Classification: Public

Registered Number : 6615304

PENARTH MASTER ISSUER PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

PENARTH MASTER ISSUER PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

Paivi Helena Whitaker
Intertrust Directors 1 Limited ("ID1 Limited")
Intertrust Directors 2 Limited ("ID2 Limited")

COMPANY SECRETARY

Intertrust Corporate Services Limited

REGISTERED OFFICE

1 Bartholomew Lane
London
EC2N 2AX

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

PENARTH MASTER ISSUER PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their Strategic Report and audited financial statements of Penarth Master Issuer plc (the "Company") for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is the investment of the proceeds of the issue of publicly listed floating rate asset-backed global loan notes, which are denominated in US Dollars and Sterling (the "Notes"), in the international capital markets. The Notes have been designated Class A, Class B, Class C or Class D in accordance with the relevant note series to which such notes relate. These proceeds have been invested in loans to a related undertaking. No future changes in activity are envisaged.

The activities of the Company and its immediate parent company, Penarth Asset Securitisation Holdings Limited ("Holdings Ltd"), are conducted primarily by reference to a series of securitisation transaction documents (the "Programme Documentation"). The securitisation structure (the "Penarth Transaction") has been established as a means of raising finance for Bank of Scotland plc ("BOS"), and subsequently Lloyds Banking Group plc ("LBG"). The Programme Documentation sets out the workings of the transaction and the principal risks to the holders of the Notes. As such, these have not been reproduced in full in the financial statements. BOS and Lloyds Bank plc ("Lloyds") are also originators of the underlying credit card receivables (the "Originators"). BOS (the "Originator") holds the servicing relationship on behalf of the Originators, having purchased designated credit card receivables from Lloyds.

The Company is a wholly owned subsidiary of Holdings Ltd, a company registered in England and Wales. The one issued share of Holdings Ltd is held on a discretionary trust basis by Intertrust Corporate Services Limited.

Holdings Ltd holds 49,998 quarter paid £1 ordinary shares and one fully paid £1 ordinary shares. Intertrust Nominees Limited also holds one £1 fully paid ordinary share in the Company as a nominee shareholder for the benefit of Holdings Ltd. These shares comprise the entire issued share capital of the Company.

As at 31 December 2019 the Holdings Ltd Group (the "Group") comprised the Company, Holdings Ltd, Penarth Funding 2 Limited ("F2 Ltd"), Penarth Receivables Trustee Limited ("PRT Ltd") and Penarth Funding 1 Limited ("F1 Ltd").

On 13 June 2019 the securitisation documents were novated, amended and restated relocating the activities of F1 Ltd, F2 Ltd and PRT Ltd from Companies incorporated in Jersey to Companies incorporated in the UK.

Business Review

The results for the year are set out on page 10. The loss for the year amounted to £754,000 (2018: £618,000 profit). The directors do not recommend the payment of a dividend this year (2018: £nil).

As required under International Financial Reporting Standards ("IFRSs"), the loss for the year includes a fair value loss on financial instruments of £764,000 (2018: £609,000 fair value gain) which reflects the movement in the market value of the derivatives. The Notes issued are economically hedged using derivative contracts and so gains or losses are expected to reverse in the future.

Profits on a cashflow basis are pre-determined under the Programme Documentation. Under the terms of the intercompany loans with F1 Ltd, the Company has the right to a profit before tax of the lesser of one-twelfth of (i) £12,000 and (ii) the aggregate of £1,200 per Series of notes outstanding during the course of the previous 11 monthly periods from available revenue receipts per month.

Business Review (continued)

During the year, the Company repaid £500,000,000 of the Series 2014-1 A2 notes on the scheduled redemption date; the debt securities in issue and the loans receivable from F1 Ltd were decreased by the same value.

During the year the Company issued $300,000,000 (hedged at £239,120,038) of the Series 2019-1 A1 notes, £300,000,000 of the Series 2019-1 A2 notes and £500,000,000 of the Series 2019-1 A3 notes. The debt securities in issue and the loans receivable from F1 Ltd were increased by the same value.

During the year £1,114,211,490 of further receivables were added to the Penarth Receivables Trust (the "Trust") in order to support current and future issuance plans.

Since the year end, the Company has made loan note repayments in the amount of £715,594,682.

The Company will continue to issue notes and invest the proceeds as intercompany loans to F1 Ltd. The directors anticipate that the Company will be profitable over its lifetime.

Key performance indicators (KPIs)

A defined set of KPIs for the securitisation transaction are set out in the Programme Documentation and published as a monthly Investor Report. An extract of these is shown in note 11(a).

The KPIs include the excess spread on the Trust assets available as the first line of credit enhancement to the Notes, the losses that have occurred and the level of arrears in the underlying credit cards, the rate of repayment of the receivables within the Trust and an analysis of the characteristics of the underlying credit cards in the Trust.

The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual cash flows against planned cash flows. During the year, all payments were made as expected including necessary payments on the Notes in accordance with the scheduled repayment dates.

At the time of issue each series and class of notes is assigned a credit rating which reflects the likelihood of full and timely payment to the holders of the Notes of interest on each interest payment date and the payment of principal on the final maturity date. A rating may be subject to revision, suspension or withdrawal at any time by the rating agencies if the Trust's circumstances change.

Any change in the credit rating assigned to a note would be used as an indicator as to the performance of the Company. No downgrade in credit ratings has been applied to the Notes in the year under review and subsequently up to the date of approval of these financial statements.

Taxation

The Company's tax charge is based on the permanent tax regime for securitisation companies. All fair value adjustments on derivative contracts are ignored for taxation purposes as tax is assessed on the cash retained as profit in the Company.

Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation". The Company's financial instruments comprise intercompany loans to F1 Ltd, the Notes issued in the capital markets, derivatives ("swaps"), various other receivables and payables and cash and liquid resources.

The principal risks and uncertainties for the Company arise from the Company's financial instruments. These are credit risk, liquidity risk, interest rate risk and currency risk. These and other risks which may affect the Company's performance are detailed below. Further analysis of the risks facing the Company in relation to its financial instruments and the Company's financial risk management policies is provided in note 11.

Credit risk

The intercompany loans are ultimately secured against a beneficial interest in a credit card portfolio held in the Trust for F1 Ltd. The performance of the credit card receivables is influenced by wider UK economic factors including the rate of inflation and the unemployment rate.

To mitigate this risk a series of subordinated loan notes is held internally within the Group to act as credit enhancement to ensure F1 Ltd can meet its obligations under the intercompany loan agreements to the Company.

Liquidity risk

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received under the intercompany loans held with F1 Ltd. F1 Ltd is only obliged to pay interest and principal to the Company to the extent that it has such amounts available to it. The Company has recourse to the other assets of F1 Ltd for any shortfall in receipts due under the intercompany loan agreement.

The Company has received all necessary payments on the intercompany loans with F1 Ltd, in accordance with the scheduled repayment dates for the year ended 31 December 2019.

Interest rate risk

Interest rate risk arises where there is a mismatch between the interest profile of the securitised assets and that of the issued notes, for example where floating rate notes are backed by fixed rate assets. In the case of the Penarth structure, the interest rates on the issued notes are linked to the relevant currency's London interbank offered rate (LIBOR) or Sterling overnight index average rate (SONIA), and all assets are at floating rate. No interest rate swap has been applied to mitigate the mismatch in profiles as management are able to re-price the assets at their discretion and hence mitigate the interest rate risk arising.

Risk management (continued)

Currency risk

The Company has issued certain notes denominated in US Dollars ("Currency Notes"). All the Company's assets and its other liabilities are denominated in Sterling. The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to hedge payments of interest and principal on the Currency Notes. The cross currency swap providers are ING Bank, N.V. (2018-1 A1 notes), Wells Fargo Securities International Limited (2018-2 A1 notes) and Bank of Scotland plc (2019-1 A1 notes), which were rated (Long Term Moody's/S&P/Fitch) Aa3/A+/AA-, A2/A+/A+ and Aa3/A+/A+ respectively as at 31 December 2019.

Operational risks

The Company is also exposed to operational risks through a number of contracts with third parties who have agreed to provide operational support to the Company in accordance with the Programme Documentation. Intertrust Management Limited has been appointed to provide corporate administration services in accordance with a corporate services agreement. Other third parties who have agreed to provide services with respect to the Notes include the paying agents, issuing entity swap counterparty and the agent bank. BOS has been appointed to act as account bank and cash manager on behalf of the Company.

Business risks

The principal business risks of the Company are set out in a number of rating and non-rating trigger events in the Programme Documentation. Significant trigger events in the programme which lead to the rapid amortisation of notes are: Breach of minimum seller share below 6%, excess spread 3 month average less than or equal to 0%, any note series not paid down on its scheduled redemption date. There have been no trigger events since inception of the Programme.

Future developments

The directors' assessment suggests that performance of the credit card loan portfolio should continue to be satisfactory. Whilst consensus suggests that interest rates will continue to remain low, as will unemployment rates, inflationary pressures and higher prices caused by sterling weakness may put further pressure on household incomes, which may feed through to further increases in loan arrears. The situation will be monitored and the Servicer, on behalf of the Company, will continue to adopt appropriate forbearance measures.

The UK has left the European Union ("Brexit") and is now in a transition period until the end of 2020, whereby the pre Brexit rules on trade, travel and business remain unchanged. The negotiations between the UK and the EU and any resulting arrangements agreed will have an uncertain impact on the economy although any economic downturn may impact on the ability of the underlying borrowers to repay their loans and potentially lead to increases in loan arrears and defaults. In the short term this uncertainty is expected to result in market risk volatility including sterling exchange rates and interest rates.

Widely used benchmark rates, such as LIBOR, have been subject to increasing regulatory scrutiny, with regulators signalling the need to use alternative benchmark rates. As a result, existing benchmark rates may be discontinued or the basis on which they are calculated may change. During 2019 all Notes issued were linked to SONIA. During 2020 it is planned that all notes maturing later than 2021 will be restated from LIBOR to SONIA.

Future developments (continued)

There has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In view of its currently evolving nature, the directors are unable to estimate its financial and other effects. The directors have assessed this to be a non-adjusting post balance sheet event. It is also deemed to have no impact on our going concern assessment.

From 6 April 2020 credit card borrowers impacted financially by Covid-19 can request a payment holiday for up to three months. Where borrowers have made a successful application, they are not considered to be in a payment shortfall and as such will not be reported as delinquent. Payment holidays will reduce the revenue and principal received by the Trust, however, liquidity remains available through existing structural mechanisms and note principal payments are modest in the next 12 months.

Section 172(1) of the Companies Act 2006

The Company is a special purpose vehicle and as such performs a very limited range of activities. As a special purpose vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time of its incorporation. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- the documents governing the financing and other principal transactions to which the Company is party (together, the "programme documentation") have been formulated with the aim of achieving the Company's purpose and business objectives, safeguarding the assets of the Company and promoting the success of the Company;
- in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit;
- the Company has no employees;
- the Company has appointed various third parties to perform certain roles strictly governed by the programme documentation, fee arrangements agreed in advance and invoices paid strictly in accordance with the programme documentation (including a specified priority of payments);
- as a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment; and
- the Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purposes

Further, in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the directors also confirm that they have both engaged with and had regard to the interest of key stakeholders, in their duties as directors of the Company.

In accordance with s. 426B of the Companies Act 2006 the above paragraph is available at the following website address https://www.intertrustgroup.com/our-services/capital-markets-services/public-transactions.

As approved by the Board of Directors and signed on its behalf by:

Ravi Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director

DATE: 28 April 2020

PENARTH MASTER ISSUER PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2019.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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. 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 and the Directors' Remuneration Report comply with the Companies Act 2006.

Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' and directors interests confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit/loss of the company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors and directors' interests

The directors who served during the year and up to the date of signing the financial statements were:

Paivi Helena Whitaker
Intertrust Directors 1 Limited ("ID1 Limited")
Intertrust Directors 2 Limited ("ID2 Limited")

Directors and directors' interests (continued)

The directors are also all directors of Holdings Ltd. None of the directors have any beneficial interest in the ordinary share capital of the Company. None of the directors have any interest in any material contract or arrangement with the Company either during or at the end of the year.

Disclosure of information to auditors

In accordance with Section 418(2) of the Companies Act 2006, in the case of each director in office at the date the report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- The director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' Indemnities

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the directors' report and financial statements.

Employees

The Company did not have any employees during the year (2018: nil). During the year under review, the directors did not receive any remuneration or emoluments from the Company in respect of qualifying services provided to the Company (2018: £nil).

Corporate Governance

The directors have been charged with governance in accordance with the programme documentation describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the Programme Documentation.

The Programme Documentation provides for procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate
the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been listed, the Company is largely exempt from the requirements of the Financial Conduct Authority Disclosure and Transparency Rules 7.1 *Audit Committees* and 7.2 *Corporate Governance Statements* (save for the rule 7.2.5 requiring descriptions of the features of the internal control and risk management systems), which would otherwise require the Company to have an audit committee in place and include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement. Financial risk management is detailed on page 4 of the Strategic Report.

Classification: Public

Corporate Governance (continued)

From the perspective of the Company, the daily operational internal controls and risk management systems are integrated with those of LBG, the Company's ultimate controlling party. Therefore additional information may be found in section 'Internal Control' of the 2019 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2019 Annual Report of LBG can be found in note 14.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office until the next annual general meeting. Pursuant to section 489 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the forthcoming annual general meeting.

Statement of going concern

The Company has continued to perform in line with the Programme Documentation. There are certain rating and non-rating triggers included in the Programme Documentation as referred to in the annual report and accounts in KPIs (Strategic Report) and exampled in the note on Management of Risk (note 11). In the course of their regular monitoring of these Key Performance Indicators and review of risk, the directors are confident that these triggers remain un-breached and will remain so for the foreseeable future, despite the current adverse environment.

Although the Company is in a net liabilities position as at 31 December 2019, this is driven by fair value volatility on derivative contracts. This fair value volatility will reverse over the life of the derivative contracts to nil. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements on pages 10 to 32 were approved by the Board of Directors on 28 April 2020 and signed on its behalf by

Paivi Helena Whitaker
Per pro Intertrust Directors 1 Limited
as Director

DATE: 28 April 2020

PENARTH MASTER ISSUER PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Interest receivable and similar income	2	72,383	54,570
Interest payable and similar charges	3	(72,383)	(54,570)
Net interest income		-	-
Fair value (loss) / gain	4	(764)	609
Income from group undertaking	5	12	11
(Loss) / Profit before tax		(752)	620
Taxation	6	(2)	(2)
(Loss) / Profit for the year and total comprehensive (expense) / income		(754)	618

The loss shown above is derived from continuing operations. The Company operates a single business and all of the Company's activities are in the UK.

There was no income or expense recognised directly in equity in the current year or preceding year.

The accompanying notes on pages 14 to 32 are an integral part of the financial statements.

PENARTH MASTER ISSUER PLC
BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Assets			
Loans to related company	7	5,777,738	5,238,310
Derivative assets	8	-	29,553
Cash and cash equivalents		79	69
Total assets		5,777,817	5,267,932
Equity and liabilities			
Debt securities in issue	9	5,769,863	5,267,334
Derivative liabilities	8	8,110	-
Tax liability		2	2
Total liabilities		5,777,975	5,267,336
Share capital	10	13	13
(Accumulated losses) / retained earnings		(171)	583
Total equity		(158)	596
Total equity and liabilities		5,777,817	5,267,932

The accompanying notes on pages 14 to 32 are an integral part of the financial statements.

The financial statements on pages 10 to 32 were approved by the board of directors on 28 April 2020.

Paivi Helena Whitaker
Per pro Intertrust Directors 1 Limited
as Director

PENARTH MASTER ISSUER PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Retained earnings/ (accumulated losses)	Total equity
	£'000	£'000	£'000
Balance at 1 January 2019	13	583	596
Loss for the year and total comprehensive expense	-	(754)	(754)
Balance at 31 December 2019	13	(171)	(158)

	Share capital	(Accumulated losses) / retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 January 2018	13	(35)	(22)
Profit for the year and total comprehensive income	-	618	618
Balance at 31 December 2018	13	583	596

The accompanying notes on pages 14 to 32 are an integral part of the financial statements.

PENARTH MASTER ISSUER PLC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £'000	2018 £'000
Operating activities		
Income received from related company	72,087	53,656
Interest paid to noteholders	(72,075)	(53,645)
Tax paid	(2)	(2)
Net cash flows generated from operating activities	10	9
Investing activities		
New principal issued as loan to related company	(1,039,120)	(1,515,595)
Principal receipts from loan to related company	500,000	351,148
Net cash flows used in investing activities	(539,120)	(1,164,447)
Financing activities		
New debt securities issued	1,039,120	1,515,595
Principal repayments on debt securities in issue	(500,000)	(351,148)
Net cash flows generated from financing activities	539,120	1,164,447
Net increase in cash and cash equivalents		
Increase in cash and cash equivalents	10	9
Cash and cash equivalents at start of year	69	60
Cash and cash equivalents at end of year	79	69

The cash flow statement is presented using the direct method.

The accompanying notes on pages 14 to 32 are an integral part of the financial statements.

PENARTH MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. SIGNIFICANT ACCOUNTING POLICIES

The Company is a public limited company domiciled in England and Wales and was incorporated under the Companies Act 1985 and provisions of the Companies Act 2006.

(a) Basis of preparation

The financial statements for the year ended 31 December 2019 have been prepared using the going concern basis and in accordance with IFRSs and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") as adopted by the European Union. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board of Directors and signed on its behalf by ID1 Limited. All accounting policies have been consistently applied in the financial statements.

There are no accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2019.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006 as applicable to companies using IFRSs. The financial statements are presented in sterling which is the Company's functional and presentation currency and have been prepared on the historical cost basis (except that derivative financial instruments are stated at their fair value).

(b) Interest income and interest payable

Interest receivable and similar income and interest payable and similar charges have been calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses.

(c) Accrued interest

Accrued interest has been incorporated within the loans to related company and within the outstanding balance of debt securities in issue on the Balance Sheet. A split between principal and accrued interest can be found in note 7 and note 9 respectively.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Taxation

Current tax which is payable on taxable profits is recognised as an expense or credit in the period in which the profits or losses arise.

Tax on the profit or loss for the year is recognised in the Statement of Comprehensive Income within Taxation and comprises only current tax. No provision for deferred tax is required under IAS 12 "Income Taxes" as no timing differences have arisen which would result in deferred tax on assets and liabilities.

The Company's tax charge is based on the permanent tax regime for securitisation companies. All fair value adjustments on derivative contracts are ignored for taxation purposes as tax is assessed on the cash retained as profit in the Company.

(e) Financial instruments

The Company's financial instruments comprise intercompany loans to F1 Ltd, Notes issued in the capital markets, derivatives ("swaps"), other receivables and payables and cash and liquid resources. The main purpose of these financial instruments is to raise finance for BOS and LBG. These financial instruments are classified in accordance with the principles of IFRS 9 as described below.

(e)(i) Loans to related company

Under IFRS9 loans to related company comprise intercompany loans to F1 Ltd and are stated at amortised cost.

(e)(ii) Derivative financial instruments

Derivative financial instruments comprise foreign currency swaps held with counterparties. All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the statement of comprehensive income.

The fair value of derivative contracts is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current exchange rates.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(iii) Cash and cash equivalents

The Company holds a transaction bank account. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with banks and amounts due from banks with a maturity of less than three months. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

(e)(iv) Impairment of financial assets

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses).

Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unlike other financial instruments, the loans to related company are, by their construction, an instrument that incorporates credit enhancement. The interest due on the loans to related company is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the loans to related company would only therefore be recognised where the expected credit losses on the underlying assets were large enough that no credit enhancement remained.

(e)(v) Debt securities in issue

Debt securities in issue are recognised initially at fair value less directly related incremental transaction costs. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(e)(vi) Foreign currency translation

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The directors of the Company consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

(g) Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates. These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significantly affected components of the financial statements and associated critical judgements are as follows:

(g)(i) Effective interest rate method

In calculating the effective interest rate of financial instruments the Company takes into account interest received or paid, fees and commissions paid or received, expected early redemptions and related penalties and premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs.

For the purpose of the effective yield calculation, it has been assumed, based on the payment experience to date, that the average expected life of the Notes issued by the Company will end at the scheduled redemption date (unless specified earlier in the Programme Documentation, in which case the earlier date will be used). This may not be the case in practice

(g)(ii) Fair value calculations

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Critical accounting estimates and judgements (continued)

(g)(iii) Impairment of intercompany loans

The Company's accounting policy for losses arising on the intercompany loans is described in note 1(e)(iv).

At 31 December 2019, impairment allowances against the intercompany loans totalled £nil (2018: £nil).

(h) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The directors did not recommend the payment of a dividend for the year (2018:£nil)

(i) Income from group undertaking

Under the terms of the intercompany loan agreement with F1 Ltd, the Company has the right to receive a fee for the provision of the intercompany loans. This fee includes an amount equal to £100 per month, per loan note in issuance from available revenue receipts per month, subject to a maximum fee of £1,000 in any calendar month.

(j) Capital disclosures

The Company is not subject to externally imposed capital requirements in the current and prior year. The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by the Company.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Interest receivable from loans to related company	72,349	54,553
Bank interest receivable	34	17
	72,383	54,570

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £'000	2018 £'000
Interest payable on debt securities in issue	72,383	54,570

4. FAIR VALUE (LOSS) / GAIN

	2019 £'000	2018 £'000
Gain / (loss) on retranslation of US$ loan notes to Sterling	36,899	(9,855)
Fair value movement on US$ currency swap	(37,663)	10,464
Fair value (loss) / gain	(764)	609

Movements have arisen on the fair value of currency swaps and the revaluation of loan notes into Sterling using exchange rates as at the Balance Sheet date.

PENARTH MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

5. INCOME FROM GROUP UNDERTAKING

	2019 £'000	2018 £'000
Fee from F1 Ltd	12	11

This fee is not included in determining the effective interest rate arising on the intercompany loans that are held at amortised cost.

The Company has no employees (2018: nil). The corporate services provider fees are paid and borne by F1 Ltd.

There are no fees payable to the auditors and their associates for services other than the statutory audit. The audit fees for the Company are paid for by F1 Ltd. The fee for the current year was £15,000 (2018: £15,000).

6. TAXATION

	2019 £'000	2018 £'000
a) Analysis of charge for the year		
UK corporation tax		
- Current tax on taxable profit for the year	2	2
Current tax charge for the year	2	2

Corporation tax is calculated at a rate of 19% (2018: 19%) of the taxable profit for the year.

6. TAXATION (CONTINUED)

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard United Kingdom tax rate to the (loss) / profit before tax to the actual tax charge for the year is given below:

	2019 £'000	2018 £'000
(Loss) / Profit before tax	(752)	620
(Loss) / Profit before tax thereon at UK corporation tax rate of 19% (2018: 19%)	(143)	118
Factors affecting charge:		
Non-taxable items	145	(116)
Total tax charge in the Statement of comprehensive income	2	2

The effective tax rate for the year is 0% (2018: 0.3%).

7. LOANS TO RELATED COMPANY

	2019 £'000	2018 £'000
Non-current - amounts due after one year		
Principal	4,359,119	4,735,595
Current - amounts due within one year		
Principal	1,415,595	500,000
Interest	3,024	2,715
	5,777,738	5,238,310

7. LOANS TO RELATED COMPANY (CONTINUED)

The intercompany loans to F1 Ltd are all denominated in Sterling and are at variable rates of interest. Such loans have ultimately been secured against a beneficial interest in a credit card portfolio held in trust on behalf of the Group.

F1 Ltd's ability to repay amounts due on the intercompany loans will depend upon it receiving sufficient revenue receipts and principal from the credit card portfolio and amounts available in any applicable reserve funds. In the case of a shortfall, holders of the Notes may, subject to what other sources of funds are available to the Company, receive less than the full interest and/or principal than would otherwise be due on the Notes. The repayment of the intercompany loans will coincide with the repayment of the Notes.

8. DERIVATIVE (LIABILITIES) / ASSETS

The principal derivatives used by the Company are exchange rate contracts (foreign currency swaps).

Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies.

The principal amount of the contract does not represent the Company's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Company should the counterparty default. To reduce credit risk the Company only deals with highly rated counterparties and uses credit enhancement techniques such as collateralisation, where security is provided against the exposure. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate (see note 4).

The notional principal amount and fair value of instruments entered into were:

Exchange rate contracts:	**2019 £'000**	**2018 £'000**
Notional principal amount	954,715	715,595
Fair value		
(Liabilities) / Assets	(8,110)	29,553

9. DEBT SECURITIES IN ISSUE

	2019 £'000	2018 £'000
Non-current - amounts due after one year		
Principal	4,351,244	4,764,618
Current - amounts due within one year		
Principal	1,415,595	500,000
Interest	3,024	2,716
	5,769,863	5,267,334

Debt securities in issue at 31 December 2019 comprise the floating rate notes issued by the Company in connection with the securitisation of credit cards originated within BOS and Lloyds and are shown net of exchange rate adjustments. For more information about the Company's exposure to risk, see note 11. There have been no defaults in the payment of principal and interest or other breaches with respect to liabilities in the current or prior year.

10. SHARE CAPITAL

	2019 £	2018 £
Authorised		
50,000 (2018: 50,000) Ordinary shares of £1 each	50,000	50,000
Allotted and paid up		
Issued Share capital comprises:		
2 (2018: 2) ordinary shares of £1 each (fully paid)	2	2
49,998 (2018: 49,998) ordinary shares of £1 each (one quarter paid)	12,500	12,500
	12,502	12,502

11. MANAGEMENT OF RISK

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. However, considerable resource is given to maintaining effective controls to manage, measure and mitigate each of these risks and therefore there is minimal sensitivity to risk. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below.

The directors do not consider there to be a capital management risk as adequate solvency and capital levels are maintained.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction. In addition, derivative contracts are entered into as part of the securitisation transaction to hedge all currency risk arising in the transaction including the obligations under the Notes.

The derivative counterparties are selected as highly rated, regulated financial institutions and this reduces the risk of default and loss for the Company. Additional protection is afforded by the requirement for the derivative counterparties to post collateral in the event of a downgrade to a counterparty's credit rating.

11(a) Credit risk

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the Company. The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received under the intercompany loans held with F1 Ltd. The primary credit risk of the Company therefore relates to the default on the intercompany loan with F1 Ltd. The primary credit risk of F1 Ltd relates to the credit risk associated with the securitised pool of credit cards originated within BOS and Lloyds.

The likelihood of defaults in the credit card pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in that of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cash flows from the credit card pool.

11. MANAGEMENT OF RISK (CONTINUED)

11(a) Credit risk (continued)

To mitigate this risk, credit enhancement is provided to the transaction within F1 Ltd in the form of excess spread and subordinated loan notes. F1 Ltd's share of the income on the credit card pool is expected to exceed the interest payable on the loan from the Company, related expenses and charge offs. This excess income (excess spread) is available to make good any reduction in the principal balance of the credit card pool as a result of defaults by customers. An example of this excess spread calculated by reference to KPIs (yield, losses) and other measures is shown below along with monthly payment rate KPI and relevant definitions:

	% for Dec 2019	% for Dec 2018
Yield (defined as the gross yield rate)	18.47	18.26
Losses (defined as the charge off rate)	(2.12)	(1.91)
Expenses (defined as the expense rate)	(2.38)	(2.33)
Excess spread (defined as the excess available funds rate)	13.97	14.02
Monthly payment rate	25.71	24.74

Definition	Numerator	Denominator
Gross yield rate	Interest, fees, insurance, post charge off recoveries, interchange, forex fees, card protection insurance and bank account interest	Beginning of period principal and revenue receivables balance
Charge off rate	Principal balances charged off during the month (recoveries excluded)	Beginning of period principal receivables balance
Expense rate	Interest on notes, servicing fee paid by investor, other sundry structural costs	Investor share of principal receivables
Excess available funds rate	Yield rate less charge off rate less expense rate	
Monthly payment rate	All customer payments received (principal and revenue), interchange, forex fees, card protection insurance and bank account interest	Beginning of period principal and revenue receivables balance

The Company has a concentration of risk in the Originators. The underlying credit card assets of the securitisation are all in the UK market. The nature of the credit card portfolio means that there is no significant counterparty credit risk in relation to the underlying credit card pool.

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached.

11. MANAGEMENT OF RISK (CONTINUED)

11(a) Credit risk (continued)

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached.

In the event that a swap counterparty is downgraded by a rating agency below the rating(s) specified in the relevant swap agreement, the relevant swap provider will be required to take certain remedial measures as defined in that agreement which may include providing collateral for its obligations under the relevant swap, arranging for its obligations to be transferred to an entity with sufficient rating, or taking such other action as it may agree with the relevant rating agency.

	Counterparty	Long Term Rating as at 31 Dec 2019 (Moody's / S&P/ Fitch)	Long Term Rating as at date of approval of financial statements (Moody's / S&P/ Fitch)
Bank account provider	Bank of Scotland plc	Aa3/A+/A+	Aa3/A+/A+
Currency swap provider	ING Bank, N.V.	Aa3/A+/AA-	Aa3/A+/AA-
Currency swap provider	Wells Fargo Securities International Limited	A2/A+/A+	A2/A+/A+
Currency swap provider	Bank of Scotland plc	Aa3/A+/A+	Aa3/A+/A+

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

	2019 £'000	2018 £'000
Assets held at amortised cost		
Loans to related company	5,777,738	5,238,310
Cash and cash equivalents	79	69
Assets held at fair value		
Derivative assets	-	29,553
	5,777,817	5,267,932

11. MANAGEMENT OF RISK (CONTINUED)

11(a) Credit risk (continued)

The Company meets its obligation on the Notes issued from the cash flows it receives from F1 Ltd. These represent the only recourse for the Company. As a consequence, the credit quality of the credit card receivables indicates the capacity of the Company to service its payments, although the credit cards remain on the balance sheets of BOS and Lloyds and the structure of the securitisation provides for other credit enhancements.

Securitised credit card assets

Securitised credit card receivables can be analysed according to the rating systems used by the Company and Originators when assessing customers and counterparties. The total credit card trust portfolio balance against which intercompany loans are ultimately secured has been analysed below.

For the purposes of the Company's disclosures regarding credit quality, securitised credit card receivables (excluding those charged off to £nil value) subject to credit risk have been analysed as follows:

Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated.

Stage 2 – Financial assets which have experienced a significant increase in credit risk.

Stage 3 - Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Financial assets are considered to be credit impaired and included in stage 3 when there is objective evidence of credit impairment. BOS assesses a loan as stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay, or the loan is otherwise considered to be in default.

	Balance 2019 £'000	Accounts 2019 '000	Balance 2018 £'000	Accounts 2018 '000
Stage 1	8,080,861	7.348	7,979,227	7,200
Stage 2	42,126	16	41,358	16
Stage 3	41,082	15	39,674	15
	8,164,069	7,379	8,060,259	7,231

11(b) Interest rate risk

Interest rate risk arises where there is a mismatch between the interest profile of the securitised assets and that of the issued notes, for example where floating rate notes are backed by fixed rate assets. In the case of the Penarth structure, the interest rates on the issued notes are linked to the relevant currency's LIBOR or SONIA, and all assets are at floating rate. No interest rate swap has been applied to mitigate the mismatch in profiles as LBG are able to re-price the assets at their discretion and hence mitigate the interest rate risk arising.

11. MANAGEMENT OF RISK (CONTINUED)

11(c) Foreign currency risk

The Company's assets are denominated in sterling. However, during the year, the Company had notes denominated in Sterling and also US Dollars on a floating rate basis. It is therefore exposed to currency risk as the value of the Notes will fluctuate due to changes in foreign currency exchange rates and US LIBOR.

The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to hedge payments of interest and principal on the Currency Notes.

The effect of currency movements has no bearing on the results of the Company due to the use of the swaps, however, the Company is exposed to a small amount of volatility on the margin on the cross currency swap which is shown below. This is a fair value adjustment which will reverse over the life of the swap to £nil. All interest received on the intercompany loans is paid to the paying agent and the swap provider covers any movement on exchange rates to the noteholders.

The Company's elimination of foreign currency risk is as follows:

2019	**US Dollar £'000**	**Sterling £'000**	**Total £'000**
Debt securities in issue	954,715	4,820,000	5,774,715
Derivatives			
Net fair value of cross currency contracts	(8,110)	-	(8,110)
Notional cross currency at contracted rate	7,876	-	7,876
Cumulative mark to market volatility	(234)	-	(234)

2018	**US Dollar £'000**	**Sterling £'000**	**Total £'000**
Debt securities in issue	715,595	4,520,000	5,235,595
Derivatives			
Net fair value of cross currency contracts	29,553	-	29,553
Notional cross currency at contracted rate	(29,023)	-	(29,023)
Cumulative mark to market volatility	530	-	530
Mark to market volatility 2019	(764)	-	(764)

11. MANAGEMENT OF RISK (CONTINUED)

11(d) Liquidity risk

The Company's ability to meet payments on the Notes as they fall due is dependent on the timely receipt of funds under the intercompany loan agreement with F1 Ltd which may be delayed due to the level of repayment on the underlying credit card portfolio. If insufficient funds are received by F1 Ltd to repay the intercompany loans, then the Notes may not be paid in full and a part of the Notes may be deferred to subsequent periods. Such deferred amounts will be due but not payable until funds are available in accordance with the relevant priority of payments as set out in the Programme Documentation. Variations in the rate of prepayment of principal on the loans may affect each series and class of notes differently.

The liquidity tables reflect the undiscounted cash payments which will fall due if the structure continues until the step-up date as defined in the Programme Documentation (unless it is known that a note will be repaid prior to this date when the earlier date will be used). The step-up date is the earliest date on which the Company could be required to repay the liability and commercially the most likely.

It is anticipated that the interest and principal received on the intercompany loans will be sufficient to allow repayment of the Notes by the step-up date and thereby avoid the increase in the interest rate margin payable on the Notes.

2019	Carrying Value	Contractual repayment value	<1 Month	1-3 Months	3 Months – 1 Year	1-5 Years	>5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Notes in issue	5,766,839	5,774,715	-	715,595	700,000	2,639,120	1,720,000
Interest payable							
Interest payable on Notes in issue	3,024	362,902	6,625	13,409	55,334	259,287	28,247
	5,769,863	6,137,617	6,625	729,004	755,334	2,898,407	1,748,247

2018	Carrying Value	Contractual repayment value	<1 Month	1-3 Months	3 Months – 1 Year	1-5 Years	>5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Notes in issue	5,264,618	5,235,595	-	500,000	-	3,015,595	1,720,000
Interest payable							
Interest payable on Notes in issue	2,716	457,034	6,267	12,885	56,915	296,391	84,576
	5,267,334	5,692,629	6,267	512,885	56,915	3,311,986	1,804,576

11. MANAGEMENT OF RISK (CONTINUED)

11(e) Fair values

(i) Definition of fair value levels

Per IFRS 13 "Fair Value Measurement" the different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

(ii) Financial instruments held at amortised cost

Loans to related company

Loans to related company are recognised on an amortised cost basis. The carrying value of these variable rate loans is considered to be a close approximation to fair value due to their short term nature. The loans to related company are all denominated in Sterling and are at variable rates of interest. These loans have ultimately been secured against a beneficial interest in a credit card portfolio held in trust on behalf of the Group.

Debt securities in issue

The fair value as at 31 December 2019 was £5,765,226,000 (2018: £5,252,457,000).

The Notes have been valued where possible based on quoted market prices in active markets, including recent market transactions. However, notes held within LBG cannot be valued in this way using observable inputs. For this reason, in accordance with IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair Value Measurement", the debt securities in issue are considered to be Level 3 in the Fair Value Hierarchy.

(iii) Derivatives

The Company has currency swaps in place to hedge the future liability to make payments in USD of principal and interest on the USD denominated loan notes in issue (principal value of $1,250,000,000, hedged at £954,714,720 (2018: principal value of $950,000,000, hedged at £715,594,682).

The swaps which have been purchased to hedge currency risks arising on the Notes have been valued where possible based on quoted market prices in active markets, including recent market transactions, and by using valuation techniques including discounted cash flow and options pricing models. The valuation method is consistent with commonly used market techniques. For this reason, in accordance with IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair Value Measurement", the derivatives are considered to be Level 2 in the Fair Value Hierarchy. The change in fair value that has been calculated using this valuation technique has been recognised in the statement of comprehensive income for the year ended 31 December 2019.

The fair value of the swaps is expected to unwind to £nil over the life of the Notes and is recorded in the balance sheet as a liability of £8,110,000 (2018: asset of £29,553,000).

PENARTH MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

12. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties as part of the Company's normal business. The related parties are BOS, LBG, Lloyds and Intertrust Corporate Services Limited by virtue of their various roles and inputs into securitisation arrangements to which the Company is a party.

BOS provides cash management services defined under the Programme Documentation. Fees for these services are paid on behalf of the Company by F1 Ltd, a company which is part of the Holdings Ltd Group, which amounted to £52,025,000 in the year (2018: £43,357,000).

Intertrust Management Limited provides corporate administration services pursuant to a corporate services agreement with the Company and was paid a fee of £27,608 for services provided in the year (2018: £17,541). These fees are paid on behalf of the Company by F1 Ltd.

During the year, the Company undertook the following transactions with BOS, the parent undertaking of the smallest group of undertakings to consolidate these financial statements (the "Parent") and other related parties within LBG:

	Parent	Other related parties	Parent	Other related parties
At 31 December or for the year then ended	**2019**	**2019**	**2018**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
Interest receivable and similar income				
Interest on loans to related company	-	72,349	-	54,553
Bank Interest	34	-	17	-
Interest payable and similar charges				
Interest payable on Notes held by LBG and subsidiary undertakings	-	47,495	-	35,353
Income from Group undertaking	-	12	-	11
Assets				
Loans to related company	-	5,774,714	-	5,235,595
Interest receivable on loans to related company	-	3,024	-	2,715
Cash and cash equivalents	79	-	69	-
Liabilities				
Notes held by LBG and subsidiary undertakings	-	3,520,000	-	3,020,000
Interest payable on Notes held by LBG and subsidiary undertakings	-	1,966	-	1,698

The key management personnel during the year were the directors, as set out in the Directors' Report.

13. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is a wholly owned subsidiary of Holdings Ltd, a company registered in England and Wales. The issued share in Holdings Ltd is held by Intertrust Corporate Services Limited on a discretionary trust basis for the benefit of certain charities.

The immediate parent undertaking is Holdings Ltd. The ultimate controlling party is LBG a public limited company incorporated in the United Kingdom. LBG is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2019. BOS is the parent undertaking of the smallest of such group of undertakings. The consolidated financial statements of BOS and LBG are available from Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

14. POST BALANCE SHEET EVENT

Since the balance sheet date there has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the directors are unable to estimate its financial and other effects.

From 6 April 2020 credit card borrowers impacted financially by Covid-19 can request a payment holiday for up to three months. Where borrowers have made a successful application, they are not considered to be in a payment shortfall and as such will not be reported as delinquent. Payment holidays will reduce the revenue and principal received by the Trust, however, liquidity remains available through existing structural mechanisms and note principal payments are modest in the next 12 months.

Independent auditors' report to the members of Penarth Master Issuer plc

Report on the audit of the financial statements

Opinion

In our opinion, Penarth Master Issuer plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the cash flow statement, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

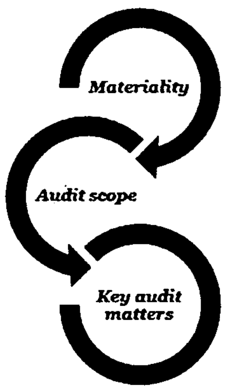
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £57,778,170 (2018: £52,679,320), based on 1% of total assets.

- The Company is a special purpose vehicle that forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Bank of Scotland plc ("BOS") and subsequently Lloyds Banking Group plc ("LBG") the ultimate parent undertaking. LBG manages the securitisation transaction in its role as administrator, servicer of the underlying credit card loans and cash manager.
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statements line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at LBG as administrator and servicer, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at the administrator and adopted a controls and substantive testing approach.

The area of focus for our audit which involved the greatest allocation of our resources' effort was:

- The impact of Covid-19; and

- The risk of errors in the priority of payments ("the Waterfalls") due to a lack of understanding of the transaction.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the underlying legal documents and agreements governing this securitisation transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. Audit procedures performed by the engagement team included:

- Management inquiries;
- Review of board meeting minutes; and
- Review and testing where applicable of the transaction documents.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Impact of Covid-19 Since the balance sheet date there has been a global pandemic from the outbreak of coronavirus (Covid-19). During finalisation of the financial statements, the potential financial and social impact of coronavirus became significant and is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In response, the UK government, and the Bank of England, have announced measures designed to ameliorate resulting adverse impacts on the economy. Whilst it is too early to accurately estimate the financial and business impact of Covid-19, management has considered the potential implications of these events on the Annual Report, including its going concern assessment and post-balance sheet events disclosures. The directors have concluded that the matter is a non-adjusting post balance sheet event, the financial effect cannot be reliably estimated at this stage. Refer to note *14* for further information.	We critically assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event and that the directors consider that the impact cannot be reliably estimated at this stage. We considered: • the timing of the development of the outbreak across the world and in the UK; and • how the financial statements and structure of the Company might be impacted by the disruption. In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered impacts arising from Covid-19. Our procedures in respect of going concern included: • Enquiries of management to understand the current impact of Covid-19 on the Company's recent financial performance and business operations; • inspection of transaction documents to confirm that loan notes are limited recourse; • inspection of post period end investor reports for pertinent changes in cash flows;

Key audit matter	*How our audit addressed the key audit matter*
	• confirmation of period end cash reserve balances; and • checking the consistency of relevant "other information" with the financial statements, our knowledge based on the audit, and our procedures above.
Errors in the priority of payments (the "Waterfalls") due to a lack of understanding of the transaction Due to the complexity of the securitisation structure contractual terms and the special purpose nature of the entity, the Waterfalls present a pervasive risk to the overall accounting for the entity. If the Waterfalls are incorrectly processed, there is a risk that interest expense and principal balances payable to investors are not appropriately calculated and settled, and the cash flows returned to the seller as excess spread are incorrect. Due to the complexity and pervasive nature of the Waterfalls, this was an area of focus in our audit.	We understood the design of the securitisation structure through discussions with management and review of primary contractual documentation. We reviewed all investor reports and minutes of board meetings for the period to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation and calculation of the Waterfalls. We tested the design and operating effectiveness of management's Waterfalls calculation through: • Discussion with management and by review of Waterfalls working papers for consistency with the base prospectus; and • Inspection of supporting documentation and recalculation of relevant data points for a sample of Waterfalls in the period. We performed substantive testing over this sample of Waterfalls to ensure no errors were made in Waterfalls preparation, including agreeing cash balances and transactions to cash account records, and agreeing cash collection balances to system reports. We additionally tested key system reports to validate that pool assets were completely and accurately identified in source systems to support the cash collections as presented in the Waterfalls working papers.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£57,778,170 (2018: £52,679,320).
How we determined it	1% of total assets.
Rationale for benchmark applied	The entity is a not-for-profit whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the Company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We agreed with the directors that we would report to them misstatements identified during our audit above £2,888,909 (2018: £2,633,966) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 30 April 2010 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2010 to 31 December 2019.

The audit of Lloyds Banking Group and its subsidiaries was tendered in 2014 and we were re-appointed with effect from 1 January 2016. There will be a mandatory rotation of Lloyds Banking Group for the 2021 audit.

Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
28 April 2020