common equity ratio of 13.7% at the end of 2020 (2019: 12.2%).

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 REPORT (continued)

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. This includes considering and responding to any risks introduced as a result of the UK leaving the EU.

Compliance risk

Compliance risk is 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 its customers and shareholders and to ensure the safety and soundness of its business. The Company manages compliance risk through a robust compliance management programme, in accordance with its risk management framework using the three lines of defence model. The compliance management programme includes processes covering active management of 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 decision making, the directors of the Company (the "Board") are aware of their 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 of its relationships with its stakeholders including: customers, employees, regulators, shareholders, suppliers and the community. This statement describes how the Board encourages a culture that ensures the interests of the Company's customers, consumer advocates and regulators are central to all company decision making. It also 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) periodically throughout the year, including through regular training provided to the Board and specific training provided to the Board by external specialists in Q4 2020.

The Company's ultimate parent is a publicly trading US company, Capital One Financial Corporation (defined in the Accounts as the "Corporation"), which maintains 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. The Board looks to balance the Capital One enterprise ("Capital One Group" as its ultimate shareholder) mission, values and its strategic priorities with those of these key stakeholders in its oversight of the Company and in its decision making.

In 2020, the Board has ensured its decision making has had consideration to the impact of the COVID-19 pandemic and in particular has: (i) requested an increase in the regularity of updates from management; (ii) ensured customers are supported including through the adoption of government and regulator-driven support; and (iii) closely monitored the macroeconomic impact on the Company's financial position.

Effective decision making and long term value

The Board is responsible for approving the Company's strategy. The Company's strategy focuses on long term success and is reviewed and approved annually by the Board. In approving the annual strategy, the Board has due regard to the impact of its decision making on the interests of its stakeholders. The Board achieves this by allowing sufficient time for consideration of all key stakeholder issues underpinning the strategy, and by fostering an environment in which challenge and debate is encouraged in order to achieve long term positive outcomes for the Company and its stakeholders collectively.

STRATEGIC REPORT (continued)

The Board monitors the execution of the Company's strategy and meets at least quarterly to review key metrics and forward-looking plans to ensure the Company is operating in line with the long term intent.

Effective relationships with the Company's stakeholders, including its employees, 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 also a part of the Company's leadership team, 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

The interests of the following key stakeholders are considered by the Board to be crucial to the long term success of the business:

Employees:

- The Board considers the Company's employees 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 on talent. The Board prides itself on its purpose-led customer-focused culture. To help maintain this, the views and interests of its employees are collated and monitored using various mechanisms, including regular one to ones with managers, team meetings where matters can be escalated, and employee surveys requesting feedback on various matters including: the employee experience, culture, inclusion and delivery against the Company's objectives. The Company takes the results of these surveys very seriously, prioritising making improvements to the employee experience and continued investment in a strong, purpose-led culture.
- Throughout 2020, protecting and maintaining the health and safety of employees during the COVID-19 pandemic has been a key priority for management with full support of the Board, who have overseen decisions regarding remote working and continued employee engagement and support throughout this time. The Company's Crisis Management Team have met regularly during the pandemic, and provided regular reports to the Board's Assurance and Risk Committee ("ARC").
- In 2020, the Board supported a number of employee targeted initiatives, including further enhancing the Company's culture with investment in the Company's diversity and inclusion agenda, providing a focus on the psychological safety of its employees, offering mental health support resources (such as mental health 'first aider' training), access to the ethics line and continued training and education for all people leaders. The Board passionately supports the Company's Diversity, Inclusion and Belonging ("DIB") objectives and has oversight of the Company's DIB strategy and plans, including through quarterly reporting to the Board on DIB by the member of the Board responsible for the DIB strategy. A full-time experienced DIB expert was appointed during 2020 to deepen the Company's DIB strategy. The strategy focuses on ensuring diverse representation, including achieving gender parity and a focus on racial equality. The Board supports the Company's signature of the Women in Finance and Race at Work Charters, and the Company's various employee networks to understand the needs of various less well represented employee groups.

Customers and Consumer Advocates:

- Customer interests are paramount to the strategy of every business area. All employees, including the Board, are required to have and develop a good understanding and appreciation of customer needs and circumstances. This is encouraged through forums such as call listening sessions and the

STRATEGIC REPORT (continued)

Company's annual "Customer Understanding" 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, to obtain a broad and external view of market and consumer expectations. 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 and take into account customer outcomes when determining the strategy of the Company and in decision making.

- In November 2020 a newly formed advisory group to ARC was established, the Business Conduct Committee (whose membership and chair includes members of the Board), specifically focussing on conduct risk and the Company consistently achieving good customer outcomes. The Business Conduct Committee's role is to provide a forum for discussion, challenge to executive decision making and recommendations for action in relation to the way the Company conducts its business and takes into account the interests of its customers.
- The Board receives a report in relation to vulnerable customers on a quarterly basis, and agenda time is scheduled for discussion on this topic in Board meetings. The Company's vulnerable customer framework is designed to be embedded across all processes, and therefore is a regular consideration during Board discussions. The Company's dedicated Vulnerable Customer Team has devised a framework to evaluate ongoing changes to ensure they are fair and inclusive.
- The Company has ordinarily hosted regular consumer stakeholder forums with policy makers, and advocacy groups in order to seek external challenge and assist the Company in defining and constantly improving its approach to customer needs; however, in 2020 the ability to do so was limited.

Regulators:

- The Board, on a regular basis, considers relevant public policy, regulatory and legal issues and topics that could, or will, impact the Company and its customers; this includes consideration to communications from regulators, publications and market activity. The Board considers and has regard to how external engagement across this area can assist them in performing their duties. Board members, including through their wider executive responsibilities, consider and develop relationships with regulators (both in the UK and US), policy-makers and stakeholders, both directly and through industry trade bodies, including UK Finance and the Finance and Leasing Association. 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. Insight from these engagements is shared with the Board on a regular basis, for consideration in relation to future decision making. 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.

Suppliers:

- The Company leverages a number of critical suppliers who have direct contact with customers and/ or provide services impacting critical business processes. The majority of these suppliers are third parties which contract directly with the Company, although in some cases back office processes and systems are provided by the Corporation or through suppliers of the Corporation. 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.

STRATEGIC REPORT (continued)

- The Board maintains a detailed awareness of key priorities and any material changes with regard to the Company's supply chain through regular Board updates on these matters. Throughout 2020, the Board members, in their capacity as senior managers of the business, have been heavily involved in day to day decision making regarding the impact of COVID-19 on the Company's supply chain and customer services providers, including those suppliers operating in foreign territories.

Community and Environment:

- The Board is deeply invested in ensuring the Company's positive impact on the community and the environment, through its long standing investment in corporate social responsibility ("CSR") initiatives. The Board supports decisions and activities of the CSR team, who run initiatives with community organisations and not for profit groups. This includes Business in the Community, who the Company partner with on delivery of financial education and digital inclusion programmes, sponsorship of the Sutton Scholars programme (in partnership with The Sutton Trust) and working with Age UK, who the Company has supported in 2020 to set up their COVID-19 support service.

  Throughout the COVID-19 crisis, the Board has supported the work that continues to take place to support young people in the community with access to technology equipment and through the provision of cooked meals.

Signed by order of the Board

DocuSigned by:
Lucy-Marie Hagues
0376120C8DBD499...
LM Hagues
Director
17th March 2021

DIRECTORS' REPORT

The Directors present their report for the year ended 31st December 2020.

Directors

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

AC Lenander (resigned 1st July 2020)
H Brichet (resigned 1st December 2020)
RW Harding
RJ Rolls (resigned 26th June 2020)
LM Hagues
JR Penzer
MJ Lynch
JS Aron (appointed 2nd December 2020)

Results and dividends

The Company made a profit after taxation of £77.9 million (2019: loss £34.6 million) over the 12 month period to 31st December 2020. The Directors do not recommend payment of a dividend on the ordinary shares (2019: £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.

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 2020, the Company held regulatory capital of £1.3 billion (2019: £1.2 billion). This exceeded the minimum requirement of £9.3 million (2019: £10.3 million) and the Company was in compliance with all capital regulations.

Future developments

The Directors expect the general level of activity of the Company to return to pre-COVID-19 levels in the future, however the pace of the return is subject to the uncertainty of COVID-19 impacts on operational and credit performance.

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. 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 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.

DIRECTORS' REPORT (continued)

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 regardless of any disability.

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 £1.1 million (2019: £0.7 million) directly benefiting 10,977 individuals (2019: 7,075) from 161 charitable organisations (2019: 285). No political donations were made during the year (2019: £nil). 44% of associates (2019: 56%) took part in community activities in 2020 donating over 7,800 hours (2019: 8,400 hours) in the process.

The Company aims to make a positive impact through supporting social mobility, financial education and digital inclusion, and communities affected by the COVID-19 pandemic, on both a local and national scale. 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.

Streamlined Energy and Carbon Reporting (SECR)

Background

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 introduced changes to require quoted companies to report their annual emissions and an intensity ratio in their Directors' Report. The 2018 Regulations introduce requirements for large unquoted companies to disclose their annual energy use and greenhouse gas emissions, and related information. Guidance on Streamlined Energy and Carbon Reporting (SECR) helps businesses across the UK in scope of the 2018 Regulations comply with their legal obligations that came into force on 1 April 2019. It also outlines additional voluntary information that is likely to be useful to qualifying organisations and a wide range of stakeholders.
The Company meets the definition of a large company as it has; turnover more than £36 million, balance sheet total more than £18 million and more than 250 employees.

DIRECTORS' REPORT (continued)

GHG emissions and energy use data for period 1st January to 31st December 2020

	Current reporting year 2020	
	UK Location Based Emissions	Market Based Emissions
Total UK Annual Energy Consumption (Kwh):	9,161,444	n/a
Emissions from refrigerant tCO 2e (Scope 1)	95.67	95.67
Emissions from combustion of gas tCO 2e (Scope 1)	38.28	38.28
Emissions from combustion of fuel for transport purposes (Scope 1)	0.08	0.08
Emissions from purchased electricity (Scope 2, location-based)	2,092.10	858.28
Total gross CO 2e based on above	**2,226.12**	**992.31**
Intensity ratio: tCO2e gross figure based from mandatory fields above/revenue (UK Revenue: £561.8M)	0.00000396	0.00000177

For our methodology we follow:

- The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)
- The Greenhouse Gas Protocol: Scope 2 Guidance

For UK specific emissions factors we use:

- Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance
- Greenhouse gas reporting: conversion factors 2020

Energy Efficiency Action

In the period covered in the report the Company:

- Turned off large unoccupied sections of lighting and reduced temperature set points
- All 2020 projects had the lighting upgraded to energy efficient LED lighting
- All new taps/showers/toilets and urinals installed in 2020 utilise the latest water reducing technology
- All coffee hubs were installed utilising touchless sensor taps so they can not be left on

Employee Engagement

See the 'Section 172(1) Statement' in the Strategic Report for information regarding how the Company has engaged with its Associates in 2020.

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 2020.

DIRECTORS' REPORT (continued)

Statement of Corporate Governance Arrangements

For the year ended 31st December 2020, the Company has adopted the Wates Corporate Governance Principles ("Wates Principles"). The following considers how the Wates Principles were applied by the Company throughout 2020.

Principle 1 - Purpose and Leadership

The Company's purpose, values and culture are articulated in a number of artefacts including the annual business objectives and the Corporation's mission (to "Change Banking For Good"), which is championed by the Board and regularly communicated to employees 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. 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. In 2020, the Board has experienced various composition changes, with the departure of three directors, and the introduction of a new female Chair and CEO. At the end of 2020, the Company's Board was made up of four male members and one female member, all being caucasian. The Company has had female Chairs/ CEOs since 2017. The Company's strategy on Diversity, Inclusion and Belonging, and commitment to the Women in Finance and Race at Work charters will seek to encourage and result in greater gender and racial diversity at all levels of the Company in the longer term.
The size and structure of the Board undergoes periodic effectiveness reviews, in order to ensure it is supporting the success of the business in the most efficient way possible. An evaluation of the Board's effectiveness began at the end of 2020 (at the direction of the Board's Chair) and will be reported to the Board in early 2021.

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 and support with effective governance, whilst ensuring the Board and 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 and long term opportunities to improve customer operations, performance and resilience are discussed regularly at quarterly board meetings and at other management forums. Throughout 2020, the impact of COVID-19 across all key areas of the business has regularly been reported to the Board, to allow for agile decision making in the best interests of the business and stakeholders in the long term.

DIRECTORS' REPORT (continued)

Future opportunity is balanced against the business' risk appetite, which is constantly monitored, risk mitigated and managed. Oversight of risk management is delegated by the Board to ARC (which consists of all Board members as well as key risk experts (from all three lines of defence)) with documented communication channels and risk management procedures. The Company's Strategic Report (within its statutory accounts) considers key risk categories which are monitored by ARC. There are dedicated forums for further discussion of particular risk categories such as credit risk, liquidity risk, operational risk and conduct risk.

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. Pay of each employee, including Board members, is subject to performance management processes, taking employee 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 employees is managed via the Capital One Group policy which is appropriately reviewed and updated.

Principle 6 - Stakeholder Relationships and Engagements

The Board contributed to a stakeholder mapping exercise during Q3 2020 which depicts the Company's key stakeholders and engagement initiatives relating to each group. The Capital One Group third party management policy ensures successful management of relationships with external suppliers that are integral to the operation of the Company. With regard to regulatory and policy stakeholders, 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 is an active member of the major trade associations, holding positions on key relevant boards and committees at UK Finance and the Finance and Leasing Association.

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, assists with shaping related decision making across the business.

With regard to workforce engagement, the Company has open channels of communication with employees in order to take their views into account when making decisions, including regular employee surveys, one to ones with managers and the company's ethics reporting line.

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:

Lucy-Marie Hagues

0376120C8DBD499...

LM Hagues
Director
17th March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with United Kingdom 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) in conformity with Companies Act 2006. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. 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 (the "Company") for the year ended 31st December 2020 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 22, 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 31 December 2020 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. 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's Going Concern assessment process.
- We obtained and challenged management's going concern assessment including financial performance, financial strength, funding arrangements of the Company and the potential impact of COVID-19. We have assessed the suitability of these factors and concluded as to whether they support the preparation of the accounts on a going concern basis.
- We have performed independent stress and reverse stress testing on the performance of the Company in order to identify what future events would lead to challenges in relation to the use of the going concern assumption.
- We have reviewed regulatory correspondence and meeting minutes for key committees to identify any events which may impact Capital One (Europe) plc's ability to operate as a going concern.
- We reviewed the Company's going concern disclosures included in the financial statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 17 March 2022 which is at least 12 months from when the financial statements are authorised for issue.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 contained within the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of 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 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are Companies Act 2006, Companies (Miscellaneous Reporting) Regulations 2018 and Financial Conduct Authority (FCA) regulations – including payment services regulations as applicable to an authorised payment institution.
- We gained an understanding of how Capital One (Europe) plc is complying with those frameworks through discussion with management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board committees; and gained an understanding of the Company's approach to governance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risks inherent in the business. This was further supplemented by gaining an understanding of the significant processes and assessing the design effectiveness of key controls related to financial reporting. This assessment was supplemented with discussion with Management and those charged with Governance.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing regulatory correspondence and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also focused our testing on key areas of risk and estimation to specifically address the risk of fraud.
- The Company operates in the financial services sector which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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.

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

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 March 2021

INCOME STATEMENT

For the year ended 31st December 2020

	Notes	2020 £'000	2019 £'000
Interest income		494,001	487,177
Non-interest income		67,778	(3,571)
REVENUE	2	561,779	483,606
Finance expense	4	(6,982)	(10,668)
Impairment losses on loans and advances to customers		(183,526)	(126,382)
Operating and administrative expenses		(283,636)	(345,125)
PROFIT BEFORE TAXATION	3	87,635	1,431
Tax charge	5	(9,720)	(36,055)
(LOSS)/PROFIT FOR THE YEAR		77,915	(34,624)

All of the above activities relate to continuing operations.

There was no Other Comprehensive Income in 2020 (2019: nil).

BALANCE SHEET

As at 31st December 2020

	Notes	2020 £'000	2019 £'000
ASSETS			
Cash and cash equivalents	6,17	16,565	62,890
Loans and advances to banks	17	105,400	—
Debt securities	7,17	61,066	139,807
Financial assets held at fair value	8,17	14,892	8,967
Trade and other receivables	9,17	1,832,296	2,290,211
Property, plant and equipment	11	30,157	33,967
Intangible assets	12	11,037	14,356
Deferred tax assets	5	2,905	4,477
Investments in subsidiaries	13	—	—
TOTAL ASSETS		2,074,318	2,554,675
LIABILITIES			
Trade and other payables	14,17	(44,725)	(62,235)
Loans and borrowings	15,17,20	(668,932)	(1,108,678)
Corporation tax payable		(1,738)	(20,042)
Provisions	16	(80,246)	(162,958)
TOTAL LIABILITIES		(795,641)	(1,353,913)
NET ASSETS		1,278,677	1,200,762
SHAREHOLDERS' EQUITY			
Share capital	19	484,153	484,153
Share premium		95,760	95,760
Retained earnings		698,764	620,849
TOTAL EQUITY		1,278,677	1,200,762

The financial statements of Capital One (Europe) plc (registered number 3879023) were approved by the Board of Directors on 17th March 2021 and signed on its behalf by:

DocuSigned by:

James Aron

3CCFEA41C04B4F7...

JS Aron

Director

STATEMENT OF CHANGES IN EQUITY

As at 31st December 2020

	Share Capital	Share Premium	Retained Earnings	Total
	£'000	**£'000**	**£'000**	**£'000**
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**
Comprehensive income for the year				
Profit			77,915	77,915
Total comprehensive income for the year	—	—	77,915	77,915
31st December 2020	**484,153**	**95,760**	**698,764**	**1,278,677**

NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2020

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 2020

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 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 (USA) National Association (a direct subsidiary of the ultimate parent company), which are expected to continue and renew through and beyond March 2022. Aside from parental funding the business is able to use its liquidity resources in the form of cash and liquid securities, which amounted to £122 million at 31st December 2020, and restrict operational costs as necessary in order to continue operating. The Company continues to adapt 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, including the going concern assessment period of 12 months to 17th March 2022. 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.

Interest Income and Fees

The Company recognises 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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

Finance expense

Finance expense principally comprises interest on group 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.

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,

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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.

The pandemic impacted the global economy throughout 2020 and macroeconomic forecasts indicate longer-term impacts will result in higher unemployment levels and customer stress. However, to date, little real credit deterioration has occurred, largely as a result of government support. To incorporate the additional expected credit losses due to the impact of COVID-19 which were not captured in the model, management have applied a manual adjustment (overlay) of £25 million to the modelled output. This adjustment addresses the temporary nature of ongoing government support, the uncertainty in relation to the timing of stress and the degree to which economic scenarios have not yet captured the range of economic uncertainty.

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 2020 modelled allowance by 2%.
- Applying a 10% downgrading to the economic scenarios (20:40:40 ratio) would increase the 2020 modelled allowance by 5%.
- Applying a 100% downside to the economic scenarios (0:0:100 ratio) would increase the 2020 modelled allowance by 29%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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.

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 through income statement consist of Series A and 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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."

2. REVENUE

Revenue of £561.8 million (2019: £483.6 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, £0.6 million (2019: £1.5 million) is not accounted for under the EIR method.

	2020 £'000	2019 £'000
Interest income	478,413	543,467
Non-interest income	50,478	55,242
Reimbursed revenue released/(charged) against interest in relation to PPI and other provisions	15,588	(56,290)
Reimbursed revenue released/(charged) against non-interest in relation to PPI and other provisions	17,300	(58,813)
	561,779	483,606

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	2020 £'000	2019 £'000
Staff costs		
Wages and salaries	(70,983)	(62,949)
Social security costs	(8,173)	(7,543)
Pension costs	(7,585)	(6,536)
	(86,741)	(77,028)
Provision for liabilities		
Reimbursed revenue released/(charged) against revenue in relation to PPI and other provisions	32,888	(115,103)
Other costs released/(charged) against non-revenue in relation to PPI and other provisions	2,484	(60,784)
	35,371	(175,887)
Rent expense		
Property	(2,851)	(2,885)
Amortisation of intangibles		
Software	(7,744)	(6,731)
Depreciation of property, plant and equipment		
Property	(1,637)	(845)
Equipment	(3,080)	(3,286)
Right-of-use asset	(1,674)	(1,673)

The Company paid auditors' remuneration in 2020 £421,460 (2019: £407,452).

The average number of associates employed by the Company during the year was 1,354 (2019: 1,209), all of whom were employed in management and administration.

4. FINANCE EXPENSE

	2020 £'000	2019 £'000
Group undertakings	(6,673)	(10,339)
Other interest payable	(309)	(329)
	(6,982)	(10,668)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

5. TAXATION

(a) Total tax charge on ordinary activities

	2020 £'000	2019 £'000
Current tax		
United Kingdom corporation tax	(9,063)	(35,514)
Amounts (under)/over provided in previous periods	915	1,056
Total current tax	(8,148)	(34,458)
Deferred tax		
Origination and reversal of temporary differences	(1,243)	(856)
Change in tax laws and rates	527	90
	(716)	(766)
Amounts (under)/over provided in previous periods	(856)	(831)
Total deferred tax	(1,572)	(1,597)
Total charge on ordinary activities	(9,720)	(36,055)

b) Reconciliation of total tax charge

The tax expense in the income statement for the year is lower (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

	2020 £'000	2019 £'000
Profit/(Loss) on ordinary activities before tax	87,635	1,431
19% (2019: 19%) of profit/(loss) on ordinary activities	(16,651)	(272)
Effects of:		
(Non-deductible) PPI provision plus surcharge and non-taxable release of PPI provision	6,874	(35,533)
Other expenses not deductible for tax purposes	(529)	(565)
Amounts (under)/over provided in previous periods	59	225
Changes in tax laws and rates	527	90
Total tax charge reported in the income statement	(9,720)	(36,055)

(c) Change in corporation tax rate

The UK corporation tax rate was due to reduce from 19% to 17% with effect from 1st April 2020. The reduction was eliminated and therefore the UK corporation tax rate for 2020 is 19% (2019: 19%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

5. TAXATION (continued)

(d) Deferred Taxation

On 16th March 2020 it was announced 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 at 31st December 2019 was valued by reference to the rate of 17% as required under International Financial Reporting Standards. Following the substantive enactment of the rate of 19% in 2020 the deferred tax included in the balance sheet at 31st December 2020 has been valued by reference to the rate of 19%.

On 3rd March 2021 it was announced that the UK corporation tax rate would increase from 19% to 25% from 1st April 2023. If this had been enacted at 31st December 2020, the value of the deferred tax asset would have increased by £917,000 to a value of £3,822,000.

The deferred tax included in the balance sheet is recognised at a rate of 19.0% (2019: 17.0%) as follows:

	2020 £'000	2019 £'000
Deferred tax assets		
Decelerated capital allowances	1,754	1,786
Pension benefits	294	230
Long term incentives	143	128
Adoption of FRS 101 and IFRS 9	3,543	3,857
Heldover gain on sale of shares	(2,829)	(1,524)
	2,905	4,477

The movement in deferred tax relates to 2020: £1.6 million (£2019: £1.6 million) debit to Income Statement.

	2020 £'000	2019 £'000
Disclosed on the balance sheet		
Deferred tax assets	2,905	4,477

Deferred tax in the income statement

	2020 £'000	2019 £'000
Decelerated capital allowances	(32)	(788)
Pension benefits	64	58
Long term incentives	15	(42)
Adoption of FRS 101 and IFRS 9	(314)	(688)
Heldover gain on sale of shares	(1,305)	(137)
	(1,572)	(1,597)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

6. CASH AND CASH EQUIVALENTS

	2020 £'000	2019 £'000
Cash at bank and in hand	16,565	62,890

Included within cash at bank is £11.4 million (2019: £10.3 million) held on behalf of customers who have credit balances on their accounts.

7. DEBT SECURITIES

	2020 £'000	2019 £'000
Government investment securities	61,066	139,807

Debt securities include £61 million of UK government gilts (2019: £140 million). These are due to mature within one year.

8. FINANCIAL ASSETS HELD AT FAIR VALUE

	2020 £'000	2019 £'000
VISA Inc. shares	14,892	8,967

Balance relates to 9,712 Visa Inc. Series B Convertible Preferred shares and 620 Visa Inc. Series A Convertible Participating Preferred shares 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 2020

9. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Loans and advances to customers	1,985,159	2,366,999
Allowance for expected credit losses for loans	(187,840)	(120,705)
Amounts owed by group undertakings	5,965	5,355
Other debtors	946	3,635
Prepayments and accrued income	28,066	34,927
	1,832,296	2,290,211

	2020 £'000	2019 £'000
Trade and other receivables are due as follows:		
Due within one year	1,832,296	2,290,211
	1,832,296	2,290,211

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	31st December 2020			31st December 2019		
	Gross Carrying amount	ECL allowance	Carrying Amount	Gross Carrying amount	ECL allowance	Carrying Amount
Loans and advances to customers at amortised cost	1,985,159	187,840	1,797,319	2,366,999	120,705	2,246,294

Despite the decrease of gross carrying value of the loans during the period there was a build of allowance for expected credit losses driven by COVID-19 impacts on the loss forecast.

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 2020

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

Impairment Reconciliation (£'000)	Stage 1	Stage 2	Stage 3	Total
Balance at 31st December 2019 excluding recoveries on prior write off	81,459	114,054	53,308	248,821
Recoveries on previously written off balance			(128,116)	(128,116)
Balance at 31st December 2019	**81,459**	**114,054**	**(74,808)**	**120,705**
Movement during period	35,561	15,214	16,360	67,135
Balance at 31st December 2020	**117,020**	**129,268**	**(58,448)**	**187,840**
Recoveries on previously written off balance			(106,472)	(106,472)
Balance at 31st December 2020 excluding recoveries on prior write off	117,020	129,268	48,025	294,312

Movement during period (£'000)	Stage 1	Stage 2	Stage 3	Total
Allowance Recognised on accounts originated during the period	12,019	—	—	12,019
Write-offs	(56,304)	(60,514)	(54,207)	(171,025)
Recoveries	1,098	2,398	39,106	42,602
Unwinding of Discount	7,039	14,606	(17,058)	4,587
Transfer to 12-month ECLs	4,330	(39,597)	(555)	(35,822)
Transfer to lifetime ECLs not credit-impaired	(5,109)	50,062	(9,846)	35,107
Transfer to lifetime ECLs credit-impaired	(1,370)	(4,366)	34,945	29,209
Reversal of allowance against accounts closed during the period	(11,764)	(3,705)	(675)	(16,144)
Build/release of allowance during the period	85,622	56,330	24,650	166,602
Total	**35,561**	**15,214**	**16,360**	**67,135**

The allowance for the period has increased by £67.1 million to £187.8 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.

Write offs are 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 reporting period in which the loan defaults. Recoveries are the value recovered on the written off loans and is similarly categorised by stage of loan at the start of the 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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

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

The main macroeconomic variables for the scenarios used for ECL modelling are set out in the tables below.

	2020			2019		
Economic Variables	**Upside**	**Baseline**	**Downside**	**Upside**	**Baseline**	**Downside**
Unemployment Rate (%)[1]	7.8	8.5	10.8	4.1	5.0	7.2
House Price Appreciation (%)[2]	25.2/(2.0)	12.5/(8.0)	10.8/(15.8)	14.6/0.5	7.3/0.1	(0.3)/(14.3)

Notes:
1. Unemployment Rate is shown as the highest rate over the 5-year forecast period
2. House Price Appreciation (HPA) is shown as the largest cumulative growth/decline range from January 1st 2021 (January 1st 2020 for 2019) over the 5-year forecast period

Economic Variables (annual rate)		As of 12/31/2020				
		2021	**2022**	**2023**	**2024**	**2025**
Unemployment Rate (%)[1]	Upside	7.3	6.5	5.8	5.6	5.4
	Baseline	8.2	7.4	6.5	6.1	5.9
	Downside	10.7	10.2	9.0	8.1	7.5
House Price Appreciation (%)[2]	Upside	(0.7)	7.7	6.7	5.7	3.9
	Baseline	(8.0)	3.1	7.2	6.5	3.9
	Downside	(14.9)	0.7	8.0	10.3	8.6

Notes:
1. Unemployment Rate is shown as the forecasted value for December of the given year
2.. House Price Appreciation (HPA) is shown as the1-year growth/decline for December of a given year

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

11. PLANT, PROPERTY AND EQUIPMENT

	Right of use asset £'000	Leasehold improvements £'000	Equipment, fixtures & fittings £'000	Total £'000
Cost				
At 31st December 2019	15,347	21,035	32,112	68,494
Additions		2,169	941	3,110
Disposals		(4,644)	(1,146)	(5,790)
At 31st December 2020	15,347	18,560	31,907	65,814
Depreciation and impairment				
At 31st December 2019	(1,673)	(11,106)	(21,748)	(34,527)
Charge for the year	(1,674)	(1,637)	(3,080)	(6,391)
Disposals	—	4,312	950	5,262
At 31st December 2020	(3,347)	(8,431)	(23,878)	(35,656)
Net book value				
At 31st December 2020	12,000	10,129	8,029	30,158
Net book value				
At 31st December 2019	13,674	9,929	10,364	33,967

The amount of borrowing cost capitalised during the year ended 31st December 2020 was £nil (2019: £nil).

The Company had £nil future capital expenditure contracted for but not provided at the year end (2019: £nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

12. INTANGIBLE ASSETS

	Software £'000	Total £'000
Cost		
At 31st December 2019	30,765	30,765
Additions	5,268	5,268
Disposals	(2,771)	(2,771)
At 31st December 2020	33,262	33,262
Amortisation and impairment		
At 31st December 2019	(16,409)	(16,409)
Charge for the year	(7,744)	(7,744)
Disposals	1,928	1,928
At 31st December 2020	(22,225)	(22,225)
Net book value		
At 31st December 2020	11,037	11,037
Net book value		
At 31st December 2019	14,356	14,356

13. INVESTMENTS IN SUBSIDIARIES

The Company held directly or indirectly a 100% investment in each of the following subsidiary undertakings until their dissolution on 17th November 2020:

	Registered Office	Principal activity
Capital One Loans (UK) Limited	Trent House, Station Street, Nottingham, NG2 3HX	Holding Company - dissolved 17th November 2020
Capital One Homeowner Loans Limited *		Non trading - dissolved 17th November 2020
Capital One Mortgages Limited *		Non trading - dissolved 17th November 2020

* 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 2020

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

	2020 £'000	2019 £'000
Trade creditors	(1,609)	(13,906)
Other taxation and social security costs	(4,333)	(4,397)
Accruals and deferred income	(29,923)	(32,287)
Other creditors	(8,860)	(11,645)
	(44,725)	(62,235)

Accruals include £0.9 million relating to contributions outstanding at 31st December 2020 (2019: £0.8 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 2020

15. LOANS AND BORROWINGS

Loans repayable, are analysed as follows:

	2020 £'000	2019 £'000
Amounts owed to group undertakings:		
not later than one year	328,004	769,269
after one year but not more than five years	297,000	297,000
after five years	29,442	26,319
	654,446	1,092,588

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.

	2020 £'000	2019 £'000
Amounts owed to group undertakings		
variable rate	0	26,319
fixed rate	646,442	1,057,000
non-interest bearing	8,004	9,269
	654,446	1,092,588

16. PROVISIONS FOR LIABILITIES

	PPI Provision £'000	Other Provision £'000	Total Provision £'000
At 31st December 2018	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)
Provisions released in year	—	—	—
At 31st December 2019	157,505	5,453	162,958
Additional provisions made in the year	—	—	—
Provisions utilised in the year	(43,682)	(3,657)	(47,339)
Provisions released in year	(35,223)	(150)	(35,373)
At 31st December 2020	78,600	1,646	80,246

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

16. PROVISIONS FOR LIABILITIES (continued)

The Company's best estimate of incurred losses related to payment protection insurance ("PPI") totalled £78.6 million and £157.5 million as of 31st December 2020, and 2019, respectively. In 2020, the Company recorded a provision release of £35.2 million due to resolution of complaints received up to and including 29th August 2019. The remaining movement was due to utilisation of the reserve through customer redress payments. The provision as of 31st December 2020 relates to the remaining complaints from August 2019, complaints still to be processed by the Financial Ombudsman Service (FOS), cases with the Official Receiver (OR) and litigation. Total PPI costs to 31st December 2020 were £718.9 million, with £78.6 million remaining. This represents the Company's best estimate as at 31st December 2020 based on information available. The principal uncertainty includes the expected volume of claims, and the respective outcomes of those claims. An increase of 5,000 claims would increase the provision by 6%.

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

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 2020 and 2019.

	31st December 2020				31st December 2019			
£000's	Fair Value Measurements Using			Total Estimated Fair Value	Fair Value Measurements Using			Total Estimated Fair Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets:								
Visa Preference shares	9,911	—	4,981	14,892	—	—	8,967	8,967
Total assets	9,911	—	4,981	14,892	—	—	8,967	8,967

During the year the Company recognised £9,911,000 of level 1 Visa Preference shares as a result of conversion of some of the value of the level 3 Visa Preference shares. 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 2020

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 2020 and 2019.

	31st December 2020		Estimated Fair Value Hierarchy		
£000s	**Carrying Amount**	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	16,565	16,565	16,565	—	—
Loans and advances to banks	105,400	105,400	—	105,400	—
Financial assets held at fair value	14,892	14,892	9,911	—	4,981
Debt securities	61,066	61,066	61,066	—	—
Loans and advances to customers	1,797,319	1,812,803	—	—	1,812,803
Trade and other receivables	6,911	6,911	—	6,911	—
Financial Liabilities:					
Loans and payables	(664,915)	(664,915)	—	(664,915)	—
Lease liability	(14,485)	(14,485)	—	(14,485)	—

	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	—	—
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)	—

The following describes the valuation techniques used in estimating the fair value of the financial instruments as at 31st December 2020 and 2019. 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.

Loans and advances to Banks

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

17. FAIR VALUE MEASUREMENTS (continued)

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 Series A preferred shares is measured using quoted prices from an active market (level 1), and the Series B preferred shares value is measured using unobservable inputs (level 3).

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 2020

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 the risk owner for market and liquidity risk. The Assistant Chief Credit Officer for International, Small Business and Walmart (ACCO) is accountable for advising the Company on the appropriate management of credit risk within COEP.

The effects of COVID-19 on the Company's financial instruments have been managed by action taken to reduce the exposure to risks arising from COVID-19 on those financial instruments.

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 2020				31st December 2019			
£000's	Stage 1 Loans	Stage 2 Loans	Stage 3 Loans	Total	Stage 1 Loans	Stage 2 Loans	Stage 3 Loans	Total
Current	1,675,746	201,070	22,984	1,899,800	1,950,348	280,690	19,401	2,250,439
30-59 days past due	—	17,139	9,261	26,400	—	23,985	9,693	33,678
60-89 days past due	—	14,131	6,500	20,631	—	19,797	8,851	28,648
90+ days past due	—	—	38,328	38,328	—	—	54,234	54,234
Total	**1,675,746**	**232,340**	**77,073**	**1,985,159**	**1,950,348**	**324,472**	**92,179**	**2,366,999**

The maximum exposure to credit risk at the balance sheet date was £1,985 million and £2,367 million, respectively, as at 31st December 2020 and 31st December 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

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

	2020 Number of shares	2020 £'000	2019 Number of shares	2019 £'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 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

20. LEASE LIABILITY

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

	£'000
As at 1st January 2020	16,090
Additions	—
Accretion of interest	309
Payments	(1,914)
As at 31st December 2020	14,485
Weighted average remaining lease term	7.2
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	8,873
5+ years	4,790
Total undiscounted lease payments	15,577

The following table presents a reconciliation of the undiscounted cash flows to our lease liabilities as at 31st December 2020:

	£'000
Total undiscounted lease payments	15,577
Less: imputed interest	(1,092)
Total lease liabilities	14,485

21. DIRECTORS' EMOLUMENTS AND TRANSACTIONS

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

	2020 £'000	2019 £'000
Aggregate emoluments	3,375	3,572
Aggregate pension contributions	35	30

The total remuneration of the highest paid Director was £1,105,000 (2019: £1,422,000). The amount of Company contributions paid to the pension scheme on behalf of the highest paid Director was £nil (2019: £nil). No Directors exercised share options in the Corporation in the year (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2020

21. DIRECTORS' EMOLUMENTS AND TRANSACTIONS (continued)

Two Directors who served during the year were members of the Capital One Master Trust Pension Scheme (2019: two). During 2020 £464,000 (2019: £nil) 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 2020 were four loans (2019: five loans) and £2,492 (2019: £8,401) 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 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.