

# **Capital One (Europe) plc**

## **Report and Financial Statements**

**31<sup>st</sup> December 2021**



**Registered in England: Number 3879023**

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

**Capital One (Europe) plc****Report and Financial Statements 2021****STRATEGIC REPORT**

The Directors present their strategic report and the audited financial statements of Capital One (Europe) plc ("the Company") for the year ended 31<sup>st</sup> December 2021.

**Principal activity and review of business**

The Company provided financial services in the UK during 2021 which predominantly comprised of credit card lending via an Authorised Payment Institution.

**Key performance indicators**

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

	2021 £'000	2020 £'000	Change %
Revenue <sup>1</sup>	462,095	528,890	(13)%
Finance expense	(2,189)	(6,982)	69 %
Impairment gain/(charge) on loans and advances to customers	4,892	(183,526)	103 %
Operating and administrative expenses <sup>2</sup>	(306,031)	(286,120)	(7)%
Customer redress provision released/(charged) <sup>3</sup>	966	35,371	(97)%
Profit/(Loss) for the year	131,249	77,915	68 %
Net loans and advances to customers	2,091,459	1,797,319	16 %
Amounts owed to group undertakings	(856,429)	(654,446)	(31)%
Shareholders' funds	1,409,926	1,278,677	10 %
	2021 %	2020 %	
Net credit loss rate	1.5	4.5	

Revenue decreased by 13% during the year driven by lower average loans to customers during the year, reflecting customer behaviours continuing to recover from COVID-19 impacts.

Finance expense decreased by 69% during the year primarily driven by lower interest rates and lower average loan balances in comparison to 2020.

<sup>1</sup> To enable comparison of year on year underlying values, Revenue has been reduced in 2021 by £3,247,000 and in 2020 by £32,888,000 to remove the impact of the customer redress provision movements.

<sup>2</sup> Operating and administrative expenses has been increased in 2021 by £2,281,000 (2020 reduced by £2,484,000) to remove the impact of the customer redress provision movements.

<sup>3</sup> 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)**

Impairment losses on loans and advances to customers decreased by 103% compared to prior year primarily due to releases in provision driven by improved economic assumptions throughout the year (please see Note 10).

Operating and administrative expenses increased by 7% during the year driven by higher marketing spend.

The Company recorded a release for the customer redress provision related to payment protection insurance (PPI) complaints in 2020, as the majority were resolved following the 2019 claims submission deadline. 2021 saw a comparatively lower release as the provision for PPI litigation continues to be utilised (please see note 16).

Net loans and advances to customers increased by 16% during the year driven by recovery from COVID-19 impacts, and releases in allowance for expected credit losses. The net loss rate decreased from 4.5% in 2020 to 1.5% in 2021, as a result of improved credit performance. The net loss rate is the value of written off balances for the year as a percentage of average loans and advances to customers.

Amounts owed to group undertakings increased by 31% during the year driven by additional borrowing to fund growth in 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 \$311 billion at the end of the year (2020: \$305 billion). The Corporation's loans held for investment at the end of the year totalled \$277 billion (2020: \$252 billion).

The Corporation's net income for the year ended 31<sup>st</sup> December 2021 was \$12 billion (2020: \$3 billion). The Corporation continues to maintain a strong balance sheet position with a Tier 1 common equity ratio of 13.1% at the end of 2021 (2020: 13.7%).

**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 ensures 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 currently focused on managing the transition to a hybrid working model, returning associates to the office in a way which supports their well-being, and that of the customers and the communities it serves. Operational risks arising from this transition are being managed through the established process and governance forums.

**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 changes in the consumer credit market generated by new entrants and products, and those arising from significant regulatory initiatives.

*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 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 requirements; compliance risk assessments; compliance advice and escalation; independent compliance control reviews and testing; compliance policies and procedures; compliance training; business controls, business monitoring and compliance oversight; compliance issue management; and compliance risk reporting.

*Conduct risk*

Conduct risk is the risk of failing to deliver good outcomes for 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.

The Company manages conduct risk through a conduct risk management programme, in accordance with its risk management framework using the three lines of defence model. Conduct risk is managed through a combination of:

- 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 and the conduct rules under FCA's Senior Managers and Certification Regime, 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. Associates are aware of the benefits of good conduct and the consequences of misconduct, which are emphasized 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*

The paragraphs that follow outline examples of how the directors of the Company (the "Board") have fulfilled their duty under Section 172(1) of the Companies Act 2006 (the "Act") throughout 2021, in compliance with Section 414CZA of the Act.

The members of the Board maintain an active awareness of their personal duties as directors under the Act, including their obligations under Section 172(1) to promote the success of the Company for the benefit of its shareholders. In doing so, the Board ensures consistent consideration of the potential consequences of its decision making in the long term and maintaining high standards of business conduct. The Board ensures that strong relationships are maintained between the Company and its key stakeholders, including: employees, customers, regulators, the Company's supply chain, the community and the environment.

*Effective decision making and long term value*

The Board is committed to making effective decisions that promote the long term success of the Company for its shareholders. The Board demonstrated effective decision making in 2021 via the following:

**Review and approval of the Company's business strategy:**

The Board is responsible for oversight and approval of the Company's purpose and business strategy (the "Strategy"), ensuring that the Board provides direction on what it would like senior executives and the Company to focus on. The Strategy is submitted to the Board for review and approval by the Company's CEO. Senior executives are then allocated responsibility for components of the Strategy and provide regular updates on progress against those components throughout the year. The Board is also required to provide approval of the Company's annual budget, which is designed to allocate appropriate resources to deliver the approved Strategy.

Throughout 2021 the Board maintained continual awareness of the impacts of COVID-19 on the Strategy and on its stakeholders, and considered the impact on decisions made under the Strategy as further outlined below.

**STRATEGIC REPORT (continued)**

Review and approval of the Company's lending policy:

The Company's core business is lending, thus the Board reviews and approves the Company's 'Lending Policy', which outlines its approach to offering credit to new and existing customers. Effective decision making in this space is crucial to the Company's long term financial success and underpins the Company's relationships with its customers, ensuring financial soundness, customer affordability and good customer outcomes, which are also of key interest of the Company's regulators.

Maintaining robust governance arrangements:

The Board has regular and timely sight of quality management information which is presented to them by senior executives, either directly or to the Board's Assurance and Risk Committee ("ARC"). The Board has delegated authority to ARC to provide oversight and decision making with respect to all types of risk across the Company. ARC comprises a number of risk subject matter experts from across the business, and is a core part of the Board's effective decision making.

Shareholder engagement:

The Board maintains regard as to how its activity and decisions impact its shareholders, each of which are other companies within the wider Capital One group (the "Capital One Group"). The Chair of the Board has regular direct engagement with the Company's ultimate parent, which is the publicly traded US company 'Capital One Financial Corporation'. This helps to ensure that Board decision making aligns with strategic objectives, the mission and the values of the Company's shareholders, whilst also ensuring these are appropriately balanced against the priorities of its other key stakeholders.

Continual improvements and regard to Board effectiveness:

The Board undertakes regular assessments of its own effectiveness, including with respect to its administration, composition and relationships with stakeholders. The last review, undertaken by the Company's Risk, Governance and Company Secretarial functions, which commenced at the end of 2020, was reported to the Board at the start of 2021. This process included interviews with each Board member and a number of senior executives. It was concluded and reported that the Board is effective, with some recommendations made to enhance the Board's effectiveness. Throughout 2021, the Board has actively considered the output of this assessment and implemented various changes to further improve its effectiveness. For example, the Board has updated its terms of reference, resulting in an updated list of 'matters reserved for the Board'.

In addition to their responsibilities on the Board, each of the Company's Board members are also senior executives within the Company. This allows for a detailed understanding and valuable first hand experience of how the Company operates on a day to day basis, which contributes to effective decision making under section 172(1) of the Act. Whilst this statement considers stakeholder engagement of the Board members specifically in that capacity, each Board member also engages directly with the Company's key stakeholders as part of their senior executive roles, via a multitude of other channels and initiatives, the details of which are beyond the scope of this statement.

*The Board's approach to engagement with its key stakeholders*

The Board is aware of the need to:

- i. foster relationships with key stakeholders, including employees, customers, regulators, the Company's supply chain, the community and environment; and
- ii. understand the issues of interest to those stakeholders, which are critical to decisions made by the Board and the long term success of the Company.

**STRATEGIC REPORT (continued)****Employees:**

The Board regularly receives information from senior executives on employee sentiment, and takes this into consideration when making decisions which may impact employees. For example, throughout 2021, the Board received information arising from employee survey feedback, which included employee sentiment on a variety of topics, including inclusion and belonging, and the Capital One Group's mission and customer focus; as well as information on the impacts to employees resulting from the pandemic. This information assisted the Board in its decision making when considering the proposal from senior executives for the Company to adopt a hybrid working model. This was recommended in response to employee preference and the success of remote working during the lockdown phases of the UK Government's response to the pandemic.

The Board has maintained awareness of impacts of the pandemic on the Company's employees, and has been regularly updated on the changing talent market following the easing of COVID-19 restrictions.

The Board approved the Company's diversity, inclusion, and belonging ("DIB") strategy in 2021. It has maintained oversight of the DIB strategy through the first bi-annual DIB report, and regular reporting on the Company's commitment to gender representation as signatories of the 'Women in Finance Charter'. The Board remains supportive of the Company being a signatory to the 'Race at Work Charter', and has expressly committed to zero tolerance of harassment and bullying (as required by the Charter).

**Customers:**

The Board recognises that understanding customer needs and circumstances is fundamental to the Company's success. It is core to the Strategy to continually develop a deeper understanding of customer needs and circumstances, as well as continuing to raise the bar on customer outcomes. Since early 2021, additional metrics and insight, focused on the understanding of end to end customer experience, have been shared with the Board to aid decision making and the development of Strategy in this area.

The Board receives regular updates regarding customer interaction and engagement, particularly with respect to any areas deemed to be of high risk or potentially impacting delivery of the Strategy. For example, in 2021, the Board maintained awareness of challenges faced by customers due to the pandemic, and discussed industry interventions to support customers, such as payment deferrals.

The Board has maintained close oversight of progress made with respect to the Financial Conduct Authority's ("FCA") 'Guidance for Firms on the Fair Treatment of Vulnerable Customers', looking to ensure consistent good outcomes for vulnerable customers, and the Board has continued to discuss this with senior executives to ensure it remains a priority. The Board has also been kept informed of the FCA's continued focus on outcomes for customers in financial difficulty and has received reports from senior executives on the work undertaken by the Company to continue to enhance support provided to such customers.

The Board has been engaged on the Company's program of work to implement the FCA's requirements relating to operational resilience in 2021, which amongst other things, is designed to limit disruption to customers. As part of this, the Board has had oversight of key milestones, and where relevant provided approvals, e.g. the identified important business services of the Company. In considering the proposals put forward from senior executives, the Board has had regard to reducing potential impact to customers and market integrity, in the event of potential business disruption.

**Regulators:**

The Board regularly considers matters arising from UK government bodies and both UK and US regulators that may impact the Company, its customers or employees, including relevant publications and commentary. For example, the Board considered matters arising from the FCA's 2021/22 Business Plan relevant to the Company's operation, its customers and employees.

**STRATEGIC REPORT (continued)**

The Board also engages in, and is briefed on, key interactions that the Company has with UK and US regulators. For example, the Board has been briefed on interactions that the Company has had with the FCA as part of thematic work arising from its 2021/22 Business Plan and with the US Federal Reserve as part of the Federal Reserve's 2021 Regulation K examination.

The Board is regularly briefed on key changes to laws and regulation that may impact the Company's operation, its customers and employees, including regular progress updates on the actions taken to deliver compliance. For example, during 2021 the Board has received regular updates on the Company's progress towards implementation of the Payment Services Directive 2.

The Board considers how external engagement on relevant matters can assist the Board in performing its duties. Board members, including through senior executive responsibilities, engage in relevant regulatory matters both directly and through industry trade bodies, including UK Finance and the Finance and Leasing Association. The aim of such interactions is to understand and also influence industry and regulatory thinking on matters impacting the Company and its customers.

**Supply chain:**

The Board maintains awareness and oversight of key priorities and material changes in the Company's supply chain, as well as receiving information on supplier trends and performance, through regular updates and discussion at meetings of the Board and ARC. This enables the Board to ensure the Company is able to effectively deliver the Strategy and provide services to customers and employees, and meet its regulatory requirements where third party suppliers are critical to such delivery. In 2021, the Board received updates on how partner products were performing and received an overview of key governance activities relating to its appointed representative arrangements with one of its partners, Post Office Limited. This information provided the Board with a view of key performance results relating to the Strategy.

In 2021, the Board provided approval of the Company's technology strategy and received regular updates on the transition to a new critical technology supplier for the provision of application development resource.

The Board also monitors how industry changes and initiatives external to the Company, such as amendments to applicable regulatory requirements, may impact its suppliers. For example, in 2021, the Board continued to receive updates from senior executives on the impacts of the pandemic on the Company's supply chain and any potential impacts on customers and employees, as well as the response to emerging regulatory guidance impacting supply chains, including outsourcing and operational resilience. Risks arising from these were discussed by the Board in ARC meetings. The Board has also received regular information relating to specific cyber risks arising in the Company's supply chain, as well as updates on industry threats impacting other companies. This has enabled the Board to maintain knowledge of risk mitigation plans; providing appropriate challenge to this and the level of investment required.

**Community and Environment:**

The Board understands the value the Company can add to external stakeholders and the external community and their related initiatives, and therefore requires senior executives to focus on supporting community engagements. This is embedded as an objective in the Strategy.


The Board also supports decisions and activities of the 'Corporate Social Responsibility team', which sets and delivers to the Company's corporate social responsibility strategy and runs ongoing initiatives with community organisations and not-for-profit groups.



**STRATEGIC REPORT (continued)**

In 2021, Board members were briefed on the consideration of 'environment, social and governance' ("ESG") matters, following a materiality assessment conducted by external consultants. The Board has approved a wider piece of work to take place in relation to ESG during 2022 and onwards, which will deepen the Company's understanding and potential future obligations in this area.

**Signed by order of the Board**

DocuSigned by:  
  
0370120C8D8D409...  
**LM Hagues**  
**Director**  
**23rd March 2022**

**DIRECTORS' REPORT**

The Directors present their report for the year ended 31<sup>st</sup> December 2021.

**Directors**

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

RW Harding

LM Hagues

JR Penzer (resigned 8<sup>th</sup> September 2021)

MJ Lynch (resigned 6<sup>th</sup> August 2021)

JS Aron

KJ Kasper (appointed 28<sup>th</sup> February 2022)

**Results and dividends**

The Company made a profit after taxation of £131.2 million (2020: profit £77.9 million) over the 12 month period to 31<sup>st</sup> December 2021. The Directors do not recommend payment of a dividend on the ordinary shares (2020: £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 31<sup>st</sup> December 2021, the Company held regulatory capital of £1.4 billion (2020: £1.3 billion). This exceeded the minimum requirement of £8.25 million (2020: £9.3 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 remain stable and unchanged.

**Going concern**

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

The Company holds a high level of capital over and above minimum requirements and has significant liquidity in the form of parental funding arrangements, which are expected to continue through and beyond the going concern assessment period of 12 months to 23<sup>rd</sup> March 2023. The Company continues to adapt to the challenges raised by the COVID-19 crisis well and does not foresee material concerns in relation to the continued operational running of the business

**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 those with disabilities, having regard to their particular aptitudes and abilities and seeking to make appropriate and reasonable adjustments to enable their success in the workplace. Should associates become disabled during their period of employment then the company will take all reasonable and practicable steps to provide ongoing employment, including appropriate retraining, workplace adjustments and wellbeing support. Training, career development and promotion opportunities provided to associates are offered 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 £0.6 million (2020: £1.1 million) directly benefiting 18,428 individuals (2020: 10,977) from 204 charitable organisations (2020: 161). No political donations were made during the year (2020: £nil). 61% of associates (2020: 44%) took part in community activities in 2021 donating over 5,100 hours (2020: 7,800 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 organisations such as The Sutton Trust, Business in the Community and Rethink Mental Illness, plus 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 Company is required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to disclose annual UK energy use and associated greenhouse gas emissions, that relate to:

- Activities involving the combustion of gas, or consumption of fuel for the purposes of transport;
- The purchase of electricity by the company for its own use, including for the purposes of transport.

## Capital One (Europe) plc

## Report and Financial Statements 2021

**DIRECTORS' REPORT (continued)***Greenhouse gas (GHG) emissions and energy use data*

	Current reporting year 2021	
	UK Location Based Emissions	Market Based Emissions
Total UK Annual Energy Consumption (Kwh):	9,776,333	3,873,447
Emissions from refrigerant tCO <sub>2</sub> e (Scope 1)	1.19	1.19
Emissions from combustion of gas tCO <sub>2</sub> e (Scope 1)	63.33	63.33
Emissions from combustion of fuel for transport purposes (Scope 1)	8.41	8.41
Emissions from purchased electricity (Scope 2, location-based)	2,295.00	0.00
<b>Total gross CO<sub>2</sub>e based on above</b>	<b>2,367.92</b>	<b>72.92</b>
Intensity ratio: tCO <sub>2</sub> e gross figure based from mandatory fields above/revenue (UK Revenue: £465.3M)	0.000005089	0.000000157

	Comparison 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 <sub>2</sub> e (Scope 1)	95.67	95.67
Emissions from combustion of gas tCO <sub>2</sub> e (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
<b>Total gross CO<sub>2</sub>e based on above</b>	<b>2,226.12</b>	<b>992.31</b>
Intensity ratio: tCO <sub>2</sub> e gross figure based from mandatory fields above/revenue (UK Revenue: £561.8M)	0.000003960	0.000001770

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 2019

**DIRECTORS' REPORT (continued)***Energy Efficiency Action*

In the period covered in the report the Company:

- Upgraded the building management system to use smart sensors and AI to optimise heating, cooling and critical systems energy usage
- Continued lighting upgrades; installing LED smart lighting across the Nottingham office to only light areas of the building in use
- Leveraged smart sensors to manage facility resource deployment to reduce electricity and water consumption during routine operational and maintenance tasks

**Employee Engagement**

See the 'Section 172(1) Statement' in the Strategic Report for information regarding how the Company has engaged with its Associates in 2021.

**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 2021.

**Statement of Corporate Governance Arrangements**

For the year ended 31<sup>st</sup> December 2021, the Company has adopted the Wates Corporate Governance Principles ("Wates Principles"). The following considers how the Wates Principles were applied by the Company throughout 2021.

*Principle 1 - Purpose and Leadership*

The Board updated its terms of reference in 2021, which declares its purpose to be focusing on the Company values, culture and ensuring that management operates within the defined Company business strategy (the "Strategy").

The Board develops and sets the Company's purpose through its engagement with senior executives in the development of the Strategy. The Board ensures alignment of the Company's values, Strategy and culture to that purpose through regular review of progress against strategic goals, which is received via management information submitted by senior executives. Further, the Board's approval is required for the Strategy, or material deviations to it.

The Board has adopted the Capital One Group Mission to "Change Banking for Good" and looks to set the tone for the Company's customer centric culture. The Board considers an inclusive and diverse culture to be essential to a healthy culture overall and to the long term success of the Company, thus the Board has reviewed and approved the Company's diversity, inclusion, and belonging strategy and oversees management's delivery of that strategy on a regular basis.

*Principle 2 - Board Composition*

The Board's most recent Board effectiveness report, delivered to the Board in 2021, evaluated the Board to be effective with valuable contributions being made by all members, including the Chair.

**DIRECTORS' REPORT (continued)**

Members of the Company's Board represent a range of skills and knowledge, and are from a balance of backgrounds. A mixture in Board member tenure provides differing perspectives and experience. Each Board member is also employed as a member of the senior leadership team of the Company, and therefore has a detailed, practical understanding of the way the Company operates. Diverse perspectives are also provided to the Board by an independent adviser, who was appointed in the second half of 2021 and is an employee within the wider Capital One Group, though independent from the executive management. The Company Secretary actively contributes to Board deliberations, resulting in further challenge and a second line perspective.

Board members manage their time and commitment to their responsibilities, for example by having a dedicated pre-reading day of Board material. Key themes and questions are compiled to assist the Board in discharging their duties and this has resulted in more focus at Board meetings, allowing Board members to make valuable contributions to discussions.

The Board decreased in size during 2021 following the departure of two members, resulting in a temporary period whereby at the end of 2021, the Board had three members (2 male and 1 female). The Board has undertaken an exercise to expand in size, which has included a review on how to further improve its own diversity and skills. As part of this, the Board has identified and agreed on a new female member who will be appointed in 2022 which will result in the Board gender split moving to 50/50.

*Principle 3 - Director Responsibilities*

Board members have a clear understanding of their accountability and responsibility in relation to the Board, which is set out within the Company's internal documentation. This also includes information on the Board's delegated risk committee (ARC), management's governance forums and senior executive roles. As 'Senior Managers', all Board members have approval from the FCA to perform the 'Executive Director Function'. Board members are trained regularly on their accountabilities and responsibilities as Board members, and in 2021 training was delivered by external counsel.

The Board's terms of reference provide clarity on the Board's remit including matters reserved for the Board which support effective Board decision making. They support the Board to ensure it has oversight, and approval where necessary, of material decisions and activity within the Company.

The protocol for forming Board meeting agendas supports effective decision making by ensuring matters reserved for the Board are put forward to the Board (i.e. material decisions). Independent challenge is provided to the Board from a variety of sources (for example, attendance from external speakers, the Company Secretary and the Board's adviser who is independent from the Company's management).

Various management forums assist and support the Board with effective governance, whilst ensuring that the Board and ARC maintain overall responsibility for challenge and oversight of decision-making by senior executives. The Board has ultimate responsibility for overseeing the Company in accordance with the risk governance structure it adopts and overseeing operation of the appropriate systems and controls of the Company.

**DIRECTORS' REPORT (continued)***Principle 4 - Opportunity and Risk*

The Board promotes the long-term sustainable success and preserves value of the Company through its approval and oversight of the Strategy which identifies both short and long term opportunities for the Company and considers its long-term value and success. Senior executives provide regular reports to the Board on such opportunities, and they are discussed regularly at quarterly Board meetings, and at other management forums at which Board members are present. Market insight is regularly provided to the Board from external parties, including information on market trends, to enable the Board to consider industry developments with respect to potential future opportunities for the Company. In 2021 for example, the Board received external insight on customers, their choices and use of credit cards.

Throughout 2021, the Board has considered the long term sustainable success of the Company, together with the impacts of the pandemic. The Board has requested regular updates from management on trends and risks emerging from the pandemic, and in turn, allowed for decision making in the best interests of the Company and stakeholders in the long term, including ensuring the Company's success in a post-pandemic environment.

Future opportunity is balanced against the business' risk appetite, which is constantly monitored, with risks mitigated and managed. Oversight of risk management is delegated to the Board's risk committee, ARC (which consists of all Board members as well as key risk experts as advisors). Other dedicated management risk committees allow for further discussion of particular risk categories such as credit risk, liquidity risk, operational risk and conduct risk. The Board also annually adopts Capital One Group risk policies and receives oversight from its parent.

*Principle 5 - Remuneration*

Remuneration for all employees is managed via a Capital One Group policy, the Company's adoption of which is annually approved by the Board.

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. The Company's approach regarding payment of competitive compensation to employees is included within the Strategy. Performance management processes are transparent and fair, and are in turn subject to thorough monitoring to ensure appropriate application.

*Principle 6 - Stakeholder Relationships and Engagements*

The Board acknowledges the Company's key stakeholders as employees, customers, regulators, supply chain, community and the environment, and the Company's shareholders, which are all within the Capital One Group. It maintains oversight over the Company's 'Stakeholder Map' ( a reference document which details each of the Company's key stakeholder groups, including key examples within each category). This is reviewed and approved annually by the Board, which considers the interests of stakeholders when developing the Strategy and purpose.

The Board members individually foster effective stakeholder relationships, which are aligned to the Company's purpose, both through their role as Board members and as senior executives of the Company. The Strategy drives key business activity each year, including with respect to initiatives impacting the Company's key stakeholders which ensures meaningful engagement with stakeholders.

**DIRECTORS' REPORT (continued)**

With respect to shareholder engagement, the Company CEO has regular dialogue with shareholders across the wider Capital One Group and its ultimate parent entity, Capital One Financial Corporation. Certain other senior executives within the Company have direct or "dotted" reporting lines to executives within the parent company, including the Chief Financial Officer who is a Board member and has a reporting line to the parent company.

Impacts to the Company's stakeholder groups arising from business decisions are actively considered across Board reporting, including a key stakeholder identifier in each report. The Board maintains an awareness of the Company's stakeholder feedback channels and receives feedback on the output of those via information provided to it via Board reports, as well as directly from other stakeholders, including external auditors.

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

**Signed by order of the Board**

DocuSigned by:

*LM Hagues*

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**LM Hagues**  
**Director**  
**23rd March 2022**



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**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 31<sup>st</sup> December 2021 which comprise the Income Statement, the 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<sup>st</sup> December 2021 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 as applied to other entities of public interest, 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 each 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 whether the disclosures are appropriate and in conformity with the reporting standards.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 23<sup>rd</sup> March 2023, which is at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of 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 to be audited 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.

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

### **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 Company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are Companies Act 2006, Companies (Miscellaneous Reporting) Regulations 2018, UK tax legislation 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 discussions 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, assessing the design effectiveness of key controls related to financial reporting and through inquiry with management and those charged with Governance.

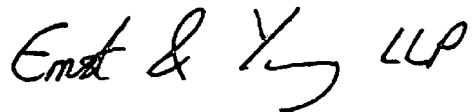
## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPITAL ONE (EUROPE) PLC**

- 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 financial services market which is 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.

### **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.



**Stephen Littler (Senior statutory auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
**Manchester**  
**23rd March 2022**

**Capital One (Europe) plc****Report and Financial Statements 2021****INCOME STATEMENT**For the year ended 31<sup>st</sup> December 2021

	Notes	2021 £'000	2020 £'000
Interest income		420,538	494,001
Non-interest income		44,804	67,778
<b>REVENUE</b>	2	<b>465,342</b>	<b>561,779</b>
Finance expense	4	(2,189)	(6,982)
Impairment gain/(charge) on loans and advances to customers		4,892	(183,526)
Operating and administrative expenses		(308,312)	(283,636)
<b>PROFIT BEFORE TAXATION</b>	3	<b>159,733</b>	<b>87,635</b>
Tax charge	5	(28,484)	(9,720)
<b>PROFIT FOR THE YEAR</b>		<b>131,249</b>	<b>77,915</b>

All of the above activities relate to continuing operations.

There was no Other Comprehensive Income in 2021 (2020: nil).

**Capital One (Europe) plc****Report and Financial Statements 2021****BALANCE SHEET**As at 31<sup>st</sup> December 2021

	Notes	2021 £'000	2020 £'000
<b>ASSETS</b>			
Cash and cash equivalents	6,17	14,385	16,565
Loans and advances to banks	17	88,600	105,400
Debt securities	7,17	99,979	61,066
Financial assets held at fair value	8,17	4,913	14,892
Trade and other receivables	9,17	2,131,924	1,832,296
Corporation tax receivable		2,166	—
Property, plant and equipment	11	28,815	30,157
Intangible assets	12	8,232	11,037
Deferred tax assets	5	5,102	2,905
Investments in subsidiaries	13	—	—
<b>TOTAL ASSETS</b>		<b>2,384,116</b>	<b>2,074,318</b>
<b>LIABILITIES</b>			
Trade and other payables	14,17	(40,616)	(44,725)
Loans and borrowings	15,17,20	(869,276)	(668,932)
Corporation tax payable		—	(1,738)
Provisions	16	(64,298)	(80,246)
<b>TOTAL LIABILITIES</b>		<b>(974,190)</b>	<b>(795,641)</b>
<b>NET ASSETS</b>		<b>1,409,926</b>	<b>1,278,677</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	484,153	484,153
Share premium		95,760	95,760
Retained earnings		830,013	698,764
<b>TOTAL EQUITY</b>		<b>1,409,926</b>	<b>1,278,677</b>

The financial statements of Capital One (Europe) plc (registered number 3879023) were approved by the Board of Directors on 23rd March 2022 and signed on its behalf by:

DocuSigned by:

*James Aron*

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**JS Aron**  
Director

**Capital One (Europe) plc****Report and Financial Statements 2021****STATEMENT OF CHANGES IN EQUITY**As at 31<sup>st</sup> December 2021

	Share Capital	Share Premium	Retained Earnings	Total
	£'000	£'000	£'000	£'000
<b>31st December 2019</b>	<b>484,153</b>	<b>95,760</b>	<b>620,849</b>	<b>1,200,762</b>
<b>Comprehensive income for the year</b>				
Profit			77,915	77,915
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>77,915</b>	<b>77,915</b>
<b>31st December 2020</b>	<b>484,153</b>	<b>95,760</b>	<b>698,764</b>	<b>1,278,677</b>
<b>Comprehensive income for the year</b>				
Profit			131,249	131,249
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>131,249</b>	<b>131,249</b>
<b>31st December 2021</b>	<b>484,153</b>	<b>95,760</b>	<b>830,013</b>	<b>1,409,926</b>



**NOTES TO THE FINANCIAL STATEMENTS**As at 31<sup>st</sup> December 2021**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(c) 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 31<sup>st</sup> December 2021**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 principal 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.

**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 principal 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**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, bankruptcy filings, unemployment and general economic and business trends. Loss forecast models consider timing of future expected recoveries, whether this be through internal debt recovery policy, or third party debt sales. 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021

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 continued to impact the global economy throughout 2021 and despite improvements in the economy the level of uncertainty remains elevated. 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 £17 million to the modelled output. This adjustment addresses 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 Expected Credit Losses (ECL) 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 2021 modelled allowance by 2%.
- Applying a 10% downgrading to the economic scenarios (20:40:40 ratio) would increase the 2021 modelled allowance by 5%.
- Applying a 100% downside to the economic scenarios (0:0:100 ratio) would increase the 2021 modelled allowance by 27%.

**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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**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's current partnership agreements do not meet the definition of collaborative arrangements and revenue generated from partnership activities is accounted for in the same way as for Capital One branded accounts, described above.

**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 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.

On derecognition of financial assets, any gain/loss is recognised through 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, generally being 3 years for software.

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

**Loans and borrowings**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**Leases**

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

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

**Foreign currencies**

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

**Pension scheme**

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

**Taxation**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021

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

**Post Balance Sheet Events**

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

**Fair Value Measurements**

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

- Level 1: Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation is based on observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Valuation is generated from techniques that use significant assumptions not observable in the market.

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

The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining the fair value. Significant judgement may be required to determine whether certain assets or liabilities measured at fair value are included in

Level 2 or Level 3. In making this determination, we consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. The calculation of fair value is based on market conditions as at each balance sheet date, and may not be reflective of ultimate realisable value. Additional information on fair value is included in "Note 17—Fair Value Measurements."

**Capital One (Europe) plc****Report and Financial Statements 2021****NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**2. REVENUE**

Revenue of £465.3 million (2020: £561.8 million) is derived from interest income, card fees, cardholder spending and other commission. Revenue incorporates deductions/additions in relation to PPI redress provision charges/releases to the income statement. Within interest income, £0.1 million (2020: £0.6 million) is not accounted for under the EIR method.

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Interest income	419,091	478,413
Non-interest income	43,004	50,478
Reimbursed revenue released/(charged) against interest in relation to PPI and other provisions	1,447	15,588
Reimbursed revenue released/(charged) against non-interest in relation to PPI and other provisions	1,800	17,300
	<u>465,342</u>	<u>561,779</u>

**3. PROFIT BEFORE TAXATION**

Profit before taxation is stated after charging:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs</b>		
Wages and salaries	(75,201)	(70,983)
Social security costs	(8,926)	(8,173)
Pension costs	(7,697)	(7,585)
	<u>(91,824)</u>	<u>(86,741)</u>
<b>Provision for liabilities</b>		
Reimbursed revenue released/(charged) against revenue in relation to PPI and other provisions	3,247	32,888
Other costs released/(charged) against non-revenue in relation to PPI and other provisions	(2,281)	2,484
	<u>966</u>	<u>35,372</u>
<b>Rent expense</b>		
Property	(2,851)	(2,851)
<b>Amortisation of intangibles</b>		
Software	(6,448)	(7,744)
<b>Depreciation of property, plant and equipment</b>		
Property	(1,750)	(1,637)
Equipment	(2,932)	(3,080)
Right-of-use asset	(1,674)	(1,674)



**Capital One (Europe) plc****Report and Financial Statements 2021****NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021

The Company paid auditors' remuneration in 2021 £440,460 (2020: £421,460).

The average number of associates employed by the Company during the year was 1,430 (2020: 1,354), all of whom were employed in management and administration.

**4. FINANCE EXPENSE**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Group undertakings	(1,914)	(6,673)
Other interest payable	(275)	(309)
	<u>(2,189)</u>	<u>(6,982)</u>

**5. TAXATION****(a) Total tax charge on ordinary activities**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
United Kingdom corporation tax	(31,486)	(9,063)
Amounts (under)/over provided in previous periods	804	915
Total current tax	<u>(30,682)</u>	<u>(8,148)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	1,556	(1,243)
Change in tax laws and rates	1,409	527
	<u>2,965</u>	<u>(716)</u>
Amounts (under)/over provided in previous periods	<u>(767)</u>	<u>(856)</u>
Total deferred tax	2,198	(1,572)
<b>Total charge on ordinary activities</b>	<u><u>(28,484)</u></u>	<u><u>(9,720)</u></u>

**Capital One (Europe) plc****Report and Financial Statements 2021****NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**b) Reconciliation of total tax charge**

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are reconciled below:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit/(Loss) on ordinary activities before tax</b>	<u>159,733</u>	<u>87,635</u>
19% (2020: 19%) of profit/(loss) on ordinary activities	(30,350)	(16,651)
Effects of:		
Non-taxable release of PPI provision	329	6,874
Other expenses not deductible for tax purposes	91	(529)
Amounts (under)/over provided in previous periods	37	59
Changes in tax laws and rates	1,409	527
<b>Total tax charge reported in the income statement</b>	<u>(28,484)</u>	<u>(9,720)</u>

**(c) Corporation tax rate**

The UK corporation tax rate for 2021 was 19% (2020:19%).

**(d) Deferred Taxation**

On 3<sup>rd</sup> March 2021 it was announced that the UK corporation tax rate would increase from 19% (the previously enacted rate) to 25% from 1<sup>st</sup> April 2023. The deferred tax included in the balance sheet at 31<sup>st</sup> December 2021 was valued by reference to the rate of 25%.

The deferred tax included in the balance sheet is recognised at a rate of 25.0% (2020: 19.0%) as follows:

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred tax assets</b>		
Decelerated capital allowances	2,164	1,754
Pension benefits	389	294
Long term incentives	125	143
Adoption of FRS 101 and IFRS 9	3,652	3,543
Heldover gain on sale of shares	(1,228)	(2,829)
	<u>5,102</u>	<u>2,905</u>

**Capital One (Europe) plc****Report and Financial Statements 2021****NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021

The movement in deferred tax relates to 2021: £2.2 million release to Income Statement, 2020: £1.6 million charge to Income Statement.

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Disclosed on the balance sheet</b>		
Deferred tax assets	5,102	2,905
	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred tax in the income statement</b>		
Decelerated capital allowances	410	(32)
Pension benefits	96	64
Long term incentives	(18)	15
Adoption of FRS 101 and IFRS 9	108	(314)
Heldover gain on sale of shares	1,601	(1,305)
	<u>2,197</u>	<u>(1,572)</u>

**6. CASH AND CASH EQUIVALENTS**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	<u>14,385</u>	<u>16,565</u>

Included within cash at bank is £8.5 million (2020: £11.4 million) held on behalf of customers who have credit balances on their accounts.

**7. DEBT SECURITIES**

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Government investment securities	<u>99,979</u>	<u>61,066</u>

Debt securities include £100 million of UK government gilts (2020: £61 million). These are due to mature within one year.

**Capital One (Europe) plc****Report and Financial Statements 2021****NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**8. FINANCIAL ASSETS HELD AT FAIR VALUE**

	2021 £'000	2020 £'000
Visa Inc. shares	4,913	14,892

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

620 Visa Inc. Series A Convertible Participating Preferred shares held in 2020 were sold in March 2021 at fair value.

**9. TRADE AND OTHER RECEIVABLES**

	2021 £'000	2020 £'000
Loans and advances to customers	2,230,198	1,985,159
Allowance for expected credit losses for loans	(138,739)	(187,840)
Amounts owed by group undertakings	6,747	5,965
Other debtors	1,034	946
Prepayments and accrued income	32,684	28,066
	<u>2,131,924</u>	<u>1,832,296</u>

Trade and other receivables all fall due within one year.

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 2021			31st December 2020		
	Gross Carrying amount	ECL allowance	Carrying Amount	Gross Carrying amount	ECL allowance	Carrying Amount
Loans and advances to customers at amortised cost	2,230,198	138,739	2,091,459	1,985,159	187,840	1,797,319

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

## Capital One (Europe) plc

## Report and Financial Statements 2021

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31<sup>st</sup> December 2021

The below reconciliation provides further detail on the movement in the allowance for loan loss. 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 shown separately within the reconciliation (the Recoveries column in table below). The comparative movements for the prior period have been recategorised, as previously movements relating to expected recoveries had been allocated to Stage 3 of the Allowance.

Movement during period (£'000)	Stage 1	Stage 2	Stage 3	Recoveries	Total
<b>Balance at 31st December 2019</b>	81,459	114,054	53,308	(128,116)	120,705
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	3,692	35,414	42,602
Unwinding of Discount	7,039	14,606	(568)	(16,489)	4,588
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	21,930	2,719	166,601
<b>Balance at 31st December 2020</b>	<b>117,020</b>	<b>129,268</b>	<b>48,024</b>	<b>(106,472)</b>	<b>187,840</b>
Allowance Recognised on accounts originated during the period	36,407	—	—	—	36,407
Write-offs	(41,404)	(43,348)	(39,840)	—	(124,592)
Recoveries	922	1,687	2,554	37,082	42,245
Unwinding of Discount	3,267	10,436	(563)	(12,543)	597
Transfer to 12-month ECLs	4,104	(34,463)	(502)	—	(30,861)
Transfer to lifetime ECLs not credit-impaired	(9,551)	83,049	(8,625)	—	64,873
Transfer to lifetime ECLs credit-impaired	(2,441)	(8,296)	53,039	—	42,302
Reversal of allowance against accounts closed during the period	(9,062)	(17,318)	(899)	—	(27,279)
Build/release of allowance during the period	(15,547)	(20,388)	(18,913)	2,055	(52,793)
<b>Balance at 31 December 2021</b>	<b>83,715</b>	<b>100,627</b>	<b>34,275</b>	<b>(79,878)</b>	<b>138,739</b>

The allowance for the period has decreased by £49.1 million to £138.7 million. The stage 2 accounts make up the largest portion of the allowance held driven by the requirement to hold allowance for lifetime losses (as opposed to 12 months in stage 1) and higher risk of default increasing the expected losses compared to stage 1 assets. The volume of stage 3 loans is significantly lower than stage 2, driving a lower allowance despite the higher ratio of expected losses to outstanding loan balance.

## Capital One (Europe) plc

## Report and Financial Statements 2021

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31<sup>st</sup> December 2021

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, the unwinding of the discount is a release of allowance.

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

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

Economic Variables	2021			2020		
	Upside	Baseline	Downside	Upside	Baseline	Downside
Unemployment Rate (%) <sup>1</sup>	5.0	5.2	7.1	7.8	8.5	10.8
House Price Appreciation (%) <sup>2</sup>	27.3/1.2	20.0/(0.1)	6.1/(11.2)	25.2/(2.0)	12.5/(8.0)	10.8/(15.8)

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 1<sup>st</sup> 2022 (January 1<sup>st</sup> 2021 for 2020) over the 5-year forecast period

Economic Variables (annual rate)	As of 31/12/2021					
		2022	2023	2024	2025	2026
Unemployment Rate (%) <sup>1</sup>	Upside	3.6	3.7	4.0	4.2	4.4
	Baseline	4.6	4.8	4.8	4.8	4.8
	Downside	6.6	7.1	6.9	6.5	6.1
House Price Appreciation (%) <sup>2</sup>	Upside	11.1	6.9	4.1	1.9	1.1
	Baseline	1.8	6.1	5.2	3.5	2.1
	Downside	(10.1)	0.4	5.1	6.0	5.5

Notes:

1. Unemployment Rate is shown as the forecasted value for December of the given year

2. House Price Appreciation (HPA) is shown as the 1-year growth/decline for December of a given year

## Capital One (Europe) plc

## Report and Financial Statements 2021

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**11. PLANT, PROPERTY AND EQUIPMENT**

	<b>Right of use asset £'000</b>	<b>Leasehold improvements £'000</b>	<b>Equipment, fixtures &amp; fittings £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
<b>At 31st December 2020</b>	15,347	18,560	31,907	65,814
Additions	—	3,091	2,590	5,681
Disposals	—	(1,863)	(23)	(1,886)
<b>At 31st December 2021</b>	<u>15,347</u>	<u>19,788</u>	<u>34,474</u>	<u>69,609</u>
<b>Depreciation and impairment</b>				
<b>At 31st December 2020</b>	(3,347)	(8,431)	(23,879)	(35,657)
Charge for the year	(1,674)	(1,750)	(2,932)	(6,356)
Disposals	—	1,207	12	1,219
<b>At 31st December 2021</b>	<u>(5,021)</u>	<u>(8,974)</u>	<u>(26,799)</u>	<u>(40,794)</u>
<b>Net book value</b>				
<b>At 31st December 2021</b>	<u>10,326</u>	<u>10,814</u>	<u>7,675</u>	<u>28,815</u>
<b>Net book value</b>				
<b>At 31st December 2020</b>	<u>12,000</u>	<u>10,129</u>	<u>8,028</u>	<u>30,157</u>

The amount of borrowing cost capitalised during the year ended 31<sup>st</sup> December 2021 was £nil (2020: £nil).

The Company had £nil future capital expenditure contracted for but not provided at the year end (2020: £nil).

## Capital One (Europe) plc

## Report and Financial Statements 2021

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**12. INTANGIBLE ASSETS**

	Software £'000	Total £'000
<b>Cost</b>		
At 31st December 2020	33,262	33,262
Additions	3,643	3,643
Disposals	—	—
At 31st December 2021	<u>36,905</u>	<u>36,905</u>
<b>Amortisation and impairment</b>		
At 31st December 2020	(22,225)	(22,225)
Charge for the year	(6,448)	(6,448)
Disposals	—	—
At 31st December 2021	<u>(28,673)</u>	<u>(28,673)</u>
<b>Net book value</b>		
At 31st December 2021	<u>8,232</u>	<u>8,232</u>
<b>Net book value</b>		
At 31st December 2020	<u>11,037</u>	<u>11,037</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**13. INVESTMENTS IN SUBSIDIARIES**

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.

On 14th March 2022 the remaining credit card receivables owned by the UK Trust were transferred to the Company, with no financial impact to the Company.

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

## Capital One (Europe) plc

## Report and Financial Statements 2021

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**14. TRADE AND OTHER PAYABLES**

	2021 £'000	2020 £'000
Trade creditors	(4,111)	(1,609)
Other taxation and social security costs	(2,254)	(4,333)
Accruals and deferred income	(27,874)	(29,923)
Other creditors	(6,377)	(8,860)
	<u>(40,616)</u>	<u>(44,725)</u>

Accruals include £0.9 million relating to contributions outstanding at 31<sup>st</sup> December 2021 (2020: £0.9 million) to the Capital One Master Trust Pension Scheme, arising as a result of the normal monthly investment cycle.

**15. LOANS AND BORROWINGS**

Loans repayable, are analysed as follows:

	2021 £'000	2020 £'000
Amounts owed to group undertakings:		
not later than one year	825,001	328,004
after one year but not more than five years	—	297,000
after five years	31,428	29,442
	<u>856,429</u>	<u>654,446</u>

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

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

	2021 £'000	2020 £'000
Amounts owed to group undertakings		
fixed rate	848,428	646,442
non-interest bearing	8,001	8,004
	<u>856,429</u>	<u>654,446</u>

## Capital One (Europe) plc

## Report and Financial Statements 2021

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31<sup>st</sup> December 2021

## 16. PROVISIONS FOR LIABILITIES

	PPI Provision £'000	Other Provision £'000	Total Provision £'000
<b>At 31st December 2019</b>	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)
<b>At 31st December 2020</b>	78,600	1,646	80,246
Additional provisions made in the year	—	—	—
Provisions utilised in the year	(13,336)	(1,646)	(14,982)
Provisions released in year	(966)	—	(966)
<b>At 31st December 2021</b>	64,298	—	64,298

The Company's best estimate of incurred losses related to payment protection insurance ("PPI") totalled £64.3 million and £78.6 million as of 31<sup>st</sup> December 2021, and 2020, respectively. In 2021, the Company recorded a net provision release of £1.0 million due to resolution of complaints received up to and including 29<sup>th</sup> August 2019. The remaining movement was due to utilisation of the reserve through customer redress payments. The provision as of 31<sup>st</sup> December 2021 relates to cases with the Official Receiver (OR) and litigation. Total PPI costs to 31<sup>st</sup> December 2021 were £796.8 million, of which £64.3 million remains. This represents the Company's best estimate as at 31<sup>st</sup> December 2021 based on information available. The principal uncertainty includes the expected volume of claims, and the respective outcomes of those claims. Sensitivity analysis on the provision has not been included, as this may be prejudicial to the outcome of ongoing litigation cases.

Other Provisions related to expected redress to customers as a result of historical obligating events and was fully utilised during the year.

## 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 31<sup>st</sup> December 2021 and 2020.

£000's	31st December 2021				31st December 2020			
	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	
<b>Assets:</b>								
Visa Preference shares	—	—	4,913	4,913	9,911	—	4,981	14,892
<b>Total assets</b>	—	—	4,913	4,913	9,911	—	4,981	14,892

## Capital One (Europe) plc

## Report and Financial Statements 2021

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021

During the year the Company sold its level 1 Visa Preference shares and received £9,627,470 in proceeds. 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.

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 31<sup>st</sup> December 2021 and 2020.

£000s	31st December 2021		Estimated Fair Value Hierarchy		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and cash equivalents	14,385	14,385	14,385	—	—
Loans and advances to banks	88,600	88,600	—	88,600	—
Financial assets held at fair value	4,913	4,913	—	—	4,913
Debt securities	99,979	99,979	99,979	—	—
Loans and advances to customers	2,091,459	2,008,279	—	—	2,008,279
Trade and other receivables	7,781	7,781	—	7,781	—
<b>Financial Liabilities:</b>					
Loans and payables	(866,917)	(866,917)	—	(866,917)	—
Lease liability	(12,847)	(12,847)	—	(12,847)	—

£000s	31st December 2020		Estimated Fair Value Hierarchy		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
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	—
<b>Financial Liabilities:</b>					
Loans and payables	(664,915)	(664,915)	—	(664,915)	—
Lease liability	(14,485)	(14,485)	—	(14,485)	—

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021

The following describes the valuation techniques used in estimating the fair value of the financial instruments as at 31<sup>st</sup> December 2021 and 2020. 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.

***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 the Income Statement. The carrying value of the Series A preferred shares is measured using quoted prices from an active market (level 1) 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 31<sup>st</sup> December 2021**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 Card (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.

£000's	31st December 2021				31st December 2020			
	Stage 1 Loans	Stage 2 Loans	Stage 3 Loans	Total	Stage 1 Loans	Stage 2 Loans	Stage 3 Loans	Total
<b>Current</b>	1,911,464	213,691	18,721	2,143,876	1,675,746	201,070	22,984	1,899,800
<b>30-59 days past due</b>	—	16,653	7,162	23,815	—	17,139	9,261	26,400
<b>60-89 days past due</b>	—	13,150	6,757	19,907	—	14,131	6,500	20,631
<b>90+ days past due</b>	—	—	42,600	42,600	—	—	38,328	38,328
<b>Total</b>	<b>1,911,464</b>	<b>243,494</b>	<b>75,240</b>	<b>2,230,198</b>	<b>1,675,746</b>	<b>232,340</b>	<b>77,073</b>	<b>1,985,159</b>

The maximum exposure to credit risk relating to customer or bank counterparty defaults at the balance sheet date was £2,294 million and £1,980 million, respectively, as at 31<sup>st</sup> December 2021 and 31<sup>st</sup> December 2020.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**Liquidity Risk**

Liquidity risk is the risk 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 Corporate Accounting Finance Manager.

**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**

	<b>2021</b>	<b>2021</b>	<b>2020</b>	<b>2020</b>
	<b>Number</b>	<b>£'000</b>	<b>Number</b>	<b>£'000</b>
	<b>of shares</b>		<b>of shares</b>	
<b>Issued, allotted and fully paid</b>				
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
	<u>484,153,105</u>	<u>484,153</u>	<u>484,153,105</u>	<u>484,153</u>

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 31<sup>st</sup> December 2021 and 2020.

## Capital One (Europe) plc

## Report and Financial Statements 2021

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31<sup>st</sup> December 2021

## 20. LEASE LIABILITY

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

	£'000
<b>At 31st December 2019</b>	16,090
Additions	—
Accretion of interest	309
Payments	(1,914)
<b>At 31st December 2020</b>	<u>14,485</u>
Additions	—
Accretion of interest	275
Payments	(1,913)
<b>At 31st December 2021</b>	<u>12,847</u>
Weighted average remaining lease term (years)	6.2
Weighted average discount rate	2.01 %

The following table presents a maturity analysis of the Company's leases:

	2021	2020
	£'000	£'000
Within 1 year	2,218	1,914
1-5 years	8,873	8,873
5+ years	2,572	4,790
<b>Total undiscounted lease payments</b>	<u>13,663</u>	<u>15,577</u>

The following table presents a reconciliation of the undiscounted cash flows to the Company's lease liabilities as at 31<sup>st</sup> December 2021:

	2021	2020
	£'000	£'000
Total undiscounted lease payments	13,663	15,577
Less: imputed interest	(816)	(1,092)
<b>Total lease liabilities</b>	<u>12,847</u>	<u>14,485</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**As at 31<sup>st</sup> December 2021**21. DIRECTORS' EMOLUMENTS AND TRANSACTIONS**

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

	2021	2020
	£'000	£'000
<b>Aggregate emoluments</b>	2,233	3,375
<b>Aggregate pension contributions</b>	48	35

The total remuneration of the highest paid Director was £812,000 (2020: £1,105,000). The amount of Company contributions paid to the pension scheme on behalf of the highest paid Director was £nil (2020: £nil). No Directors exercised share options in the Corporation in the year (2020: Nil).

Two Directors who served during the year were members of the Capital One Master Trust Pension Scheme (2020: two). During 2021 £nil (2020: £464,000) was payable to Directors for compensation for loss of office.

The number and total amount outstanding of loans to Directors as at 31<sup>st</sup> December 2021 were three loans (2020: four loans) and £1,320 (2020: £2,492) respectively representing balances held on personal Capital One credit cards at the year end. The terms and conditions of these credit card loans are either consistent with the terms and conditions on cards available to Capital One customers or are consistent with the terms and conditions with credit cards that were available to all staff at the point in time that the cards were opened. The only differentiation in the card characteristic is the credit limit which is determined by role level. The maximum credit limit is no higher than the maximum credit limit offered to Capital One customers. The balances vary during the year and are settled by the Directors as they fall due in accordance with the terms and conditions of the card. Similarly, any interest accrued on the card is repayable in accordance with the terms and conditions of the card.

**22. PARENT UNDERTAKING AND CONTROLLING PARTY**

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