Capital One (Europe) plc

Annual Report and Financial Statements

31st December 2015

Registered in England: Number 3879023
Registered office: Trent House,
Station Street,
Nottingham,
NG2 3HX

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STRATEGIC REPORT

The Directors present their strategic report and the audited financial statements of Capital One (Europe) plc ('the Company') for the year ended 31st December 2015.

Principal activity and review of business

The Company provided a range of financial services in the UK during 2015 predominantly comprising credit card lending.

Key performance indicators

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

	2015 £'000	2014 £'000	Change %
Revenue	490,460	511,783	-4%
Finance expense	(14,603)	(15,666)	-7%
Net provision for bad and doubtful debts	(63,064)	(50,916)	24%
Operating and administrative expenses	(314,460)	(267,775)	17%
Retained profit	68,353	139,279	-51%
Net loans and advances to customers	2,143,268	2,118,009	1%
Shareholders' funds	1,007,621	939,268	7%
	2015 %	**2014 %**	
Net loss rate	2.3	3.2	-28%

Revenue decreased by 4% during the year. This is due to a £19 million increase in interest income in line with customer loan growth, offset by a £41 million reduction in non-interest income due to a reduction in interchange rates and lower cross-sell commissions, and higher charges for PPI provisions.

Finance expense decreased by 7% due to the Company's exit from securitised asset funding during 2014 and the majority of funding now being provided by lower rate group funding.

Net provision for bad and doubtful debts increased 24% from the prior year. This has mainly been due a successful year booking new customers.

Operating and administrative expenses increased by 17% year on year with the majority of this increase due to an increase in professional service and administrative costs relating to PPI.

Continued improvement in the credit environment has resulted in the net loss rate decreasing from 3.2% to 2.3%.

Ultimate parent company performance

The Company is ultimately owned by Capital One Financial Corporation ('the Corporation'). The Corporation started as an independent company in 1995, 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

STRATEGIC REPORT (continued)

outstanding of $217.7 billion at the end of the year (2014: $205.5 billion). The Corporation's loans held for investment at the end of the year totalled $229.9 billion (2014: $208.3 billion).

The Corporation's net income for the year ended 31st December 2015 was $4.1 billion (2014: $4.4 billion). The Corporation continues to maintain a strong balance sheet position with a Tier 1 common equity ratio of 11.1% at the end of 2015 (2014: 12.4%).

Principal risks and uncertainties

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

Operational risk

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

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

Strategic risk

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

The Company monitors and mitigates the strategic risks to the business by creating and pursuing effective strategies and by monitoring the external environment for changes that could disrupt the strategy.

Legal risk

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

Legal risk is managed by applying legal expertise through the internal legal department, accessing specialised outside counsel when needed and effective partnership working between the legal department and business areas to assess and mitigate legal risk. Quarterly monitoring through a legal and regulatory roadmap identifies and informs business areas regarding new and impending changes to law and regulation and further reduces the likelihood of the Company being unprepared for new laws or regulation.

Compliance risk

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

STRATEGIC REPORT (continued)

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

Conduct risk

Conduct risk is the risk to the Company's strategic objectives, earnings, capital or reputation, arising from failing to ensure that good outcomes are delivered to customers.

Conduct risk is managed through a combination of balanced associate remuneration and incentive schemes that attract, retain and motivate talent and align associate contributions with the long term business objectives along with 'Product and Practice Conduct Risk Assessments' ("CRAs") 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. This is supported by business wide staff training on conduct risk as well as additional role appropriate training where required and quarterly monitoring ensuring senior leadership oversight.

Reputation risk

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

Reputation risk is managed by ensuring a thorough understanding of the environment within which the company operates. This includes proactively engaging with the Company's existing and potential 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, quarterly monitoring and consultation with the lines of business ensures that reputation risk is considered in key process and decision making.

Signed by order of the board

RJ MacInnes,
Secretary,
23rd March 2016

DIRECTORS' REPORT

The Directors present their report for the year ended 31st December 2015.

Directors

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

VG Mitchell
C Newkirk
NV Herbert
RW Harding
AC Lenander
K Bowes (Appointed 10th December 2015)

Results and dividends

The profit for the year, after taxation, amounted to £68.4 million (2014: £139.3 million). The Directors do not recommend payment of a dividend on the ordinary shares (2014: £nil).

During the year the company transitioned from preparing financial statements under UK Generally Accepted Accounting Principles ('UK GAAP') to Financial Reporting Standards 101 Reduced Disclosure Framework ('FRS 101') and has taken advantage of the disclosure exemptions allowed under this standard. The Company's shareholders, Capital One Holdings Ltd and Capital One Investments Ltd were notified of and did not object to the use of the disclosure exemptions.

Position at end of year

The Directors have reviewed the financial position at the end of the year and concluded that it is satisfactory.

Future developments

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

Going concern

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

Directors' liability

Capital One Finance Corporation and its subsidiaries ("Capital One Group") have indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and remains in force at the date of this report.

Employment of disabled persons

The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. It is the Company's policy to provide ongoing employment and appropriate retraining to associates who become disabled, wherever practicable, and to provide training and career development to disabled associates.

Associate involvement

The Company places considerable value on the involvement of the people it employs ('associates') and continues to keep them informed on matters affecting them as associates and on the various factors

DIRECTORS' REPORT (continued)

affecting the performance of the Capital One Group. This is achieved through formal and informal meetings, including an associate representation body and other corporate communications.

Disclosure of information to the auditors

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

Reappointment of auditors

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

Charitable donations and activity

During the year the Company made charitable contributions of £1.2 million (2014: £1.1 million) directly benefiting over 150,000 individuals (2014: 143,661) from 282 charitable organisations (2014: 203). No political donations were made during the year (2014: £nil). 47% of associates took part in community activities in 2015 donating over 3,400 hours in the process. Associates again cited community as a significant factor in voting the Company as the UK and Europe's best workplace in the Great Places to Work survey.

The Company aims to make a positive impact through supporting financial capability and employability on both a local and national scale and is committed to supporting young people develop the skills they require to achieve their potential. The Company is doing this by forming partnerships with national charitable organisations such as YouthNet (a charity which provides employability advice, information and support to 16-25 year olds) and inviting local young people to visit the Company's workplace and see first-hand, the environment and skills needed to succeed in the world of work.

In 2015, the Company has won awards for the creation, development and implementation of community programmes including Cheese Matters and ClickSilver.

Signed by order of the Board

RJ MacInnes,
Secretary,
23rd March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of Capital One (Europe) plc for the year ended 31st December 2015 which comprise the Income Statement, Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2015 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.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Peter Wallace
Ernst & Young LLP
Registered auditor
London
23rd March 2016

INCOME STATEMENT
For the year ended 31st December 2015

	Notes	2015 £'000	2014 £'000
Interest income		458,443	439,240
Non-interest income		32,017	72,543
REVENUE	2	490,460	511,783
Finance expense	4	(14,603)	(15,666)
Net provision for bad and doubtful debts		(63,064)	(50,916)
Operating and administrative expenses		(314,460)	(267,775)
PROFIT BEFORE TAXATION	3	98,333	177,426
Tax charge	5	(29,980)	(38,147)
PROFIT FOR THE YEAR		68,353	139,279

All of the above activities relate to continuing operations.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31st December 2015

There were no recognised gains or losses other than the profit for the year of £68.4 million (2014: £139.3 million).

There were no dividends in 2015 (2014: £nil)

BALANCE SHEET
As at 31st December 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
Cash and cash equivalents	6	55,464	206,193
Loans and advances to banks		25,000	-
Available-for-sale-investments	7,15	150,891	-
Trade and other receivables	8	2,176,702	2,173,002
Property, plant and equipment	9	10,029	10,666
Intangible assets	10	8,987	6,720
Deferred tax assets	5	4,164	11,251
Investments in subsidiaries	11	-	-
TOTAL ASSETS		2,431,237	2,407,832
LIABILITIES			
Trade and other payables	12	(39,499)	(61,994)
Loans and borrowings	13,15	(1,249,002)	(1,314,395)
Corporation tax payable		(5,455)	(17,997)
Provisions	14	(129,660)	(74,178)
TOTAL LIABILITIES		(1,423,616)	(1,468,564)
NET ASSETS		1,007,621	939,268
SHAREHOLDERS' EQUITY			
Share capital	17	484,153	484,153
Share premium		95,760	95,760
Retained Earnings		427,708	359,355
TOTAL EQUITY		1,007,621	939,268

The financial statements of Capital One (Europe) plc (registered number 3879023) were approved by the Board of Directors on 23rd March 2016 and signed on its behalf by:

C Newkirk
Director

STATEMENT OF CHANGES IN EQUITY

As at 31st December 2015

	Note	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
31 December 2013		**484,153**	**95,760**	**220,076**	**799,989**
Comprehensive income for the year					
Profit		-	-	139,279	139,279
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**139,279**	**139,279**
31 December 2014		**484,153**	**95,760**	**359,355**	**939,268**
Comprehensive income for the year					
Profit		-	-	68,353	68,353
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**68,353**	**68,353**
31 December 2015		**484,153**	**95,760**	**427,708**	**1,007,621**

NOTES TO THE FINANCIAL STATEMENTS
As at 31st December 2015

1. BASIS OF PREPARATION

Compliance with Financial Reporting Standard Reduced Disclosure Framework 101

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

The Company transitioned from UK GAAP to FRS 101 for all periods presented. Adjustments upon transitioning are disclosed in note 21.

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, unless otherwise stated.

Disclosure Exemptions

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

a) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
   (iii) paragraph 118(e) of IAS 38 Intangible Assets;
b) the requirements of paragraphs 10(d), 10(f) and 38(c) of IAS 1 Presentation of Financial Statements;
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.

The Company's shareholders were notified of and did not object to the use of these disclosure exemptions.

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 most significant areas where judgements and estimates are made are disclosed in the following notes:

Provision for Bad and Doubtful Debts	Note 1
Taxation	Note 5
Provisions for Liabilities	Note 14
Fair Value Measurements	Note 15

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

Significant Accounting Policies

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

Revenue

Revenue comprises interest income on lending products, card fees, revenue derived from cardholder spending and other commission.

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and costs borne that are an integral part of the effective interest rate.

Fees and commissions not directly attributable to generating a financial instrument are recognised on the accruals basis as services are provided, or on the performance of a significant act.

When, based on historical performance of the portfolio, payment in full of interest income and fee income is not expected, the estimated uncollectible portion of previously accrued amounts are reversed against current period income.

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

Finance expense

Finance expense principally comprises interest on intercompany loans and is recognised on an effective interest basis.

Loans and advances to customers

Loans and advances to customers consist of credit card loans that we have the ability and intent to hold for the foreseeable future and do not intend to sell immediately or in the near term and that are not quoted in an active market. Loans are recognised when the funds are advanced to customers. Loans and advances to customers are carried at amortised cost using the EIR method.

The Company charges off credit card loans at, or in some cases before, 180 days past due. Credit card transactions suspected of being fraudulent are charged to the income statement within 90 days of being confirmed as fraudulent.

During 2014 the Company stopped using asset backed securities as a source of funding, with the last series maturing in June 2014. 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.

Provisions for bad and doubtful debts

At each balance sheet date the Company assesses whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Provisions made during the year are charged to the income statement net of recoveries of amounts previously charged off.

The provision consists of two components. A component for loans collectively evaluated for impairment and an asset-specific component for loans which are individually identified as impaired.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

The component of the provision for credit card loans that are collectively evaluated for impairment is determined primarily on a migration analysis of delinquent and current accounts. In evaluating the sufficiency of the provision for loan losses, management also takes into consideration the following factors: recent trends in delinquencies and write offs; historical trends in loan volume; forecasting uncertainties and size of credit risks; the degree of risk inherent in the final composition of the loan portfolio; economic conditions; credit evaluations and underwriting policies.

The asset-specific provision is raised where there have been modifications to a credit card agreement as a result of a payment arrangement being established for a borrower who is in financial difficulty. The carrying value of such loans is calculated using historical cash flows to predict future expected cash flows which are discounted at the original effective interest rate.

Determining the appropriateness of the provision 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 significant changes in the allowance for loan losses in future periods.

Provisions and contingent liabilities

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

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

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

Accounting for partnership agreements

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

If the agreement involves payments between participants under a revenue or loss sharing agreement, the Company must determine whether to report revenue or loss amounts on a gross basis or a net basis after taking into consideration payments due to or due from participants. The Company evaluates the contractual provisions of each transaction and applicable accounting guidance in determining the manner in which to report the impact of revenue and loss sharing amounts in the financial statements and the related impact on the allowance for loan losses. The Company's net income is the same regardless of whether revenue or expense amounts are recorded on a gross or net basis.

Investments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

Current asset investments intended for use on a continuing basis in the Company's activities consist of unlisted debt securities and short term deposits. Current asset investments are stated at cost less provision for any permanent diminution in value. In those rare instances where an investment is sold prior to maturity, gains and losses are recognised when realised.

Available-for-sale investments consist of UK government gilts which are measured at fair value and their purchase and sale is recorded on a trade date basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. 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 depreciation. Intangible assets consist of internally developed software and purchased software. 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 software.

The carrying values of intangible assets are 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.

Leased assets

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

Foreign currencies

Transactions in foreign currencies are 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

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.

Deferred tax is recognised in respect of all timing 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 timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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

Fair Value Measurements

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

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

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

The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining the fair value. Significant judgment may be required to determine whether certain assets or liabilities measured at fair value are included in Level 2 or Level 3. In making this determination, we consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. The calculation of fair value is based on market conditions as at each balance sheet date, and may not be reflective of ultimate realizable value. We provide additional information on fair value in "Note 15—Fair Value Measurements."

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

2. REVENUE

Revenue comprises revenue of £490.5 million (2014: £511.8 million) from interest income, card fees, revenue derived from cardholder spending and other commission.

	2015 £'000	2014 £'000
Interest income	483,240	448,025
Non-interest income	63,022	80,620
Cross Sell provision reflecting reimbursed revenue charged against interest income	(24,797)	(8,785)
Cross Sell provision reflecting reimbursed revenue charged against non-interest income	(31,005)	(8,077)
	490,460	511,783

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting):

	2015 £'000	2014 £'000
Staff costs		
Wages and salaries	40,074	35,604
Social security costs	4,493	4,129
Pension costs	4,123	3,782
	48,690	43,515
Provision for liabilities		
Cross Sell provision reflecting reimbursed revenue charged against revenue	55,802	16,862
Cross Sell provision reflecting other related costs charged to operating and administrative expenses	49,183	19,354
	104,985	36,216
Operating lease rentals		
Property	3,278	3,278
Equipment	340	340
Amortisation of intangibles		
Software	3,243	2,572
Depreciation of property, plant and equipment		
Property	1,185	950
Equipment	4,428	5,571
Auditors' remuneration		
Audit of the financial statements	306	279
Audit of the financial statements of group companies	21	21
Other assurance services	20	18

The average number of associates employed by the Company during the year was 853 (2014: 767), all of whom were employed in management and administration.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

4. FINANCE EXPENSE

	2015 £'000	2014 £'000
Group undertakings	14,580	13,295
Other interest payable	23	2,371
	14,603	15,666

5. TAXATION

(a) Total tax charge on ordinary activities

	2015 £'000	2014 £'000
Current tax		
United Kingdom corporation tax	(23,295)	(38,430)
Adjustments in respect of previous periods	402	571
Total current tax	(22,893)	(37,859)
Deferred tax		
Origination and reversal of temporary differences	(6,567)	74
Change in tax laws and rates	(382)	-
	(6,949)	74
Adjustment to estimated recoverable deferred tax asset arising in previous periods	(138)	(362)
Total deferred tax	(7,087)	(288)
Total charge on ordinary activities	(29,980)	(38,147)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

5. TAXATION (continued)

(b) Reconciliation of total tax charge

The tax charge in the income statement for the year is higher than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are reconciled below:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	98,333	177,426
20.25% (2014: 21.50%) of profit on ordinary activities	(19,912)	(38,146)
Effects of:		
Expenses not deductible for tax purposes	(9,949)	(204)
Tax overprovided in previous years	263	209
Changes in tax laws and rates	(382)	(6)
Total tax charge reported in the income statement	(29,980)	(38,147)

(c) Change in corporation tax rate

The UK corporation tax rate will reduce from 20% to 19% effective 1st April 2017 and will reduce from 19% to 18% effective 1st April 2020. The rates have been substantively enacted in the year and the deferred tax asset has been recalculated using the rate of 18%.

(d) Deferred Taxation

The deferred taxation included in the balance sheet is recognised at a rate of 18.0% (2014: 20.0%) as follows:

	2015 £'000	2014 £'000
Deferred tax assets		
Decelerated capital allowances	3,306	3,752
Pension benefits	152	154
Adoption of FRS 101	706	7,345
	4,164	11,251

The Directors consider that there is sufficient evidence as to the recoverability of the deferred tax asset at 31st December 2015 to justify its recognition.

	2015 £'000	2015 £'000
Disclosed on the balance sheet		
Deferred tax assets	4,164	11,251

Deferred tax in the income statement

	2015 £'000	2014 £'000
Decelerated capital allowances	(77)	(81)
Pension benefits	14	-
Adoption of FRS 101	(6,642)	(201)
Change in tax laws and rates	(382)	(6)
	(7,087)	(288)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

6. CASH AND CASH EQUIVALENTS

	2015 £'000	2014 £'000
Cash at bank and in hand	55,464	206,193

Included within cash at bank is £11.0 million (2014: £10.6 million) held on behalf of customers who have paid security balances or hold credit balances on their accounts.

7. AVAILABLE-FOR-SALE INVESTMENTS

	2015 £'000	2014 £'000
Government investment securities	150,891	-

Available-for-sale investments consist entirely of UK government gilts. These are fair valued at the balance sheet date and the gain/ (loss) taken through the income statement. As at 31st December 2015 the fair value movement was a £28 thousand loss. All amounts are due to mature within one year.

8. TRADE AND OTHER RECEIVABLES

	2015 £'000	2014 £'000
Loans and advances to customers	2,237,073	2,198,417
Provision for bad and doubtful debts	(93,805)	(80,408)
Amounts owed by group undertakings	1,557	26,539
Other debtors	1,712	1,126
Prepayments and accrued income	30,165	27,328
	2,176,702	2,173,002

Amounts owed by group undertakings are unsecured loans denominated in pounds sterling. They are non-interest bearing and repayable on demand.

Impairment is deducted from the carrying value of loans and advances to customers by the use of a separate account representing the provision for bad and doubtful debts. The movement in provision for bad and doubtful debts during the year is as follows:

	2015 £'000	2014 £'000
At 1 January	80,408	98,397
Charge for the year to revenue	22,867	20,933
Charge for the year to operating expense	63,064	50,916
Net amount charged off	(72,534)	(89,838)
At 31 December	93,805	80,408

Charge for the year to operating expense is net of £15.2 million (2014: £6.6 million) proceeds from sale of debts previously charged off.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

9. PLANT, PROPERTY AND EQUIPMENT

	Leasehold improvements	Equipment, fixtures & fittings	Total
	£'000	**£'000**	**£'000**
Cost			
At 1st January 2015	11,145	36,023	47,168
Additions	3,060	1,916	4,976
Disposals	-	-	-
At 31st December 2015	14,205	37,939	52,144
Depreciation and impairment			
At 1st January 2015	(6,167)	(30,335)	(36,502)
Charge for the year	(1,185)	(4,428)	(5,613)
Disposals	-	-	-
At 31st December 2015	(7,352)	(34,763)	(42,115)
Net book value			
At 31st December 2015	6,853	3,176	10,029
Net book value			
At 31st December 2014	4,978	5,688	10,666

The amount of borrowing cost capitalised during the year ended 31 December 2015 was £nil (2014: £nil).

Plant, Property and Equipment includes £nil (2014: £ nil) at net book value, of assets under finance leases. £nil (2014: £ nil) was allocated to depreciation of these lease assets during the year.

The Company had £nil future capital expenditure contracted for but not provided at the year end (2014: £ nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

10. INTANGIBLE ASSETS

	Software £'000	Total £'000
Cost		
At 1st January 2015	44,376	44,376
Additions	5,510	5,510
Disposals	(2,750)	(2,750)
At 31st December 2015	47,136	47,136
Depreciation and impairment		
At 1st January 2015	(37,656)	(37,656)
Charge for the year	(3,243)	(3,243)
Disposals	2,750	2,750
At 31st December 2015	(38,149)	(38,149)
Net book value		
At 31st December 2015	8,987	8,987
Net book value		
At 31st December 2014	6,720	6,720

Intangible assets include £nil (2014: £ nil) at net book value, of assets under finance leases. £nil (2014: £ nil) was allocated to depreciation of these lease assets during the year.

The Company had £nil future capital expenditure contracted for but not provided at the year end (2014: £ nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

11. INVESTMENTS IN SUBSIDIARIES

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

	Country of Incorporation	Principal activity
Capital One Loans (UK) Limited	England and Wales	Holding Company - dormant
Capital One Homeowner Loans Limited *	England and Wales	Non trading - dormant
Capital One Mortgages Limited *	England and Wales	Non trading - dormant

* 100% interest held by subsidiary undertakings.

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

	Country of Incorporation	Principal activity
Castle Receivables Trust Limited	Jersey	Dormant - previously securitisation of credit card receivables
Castle Credit Card Securitisation Funding Limited	Jersey	Dormant – previously holding company for investor beneficiaries in a trust vehicle
Carlisle Castle Funding Group Limited	Jersey	Dormant – previously investor beneficiary in trust vehicle
Tenby Castle Funding Group Limited	Jersey	Dormant – previously investor beneficiary in trust vehicle
Dover Castle Funding Group Limited	Jersey	Dormant - previously investor beneficiary in trust vehicle
Sherwood Funding Options Limited	Jersey	Dormant – previously acquirer of options
Sherwood Castle Holdings Limited	England and Wales	Dormant – previously holding investments in subsidiary companies
Sherwood Castle Options Limited	England and Wales	Dormant – previously acquirer of options

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

12. TRADE AND OTHER PAYABLES

	2015 £'000	2014 £'000
Trade creditors	2,881	9,632
Other taxation and social security costs	1,964	1,915
Accruals and deferred income	29,652	46,760
Other creditors	5,002	3,687
	39,499	61,994

Accruals include £0.5 million relating to contributions outstanding at 31st December 2015 (2014: £0.4 million) to the Capital One Group Personal Pension Scheme, arising as a result of the normal monthly investment cycle.

13. LOANS AND BORROWINGS

Loans repayable, are analysed as follows:

	2015 £'000	2014 £'000
Amounts owed to group undertakings		
not later than one year	901,803	1,115,395
after one year but not more than five years	-	199,000
after five years	347,199	-
	1,249,002	1,314,395

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

The carrying value of loans and borrowings measured at amortised cost approximates fair value.

	2015 £'000	2014 £'000
Amounts owed to group undertakings		
variable rate	50,199	72,522
fixed rate	1,187,000	1,232,000
non-interest bearing	11,803	9,873
	1,249,002	1,314,395

Loans include £7.4 million (2014: £5.4 million) of non interest bearing and repayable on demand loans. Loans include £50.2 million of variable loans (2014: £72.5 million) with the remainder £1,187.0 million (2014: £1,232.0 million) being fixed rate loans.

On 23rd January 2015, loan agreements were implemented between the Company and group undertakings. These loan agreements resulted in loans due "not later than one year" or "after one year but not more than five years", becoming due "after five years".

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

14. PROVISIONS FOR LIABILITIES

	Cross Sell Provision £'000
At 1st January 2015	74,178
Additional provisions made in the year	104,984
Provisions utilised in the year	(49,470)
Amounts reversed in the year	(32)
At 31st December 2015	129,660

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

On 2nd October 2015, the FCA issued a Statement on PPI ("the FCA Proposal") announcing it has decided to consult, by the end of 2015, on the introduction of a time bar for PPI complaints and on new rules and guidance about how banks should handle PPI complaints covered by s.140A of the Consumer Credit Act of 1974 ("Consumer Credit Act") in light of the Supreme Court's 2014 ruling in Plevin v. Paragon Personal Finance Limited ("Plevin"). The consultation began on 26th November 2015 and ran until 26th February 2016.

In determining our best estimate of incurred losses for future remediation payments, management considers numerous factors, including: (i) the number of customer complaints we expect in the future; (ii) our expectation of upholding those complaints; (iii) the expected number of complaints customers escalate to the FOS; (iv) our expectation of the FOS upholding such escalated complaints; (v) the number of complaints that fall under the s.140A of the Consumer Credit Act; and (vi) the estimated remediation payout to customers. We monitor these factors each quarter and adjust our reserves to reflect the latest data.

The Company's best estimate of incurred losses related to cross sell products, including PPI, totalled £129.7 million and £74.2 million as of 31st December 2015, and 2014, respectively. In the year ended 31st December 2015, we increased the provision by £105.0 million primarily because of an increase of our claims rate assumption.

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

			Sensitivity	
Assumption	Actual to date	Future expected	Change in assumption	Consequential change in provision £M
Number of complaints (1)	441k	164k	+/-10k	+/-6.1
Mis-sell Uphold rate (1) (2)	51%	55%	+/-5%	+/-3.8
Average redress per complaint (1) (3)	£397	£474	+/-£50	+/-8.2

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

15. FAIR VALUE MEASUREMENTS

The following tables display the assets measured on the Company's balance sheet at fair value on a recurring basis as at 31st December 2015 and 2014

	31st December 2015			
	Fair Value Measurements Using			Total Estimated
£000's	Level 1	Level 2	Level 3	Fair Value
Assets:				
Available-for-sale investments	150,891	-	-	150,891
Total assets	150,891	-	-	150,891

	31st December 2014			
	Fair Value Measurements Using			Total Estimated
£000's	Level 1	Level 2	Level 3	Fair Value
Assets:				
Available-for-sale investments	-	-	-	-
Total assets	-	-	-	-

As at 31st December 2015 and 2014, the Company did not have any movements between levels of the fair value hierarchy.

The following tables reflect the fair value of financial instruments, whether or not recognised on the Company's Balance Sheet at fair value as at 31st December 2015 and 2014.

	31st December 2015		Estimated Fair Value Hierarchy		
£000's	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	55,464	55,464	55,464	-	-
Loans and advances to banks	25,000	25,000	25,000	-	-
Available-for-sale investments	150,891	150,891	150,891	-	-
Loans and advances to customers	2,237,073	2,122,031	-	-	2,122,031
Trade and other receivables	33,434	33,434	-	33,434	-
Financial Liabilities:					
Loans and payables	(1,293,956)	(1,293,956)	-	(1,293,956)	-

	31st December 2014		Estimated Fair Value Hierarchy		
£000's	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	206,193	206,193	206,193	-	-
Loans and advances to banks	-	-	-	-	-
Available-for-sale investments	-	-	-	-	-
Loans and advances to customers	2,198,417	2,116,441	-	-	2,116,441
Trade and other receivables	54,993	54,993	-	54,993	-
Financial Liabilities:					
Loans and payables	(1,394,386)	(1,394,386)	-	(1,394,386)	-

The following describes the valuation techniques used in estimating the fair value of the financial instruments as at 31st December 2015 and 2014. The Company applied the fair value provisions to the

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

15 FAIR VALUE MEASUREMENTS (continued)

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.

Available-for-sale investments
Quoted prices in active markets are used to measure the government gilts.

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

16. FINANCIAL INSTRUMENT RISK

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

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

Credit Risk
Credit risk is the risk that the Company will suffer loss in the event of a default by a customer or bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due.

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 Chief Financial Officer.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

16 FINANCIAL INSTRUMENT RISK (continued)

The following table presents the credit quality of the loan portfolio as at 31st December 2015 and 2014.

	31st December 2015		31st December 2014	
£000's	**Loans**	% of Total Loans	**Loans**	% of Total Loans
Current	**2,150,478**	96.1%	**2,113,081**	96.1%
30-59 days past due	**25,362**	1.1%	**26,197**	1.2%
60-89 days past due	**21,852**	1.0%	**21,515**	1.0%
90+ days past due	**39,381**	1.8%	**37,624**	1.7%
Total	**2,237,073**	100.0%	**2,198,417**	100.0%

The maximum exposure to credit risk, excluding credit enhancements, was £2,143 million and £2,118 million, respectively, as at 31st December 2015 and 2014.

Liquidity Risk

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

It is Company policy to ensure that resources are always available to meet the Company's obligations as they fall due. The development, implementation and monitoring of this policy is the responsibility of the Company's Chief Financial Officer. 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 Chief Financial Officer.

Market Risk

Market risk is the risk posed to earnings or the economic value of equity resulting from changes in interest rates or foreign exchange rates (market rates). As the Company does not carry out any proprietary trading activity and does not split its business between banking and a trading book, the Company's market risk arises primarily from mismatches occurring in the organic growth of its balance sheet. Management of market risk is the responsibility of the Company's Chief Financial Officer and is monitored through rigorous quantification and reporting.

Capital Management

The Payment Services Regulations 2009 require the Company to hold a hold a minimum amount of capital as a buffer to absorb unexpected losses. As at 31st December 2015 the Company held capital of £1,007 million (2014: £939 million). This exceeded the minimum requirement of £10 million (2014: £9 million) and the Company was in compliance with all capital regulations.

17. CALLED UP SHARE CAPITAL

	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
Issued, allotted and fully paid				
Ordinary shares of £1 each	434,153,105	434,153	434,153,105	434,153
B shares of £1 each	50,000,000	50,000	50,000,000	50,000
	484,153,105	484,153	484,153,105	484,153

The Ordinary and B shares rank pari passu in all respects except for voting rights, whereby B shares hold no entitlement to attend, speak or vote at any general meetings of the Company. There were 600,000,000 Ordinary shares and 320,000,000 B shares authorised at 31st December 2015 and 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

18. COMMITMENTS

Operating lease commitments	2015		2014	
	Land and buildings	Other	Land and buildings	Other
Future lease payments payable:	**£'000**	**£'000**	**£'000**	**£'000**
Within 1 year	3,277	34	3,277	408
between 1 and 5 years	426	-	852	34
over 5 years	-	-	-	-
	3,703	34	4,129	442

19. DIRECTORS' EMOLUMENTS AND TRANSACTIONS

The amount of emoluments paid to the Directors in respect of services as Directors of Capital One (Europe) plc is:

	2015	2014
	£'000	**£'000**
Aggregate emoluments	3,024	2,157
Aggregate pension contributions	76	75

The total remuneration of the highest paid Director was £1,499,000 (2014: £924,000). The amount of Company contributions paid to the pension scheme on behalf of the highest paid Director was £10,000 (2014: £9,000). No Directors exercised share options in the Corporation in the year (2014: Nil). Three Directors who served during the year were members of the Capital One Master Trust Pension Scheme (2014: three). No payment was payable to directors for compensation for loss of office (2014: nil).

The number and total amount outstanding of loans to Directors, connected persons and officers as at 31st December 2015 were six loans (2014: four loans) and £6,991 (2014: £12,984) respectively representing balances held on personal Capital One credit cards at the year end. The terms and conditions of these credit card loans are either consistent which the terms and conditions on cards available to Capital One customers or are consistent with the terms and conditions with credit cards that were available to all staff at the point in time that the cards were opened. The only differentiation in the card characteristic is the credit limit which is determined by role level. The maximum credit limit is no higher than the maximum credit limit offered to Capital One customers. The balances vary during the year and are settled by the Directors as they fall due in accordance with the terms and conditions of the card. Similarly, any interest accrued on the card is repayable in accordance with the terms and conditions of the card.

20. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
As at 31st December 2015

21. TRANSITION TO FRS 101

For all periods up to and including the year ended 31st December 2014, the company prepared its financial statements in accordance with UK GAAP. These financial statements, for the year ended 31st December 2015 are the first the Company has prepared in accordance with FRS 101.

In preparing these financial statements, the Company has started from an opening balance as at 1st January 2014, the Company's date of transition to FRS 101 and made those changes in accounting policies and other restatements required for the first time adoption of FRS 101. This note explains the principal adjustments made by the Company in restating its Balance Sheet as at 1st January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31st December 2014.

Reconciliation of equity as at 1st January 2014 and 31st December 2014 and total comprehensive income for the year ended 31st December 2014

	1st January 2014 £'000	31st December 2014 £'000
Equity reported under UK GAAP	830,199	968,647
Provision for bad and doubtful debts	(31,278)	(27,458)
Deferred origination costs	(1,982)	(4,358)
Deferred revenue	(4,502)	(4,908)
Deferred tax asset	7,552	7,345
Equity reported under FRS 101	799,989	939,268

	31st December 2014 £'000
Total comprehensive income under UK GAAP	138,448
Provision for bad and doubtful debts	3,820
Deferred origination costs	(2,376)
Deferred revenue	(406)
Tax charge	(207)
Total comprehensive income under FRS 101	139,279

Notes to the reconciliation of equity as at 1st January 2014 and 31st December 2014 and tota comprehensive income for the year ended 31st December 2014

Provision for bad and doubtful debts
Under UK GAAP all loans were collectively evaluated for impairment. The level of provisions necessary was determined primarily on a migration analysis of delinquent and current accounts. In evaluating the sufficiency of the provision for loan losses, management also took into consideration the following factors: recent trends in delinquencies and write-offs; historical trends in loan volume; forecasting uncertainties and size of credit risks; the degree of risk inherent in the final composition of the loan portfolio; economic conditions; credit evaluations; and underwriting policies

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31st December 2015

Under FRS 101 the provision consists of two components. A component for loans collectively evaluated for impairment and an asset-specific component for loans which are individually identified as impaired.

The component of the provision for credit card loans that are collectively evaluated for impairment is determined using the same methodology as UK GAAP methodology, with two exceptions. The effects of discounting are incorporated into the recoveries forecasts and an emergence period has been introduced to reflect the time period between a loss event taking place and the Company identifying such an event for a loan. This has resulted in a £19.3 million increase to the reserve as at 31st December 2014 (£25.7 million 1st January 2014).

The asset-specific provision is raised where there have been modifications to a credit card agreement as a result of a payment arrangement being established for a borrower who is in financial difficulty. The carrying value of such loans is calculated using historical cash flows to predict future expected cash flows which are discounted at the original effective interest rate. This has resulted in a £8.2 million increase to the reserve as at 31st December 2014 (£5.6 million 1st January 2014).

Deferred origination costs

Under UK GAAP the Company deferred origination costs over a 12 month period. Under FRS 101, costs borne that are an integral part of the effective interest rate are included in the effective interest rate calculation and recognised over the relevant period.

Deferred revenue

Under UK GAAP the Company recognised fee income according to the contractual provision of the credit agreements. Under FRS 101 all fees that are an integral part of the effective interest rate are included in the effective interest rate calculation and recognised over the relevant period.

Taxation

The transitional adjustments described above lead to different temporary differences resulting in a deferred tax asset on the Balance Sheet and a tax charge in the Statement of Total Comprehensive Income.